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# Differentiated EUrope 2035: Elaboration and Evaluation of Five Potential Scenarios

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# Differentiated EUrope 2035: Elaboration and Evaluation of Five Potential Scenarios

*Janis A. Emmanouilidis*

## Abstract

Differentiated integration has been and will remain a necessity if Europe wants to overcome stalemate and improve the functioning of the European integration process. The central question is thus not whether there will be a differentiated Europe, but what it will or rather should look like. This paper develops and evaluates five potential scenarios for a “differentiated EUrope 2035”: (1) status quo differentiation; (2) muddling upwards; (3) fundamental disruption of differentiation; (4) creation of an inner core; and (5) a new supranational union. It explores the potential challenges/opportunities of the various forms of differentiation by analysing how the scenarios might lead to high(er) or low(er) levels of effectiveness and legitimacy/democratic accountability. Without trying to predict the future, the paper identifies key factors determining the future of a “differentiated EUrope” and comes to the conclusion that the EU and its members are likely to prefer the “muddling upwards” scenario rather than more radical forms of differentiation. However, future crises might force Europe in another direction, compelling governments to depart from business as usual.

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# Executive summary

Differentiation is no magic potion, and it should not be an end in itself. But the experience of past decades has shown that not all member states of the European Union are able and willing to participate in a further deepening of European integration at the same time and with the same intensity and speed. Looking into the future, differentiation will remain a necessity if the EU and its members want to overcome stalemate and improve the functioning of the Union. The central question is thus not whether there will be a differentiated Europe, but what it will or rather should look like.

This paper develops and evaluates five potential scenarios for a “differentiated EUrope” in 2035. The first scenario – “status quo differentiation” – starts from the assumption that the levels of differentiated integration and cooperation will not change over the coming 10–15 years. The “muddling upwards” scenario holds that the EU of 2035 will be characterised by somewhat higher levels of internal and external differentiation but that the integration process will merely witness some incremental progress in the years to come. The third scenario assumes that the Union will witness a “fundamental disruption” in a major area of differentiation, leading to a dissolution of the euro and/or the implosion of the Schengen Area and to a minimal union. In scenario 4 – “creation of an inner core” – a coalition of the willing will over the next 10–15 years make a qualitative leap towards a more integrated political and economic union by deciding to fundamentally deepen their level of differentiated integration while fully respecting the EU’s institutional and legal framework. Scenario 5 assumes that a group of countries will create a “new supranational union” by making an irreversible qualitative leap towards a fully fledged federal political and economic union based on a European Constitution.

When comparing the potential levels of effectiveness and legitimacy/democratic accountability of the five scenarios, the analysis shows a very mixed picture. Effectiveness would massively decrease in the event of a dissolution of the euro and/or Schengen with severe negative spill-over also in other policy areas. The “muddling upwards” scenario would result in a slight increase of effectiveness in the eurozone and potentially decrease in the areas of migration, border control, asylum and refugee policy, while it is unclear how this scenario would affect the output, outcome and impact of policymaking in foreign, security and defence policy. Effectiveness would substantially increase as a result of the “creation of an inner core” in the policy areas subject to higher levels of differentiation. The level of effectiveness would increase most strongly in the context of a “new supranational union” for the countries participating in the novel entity. However, the creation of a “new union” could undermine the continent’s overall effectiveness as it might create new major dividing lines in Europe between “ins” and “outs”.

Legitimacy and democratic accountability would substantially decrease in the event of a “fundamental disruption”, given that the inability to salvage the euro and/or Schengen would strongly undermine the Union’s legitimacy in the eyes of citizens. The “muddling upwards” scenario would not lead to a visible increase of the Union’s output legitimacy, while the “creation of an inner core” could increase legitimacy and democratic accountability, especially if differentiation is organised within the EU’s framework. The level of legitimacy/accountability would – especially from the perspectives of the “ins” – be highest in the context of a “new union”. However, the establishment of a new entity would substantially undermine the legitimacy of European integration from the perspective of countries/

citizens excluded from the new union.

One cannot predict which of the five scenarios is likely to prevail in the next 10–15 years. However, the analysis shows that three main factors will largely determine the future of a differentiated EUrope: (1) the (in)ability of EU institutions and member states to react to severe challenges and fundamental crises; (2) the potential effects of more/less differentiation on Europe’s political unity; and (3) the (un)willingness of so-called “pro-European forces” to transfer more competences and pool more sovereignty at the European level.

Taking these three factors into account, the EU and its member states are likely to prefer scenario 2 – “muddling upwards”. They will prefer path-dependent and incremental policy responses to more radical solutions that involve significant integration leaps and (substantially) higher levels of differentiation. But future crises might force Europe in another direction, compelling governments to depart from business as usual. In any case, whatever the eventual outcome, differentiation will be a core feature of European integration, even if it remains unclear what a “differentiated EUrope” will or rather should look like in future.

## Introduction

Today’s European Union is characterised by diverse levels of internal and external integration/cooperation in key areas of policymaking. Diverging traditions and interests, high levels of economic, societal and geopolitical heterogeneity, different political objectives and expectations concerning the future path of integration, and the need to respond effectively to severe crises (Brunazzo 2019) have over the past years motivated and necessitated higher degrees of differentiation.

Differentiation is no magic potion, and it should not be an end in itself. But the experience of past decades has shown that not all member states are able and willing to participate in a further deepening of European integration at the same time and with the same intensity and speed. Some, like the United Kingdom, may even choose to withdraw from the European integration project (Wachowiak and Zuleeg 2021).

Looking into the future, differentiation will remain a necessity if the EU and its member states want to overcome stalemate and improve the functioning of the European integration process. The central question is thus not whether there will be a differentiated Europe, but what it will or rather should look like.

# 1. Basic objectives and methodology

This paper elaborates and critically evaluates five basic scenarios for a “differentiated EUrope” while reflecting the main goals, conceptual frameworks and overall findings of the EU IDEA project.<sup>1</sup> These scenarios are not predictive tools. The experience of the last decades has revealed that in times of unprecedented volatility it is virtually impossible to foretell how the EU will develop. In 2007, who would have predicted that the EU and its member states would experience a series of fundamental crises – including the financial crisis, the “euro crisis”, the Ukraine crisis, the “migration crisis”, Brexit and the Covid-19 pandemic – creating existential doubts about the prospects for the European integration project?

Rather than predicting the future, this paper aims to present narratives *from* the future while having in mind a time perspective of 10–15 years. It thus describes and then analyses five potential scenarios for a “differentiated EUrope” in 2035:

- status quo differentiation (scenario 1)
- muddling upwards (scenario 2)
- fundamental disruption of differentiation (scenario 3)
- creation of an inner core (scenario 4)
- a new supranational union (scenario 5).

The list of scenarios excludes a potential “Titanic” scenario (Algieri et al. 2003: 3-4) involving the full dissolution of the EU and its underlying institutional structures. Existential crises and their severe economic, political and societal consequences could overstretch the Union’s politico-institutional limits. But the full implosion of the European integration process would render the concept of internal or external differentiation meaningless.

The paper first elaborates five potential scenarios for a “differentiated EUrope”, outlining their basic narratives before describing in more detail the development of internal and external differentiation in three core areas: (1) economic governance; (2) foreign, security and defence policy; and (3) cooperation in the areas of migration, border control, asylum and refugee policy.<sup>2</sup>

Second, the paper explores the potential challenges, opportunities and risks of the various forms of differentiation. It focuses on identifying how the potential scenarios might lead to high(er) or low(er) levels of (1) effectiveness and (2) legitimacy/democratic accountability, taking account of the findings of the EU IDEA project as whole.

The key results are summarised in the conclusions section, which also describes the main factors likely to determine the future of a “differentiated EUrope” in the next 10–15 years.

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1 The EU IDEA project aims to address whether, how much and what form of differentiation is not only compatible with but is also conducive to a more effective, cohesive and democratic EU. For more information about the project, see the website: <https://euidea.eu/?p=58>.

2 These three areas reflect the main policy areas examined in the framework of the EU IDEA project.

## 2. Five scenarios for a “differentiated EUrope 2035”

### 2.1 Scenario 1: Status quo differentiation

#### Basic narrative: Stagnation

This scenario assumes that the levels of differentiated integration and cooperation in 2035 have not altered substantially over the past 10–15 years. Besides limited incremental changes in some policy areas, the crises that the EU and its member states have encountered since the early 2020s have not led to radical new forms or fundamentally deeper levels of internal or external differentiation.

The main reason for the absence of significant change is that (core) member states are not ready to transfer further competences to the European level. The EU and its member states prefer to “muddle through crises through path-dependent and incremental responses instead of taking radical shifts towards major reforms” (Eisl and Rubio 2021: 4, see also Aizenman 2015, Crespy 2020, Emmanouilidis and Zuleeg 2016: 19-25). Consequently, Europe has not witnessed any significant positive or negative integration leaps inside or outside the Union’s existing institutional and legal framework. Despite a strong tendency to carry on with business as usual, the EU can achieve concrete results, but its “capacity to deliver does not always match expectations” (European Commission 2017: 17).

Because member states cannot agree, *inter alia*, to use the instruments of differentiated integration to overcome the Union’s internal deficiencies and deepen integration, they hold that the Union should refrain from further rounds of enlargement.

#### Economic governance

The level of economic, financial, fiscal and monetary integration has not increased over the past 10–15 years. Progress towards the completion of the banking union has effectively stalled. As a result, the euro area remains far away from a Genuine Economic and Monetary Union as envisaged in the “Five Presidents’ Report” presented in 2015 (Juncker et al. 2015). In addition, no group of EU countries has applied the instruments of differentiated integration to further deepen their economic cooperation in critical areas, including taxation, industrial, social or labour policy.

The EU has not witnessed a process of substantial “de-differentiation”: the last country joined the eurozone in 2015. Continued uncertainty about the future of the common currency remains a demotivating factor for countries outside the euro area (except Denmark, with its opt-out) to adopt the euro, although they are legally obliged

to do so.<sup>3</sup>

## Foreign, security and defence policy

The EU27 remain unable to assume more responsibility in the area of foreign, security and defence policy. Decisions in the (European) Council are still taken on the basis of unanimity and member states show no commitment to enhancing Europe's collective security and defence capacities.

Differentiated cooperation in these areas is still characterised by two main types of differentiation: those based on EU treaties and those not (Siddi et al. 2021). The treaty-based differentiation arrangements – including constructive abstention<sup>4</sup> and Permanent Structured Cooperation (PESCO)<sup>5</sup> – have not been extensively used in practice, given that there are strict procedural requirements for using them and because they are disconnected from policy practice in real-world situations.

Consequently, internal differentiated cooperation in foreign, security and defence policy continues to be dominated by informal mechanisms outside the EU treaties. These mechanisms include: (1) regional groups; (2) ad hoc contact groups; (3) lead groups; (4) differentiated cooperation in international fora; and (5) the High Representative tasking the foreign minister of one or more member states to perform a specific diplomatic task (Grevi et al. 2020).

The area of foreign, security and defence policy is still characterised by high levels of external differentiation. The EU cooperates with non-EU institutions (including NATO) and non-EU countries. The latter include candidate (Western Balkans; Turkey) and neighbouring countries (Eastern Partnership countries, Norway, etc.) (see Aydın-Düzgit et al. 2021), key international players (China, Russia, United States) and a former EU member state (UK). The closeness of relations and foreign policy alignment are still the crucial factors determining the intensity and effectiveness of cooperation with external partners (Siddi et al. 2021: 18).

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3 All EU countries are part of the Economic and Monetary Union (EMU), and 19 member states have taken a step further by replacing their national currencies with the euro. These member states form the euro area. Denmark has an “opt-out” from joining the euro laid down in a Protocol annexed to the Treaty, although it can join in the future if it so wishes. The remaining non-euro countries have committed to joining the common currency once they meet the necessary conditions for entry to the euro area.

4 Constructive abstention (Article 31(1) TEU) allows the (European) Council to take a decision in CFSP even if one or more member states (up to a third of them) formally abstain in a vote. Thus far, constructive abstention has only been used once by Cyprus in the decision to establish the EULEX mission in Kosovo. See Koenig (2020).

5 PESCO (Article 42(6) TEU) allows member states to make more binding commitments to one another in order to develop their defence capacities more intensively in cooperation with other EU members. See also Biscop (2020).

## Migration, border control, asylum and refugee policy

The level of integration in the areas of migration, border control, asylum and refugee policy has not increased (substantially) over the past 10–15 years. The 2015/16 “migration crisis” has not been repeated, and the relatively low number of people arriving at Europe’s shores means there is little pressure on governments to show effective solidarity with member states where migrants first arrive by relocating them to other EU countries.

The level of differentiation among EU member states is still reflected in “heterogeneous rules, legal commitments or participation levels” (Comte and Lavenex 2021: 3). In accordance with the Treaty on European Union (TEU), Denmark still retains its opt-out from this policy area. There are also flagrant violations of EU standards, and some member states openly reject Council decisions and rulings of the European Court of Justice (ECJ). The Union remains far from having a common European migration, asylum and refugee policy worthy of that name.

Additional members have been allowed to join the Schengen Area<sup>6</sup> since the early 2020s, reducing the level of internal differentiation. But free movement across Europe is continuously challenged because member states can still unilaterally restore border controls under specific conditions, especially when they identify “deficiencies” at the external border of the Schengen Area (see De Somer et al. 2020). In the past 10–15 years individual countries have repeatedly reintroduced internal border checks whenever they felt it necessary.

High levels of external differentiation still characterise these policy areas. Western European countries, including Iceland, Liechtenstein, Norway and Switzerland, remain fully included in the Schengen Area. The EU and its member states cooperate with third countries located on migration routes at the Union’s eastern and southern periphery to involve them in the fight against irregular migration (Comte and Lavenex 2021: 12).

## 2.2 Scenario 2: Muddling upwards

### Basic narrative: Incremental progress

This scenario assumes that member states continue to value the benefits of differentiation and that crises in various policy areas have – as in the past – led to more types of internal differentiation rather than less differentiation (Eisl and Rubio 2021: 4). In the past 10–15 years, new forms and deeper levels of differentiated integration and cooperation, both internal and external, have emerged in key policy areas.

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<sup>6</sup> At present (2021), the Schengen Area encompasses most EU countries, except Bulgaria, Croatia, Cyprus, Ireland and Romania. Bulgaria, Croatia and Romania are currently in the process of joining the Schengen Area and are already applying the Schengen acquis to a large extent. Additionally, the non-EU countries Iceland, Norway, Switzerland and Liechtenstein have also joined the Schengen Area.



Although differentiated Europe has progressed, member states are collectively neither willing nor able to agree on a substantial deepening of European integration. There is also no core group of countries ready to make a fundamental leap towards a fully fledged economic and political Union – whether inside or outside the existing treaty framework.

Following the UK example, more countries have either withdrawn from the EU or are considering it (“negative differentiation”; see Emmanouilidis 2008b: 50-52). This development has led to more external differentiation, as the remaining EU countries have tried to maintain links with former member states (Wachowiak and Zuleeg 2021). External differentiation has also increased since the early 2020s as a result of the Union’s efforts to intensify cooperation with potential future members “beneath the level of full membership”, particularly in the Western Balkans (Emmanouilidis 2008a and 2008b, Lippert 2006 and 2008; see also Atilgan and Klein 2006, Aydın-Düzgit et al. 2021, Bechev and Nicolaidis 2007).

## Economic governance

The euro area has undergone a process of de-differentiation, as more countries have adopted the euro since the early 2020s. This development reflects the continued commitment of national governments and EU institutions, especially the European Central Bank, to do whatever it takes to stabilise the common currency.

EU governments have cautiously increased their integration in the Economic and Monetary Union (EMU), pushed by questions about the future of the single currency. Wishing strongly to avoid potential euro area instability, they have taken additional steps towards completing the banking union, including the creation of a European deposit insurance scheme.<sup>7</sup> The incremental deepening of EMU integration has intensified monetary and economic interdependence between euro countries, thereby increasing the differentiation between them and those countries that have not (yet) adopted the common currency.

But the EMU is still far from being a fully fledged economic, monetary and fiscal union. The eurozone’s institutional construction still lacks critical elements, such as a substantial “euro budget” or a euro finance minister, still less an “economic government” worthy of that name. The role of supranational institutions, including the European Commission and the European Parliament, is still limited with respect to the euro area. Ideas of enhancing parliamentary scrutiny at the European level, for example by creating a “euro parliament”, have gone nowhere. Coordination at the high(est) political level between euro and non-euro countries is still limited to regular meetings of the Euro Summit, which in its inclusive format brings together

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<sup>7</sup> A European deposit insurance scheme would protect bank depositors in any eurozone country. Pooling resources at the European level could make it easier to handle large shocks and systemic financial crises that exceed national capacities without turning to public money. Such a scheme would also weaken the link between banks and their national governments, as banks would depend less on national financial support in crises.

EU leaders from all member states including non-euro countries.

## Foreign, security and defence policy

The changing global geopolitical landscape, including increased economic and political confrontation between China and the “West” as well as crises in Europe’s periphery, have forced member states to take more responsibility for providing regional and global security. To achieve this objective, they have employed instruments and mechanisms of differentiated integration.

The instrument of constructive abstention has never worked in practice, so to improve the Union’s decision-making capacity the EU27 have finally decided to apply one of the specific passerelle clauses in the Lisbon Treaty (Article 31(3) TEU) (Kotanidis 2020). This has allowed them to (*de facto*) introduce more qualified majority voting in the Council on a limited number of issues, including *inter alia* the imposition and continuation of sanctions on third parties.

The wish of member states to enhance their foreign, security and defence cooperation has also led to an increase of differentiated cooperation in the security and defence sector. After previously struggling to do so, member states have, in the course of the last 10–15 years, been able to exploit more of the potential of PESCO.<sup>8</sup> This political readiness to use PESCO for strategically relevant defence projects has to some degree increased the Union’s capacity to engage in civilian and military operations, and thereby enhanced Europe’s strategic autonomy as a provider of regional security and stability.

But the EU and its member states are still far from exploiting its full potential as a geopolitical actor. Diverging positions on critical foreign policy issues, the lack of a shared strategic culture and the political unwillingness to fundamentally enhance the continent’s collective security and defence capacities (including through concrete steps towards a “European army”) are limiting Europe’s ability to play a more assertive foreign policy role in an increasingly hostile international environment.

## Migration, border control, asylum and refugee policy

Increasing migratory pressures have over the last 10–15 years forced the EU to accept greater internal differentiation in the areas of migration and asylum. Most significantly, because some EU governments refused to show solidarity with countries under particular pressure, a group of member states has established an obligatory system of relocation involving only those EU countries that are ready to show such levels of solidarity among themselves (“differentiated solidarity”).

In relation to external differentiation, all EU countries are involved in cooperation with the main countries of origin and transit in an effort to reduce migration pressures on the Union’s borders. However, the “differentiated solidarity” countries have a strong

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8 For an analysis of how PESCO has been applied in practice in the past, see Biscop (2020).

motivation to go even further in enhancing cooperation with non-European countries.

## 2.3 Scenario 3: Fundamental disruption of differentiation

### Basic narrative: End of the euro and/or implosion of Schengen

This scenario assumes that the EU has experienced a fundamental disruption leading to the end of cooperation in core policy areas subject to major forms of differentiation, the two most likely areas being EMU or the Schengen Area.

The dissolution of the euro and/or the implosion of Schengen led to an existential crisis in European integration, calling into question the EU's future. Because of the potential political, economic and societal consequences of the end of the Union as we know it, the EU and its member states have done their utmost to salvage the remaining fields of the integration process.

This scenario has led to a “minimal union” (Brandi and Wohlgemuth: 2006) aiming to collectively safeguard the remaining fields of EU cooperation as much as possible. Following the end of the euro and/or the implosion of Schengen, the Single Market has become the centrepiece of European integration. The goal of an “ever closer Union among the peoples of Europe” (Article 1 TEU) has been abandoned, and EU countries no longer aspire to deepen (differentiated) integration and cooperation beyond existing levels.

The circumstance that the fundamental disruption scenario has led to a “minimal union” has over time increased the readiness of member states to enhance the level of external differentiation. Efforts aiming to deepen ties between the Union and non-EU countries focus particularly on enhanced levels of economic cooperation. However, the circumstance that the EU has gone through an existential crisis has reduced the Union's attractiveness in the eyes of potential accession countries, which are now less interested in joining the EU, while they are still seeking privileged access to the Single Market beneath the level of full membership.

### Economic governance

In this scenario, the euro and its underlying institutional structures have dissolved. Multiple attempts to solve financial, economic and monetary crises and rescue the common currency have failed. Core member states – including France and Germany – have concluded that the increasing economic and political divergences cannot be overcome and that the euro has become a significant burden to the European integration process. Consequently, the countries of the eurozone have decided to abolish the common currency and its underlying institutional structures, reviving national currencies and national monetary policies.

To counter the most negative economic effects following a return of national currencies, member states have established an exchange rate mechanism similar to the one that preceded the euro. This has helped to avoid extreme exchange rate movements, given that national central banks are committed to keep currencies within agreed bands. The creation of an exchange rate mechanism has also helped to limit the negative consequences of the end of the euro for the Single Market. But the negative experience of the euro's dissolution has undermined efforts to overcome the common market's remaining barriers, including to the free movement of services. Externally, the European Economic Area (EEA), which brings all EU member states and the three EEA EFTA States (Iceland, Liechtenstein and Norway) together in an "Internal Market",<sup>9</sup> remains in place, although the Union's attractiveness has suffered following the fundamental disruption of differentiation.

## Foreign, security and defence policy

The end of differentiated cooperation in core policy areas has undermined the readiness of member states to cooperate in the areas of foreign, security and defence policy. Negative political spill-over effects resulting from the dissolution of the euro and/or the implosion of Schengen have made it even more difficult to agree on major foreign policy issues and to cooperate more effectively in the defence sector via PESCO. As a result, the EU27 struggle to assume more collective responsibility at both the regional and global level, despite increasing international demands to do so. Low levels of internal differentiation in the fields of foreign, security and defence policy has also reduced concrete opportunities and the political readiness of non-EU countries to cooperate more closely with the European Union in these potential areas of external differentiation.

## Migration, border control, asylum and refugee policy

The outbreak of new pandemics and the reescalation of the migration crisis have led to chronic border closures and a differentiated treatment of EU citizens travelling between member states. The inability to find common ground on how to effectively deal with these situations at the EU level has eventually led to an implosion of the Schengen Area. As a result, the Union has experienced a restoration of permanent passport and border controls throughout Europe, involving both EU member states and the four EFTA countries (Iceland, Liechtenstein, Norway and Switzerland). The dissolution of the Schengen Area has threatened the borderless operation of the Single Market (Mortera-Martínez 2020), which has forced member states to find

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9 The Agreement on the European Economic Area (EEA), which entered into force on 1 January 1994, brings together all EU member states and the three EEA EFTA states – Iceland, Liechtenstein and Norway – in a single market, referred to as the "Internal Market". The EEA Agreement guarantees equal rights and obligations within the Internal Market for individuals and economic operators in the EEA. It provides for the inclusion of EU legislation covering the four freedoms – the free movement of goods, services, persons and capital – throughout the 30 EEA states. In addition, the Agreement covers cooperation in other areas such as research and development, education, social policy, the environment, consumer protection, tourism and culture.

ways to guarantee at least a frictionless movement of goods within the internal market. The implosion of Schengen has also led to negative spill-overs in the areas of migration, asylum and refugee policies. As a result, the EU27 have stalled all efforts to further integrate in these areas and aspire to regain national control in these policy fields.

## 2.4 Scenario 4: Creation of an inner core

### Basic narrative: Fundamental deepening through differentiation

The experience of multiple fundamental crises in core policy areas over the past decades and the increasing pressure on Europe to assume more responsibility at both the regional and the global level have persuaded an “inner core” of EU countries that they must pool more sovereignty – even if other EU countries are not (yet) ready to do so. The political, economic, financial and societal ties among these countries have increased, strengthening the “feeling of belonging” among them as they move towards a much more integrated economic and political union.

The countries of the inner core have decided to make this qualitative leap while fully respecting the EU’s institutional and legal framework. Consequently, wherever possible they have used instruments and mechanisms provided for in the EU’s treaties to deepen their level of integration/cooperation. The circumstance that differentiation has been mostly organised within the EU framework has prevented or mitigated negative side-effects for non-participating countries.

Intensified cooperation could not always be achieved within the EU, especially in the context of EMU and Schengen, and at times required further intergovernmental cooperation outside the Union’s framework. Yet, even in these cases, the members of the inner core have consciously tried to avoid creating a (deep) split between “ins” and “outs” (see also main finding 5 on legitimacy/accountability on p. 25).

Increased integration has significantly enhanced the powers of the European Commission and the European Parliament (EP) in the relevant policy areas. The Commission has become more like a genuine European executive with strong discretionary powers, and the EP enjoys full co-decision rights and powers of scrutiny in those areas where the countries of the inner core have pooled competences.

The increased level of cooperation and integration among the countries of the inner core has also led to more external cooperation with non-EU countries in various policy areas, including the Single Market and Schengen.

### Economic governance

The members of the euro area constitute the nucleus of the “coalition of the willing”, although not every euro country is obliged to participate in all areas of differentiated

integration from the outset. However, given that the common currency lies at the heart of European integration, a conscious decision was taken that every euro country must always be part of every integration step moving the euro area towards a Genuine Economic and Monetary Union. As a result, there is thus no differentiation within the euro area. EU countries that have not joined the common currency and are not ready or willing to join the inner core from the outset are allowed and encouraged to join it later provided that they are able to accept all obligations and requirements to do so.

The countries of the euro area are in the process of moving closer towards the creation of a “European economic government” (Duff 2018: 251-256) by completing the banking union and creating a separate permanent “euro budget” in support of eurozone countries.

The countries of the inner core have also integrated further in other critical areas, including taxation, social policy and labour policy. To do this, they have mostly used the instrument of enhanced cooperation (Article 20 TEU), which allows a group of at least nine member states to cooperate more closely based on clear preconditions, rules and procedures for the authorisation, operation and widening of differentiated cooperation.

## Foreign, security and defence policy

Although differentiated foreign, security and defence cooperation has somewhat increased (see below), no core group ready to make a major qualitative leap in these fields has emerged. This is mostly because national capitals believe that the Union’s unity is vital to its ability to play a substantial foreign policy role. The formation of an inner core in CFSP and CSDP, that is ready to make a major integration leap in the area of foreign, security and defence policy while leaving other member states behind, could have undermined this unity.

To strengthen the Union’s decision-making capacity, however, the EU has applied one of the specific passerelle clauses in the EU treaties (Article 31(3) TEU) (Kotaniadis 2020) to introduce qualified majority voting in the Council in a limited number of cases in these areas, including the imposition and prolongation of sanctions on third countries.

In addition, EU countries have substantially deepened their cooperation in the security and defence sector. They have finally been able to exploit the potential of PESCO, strengthening the Union’s strategic sovereignty by enhancing its capacity to engage in civilian and military operations in Europe and beyond (Biscop 2020). However, core decision-making competences are firmly in the hands of individual member states, given that security and defence remain core fields of national sovereignty.

The area of foreign, security, and defence policy is still characterised by high levels of external differentiation. The Union cooperates with several non-EU institutions (including NATO) and external players (including candidate and other neighbouring countries, and key global players). In the defence field, the extensive use of PESCO

has also allowed higher levels of cooperation on specific projects with non-EU countries.

## Migration, border control, asylum and refugee policy

Over the past 10–15 years a coalition of member states has enhanced its integration and cooperation in the areas of migration, border control, asylum and refugee policy. It has introduced an obligatory solidarity mechanism to share the burdens of increased migratory pressures among a core group of EU countries. The coalition of the willing has also agreed to cooperate more in the management of Europe's external borders. These countries have thus moved much closer towards a truly common European migration, asylum and refugee policy, although some member states are not (yet) ready to join the inner core. However, more EU countries have, over time, shown their readiness to join the coalition of the willing, leading to a "centripetal dynamic towards de-differentiation" (Comte and Lavenex 2021: 5).

These areas are also subject to high levels of cooperation with other European countries, including Iceland, Liechtenstein, Norway and Switzerland, and non-EU countries in Eastern Europe that are (or aim to be) fully included in the Schengen Area. The members of the inner core are also trying to enhance their cooperation with countries of origin and transit to minimise the number of people arriving in Europe by irregular means, in part by increasing the level of regular and circular migration from countries in Europe's immediate neighbourhood.

## 2.5 Scenario 5: New supranational union

### Basic narrative: Federal leap via new entity

A group of EU countries led by France and Germany has, over the past 10–15 years, decided to make an irreversible qualitative leap towards a fully fledged federal political and economic Union. These states had concluded that they could not substantially deepen their level of integration within the framework of the existing EU "due to contradictory and irreconcilable attitudes towards the future of European integration" (Emmanouilidis 2008b: 14), so they decided to create a new supranational federal entity outside the Union's existing institutional and legal framework. The creation of a new union was "the ultimate response to the fact that the diverging views about the future progress of integration [could] no longer be reconciled amongst all member states of the 'old EU'" (Emmanouilidis 2008b: 14). The end of the euro or the implosion of Schengen (scenario 3) could provide the potential political impetus to create a new supranational entity.

The legal basis of the new union is a European Constitution prepared in a constitutional convention. The Constitution was drafted, ratified and is being implemented solely by the member states of the new entity. The new union is based on novel enhanced supranational politico-institutional structures with strong discretionary powers, separate from those of the "old EU". It was "politically unwelcome" and "legally

impossible” for the organs of the old EU to be lent to the new union, since the newly created institutions could not operate on the basis of two separate sets of primary law (Emmanouilidis 2008b: 15). There has been a substantial transfer of competences and pooling of sovereignty well beyond that in the old EU. The new federal entity required the establishment of a powerful executive led by an elected European president/prime minister, a strong parliamentary dimension and an independent judicative for settling legal disputes within the new union (Emmanouilidis 2008b: 15, New Pact for Europe 2013: 36).

All eurozone countries are members of the new entity. Countries that had not adopted the euro beforehand were obliged to do so when they joined the new union, since no member of the novel entity is allowed to enjoy opt-outs from individual policy areas. Every EU country is invited to join the novel entity, provided it is willing and able to accept fully the obligations and requirements of membership.

There is no internal differentiation in the new union: all members must participate fully in all policy fields subject to the European Constitution. But there is external differentiation, as countries that are not part of the new entity – including both members of the old EU and other countries – (aim to) cooperate with the Union in certain policy areas.

The old EU and its institutions continue to exist, although the level of cooperation and integration has been reduced to a minimum. The deep political split between those who have established the new union and those who have not joined the novel entity is raising fundamental questions about the future of the old EU and its ability to tie both sides to each other.

## Economic governance

The new union is based on a fully fledged economic, fiscal, monetary and banking union led by a “European economic government”, with all relevant competences transferred to the federal level. The European executive formulates and implements a single macroeconomic policy, guarantees fiscal discipline and is responsible for issuing and managing common debt (New Pact for Europe 2013: 34). All economic decisions are legitimised and scrutinised by the new union’s parliament.

The new union has a substantial central budget (around 10 per cent of the new entity’s overall GDP) funded through tax levies at the European level. This budget enables the new union to perform key tasks: (1) macroeconomic stabilisation and anti-cyclical support to help regions withstand economic shocks; (2) a redistributive function to transfer resources from more competitive, wealthier regions to less competitive, poorer ones; and (3) the ability to fund Europe-wide investments following a comprehensive European strategy for growth and jobs (New Pact for Europe 2013: 36).

The banking union is based on three strong pillars: (1) an independent European banking supervisory system able to monitor all key banks and any other financial institutions it deems necessary; (2) a single European banking resolution authority



fully independent from national regulators and fully equipped to fulfil its tasks (including a European financial backstop funded by contributions from financial institutions and supranational taxes); and (3) a single European deposit insurance scheme.

The members of the new union have established a complete internal market by removing all the barriers that the old EU had retained, including to the free movement of services. They have also pooled competences in areas such as taxation, energy, labour, social and industrial policy.

The creation of a fully fledged economic and political union, including the issuance of common debt, has substantially enhanced trust in Europe's common currency. This is allowing the euro to gradually develop into a real global reserve currency next to the US dollar and the Chinese renminbi.

## Foreign, security and defence policy

The members of the new entity have created a European foreign minister, and civilian and military capabilities in the framework of a "European army". They have introduced qualified majority voting for all aspects of foreign, security and defence policy. These capabilities and reforms have complemented Europe's soft power with hard power and significantly increased the interdependence between member states, pushing national governments to overcome divisions on foreign, security and defence issues.

The new entity's enhanced operational capacities have allowed it to become a stronger guarantor of security and stability in its wider neighbourhood. In an environment characterised by more global power competition, the new union's enhanced strategic autonomy has increased the pressure on Europeans to play a stronger role globally. The "old continent" is better positioned to influence the restructuring of the multilateral system, including reform of the World Trade Organization, the UN, the International Monetary Fund and other international organisations. Europe's ability to play a leading geopolitical role in international affairs is still limited, however, by diverging national foreign policy traditions and the incomplete development of a shared strategic culture.

Regarding external differentiation, the strengthening of Europe's international role via the new union has provided ample cooperation opportunities and made the continent more attractive for external partners. The new entity cooperates closely with key international players and institutions, including NATO, and the creation of new capacities has provided numerous prospects for joint defence projects with external actors. Cooperation with countries of the old EU that have not joined the new union is more difficult, given that the establishment of the novel entity has created major dividing lines between those that are part of the new union and those that have not been willing or able to join. The members of the new union are concentrating energies on efforts aiming to enhance their foreign and defence capabilities, while the excluded countries are gravitating towards other (geo)political constellations, which in return undermines cooperation between both sides.

**Table 1** | An overview of the five scenarios

	<b>Status quo differentiation</b>	<b>Muddling upwards</b>	<b>Fundamental disruption of differentiation</b>	<b>Creation of an inner core</b>	<b>A new supranational union</b>
<b>Basic narrative</b>	<ul style="list-style-type: none"> <li>unchanged level of integration</li> <li>member states not ready to transfer competences</li> <li>no new forms of internal/external differentiation</li> </ul>	<ul style="list-style-type: none"> <li>new forms and deeper levels of internal/external differentiation</li> <li>BUt: member states not willing/able to substantially deepen integration</li> <li>some member states have withdrawn or consider exiting EU</li> <li>more external differentiation</li> </ul>	<ul style="list-style-type: none"> <li>end of cooperation in core differentiation areas – implosion of euro and/or Schengen</li> <li>existential crises led to “minimal union” – goal of “ever closer Union” abandoned</li> <li>loss of attractiveness in eyes of potential accession countries</li> </ul>	<ul style="list-style-type: none"> <li>“inner core” of member states ready to pool sovereignty</li> <li>qualitative leap fully respecting EU’s institutional and legal framework</li> <li>differentiation mostly organised within EU</li> <li>trying to avoid split between “ins” and “outs”</li> </ul>	<ul style="list-style-type: none"> <li>group of countries make irreversible leap towards new federal union</li> <li>new union based on Constitutional and separate supranational structures</li> <li>no differentiation within new union</li> <li>old EU reduced to minimum and fundamental questions about its future</li> </ul>
<b>Economic governance</b>	<ul style="list-style-type: none"> <li>no increased level of economic, financial, fiscal and monetary integration</li> <li>stalled completion of banking union</li> <li>no enlargement of euro area</li> </ul>	<ul style="list-style-type: none"> <li>enlargement of euro area</li> <li>steps towards banking union completion</li> <li>BUt: EMU still far away from fully-fledged economic, monetary and fiscal union</li> <li>incomplete euro construction</li> </ul>	<ul style="list-style-type: none"> <li>euro dissolved → return national currencies</li> <li>establishment of new exchange rate mechanism</li> <li>Internal market with EEA EFTA states remains in place</li> </ul>	<ul style="list-style-type: none"> <li>euro members nucleus of “coalition of the willing”</li> <li>no differentiation within euro area</li> <li>completion of banking union, permanent euro budget</li> <li>integration in other critical areas via enhanced cooperation (taxation; social and labour policy)</li> </ul>	<ul style="list-style-type: none"> <li>European economic government</li> <li>single macroeconomic policy</li> <li>issuance of common debt</li> <li>central budget (around 10% of GDP)</li> <li>full banking union</li> <li>complete internal market</li> </ul>
<b>Foreign, security and defence policy</b>	<ul style="list-style-type: none"> <li>EU27 unable to assume more responsibility</li> <li>unanimity decisions in Council</li> <li>use of informal mechanisms of internal differentiation</li> <li>high levels of external differentiation</li> </ul>	<ul style="list-style-type: none"> <li>EU takes more responsibility for regional and global security</li> <li>limited introduction of qualified majority voting in Council</li> <li>more defence projects via PESCO</li> <li>enhanced strategic autonomy</li> <li>BUt: far away from exploiting full geopolitical potential</li> </ul>	<ul style="list-style-type: none"> <li>negative spill-over effects from euro/Schengen implosion</li> <li>even more difficult to cooperate in defence sector</li> <li>reduced opportunities and political readiness of non-EU countries to cooperate with EU</li> </ul>	<ul style="list-style-type: none"> <li>no core group ready to make major leap → creation of “foreign policy core” could undermine unity</li> <li>introduction of QMV in limited cases (sanctions)</li> <li>exploiting full PESCO potential</li> <li>high levels of external differentiation</li> </ul>	<ul style="list-style-type: none"> <li>European foreign minister</li> <li>European army</li> <li>QMV in all aspects</li> <li>developing shared strategic culture</li> <li>more attractive for external partners</li> <li>excluded countries gravitating towards other (geo-)political constellations</li> </ul>
<b>Migration, border control, asylum and refugee policy</b>	<ul style="list-style-type: none"> <li>no increased level of integration</li> <li>far away from common European migration and asylum policy</li> <li>unilateral restoration of border controls possible</li> <li>enlargement of Schengen Area</li> </ul>	<ul style="list-style-type: none"> <li>higher level of internal differentiation → “differentiated solidarity”</li> <li>more co-operation with countries of origin and transit</li> </ul>	<ul style="list-style-type: none"> <li>implosion of Schengen Area</li> <li>restoration of permanent passport/border controls</li> <li>member states aspire to regain national control in migration, border control, asylum and refugee policy</li> </ul>	<ul style="list-style-type: none"> <li>obligatory solidarity mechanism among core group</li> <li>cooperation in management of external borders</li> <li>increasing number of member states ready to join “coalition of the willing”</li> <li>high levels of external differentiation and cooperation</li> </ul>	<ul style="list-style-type: none"> <li>fully harmonised common migration, border, asylum and refugee policy</li> <li>comprehensive and obligatory system of relocation</li> <li>European border and coast guard</li> <li>raised bar for third countries participation – including old EU countries</li> </ul>

## Migration, border control, asylum and refugee policy

Continued pressure from large flows of irregular migrants into Europe and the need for increased legal migration have impelled the countries of the new union to establish a fully harmonised common migration, border, asylum and refugee policy.

Unlike the old EU, the new entity is not subject to internal differentiation: its members are obliged to adhere to the same rules, legal commitments and participation levels. People reaching the member states of the new union are thus treated equally, regardless of where they arrive. In addition, the member states have adopted a comprehensive and obligatory system of relocation. There is also a common European border and coast guard with all competences and capabilities needed to control the union's external borders. Member states are not allowed to restore border controls between them without the union's agreement.

The creation of a genuine European migration, asylum and refugee policy within the new union has raised the bar for the participation of third countries – including members of the old EU or other European countries. But the successful implementation of a common migration, asylum and refugee policy and the economic needs of the internal market require high levels of cooperation with third countries, and in particular with countries of origin and transit, in order to reduce irregular migration to Europe and establish legal pathways for migrants.

### 3. Analysis of effectiveness and legitimacy/democratic accountability

This section uses the conceptual frameworks developed in the context of the EU IDEA project to analyse the potential challenges, opportunities and risks associated with the five scenarios above. It asks how the various forms and degrees of internal and external differentiation might lead to more or less effectiveness and more or less legitimacy/democratic accountability.

#### 3.1 High(er) or low(er) levels of effectiveness

The section presents seven main findings on the potential effectiveness of the scenarios reflecting the following core aspects and questions:

First, how would the individual scenarios affect the three *dimensions of effectiveness* (Lavenex and Križić 2019: 11-12, see also Gutner and Thompson 2010), i.e., the *output* (facilitating policy making), *outcome* (policy implementation) and *impact* (problem solving) of policy decisions taken at the European level, particularly in the three areas analysed in this paper: economic governance; foreign, security and defence policy;

and migration, border control, asylum and refugee policy?<sup>10</sup>

Second, how would the five scenarios compare to different *benchmarks* for evaluating the effectiveness of different forms of differentiated integration/cooperation, the benchmarks being:

- *No policy change*. How does a differentiated approach perform better than the “hypothetical state of affairs” without differentiation? (Underdal 2002: 7ff)
- *No differentiation*. How would the same institutional characteristics affect a specific policy area if they were implemented without differentiated membership? (Lavenex and Križić 2019: 10-11)
- *The ideal solution*. How would effectiveness be assessed in absolute terms if differentiated integration/cooperation were compared with “some concept of a good or ideal situation”? (Underdal 2002: 8)

Third, to what extent would the individual scenarios (1) provide an institutional design that “fits” the defined goals and objectives of the differentiated arrangement; (2) affect the Union’s institutional complexity and its ability to adapt its institutional arrangements; and (3) prevent or mitigate potential negative side-effects on non-participating countries, including tensions between “ins” and “outs”.

## Main findings regarding the potential level of effectiveness

*Effectiveness – main finding #1: Scenario 2, “muddling upwards”, would most probably lead to slightly higher levels of effectiveness in the euro area.* Further deepening of differentiated integration via an incremental increase in EMU integration, including the creation of a European deposit insurance scheme, would help to further stabilise the common currency. But there would be only a limited improvement in the output (facilitating policy making), outcome (policy implementation) and impact (problem solving) of policy decisions taken by the participating countries compared with the status quo (scenario 1). The state of EMU integration would still be far from an “ideal solution” (Lavenex and Križić 2019: 10), given that the euro area would not have moved substantially closer towards a fully fledged economic, monetary and fiscal union. The eurozone’s institutional construction would still miss critical elements that are necessary to fundamentally increase its effectiveness in terms of output, outcome and impact.

*Effectiveness – main finding #2: It is not clear whether “muddling upwards” would increase effectiveness in foreign, security and defence policy, and it could potentially undermine the EU’s effectiveness in the fields of migration, border control, asylum and refugee policy.* Regarding foreign, security and defence policy, the output,

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10 Following the conceptual framework provided by Lavenex and Križić (2019: 12-14): (1) output can be measured by focusing on the volume, depth, coverage and reach of potential policy outputs; (2) the outcome dimension covers three aspects: compliance, scope and cohesion; and (3) impact needs to evaluate to what extent the set objectives are met while considering both the “relative improvement triggered by differentiated governance” (attribution) as well as the “problem-solving role of differentiation in more absolute terms” (assessment).


outcome and impact of policy decisions (not) taken in this area of differentiated cooperation will largely depend on other factors not immediately linked to the level of differentiation. As Siddi et al. argue, the effectiveness of differentiated cooperation in this area is higher when initiatives “adhere to common European values” and “build on long-established common EU positions” (see Siddi et al. 2021: 5, 10). These factors are not predominantly affected by the overall level of differentiation. Regarding migration, border control, asylum and refugee policy, the establishment of some form of “differentiated solidarity” among a group of EU countries could further increase political divides inside the Union. These increased divisions could ultimately: (a) lead to higher levels of non-compliance with EU regulations (Comte 2020), more violations of EU standards, or the open rejection of Council decisions and ECJ rulings among those countries that are not ready to show more solidarity (see also Comte and Lavenex 2021: 18); (b) undermine the Union’s effectiveness in these fields; and (c) potentially lead to negative political spill-over in other areas.

*Effectiveness – main finding #3: “Fundamental disruption of differentiation” (scenario 3) would lead to massively lower levels of effectiveness both in the affected areas and other policy fields.* The dissolution of the euro and its institutional structures and/or the implosion of the Schengen Area and the restoration of border controls would undermine the output, outcome and impact of policy making in these critical areas of differentiated integration. In addition, the end of cooperation in one of these core areas would almost certainly lead to severe negative political spill-over effects in other fields, including the areas of foreign, security and defence policy. All these developments would poison the relationship between member states and fundamentally undermine the perspectives for the future of the European integration process. Scenario 3 would lead to a “minimal union”, which aims to collectively safeguard the remaining fields of EU cooperation as much as possible, and the abandonment of the goal of an “ever closer Union”. All this would seriously affect the Union’s political unity and thus its overall capacity to deliver effective policy outputs and outcomes in all fields of cooperation.

*Effectiveness – main finding #4: The “creation of an inner core” (scenario 4) would substantially increase effectiveness in the policy areas subject to higher levels of differentiated integration.* Because the countries of the inner core will have substantially deepened integration in those policy areas, effectiveness in terms of output, outcome and impact would be much greater in those areas than without differentiation. The pooling of sovereignty among the countries of the inner core would lead to high levels of “institutionalist effectiveness”<sup>11</sup> (Lavenex and Križić 2019: 16), since differentiation would enhance the regulatory dimension in the respective policy fields, which is likely to ensure the compliance of the participating member states, given their conscious political decision to join the inner core. It would also lead to a high level of “power-based effectiveness” (Lavenex and Križić 2019: 18), since the most powerful EU countries (including France and Germany) would presumably drive the creation of the inner core. Effectiveness would also be greater because an inner

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11 The notion of “institutionalist effectiveness” suggests that mechanisms of differentiated integration with a strong regulatory dimension are more likely to ensure member compliance, which, in turn, should enhance the prospects of problem solving. For more see Lavenex and Križić (2019: 16).



core, compromising all countries of the euro area, would tie those countries much closer together and increase their political coherence. The institutional frameworks governing these main areas of differentiated integration, however, would still lack simplicity and clarity, since they would mirror or even increase the Union's high level of institutional and legal complexity. At the same time, the fact that differentiated integration/cooperation would be mostly organised within the EU framework by applying the existing instruments and mechanisms of differentiation will prevent or mitigate negative side-effects for non-participating countries.

*Effectiveness – main finding #5: The “creation of an inner core” (scenario 4) would not in itself substantially increase effectiveness in foreign, security and defence policy, given that in this scenario no core group willing to make a major qualitative leap in those fields emerges. Member states are conscious that the Union's unity is a prerequisite for its ability to play a substantial external role and believe that the creation of a “foreign policy core” could (further) undermine the EU's cohesion on international issues. The Union's output, outcome and impact as an international player would still largely depend on the readiness of member states to overcome diverging national foreign policy traditions and their ability to develop a shared strategic culture.*

*Effectiveness – main finding #6: The establishment of a “new supranational union” (scenario 5) would lead to the greatest increase in effectiveness for the countries participating in the new entity. The substantial transfer of competences and pooling of sovereignty going well beyond the old EU would ensure that the output, outcome and impact of differentiated integration would increase considerably. The degree of integration and cooperation within the new union would, in terms of effectiveness, be very close to an ideal solution, given that the new entity's problem-solving capacity would be greatly enhanced.*

*Effectiveness – main finding #7: At the same time, however, the creation of a new union could politically undermine Europe's overall effectiveness as it might create new major dividing lines between those who are part of the new union and those who have not been willing or able to join the novel entity. There is a high probability that the establishment of a new union on a separate politico-institutional basis will lead to a “division of Europe into two opposing camps” (Emmanouilidis 2008b: 17) since non-participating countries would be excluded from the new entity's decision-making and decision-making processes. The members of the new union would concentrate their political energies on its development, while the countries excluded from it would probably gravitate to other (geo-)political constellations. A deep split between “ins” and “outs” would undermine Europe's internal political cohesion and could also pose a significant challenge for the continent's effectiveness as a global and regional actor.*

## 3.2 High(er) or low(er) levels of legitimacy and democratic accountability

This section presents seven main findings on the degree of legitimacy and democratic accountability envisaged in the five scenarios, reflecting the following core questions:

First, how would the individual scenarios of differentiated integration affect the *level of democratic scrutiny* at both the European and national levels? What kind of accountability mechanisms or practices would there be? And would new and deeper forms of differentiation also lead to new mechanisms and practices for democratic control and scrutiny?

Second, how would the different forms of internal or external differentiation influence the *level of incongruence* between those who take decisions and those who are affected by them (Nguyen 2020: 3)? Are the people affected by political decisions also those who elect the decision-makers? To what degree are those who are affected by decisions (inside and outside the Union) excluded from or included in the relevant differentiated decision-shaping and decision-making processes?

Third, how would the individual scenarios affect the *complexity and transparency* of the institutional system and to what degree could this influence the legitimacy and accountability of European policy making at different levels of governance, including national and sub-national?

Fourth, would the scenarios take account of the *interests and concerns of non-participating countries*? How would new and deeper forms of differentiation affect the overall relationship between those who are participating in a differentiated arrangement (“ins”) and those who are not (yet) willing or able to do so (“outs”)?

### Main findings regarding the potential level of legitimacy/democratic accountability

*Legitimacy/accountability – main finding 1: Scenario 2, “muddling upwards”, is unlikely to lead to a significant increase of legitimacy and democratic accountability.* Incremental reforms leading to more differentiated integration in the eurozone and in the areas of migration, border control, asylum and refugee policy, or the introduction of more qualified majority voting on foreign policy issues, could have a positive effect on the Union’s legitimacy if they led to visibly greater effectiveness in these policy fields, enhancing the Union’s output legitimacy (Schmidt 2013) in the eyes of European citizens. But the “muddling upwards” scenario would: (1) lead to only slightly higher levels of effectiveness with respect to economic governance (see Effectiveness – main finding #1); (2) increase the level of incongruence between those who take decisions and those who are affected by them; and (3) not (substantially) strengthen the European Parliament’s ability to scrutinise EU policy making in differentiated areas. These limitations would undermine the scenario’s positive effects on democratic accountability and legitimacy. In addition, in the

fields of migration, border control, asylum and refugee policy scenario 2 would (4) further complicate the Union's governance structures, since the establishment of an obligatory relocation system would not include all member states ("differentiated solidarity"); and (5) increase the problem of free-riding in these fields, since EU countries that refused to share the burden of increased migration pressures would still profit from the obligatory system of relocation among those EU countries that were ready to show greater mutual solidarity. The combined effect of all the above factors makes it unlikely that the "muddling upwards" scenario would significantly increase the Union's legitimacy and democratic accountability.

*Legitimacy/accountability – main finding 2: "Fundamental disruption of differentiation" (scenario 3) would lead to substantially lower levels of legitimacy and democratic accountability at the European level.* The dissolution of the euro area and/or the implosion of the Schengen Area would undermine the ability of EU institutions to influence and scrutinise decisions in core areas of European policy making, since the reintroduction of national currencies and monetary policies and/or the imposition of permanent border and passport controls would abolish the institutional competences of the Commission, the (European) Council and the European Parliament in these areas. Instead, decisions would be taken at the national level and would thus be subject to national democratic control. In addition, the inability of the EU and its member states to salvage the euro and/or Schengen would significantly undermine the Union's overall legitimacy in the eyes of its citizens, given the severe negative effects on the EU's effectiveness (see Effectiveness – main finding #3) and lead to negative spill-over in other policy areas. All this would harm the Union's output legitimacy and democratic accountability, even if the EU's institutional complexity and the level of incongruence between those who take decisions and those who are affected by them would decrease in the event of a fundamental disruption of differentiated integration. At the same time, it would not be clear as to whether a "re-nationalisation" of core policy issues – in this case the currency and border controls – would automatically lead to higher levels of legitimacy and democratic accountability at the national level, given that it would be in the hands of individual member states to determine the roles and powers of their national institutions.

*Legitimacy/accountability – main finding 3: Provided that differentiation was organised within the Union's framework, the "creation of an inner core" (scenario 4) would on balance increase legitimacy and democratic accountability for a number of reasons.* First, substantially greater effectiveness in core policy areas (see Effectiveness – main finding #4) would increase the Union's output legitimacy in the eyes of citizens whose country is participating in the relevant areas of differentiation. Second, as more countries adopt the common currency, congruence in the euro area between those who take decisions and those who are affected by them would increase. Third, the fact that the countries of the inner core have applied the instruments and mechanisms of differentiation provided by the EU treaties would enhance the EP's co-decision rights and its powers of scrutiny in those areas where the countries of the inner core have decided to make a qualitative integration leap. At the same time, the formation of an inner core would further complicate the Union's governance structures, given that it would involve greater differentiated integration in different policy areas – both inside and outside the EU's framework. The resulting increased




institutional complexity could, to some degree, reduce the Union's overall legitimacy and democratic accountability, particularly if differentiation is organised outside the EU (see also next finding).

*Legitimacy/accountability – main finding 4: The inner core's democratic accountability (scenario 4) would be reduced if the increased differentiation is implemented outside the Union's framework.* This has, for example, been the experience in the context of the euro crisis when new forms of intergovernmental cooperation did not lead to substantially higher levels of democratic accountability either at the European or the national level (Pilati and De Angelis 2020). As a result, both the EP and national parliaments struggle to effectively scrutinise decisions taken by governments that are beyond the remit of the Union's supranational institutions. The EU's democratic legitimacy is undermined when citizens feel that decisions are taken beyond their control and that neither European nor national decision-makers can be held accountable. This calls into question a fundamental principle of democracy, i.e., that "those subjected to laws are at the same time their authors" (Nguyen 2021: 4-5). In addition, the legitimacy of differentiated integration would be further undermined if less powerful EU countries and their citizens believed that core European powers (in particular Germany and France) were using their political and economic leverage inside a differentiated area to "aggressively push their own preferred outcomes" (Lavenex and Križić 2020: 20). The more that increased differentiation seems to undermine the Union's existing supranational institutions, the more likely such sentiments are to arise.

*Legitimacy/accountability – main finding 5: The potential adverse effects of an inner core (scenario 4) established outside the EU's framework can be limited if differentiation follows the logic of an "intergovernmental avantgarde" (Emmanouilidis 2008b: 24-25).* The possible downsides for the Union's democratic legitimacy and accountability of differentiation organised outside the Union's framework can be reduced if cooperation: (1) is in principle open to all member states willing to join; (2) involves or even strengthens the role of EU institutions in the differentiated areas; (3) keeps non-participating member states constantly informed; (4) refrains from setting up new parallel institutional structures outside the Union; and (5) integrates the legal norms adopted and the cooperation initiated outside the EU into the Union's treaty framework as soon as possible (Emmanouilidis 2012: 68-70, 74).

*Legitimacy/accountability – main finding 6: Legitimacy and democratic accountability would increase most in the framework of a "new supranational Union" (scenario 5) for several reasons.* First, by making a qualitative leap towards a fully fledged economic and political union, including the creation of a "European economic government" and the introduction of a European foreign minister, the participating states would show their willingness to do whatever it takes to enhance Europe's internal and external effectiveness by pooling sovereignty. This would strengthen the legitimacy of the European integration project, especially in the eyes of the new union's citizens. Second, the transfer of substantially more competences than in the old EU would be based on enhanced supranational politico-institutional structures with strong discretionary powers. The novel entity would have a politically potent executive led by an elected European president/prime minister, a strong parliamentary dimension and



an independent judiciary, all of which would institutionally enhance the democratic accountability of the new union. Third, the enhanced regulatory powers (i.e., higher authority) of the new union and its capacity to deliver effective responses to concrete challenges (i.e., high impact) would tend to increase its legitimacy in the eyes of its citizens (see also Lavenex and Križić 2019: 19). Fourth, the institutional architecture of the new union would be based on a more unified, simpler and clearer governance framework. Lower levels of complexity and higher levels of transparency could strengthen the legitimacy and democratic accountability of the new union (see also Eisl and Rubio 2021: 17-18). Finally, the new union would not include any areas of internal differentiation, given that all members of the new entity would be required to participate fully in all policy fields subject to the European Constitution. This scenario of differentiated integration would thus ensure congruence between those who take decisions in the executive, legislative and judicial branches of the new union and those who are directly affected by these decisions, thereby abolishing the “mismatch between decision-makers and decision-takers” (Nguyen 2021: 3).

*Legitimacy/accountability – main finding 7: The establishment of a new union (scenario 5) would substantially undermine the legitimacy and democratic accountability of the European integration project from the perspective of citizens/countries not (yet) included in the new federal entity. Citizens and countries excluded from the new union would be strongly affected by decisions taken in the framework of the new entity without being able directly or indirectly to participate in or even influence its decision-making processes. This significant incongruence and the overall sentiment of being excluded from the novel entity would undermine its democratic legitimacy/accountability in the eyes of those who are not part of the new union. These effects could be mitigated if the countries of the new union are willing and able to provide incentives and concrete support mechanisms aiming to encourage rapid progress towards membership in the new entity.*

*Legitimacy/accountability – main finding 8: (Substantially) higher levels of differentiated integration in the Schengen Area or the internal market (scenarios 4 and 5) might (further) challenge legitimacy and democratic accountability from the perspective of countries and citizens who are not part of the new union but are directly affected by decisions taken in these fields. Citizens of non-EU countries, who are, for example, part of the EEA (Liechtenstein, Norway, Iceland) or are directly affected by Schengen decisions (like the EEA countries and Switzerland), would continue to “find themselves virtually outside of the chains of accountability” (Nguyen 2021: 17). External differentiation would thus lead to a high degree of incongruence between those making decisions and the citizens of third countries directly affected by these decisions.*

**Table 2** | A comparison of the scenarios related to their level of effectiveness and legitimacy/democratic accountability

	<b>Muddling upwards</b>	<b>Fundamental disruption of differentiation</b>	<b>Creation of an inner core</b>	<b>A new supranational union</b>
<b>Effectiveness</b>	Slight increase in eurozone  Potential decrease in areas of migration, border control, asylum, and refugee policy  Unclear effects on foreign, security and defence policy	Massive decrease regarding euro area and/or Schengen  Negative spill-over also in other policy areas	Substantial increase in policy areas subject to higher levels of differentiated integration	Highest increase for countries participating in new union  Potential undermining of Europe's overall effectiveness in case of major split between "ins" and "outs"
<b>Legitimacy</b>  <b>Democratic accountability</b>	No significant change given lack of visible increase of EU's output legitimacy	Substantial decrease given inability to salvage euro and/or Schengen	Increase of legitimacy/democratic accountability, especially if differentiation organised within EU framework	Highest increase for citizens/countries part of novel entity  Substantial decrease of legitimacy from perspective of excluded citizens/countries

## Conclusions

This paper has developed and evaluated five potential scenarios for a "differentiated EUrope" in 2035. When comparing the potential effectiveness and legitimacy/democratic accountability of the five, the analysis shows a very mixed picture.

The *level of effectiveness* would:

1. massively decrease in the fields subject to a "fundamental disruption of differentiation" in the event of the dissolution of the euro and/or Schengen, which in return would also lead to (severe) negative spill-over in other policy areas (scenario 3);
2. slightly increase in the eurozone and potentially decrease in the areas of migration, border control, asylum and refugee policy as a result of "muddling upwards", though it is unclear how this scenario would affect effectiveness in foreign, security and defence policy (scenario 2);
3. substantially increase as a result of the "creation of an inner core" in the policy areas subject to higher levels of differentiated integration (scenario 4);
4. increase most strongly in the context of a "new supranational union" for the countries participating in the new entity. However, the creation of a new union could politically undermine the continent's overall effectiveness as it might create

new major dividing lines between those who were part of the new union and those who were unwilling or unable to join the new entity (scenario 5).

The *level of legitimacy and democratic accountability* would:

1. substantially decrease in the event of a “fundamental disruption of differentiation”, since the Union’s inability to salvage core areas of differentiated integration (euro and/or Schengen) would strongly undermine the EU’s overall legitimacy in the eyes of its citizens (scenario 3);
2. not increase significantly as a consequence of “muddling upwards”, given that incremental progress via differentiated forms of cooperation would not lead to a visible increase in the EU’s output legitimacy (scenario 2);
3. increase as a result of the “creation of an inner core”, especially if higher levels of differentiated integration are accomplished within the Union’s institutional framework (scenario 4);
4. be highest in the context of a “new supranational union”, although the establishment of a new entity would at the same time substantially undermine the legitimacy and democratic accountability of the European integration project from the perspective of countries and citizens excluded from the new union (scenario 5).

This paper has not aimed to predict which of the five potential scenarios is more likely to unroll in the next 10–15 years. But the analysis shows that three main factors will largely determine the future of a “differentiated Europe”:

First, the (in)ability of EU institutions and member states to react to *severe challenges and fundamental crises* will determine the readiness of member states to apply the instruments of differentiated integration in practice, as it has in the past. Severe pressures in particular policy areas or existential threats to the European integration project as a whole increase the likelihood that national governments will intensify their cooperation in smaller groups, inside and outside the Union’s framework.

Second, the potential effects of more or less internal and/or external differentiation on *Europe’s political unity* constitute another decisive factor in the future of differentiated integration/cooperation. EU institutions and member states will in most cases refrain from using the instruments of differentiation if they believe that higher levels of differentiated integration would fundamentally undermine political cohesion among (key) EU countries.

Third, the most decisive factor influencing the future degree of differentiation is the *(un)willingness of (key) member states to further increase their level of integration and cooperation* with other EU and non-EU countries. This aspect is more important for the future of a “differentiated Europe” than the motivation to overcome the unwillingness of less integration-friendly countries to cooperate more closely in certain policy areas. The prospective levels of differentiation will thus be mostly determined by the readiness of so-called “pro-European forces” to transfer more competences and pool more sovereignty at the European level.

Taking these three factors into account, the EU and its member states are likely to prefer scenario 2, “muddling upwards”. They will prefer path-dependent and incremental policy responses over more radical solutions that involve significant integration leaps and (substantially) higher levels of differentiation. But future chapters of the “perma-crisis” (Zuleeg et al. 2021) might force Europe in another direction, compelling governments to depart from business as usual. In any case, whatever the eventual outcome in the years to come, internal and external differentiation inside or outside the EU’s current institutional framework will remain a core feature of the European integration project, even if it remains unclear what a “differentiated EUrope” will or rather should look like in future.

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EU Integration and Differentiation  
for Effectiveness and Accountability

**Differentiation has become the new normal in the European Union (EU)** and one of the most crucial matters in defining its future. A certain degree of differentiation has always been part of the European integration project since its early days. The Eurozone and the Schengen area have further consolidated this trend into long-term projects of differentiated integration among EU Member States.

A number of unprecedented internal and external challenges to the EU, however, including the financial and economic crisis, the migration phenomenon, renewed geopolitical tensions and Brexit, have reinforced today the belief that **more flexibility is needed within the complex EU machinery**. A Permanent Structured Cooperation, for example, has been launched in the field of defence, enabling groups of willing and able Member States to join forces through new, flexible arrangements. Differentiation could offer a way forward also in many other key policy fields within the Union, where uniformity is undesirable or unattainable, as well as in the design of EU external action within an increasingly unstable global environment, offering manifold models of cooperation between the EU and candidate countries, potential accession countries and associated third countries.

EU IDEA's key goal is to address **whether, how much and what form of differentiation is not only compatible with, but is also conducive to a more effective, cohesive and democratic EU**. The basic claim of the project is that differentiation is not only necessary to address current challenges more effectively, by making the Union more resilient and responsive to citizens. Differentiation is also desirable as long as such flexibility is compatible with the core principles of the EU's constitutionalism and identity, sustainable in terms of governance, and acceptable to EU citizens, Member States and affected third partners.



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