12 The institutional framework of the European Union

Markus Jachtenfuchs

12.1 WHAT IS SPECIAL ABOUT GOVERNANCE IN THE EUROPEAN UNION?

Using the concept of 'governance' as an analytical category allows for the possibility that collectively binding decisions can be taken by institutions other than the state. However, this entails a number of problems which the state typically does not have. In the first place, the state possesses the monopoly of the legitimate use of force (Weber 1978, pp. 54–6; Poggi 1990). Collectively binding decisions must not only be adopted but need to be implemented, often against the resistance of strong actors. The monopoly of the legitimate use of force is potentially a formidable resource for increasing the chances of collectively binding decisions to be put into practice. It is an instrument of power understood as the ability of ego to enforce his will upon alter against the latter's resistance. During the development of the modern state, the monopoly of force has differentiated into an external branch, institutionalized in the military, and an internal branch, institutionalized in the police.

Usually, the highest level of government in federal states possesses exclusive control over the military and at least partial control over the police or an independent police force. In the European Union (EU), the highest level of government has neither a military force independent of the member states for projecting power to the outside world nor an independent police force which could in the strict sense 'enforce' decisions upon non-complying member states, firms, organizations or individuals (Kelemen and Nicolaïdis 2007). The impressive build-up of the EU's military capability is not identical with the emergence of a genuine European army as it was envisaged by the European Defence Community which failed in 1954. Instead, it consists of the pooling of military forces which are in the last resort controlled by the member states coupled with the creation of a market for defence industries (Jones 2007). EUROPOL is not the equivalent of a European FBI (Occhipinti 2003) but an organization primarily for collecting and sharing information. Thus, the EU level cannot rely on the legitimate threat of the use of physical force for putting its decisions into practice.

The EU level lacks not only the monopoly of the legitimate use of force, it also lacks the monopoly of taxation. Fiscal sociology in the tradition of Schumpeter (1991) has argued that looking at the financial resources of a state could reveal important insights about its structure and power. This is indeed true: while the EU, compared to other international organizations, has an impressive budget of more than 120 billion euros, this is just about 1 per cent of the EU's GDP. In comparison, the federal budget in Germany alone amounted to about 250 billion euros in 2007, which corresponds roughly

to ten percent of the GDP. In summary, the EU budget is too small to have a major macroeconomic impact.

Even more important than the size of the budget is the structure of the EU's revenues. Although the EU praises itself of having a system of 'own resources' whereas normal international organizations like the United Nations (UN) are dependent on member state contributions, it does not have anything similar to an independent tax base. Import duties and agricultural levies which are structurally close to such a tax make up only 15 per cent of the EU budget and are collected by the member states who decide upon the fee they take as a compensation for resource collection. Despite its name, the so-called 'VAT based resource' is not a tax or even a share of value added tax which 'belongs' somehow to the EU. Instead, it is a direct transfer from national budgets calculated on the basis of a fictitious VAT tax base and including all budget rebates several member states obtained in intergovernmental negotiations. The gross national income (GNI) based resource, introduced in 1988, now constitutes the largest single source of the EU's income. It completely breaks with the fiction of an own resource and consists of a direct transfer from national budgets, calculated with reference to the gross national income. The VAT-based and the GNI resource together account for about 85 per cent of the EU's income. Governance in the EU lacks not only the monopoly of the legitimate use of physical force, it also lacks a strong and independent fiscal basis (Laffan 1997; Genschel 2002). This has important consequences for the shape and functioning of the multi-level Euro-polity.

12.2 A TERRITORIAL POLITY WITH VARIABLE GEOMETRY

Thus, the European multi-level system differs in important aspects from federal states. It does, however, also differ substantially from typical international forms of multi-level governance because the latter are usually confined to specific policy areas. States participate in a number of functionally specific regimes which are only partially overlapping. In the terminology of Hooghe and Marks, international multi-level systems are usually Type II systems (Hooghe and Marks 2003) whereas the EU is very close to a Type I system.

Most importantly, the EU has a clearly defined territory in which decisions taken by EU bodies are collectively binding. This territory is the sum of the territories of its member states. In this territory, nature protection provisions, banking regulations or product standards are equally binding. These rules are adopted by a single set of institutions which covers all policy issues alike. In the standard version of the law–making process, the Commission submits a legislative proposal on which the Council and the European Parliament jointly decide. Complaints can be addressed to the European Court of Justice (Stone Sweet 2004; Hix 2005).

Underneath this uniform structure of territory and institutions, the EU shows a much higher degree of internal differentiation than most federal states. It has important functional subsystems with a different territorial scope and a different set of institutions and decision-making rules (for an early treatment of the EU's subsystems, see de Schoutheete 1990). The most well known of these subsystems is the Eurozone. The EU neither has a common currency for everyone nor has it maintained the individual currencies of all

its member states. Instead, a strong group has adopted a common currency (the euro) which is governed by common institutions such as the European Central Bank or the Eurogroup in the Council while the other member states maintain their own currencies and central banks (Enderlein 2006; Eichengreen 2007; Hallerberg 2007).

The second important subsystem of the EU is the Schengen system of those states which have agreed to abolish border controls among themselves (Anderson and Apap 2002). The Schengen system now covers 13 EU member states. Ten more member states are not yet full members. The UK and Ireland have decided not to join, whereas Norway and Iceland – non-EU members – are part of it. Switzerland, another non-EU member, has become a full member of the Schengen system as well. As a result, some citizens from a non-member state of the EU can move freely in large parts of the EU whereas the citizens of some EU member states have to go through a border check when entering that zone.

Apart from this territorial differentiation, there is also a differentiation of decision-making bodies in the EU according to functional areas. The most explicit acknowledgement of this differentiation were the three 'pillars' introduced by the Maastricht Treaty in 1993. While the sharp distinction between the internal market rules (the 'Community pillar'), foreign policy and justice and home affairs (the second and third pillars) was slowly eroded in subsequent Treaty reforms, some important elements of it still survive in the Lisbon Treaty. The Commission does not have the monopoly of legislative initiative in all areas, the European Parliament is only consulted or simply informed about important issues, and the European Court of Justice cannot adjudicate disputes under all provisions of the Lisbon Treaty.

The European system of multi-level governance is thus close to Hooghe and Marks' Type I but with important elements of Type II. Some important policies such as the common currency or the free movement of people are not applied to its entire territory (but in the latter case even extend beyond it), and while there is largely a uniform institutional system, there are important exceptions to this uniformity.

12.3 A PARTICULAR CONFIGURATION OF LEGISLATIVE, EXECUTIVE AND JUDICIARY POWERS

The standard textbook knowledge about the institutional set-up of modern democracies states that there is and should be a separation of legislative, executive and judiciary powers. The EU deviates in important ways from this rule (see Hix 2005, chapters 2 and 3 for a detailed overview; Majone 2005). A few points are particularly relevant in this respect.

First, the European Commission has not only the right but the monopoly of legislative initiative in many areas of policy making. The guiding idea behind this very peculiar construction at the time of its creation in the 1950s was to strengthen the orientation of legislative proposals towards a common European interest as opposed to particular national interests. For this reason, the founders of the then European Communities created an institution which was responsible for the European common good and largely independent from national governments as well as from voters. The European Commission is in essence a technocratic institution detached from societal pressures. Although member

states can exercise pressure on the Commission, for example, by threatening not to adopt a legislative proposal which the Commission deems necessary or by rejecting funding for specific policies in the budgetary process, its formal monopoly of legislative initiative makes it a very powerful institution. Only in new policy fields, most notably in justice and home affairs, member states also have the right to make formal decision proposals (for example, Article 76 of the Treaty on the Functioning of the European Union). Unlike governmental ministries which are normally differentiated along functional lines, the Commission is a single organization responsible for all EU policies. Its internal differentiation into issue-specific 'directorate generals' is less pronounced than the differentiation among governmental ministries, and the political level of Commissioners is still responsible as a collegiate body for all Commission activities alike. There is no equivalent to a ministerial responsibility for a single policy issue and ministry (Cini 1996; Hooghe 2001; Nugent 2006, chapter 9).

But the Commission is not only a law-maker, it is also responsible for the execution of EU policies. It monitors the application of EU laws in the member states and even directly administers a substantial share of certain policies such as agriculture, regional assistance, research and development funding or competition rules.

Second, the Council is also a hybrid institution mixing the legislative and the executive (Hayes-Renshaw and Wallace 2006). It has a multi-tiered hierarchical structure, ranging from civil servants, ambassadors and ministers to heads of state and of government. All of them are members of their national executives but on the EU level act as law-makers debating, modifying and adopting Commission proposals. In the EU's multi-level system, the Council represents the territorial interests of constituent units (Sbragia 1993). Unlike the US Senate, however, it is not a parliamentary chamber with elected representatives for this very purpose. Instead, it is closer to the German Bundesrat which consists of appointed representatives of the Länder governments. As a consequence, the Council not only represents the substantive interests of the member states but also the institutional self-interests of the member state governments (Scharpf 1988). Unlike both the US Senate and the German Bundesrat, the EU Council is not a single body but meets in different compositions according to functional tasks (for example, the ministers of the environment or the ministers of the interior).

Third, the European Parliament (EP) is a directly elected supranational parliamentary body (Corbett et al. 2007). Having started as a purely consultative assembly consisting of representatives of national parliaments in the 1950s, it is perhaps the institution which has gained most in terms of influence in the last decades. This has, however, not led to the development of a parliamentary system of government. Even in the Lisbon Treaty, some particularities still persist. In some policy areas, most notably in the field of police cooperation, the EP is still merely consulted during the legislative process but does not have the right to veto proposals or make authoritative suggestions for amendments. As a general rule, the EP also does not have the right to suggest legislation but remains confined to act upon proposals submitted by the Commission or, in some cases, by a group of member states. Nevertheless, the EP has started to adopt 'legislative resolutions' which are meant to be legislative proposals and which Commission or Council cannot easily ignore because the EP has the formal right to veto proposals which are important for them. But this informal practice is not the same as a formal right of initiating legislation. It also does not have full budgetary rights (and not power to tax) but its grip on

the EU's budget is limited on certain types of ('non-compulsory') expenditures (Laffan and Lindner 2005). And most importantly, the EP does not in any way elect or support a European government. The composition of the Council as the chamber representing territorial interests is in any case determined by the outcome of national elections. The composition of the Commission is determined by a common agreement among the Council members. As an informal practice, the EP has acquired the right to interrogate incoming Commissioners before they take up office. There is a common understanding that a person who is rejected in such a hearing will not be appointed by the Council. As in the case of the right of legislative initiative, the EP has extended its powers beyond what was originally fixed in the treaties. Although the relationship between EP, Commission and Council increasingly resembles a system of checks and balances, the crucial difference to, for example, the US system is that there is no executive with a direct popular mandate (Hix et al.and 2007).

12.4 A STRONG COURT AND CONTINUOUS CONSTITUTIONAL DEBATE

In the configuration of powers outlined in the previous section, the European Court of Justice (ECJ) plays a particularly important role. Like the EP, its importance has grown enormously since the founding of the European Economic Community. But while the EP has acquired much of its influence by explicit decisions of the member states, such as the decision to have direct elections to the EP or the extensions of the EP's role in the legislative process, the ECJ has largely empowered itself without explicit consensus of the member states and sometimes against their explicit will and resistance (Weiler 1999; Alter 2001; Stone Sweet 2004).

The standard theory explaining the EU polity-making process argues that the member states control the EU's institutional development. Steps for further institutionalization are agreed upon in major intergovernmental bargains in which the 'supranational' actors such as the Commission, the EP or the ECJ have at best a minimal influence (Moravcsik 1998). However, this theory is at odds with explaining the growth of ECJ powers. At a purely descriptive level, the ECJ has managed to introduce two principles into the EU which in the standard interpretation have transformed a set of intergovernmental treaties into a supranational constitution (despite the fact that the term 'constitution' is not mentioned in the treaties and even the compromise formula 'Constitutional Treaty' had to be removed after failed referenda in France and in the Netherlands). These principles are the doctrines of 'direct effect' and of 'supremacy'. The first stipulates that EU primary law (mainly the treaties) and some types of secondary law (mainly the so-called 'directives' under certain conditions do not need implementing legislation in order to grant individual rights. The second stipulates that in case of conflict, European law is superior to national law, and even to national constitutional law. Both doctrines have been developed and further refined during the years (Weiler 1991, 1999).

There has been massive resistance from elected politicians and from high national courts, most notably from the German *Bundesverfassungsgericht*, against this radical reshaping of the EU's legal order (Rasmussen 1986; MacCormick 1995). After all, however, the legal transformation of the EU and the emergence of the ECJ as the EU's

constitutional court has been accepted (Alter 2001). Rather than directly challenging the independence of the judiciary, member states have tried to avoid the extension of centralist constitutional doctrine in new areas, for example, by explicitly stating that the newly introduced 'framework decisions' were not directly applicable (Article 34, 2 (b) of the Treaty on European Union). But it is clear that the ECJ has had and still has a strong role in shaping the structure of the Euro-polity and the relationship between its levels. In the case of framework decisions, a recent judgement of the ECJ seems to suggest their direct effect in specific circumstances against the explicit wording of the Treaty (ECJ case C-105/03, 'Pupino', 16 June 2005). More generally, a strong role of the judiciary in adjudicating conflicts between levels of government seems a characteristic pattern of federal or multi-level systems with independent levels of government and no general predefined priority of one level over the other (Lenaerts 1990).

While controversies over the extent of the powers of different levels of government seem typical for multi-level systems, the salience of the constitutional issue seems to be particularly high in the EU. Decisions about the architecture of the EU's multi-level system are not only taken on intergovernmental conferences and by the ECJ but also during day-to-day politics. The EP's attempt to propose new legislation, although it does not formally have the right to do so or to have an inaugural vote on individual Commissioners, are part of this pattern. The same is true for the debates on the correct legal base (that is, treaty Article) for a legislative proposal where the Commission tends to prefer provisions allowing for a majority decision whereas the member states tend to favour provisions with unanimity. This constitutional dimension is also present when new regulatory agencies (for example, on telecommunications) are being planned or set up. It is also the background of the debate on the so-called 'comitology', that is, the committees consisting of representatives of both the Commission and the member states (but no representatives from the EP) set up to administer and supervise often highly specific policies. The ongoing constitutional struggle among EU institutions about the distribution of power between the European and the national level (represented by the Commission and the Council, respectively) emerges in a number of seemingly technical issues discussed in these committees. It forms the background of fights about the conditions under which the member states can block a Commission decision, about whether they can just postpone or really stop the decision and about whether a simple or a qualified majority was necessary for that purpose (see Joerges and Vos 1999 for an overview on comitology).

12.5 DIVISION OF TASKS: A STRONG MARKET WITH A WEAK STATE

While Euro-federalists had expected the creation of strong political institutions after what they perceived as the demise of the nation state in World War II, history took a different course. Nation states did not cede their monopoly of force or their monopoly of taxation and remained the decisive actors in the political reconstruction of Western Europe. They began functionally limited attempts of economic cooperation among themselves in order to moderate adverse effects of economic interdependence and to realize gains from cooperation in order to stabilize themselves as political units (Milward 1992; Haas 2004).

The creation of a transnational market remained by far the most important goal among member states (Fligstein and Stone Sweet 2002; Majone 2005). Market-making took place in the first pillar of the EU which was characterized by a monopoly of initiative of the Commission, increasingly widespread use of majority voting in the Council and a strong jurisprudence of the ECJ against anything that could even remotely be perceived as a barrier to the four fundamental freedoms of the EU: the free movement of goods, services, capital and people.

As a result, market-making and market regulation is now strongly institutionalized in the EU. It is indeed so strong that some authors even regard it as an 'economic constitution' (Streit and Mussler 1995) or as a 'regulatory state' (Majone 1996; Lodge 2008). After the symbolic completion of the project to create an internal market by 1992, the EU member states have jointly agreed on a common currency and on a central bank with a very high degree of independence from political influence. While the EU has been very strong in the field of market-making or 'negative integration', that is, in the removal of barriers to the four freedoms, it has been notoriously weak in 'market-breaking' or 'positive integration', that is, in the adoption of rules which actively shape the European market and even change its functioning. The most notable exception here is the absence of large-scale distributive policies (Scharpf 1999; Leibfried 2005). Those redistributive policies which are strong on the EU level (such as agriculture, regional development aid or research funding) are limited to small segments of the population. A redistributive welfare state which explicitly aims not only to make citizens less dependent on market income but also to create political loyalty in return does not exist at the EU level but is limited to the member states. These welfare systems are extremely complex and differ strongly across countries. There is neither a consensus on which type of welfare state one should have at the EU level nor the income to finance such a European welfare state because the EU does not have the power to tax.

Foreign, security and defence policies are notoriously weak on the EU level and largely carried out by member states. The emerging division of labour since the end of the Cold War leaves territorial defence clearly with the member states, their armies and their monopoly of force, coordinated through the North Atlantic Treaty Organization (NATO) and the European pillar of NATO. Progress in this field is remarkable but there is no sign of a European territorial defence force or a European military service (Smith 2004; Carlsnaes 2007). The Lisbon Treaty will create the foundations for a European diplomatic service under the direction of a European Foreign Minister (which is not allowed to bear that name) but existing alongside with the national foreign ministries which are usually much better staffed and funded. Only in the field of humanitarian intervention and crisis reaction forces, the EU is slowly developing its own military capability. But even the latter still consists of soldiers from national armies. The EU is thus fundamentally different from federal states where the highest level of government usually has exclusive control over the army and over the foreign service.

The field of policing and judicial cooperation was practically non-existent well into the 1990s. However, the initiative to create an internal market until 1992 included the goal of an area without internal borders – borders between the EU member states were supposed to physically disappear. As a consequence, the EU agreed on the creation of an 'Area of Freedom, Security and Justice', a companion project to the internal market in the field of internal security (Lavenex 2007). For more than a decade now, this has

been an area of intensive legislative and institution-building activity. Initially, issues of asylum, migration, policing or criminal justice were perceived by the EU member states to be vital national concerns. In order to protect their sovereignty, they created an institutional set-up different from the market-related Community pillar, with different legal instruments (framework decisions, conventions and so on), with a reduced ECJ and EP involvement and without the Commission monopoly of legislative initiative. The Lisbon Treaty does not completely abolish these differences but drastically reduces them (Ladenburger 2008). What is emerging in this field, however, is not a European monopoly of force or an equivalent to a supranational 'economic constitution' but rather a new form of embedding the member states' monopoly of force into a dense institutional structure which has policy-making authority in the issues at stake but leaves sovereignty to the member states (see Herschinger et al., Chapter 31 in this volume).

12.6 CONCLUSION: UNITY AND DIVERSITY IN THE EURO-POLITY

The EU is a very special multi-level system. On the one hand, it resembles a federal state. It has a clearly defined territory and population, a set of central institutions including a directly elected parliament and a very strong court, an almost comprehensive range of competencies, a common currency and a constitution. On the other hand, the EU has no army, no police, no taxes and no welfare state but remains restricted to market regulation and the coordination of internal security. During the last decades, the original EU of six Western European democracies (France, Germany, Italy and the Benelux countries) has experienced a dramatic geographical expansion towards the West (the UK and Ireland), the South (Greece, Spain, Portugal, Cyprus and Malta), the North (Denmark, Finland and Sweden) and the East (Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, Romania, Slovenia, Lithuania, Latvia and Estonia as well as Austria). Membership of some smaller Balkan countries and of some quite large ones (Belarus, Ukraine and most notably Turkey) seems realistic within one or two decades.

While it was still impossible to speak all languages of the cosy EU-6 (Dutch, French, German and Italian), the EU-27 has more than 20 official languages, three alphabets (Latin, Greek, Cyrillic), a huge variety of state traditions including post-communist transition countries and highly different levels of economic development. At the same time, its central purpose consists in the complete abolition of borders between those different entities. Globalization, understood as the increase of transborder interactions, is thus not an external factor which hits the EU but an endogenous political project. The European multi-level polity is therefore characterized by very high levels of economic and political interdependence coupled with a very high degree of economic and political heterogeneity.

Integrating heterogeneous subunits into a larger whole is the essence of federal states. The EU is faced with the same task under the conditions of high heterogeneity and high interdependence. It does not have a strong centre with enough resources to subsidize the less developed units and with enough power to enforce its decisions against dissenting subunits. Instead, its subunits are sovereign states with the authority to use force, to tax and with usually high levels of popular legitimacy. Reconciling unity with

diversity in the past has almost exclusively meant strengthening unity. The European Commission saw the defence of the European common good against particular national interests as its main task. The ECJ has based numerous rulings on the declaration in the preamble of the founding treaties to create 'an ever closer union among the peoples of Europe' and with this justification ruled against a huge number of particular national regulations or standards. Concerns about an increasing encroachment upon essential national prerogatives and the idea that uniform policies might not be optimal for heterogeneous states have found their expression in long political debates about 'subsidiarity' (Bermann 1994) or in numerous variants of 'flexible integration' (Stubb 1996) but without much impact. Respecting national diversity has usually been regarded as a threat to a weakly established and constantly threatened unity. Only few authors have argued that preserving national autonomy might be as important as creating more unity (Scharpf 1994).

But like any multi-level system, the EU has to constantly find and revise a balance between unity and diversity. As it has a relatively weak centre, it cannot enforce unity upon potentially dissenting subunits in the strict sense. But the increasing use of qualified majority voting which is widely perceived to be an essential tool for maintaining the decision-making capacity in an ever-enlarging Union will also put more and more member states in a minority position. The EU narrows down the political options available for member states in many areas but does not possess an independent political legitimation for doing so. Self-limitation and the accommodation of legitimate national diversity in the Union are the great institutional challenges for multi-level governance in the EU.

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