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# Differentiation as a response to crises?

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## Abstract

The Great Recession marked the start of a new, multifaceted crisis for the European Union (EU). One aspect of the political aspect of this crisis was the United Kingdom's (UK's) vote to leave the EU in June 2016. The outcome of this referendum prompted the European Commission to publish a White Paper on the Future of Europe, in which five broad scenarios were outlined. Three of these scenarios advocate further differentiation between member states or introduce new mechanisms of disintegration, be it uniform or differentiated ('those who want to do more do more', 'nothing but the single market' and 'doing less more efficiently'). This chapter offers an overview of the existing mechanisms of differentiation, and the role that such mechanisms can play in shaping the future of European integration. It outlines its causes by breaking down the 'supply' and 'demand' sides of differentiation and focuses on five case studies: the Danish opt-outs of the Maastricht Treaty, Sweden's non-participation in the Eurozone, Iceland's application for EU membership, the so-called 'Grexit' scenario and Brexit as a process of differentiated disintegration.

## **Introduction**

The European Union (EU) is at a crossroads. This phrase, initially coined by European Commission President Romano Prodi (2001) in a message to Silvio Berlusconi, has been the leitmotif of prominent politicians at the EU level such as Verhofstadt (2006) or Barnier (2012) over the past couple of decades. Even though discussions on the future of Europe at times of crisis is far from being a new phenomenon, these have intensified following the Great Recession of 2007–08 and the subsequent European ‘polycrisis’ (Zeitlin et al. 2019). The White Paper on the Future of Europe, published by the European Commission (European Commission 2017) against the backdrop of Brexit and increasing levels of Euroscepticism across the continent, illustrates the scope of discussions that took place. This White Paper presented five broad scenarios for the future of European integration. Three of these implicitly refer to mechanisms of disintegration and differentiation, namely scenarios two (‘nothing but the single market’), three (‘those who want more do more’) and four (‘doing less more efficiently’). Even though the impact that this White Paper had on the 2019 European Parliament elections was limited (see Gänzle et al. 2020), it did stimulate the debate on whether differentiated mechanisms of integration and disintegration should become even more utilised following the most recent wave of crises faced by the EU, which culminated with the United Kingdom’s (UK’s) decision to leave the EU.

This chapter investigates the link between differentiation (both in terms of integration and disintegration) in the EU and crises. As discussed in the introduction of this volume, there is no consensus on what defines a crisis and how to study it. This chapter will focus on whether differentiation is a response to or the result of crises. Or, alternatively, are the implemented mechanisms of differentiation independent from what has been framed as periods of integrational crises in the EU? In order to answer these questions, this chapter relies on five case studies where differentiation was discussed and/or implemented: the Danish *de jure* opt-outs of the Maastricht Treaty, the Swedish *de facto* opt-out of the Eurozone, the Icelandic application for EU membership, the Greek scenario of a Grexit, that is the country leaving the Eurozone, and Brexit, which is best understood as a process of differentiated disintegration (see e.g. Schimmelfennig 2018). These five cases offer different contexts at different critical junctures in the history of European integration, thus offering interesting empirical material in comparative perspective. For each case, the supply- and demand-sides of differentiation will be unravelled and contextualised.

The chapter is structured as follows. Section two defines the notion of differentiation and briefly summarises how this concept evolved over time. Section three introduces the concepts of supply and demand in the context of differentiation, based on the excellent theoretical work of Schimmelfennig and Winzen (2020). Section four discusses the six case studies and identifies which actors shaped supply and demand for differentiation. Section five concludes in comparative perspective and argues that while differentiated mechanisms of integration or disintegration are not always the result of a period of crisis, it has often been used as a way out to prevent a deadlock in the history of European integration, which in turn created a path-dependent trajectory and could eventually lead the EU to becoming an ‘ever more differentiated Union’.

## **Defining differentiation**

Differentiation is far from being a new phenomenon in the history of European integration. In fact, some legal mechanisms of differentiated integration can be traced back to the Treaty of Rome (such as the original flexibility clause in the original Article 235; see also Hanf 2001; Leruth and Lord 2015). The notion itself finds its roots in the 1970s, in the context of another period of crisis in the form of integrational stagnation. Back then, Willy Brandt (1973), Leo Tindemans (1976) and Ralf Dahrendorf (1979) respectively made a

series of proposals to lay down the foundations of functional, multi-speed and à la carte differentiation (Koenig 2015). Yet, it was not until the mid-1990s, following the ratification of the Maastricht Treaty, the introduction of opt-outs for the UK and Denmark, and the 1992 European Economic Area Agreement that scholars of European integration started focusing their attention on differentiation.

Stubb (1996: 283) introduced the first definition of differentiated integration, that is ‘the general mode of integration strategies which try to reconcile heterogeneity within the European Union’. He categorised differentiation under three broad concepts: (1) multi-speed, with ‘time’ as variable and suggesting that differentiated integration is only temporary with all EU member states eventually belonging to the ‘inner core’ of integration; (2) variable geometry, with ‘space’ as variable and suggesting that the Union is made up of concentric circles of integration (such as inner and outer core, and inner and outer periphery) and (3) à la carte, with ‘matter’ or function as variable and supposing that member states can ‘cherry pick’ by opting in or out of some policies and/or policy areas. Stubb’s contribution to this emerging sub-field of European studies brought some clarity over the wide range of proposals focusing on how differentiation could be delivered. It also offered some clarification over the main objective of differentiation, that is to reconcile the heterogeneity of preferences within the Union.

Subsequent definitions and classifications brought new perspectives on the nature of differentiation. Among these, one of the most original and useful ones is provided by Leuffen et al. (2013), who argued that the EU is best categorised as a system of differentiated integration consisting of varying levels of centralisation in specific policy areas (vertical differentiation, where competences are shared between member states and supranational institutions) and varying levels of territorial extension across policies (horizontal differentiation). Such horizontal differentiation can be internal as illustrated by Eurozone membership; can be external through, for instance, European Economic Area (EEA) membership or can be both internal and external, as is the case for the Schengen Agreement.

Since the early 1990s, most studies focused on some of the causes of differentiation, namely, the transformation of the economic Union into a political one paving the way for an increasing tension between intergovernmental and supranational preferences, and the planned ‘big bang enlargement’ with the end of the Cold War leading to a diversification of national interests (Leruth et al. 2019a). Yet, over the past three decades, the scholarly literature failed to determine whether differentiation is good or bad for the EU.

Walker (1998) argued that differentiated integration risks becoming a ‘non-project’ which could lead to irreconcilable divergences between EU member states in terms of managing boundaries between legal orders, political efficacy, democratic credentials and self-legitimation.

Kölliker (2001) was more optimistic and argued that differentiated integration can produce centripetal effects among member states that decide to opt out of specific EU policy areas. Warleigh (2002) further emphasised that differentiation can be used as a tool to prevent integrational stagnation and balance different national interests. However, in the aftermath of the Brexit vote and the UK’s subsequent decision to trigger Article 50, one could argue that differentiation did not produce the expected centripetal effects suggested by Kölliker, though the UK’s evolving membership and relationship with the EU can be considered as exceptional – an issue that George (1990) defined as Britain’s ‘awkwardness’. While most studies of differentiation focus on differentiated integration, scholars started focusing on potential patterns of disintegration in the context of the Great Recession and the subsequent polycrisis (see e.g. Vollaard 2014; Webber 2014). Following the Brexit vote, a formal process of differentiated disintegration started, prompting academics to claim that differentiation has become a ‘two-way street’ (Gänzle et al. 2020; see below the section on Brexit).

What are the drivers of differentiation? Schimmelfennig and Winzen (2017) looked at what grand theories of European integration (liberal intergovernmentalism, neofunctionalism and postfunctionalism) offer to understand the causes of differentiated integration. They tested six variables deriving from these theories: the heterogeneity of wealth among EU member states (liberal intergovernmentalism), existing differentiated policies (neofunctionalism in line with path-dependency), the heterogeneity of national identity, integration in area of core state powers, the presence of strong Eurosceptic parties in the country of analysis and the ratification of EU treaties by referendum (postfunctionalism). What they discovered is that while no grand theory explains differentiated integration on their own, it is actually the combination of the favourable differentiation scenarios put forward by all three theories that constitutes the best predictor of differentiation. Accordingly, one should not dismiss any of the three grand theories of European integration when studying the causes (and effects) of differentiated integration in the EU.

### **Understanding supply and demand for differentiation**

Two sets of actors explain how and why differentiation occurs in the EU: the ‘demand’ side, which generally comes from the national governments of one or a group of countries that do not wish to follow the integrationist path taken by the ‘inner core’ of the European Union (e.g. the UK and Denmark, the two ‘champions’ of differentiated integration); and the ‘supply’ side, mostly consisting of pro-integrationist governments, the so-called ‘insider group’. Other actors are also directly or indirectly involved in shaping supply and demand. Supranational actors such as the European Commission, as they did with the publication of the White Paper on the Future of Europe, can promote or hinder differentiation as the ‘way forward’. At the domestic level, political parties, civic movements and public opinion can shape a government’s position on European integration, as is the case with other issues such as immigration (see e.g. Leruth and Taylor-Gooby 2018). Furthermore, demand for differentiation can be driven by the masses when referendums are held on EU-related issues. Some countries’ constitutions require such referendums to be held (e.g. in Denmark and Ireland), while in other countries, government may opt to hold advisory plebiscites for electoral gains or internal divisions (e.g. in Sweden and the UK). Where referendums focus on a country’s participation in specific EU policies, the people’s decision may be hard to overturn, even in the case of advisory referendums, as this may fuel Eurosceptic sentiments (Leruth et al. 2018; see the following paragraphs). Another common scenario is that differentiation can be the result of transitional arrangements in the context of EU enlargement. This so-called ‘instrumental model’ finds its roots in the first round of enlargement and can either take the form of exclusion from some EU membership benefits (discriminatory differentiation) or exemptions from obligations of membership (exemptive differentiation; Schimmelfennig and Winzen 2013). Both forms of instrumental differentiation are widely accepted as being beneficial for all parties involved, especially since they are limited over a specific amount of time (Schneider 2007; Schimmelfennig 2014; Leruth et al. 2019b). Schimmelfennig and Winzen (2017, 2020) focus on supply and demand for differentiation and contribute towards the theorisation of the circumstances that create the conditions for differentiation in the EU and other regional organisations. They argue that the demand for differentiated integration is driven by three dimensions of heterogeneity. The first one, mostly drawing on postfunctionalism and liberal intergovernmentalism, is the heterogeneity of preferences, under which governments do not share the same values or disagree on supporting specific policies (such as, for instance, environmental protection). Such heterogeneity is mostly structured by national identity, as support for European integration varies depending on the exclusiveness of identity: ‘the more exclusively an individual identifies with an ingroup, the less that individual is predisposed to support a jurisdiction encompassing outgroups’ (Hooghe and Marks 2009: 12). Accordingly, one would expect that countries where exclusive national identities prevail demand more differentiation. The second type of heterogeneity is the heterogeneity of dependence, under which governments are not affected in similar ways by one or several factors (such as cross-border pollution). Heterogeneity of dependence means that some countries

may benefit from participation in EU policies more than others, with the latter group being more disposed to demanding differentiation. The third form of heterogeneity identified by Schimmelfennig and Winzen is the heterogeneity of capacity, under which governments lack the financial and/or technological means to cooperate. The authors argue that the first two scenarios create conditions for an ‘à la carte’ (or, in the authors’ words, a ‘multi-menu’) Europe, while the third one creates conditions for multi-speed differentiation supposing that countries demanding differentiation will eventually rejoin the inner core of integrationist countries.

The authors further identify three supply-side factors that determine whether differentiated integration will effectively take place. The first one is the size of the insider group, which needs to be large enough to create patterns of integration. As will be discussed later, this has consistently been the case for differentiation in the EU. The second factor is whether differentiation creates positive or negative externalities. If proposed differentiation creates negative conditions for the supply-side group and hinders the effectiveness of a policy at the EU level, then differentiation is less likely to be accepted by the integrationist group. The third factor is the institutional context such as decision-making rules (to determine whether differentiation is allowed), integration norms, the potential resistance of supranational actors and path dependence.

This contribution from Schimmelfennig and Winzen offers a ground-breaking take on the factors explaining differentiated integration. It also paves the way for more empirical research on both supply and demand for differentiation, and how their theory can apply to differentiated patterns of disintegration as exemplified by the Brexit vote. Their work needs further empirical testing indeed, which (as the authors suggest) would be best done through a qualitative research. This chapter is based on their contribution and applies the conditions for supply and demand for differentiation in the context of crises of different natures, be it economic, financial or political. It also focuses on other actors shaping demand for differentiation, namely, the public and political parties rather than governments only.

### **Differentiation and European crises**

Differentiation in the EU has evolved in a non-linear fashion. As mentioned above, the notion finds its roots in the 1970s as an option to put an end to a long period of integrational stagnation. Yet, it is only in the 1990s that differentiation become prominent and took a constitutional dimension. This section analyses the use of differentiated mechanisms of integration in three contexts of crises: Maastricht, the Eurozone and the Great Recession. It starts by contextualising the original opt-outs for Denmark and explaining how the Swedish government managed to secure the first de facto opt-out of the Economic and Monetary Union since 1999. It then focuses on the most recent multifaceted crisis, by analysing the effects of the Great Recession on European integration in two European countries (Iceland and Greece), followed by the impact that the Brexit vote has had on supply and demand for differentiated disintegration.

#### *Denmark and Sweden: between de facto and de jure differentiation*

The early 1990s were marked not only by a revival of the process of European integration under Delors’ presidency of the European Commission, but also by a period of crisis and uncertainty in the context of the ratification of the Maastricht Treaty. Until 2016, Denmark shared an integrationist path, similar to the one taken by the UK and is considered as a pioneer of permanent differentiation (Adler-Nissen 2014). Much like the UK, Denmark’s experience of Euroscepticism can be traced back to the early 1970s, with the creation of the People’s Movement against the EU in 1972 which campaigned against EU membership. The unexpected rejection of the Maastricht Treaty by 50.7 per cent of voters on 2 June 1992 plunged the European Community into yet another period of uncertainty, following decades of integrational stagnation. Here, demand for differentiation was thus driven by the Danish population, as the Danish government actively campaigned for a ‘yes’ vote. Yet, the ‘no’ camp had not campaigned on any alternatives to the

Maastricht Treaty, thus creating a rather chaotic situation with no formal alternatives on the table. The result came as a shock to most political elites (Svensson 1994). In Schimmelfennig and Winzen's terms, it was mostly the heterogeneity of preferences that drove the demand for differentiation.

The response from the integrationist group was unequivocal: the Danish vote triggered yet another period of uncertainty for the future of European integration, but most governments discarded the idea of throwing away the Maastricht Treaty as a whole. The concerns of other EC member states were summarised in the European Council's (1992: 76) White Paper on Denmark and the Maastricht Treaty, which included eight solutions to solve what was perceived as 'a constitutional crisis without precedent' which 'placed a question mark over the drive for European integration'. Some 'extreme' scenarios proposed in this White Paper referred to what would have become the first instances of differentiated disintegration, such as relegating Denmark as a member of the European Economic Area. At the domestic level, shortly after the referendum, seven out of the eight political parties represented in the Danish Parliament sat together and prepared a national compromise document entitled 'Denmark in Europe', which included a series of demands for differentiation as a solution to ratify the Maastricht Treaty (Svensson 1994). These demands concerned an exemption from the European defence policy, from the single currency, from EU citizenship and from the area of justice and home affairs. This document, which was imposed to the Danish government (whose political influence had been weakened by the outcome of the referendum; Petersen 1993) served as the basis for swift negotiations between Denmark and the rest of the European Council, which almost agreed to its entire content (which was anticipated as one of the plausible scenarios in the above-mentioned White Paper). Accordingly, in this case, differentiation was very much shaped by the Danish political parties following a people's vote and accepted by other member states, whose priority was to avoid yet another period of integrational stagnation. The so-called Edinburgh agreement was then presented as a victory for Danish interests at the domestic level, with all parties (except the Progress Party) supporting it and a poll suggesting that a majority of Danish voters would vote 'yes' at a second referendum on the matter (Svensson 1994). Such second referendum was held on 18 May 1993, with 56.7 per cent of voters approving the Edinburgh agreement which then sealed the Danish de jure opt-outs and prevented the European Community from being forced into creating an unprecedented process of differentiated disintegration. Yet, these opt-outs (together with those granted to the British government) created a differentiated form of path-dependency: even though successive Danish governments held referendums to transform these opt-outs into opt-ins, they have been unsuccessful on four occasions.

The Swedish case is not as straightforward as the Danish one. Indeed, Sweden is still legally bound to join the Eurozone as the country did not negotiate a de jure opt-out of any EU policy. However, the Króna is still used as the sole national currency, and the Swedish government has not indicated any intention to adopt the Euro soon. This constitutes a form of de facto differentiation, which has since been adopted by other 'Euro-reluctant' governments in countries such as Hungary, Poland and the Czech Republic.

The decision to postpone Eurozone membership was initially taken by the Persson I minority government on the advice of the Calmfors commission in 1997, thus using the logic of multi-speed differentiation. The decision was mostly driven by two domestic factors. First, the ruling Social Democratic Party was strongly divided on this issue, with a poll suggesting that about 40 per cent of social democrat members of the parliament were opposed to joining the Eurozone, while only 20 per cent were in favour. Second, opinion polls suggested very little support for adopting the Euro as national currency: indeed, in March 1997, Eurobarometer polls showed that only 28 per cent of the Swedish population viewed EU membership as positive for the country, the lowest figure across all EU member states (Pierre and Widfeldt 1998).

A referendum (which was marked by the murder of pro-Euro Foreign Minister Anna Lindh) was eventually held on 14 September 2003, and 55.9 per cent of Swedish voters rejected participation in the Eurozone.

Even though the result did not create shockwaves as the Danish referendum on Maastricht did a decade earlier, it plunged both the Swedish government and the European Commission into yet another period of uncertainty. Demand for differentiation was implicitly requested by the Swedish government following the referendum, but there were no formal negotiations held between Sweden and the European Commission to break the deadlock. Yet, this put the Commission in an uneasy situation: Brianson and Stegmann McCallion (2020: 146) argue that “Sweden’s non-participation in the euro for reasons of choice, not economic viability, sat uncomfortably alongside the EU’s emerging consensus that [differentiation] was acceptable only if limited to the idea of multiple speeds on a shared journey to a common destination rather than its more radical forms”.

This is illustrated by the European Commission’s (2003) reaction to the referendum through the following communiqué:

The Commission takes note of the decision of the Swedish people. . . . The euro has provided much needed stability in the individual member states’ economies and has created an appropriate springboard for the Lisbon agenda to make Europe the most competitive and socially cohesive area in the world. It . . . is still a young currency. Its full impact has still to work its way through to the euro area economy and that is what we are in the process of achieving together. Sweden could have influenced this effort by deciding to join the euro. We are confident that the Swedish Government will choose the way forward to keep the euro project alive in Sweden.

This communiqué can thus be interpreted as a call for the Swedish government to reconsider the people’s decision not to adopt the Euro by providing them with more information on the benefits of joining the Eurozone, by emphasising for instance the country’s influence in shaping its governance. Yet, the communiqué did not make any reference to the legal obligations of Sweden to join the Eurozone, thus avoiding ‘pouring oil on the Eurosceptic fire’. Since then, there has been little debate over Sweden’s Eurozone membership. The European Commission effectively made use of the concepts of de facto differentiation and multi-speed Europe in order to prevent a political crisis in Sweden, which could have resulted in fuelling Eurosceptic sentiments in the country. Furthermore, despite some internal discussions on the matter (see Brianson and Stegmann McCallion 2020), the Swedish government decided not to opt into the European Banking Union when this project was initiated in 2012, in order to avoid being treated as a ‘second-class’ member with limited influence (Spendzharova and Bayram 2016). This strengthened the Swedish model of de facto differentiation, which has been followed by other countries such as Hungary, Poland and the Czech Republic (albeit without holding a referendum on the matter). However, such model of differentiation is legally unsustainable and relies on the goodwill of the European institutions: if the supply-side of differentiation changes, the demandeurs will have limited room for manoeuvre especially where integration is legally binding. This could, however, fuel Euroscepticism in the countries concerned and trigger yet another form of political (if not diplomatic) crisis between the EU and domestic actors. In sum, in Schimmelfennig and Winzen’s terms, it looks like the heterogeneity of preferences played a major role in shaping demand for a multi-speed Europe, followed by the current, unstable de facto differentiation, this situation being tolerated by the inner core of the Union.

#### *Greece and Iceland after the great recession: two diverging patterns of differentiation*

The 2007–2008 financial crisis affected most Western countries. It increased inequality in most countries, but also widened the economic gap between Northern and Southern European Countries (



Taylor-Gooby et al. 2017). Interestingly, the Great Recession produced contrasting integrationist effects across the continent. This is best exemplified by the Icelandic and Greek cases.

Before the Great Recession, Iceland had never applied to join the EU and opted to become an EEA member state in the early 1990s, being the only Nordic country not to contemplate full EU membership then. Together with Norway, Iceland belongs in the ‘inner periphery’ of the Union, in line with the ‘variable geometry’ concept of differentiation.

Danielsson and Zoega (2009) point to how Iceland’s accession to the EEA in 1994 reduced the government control over the national economy. In this context, Iceland’s economy switched from a regulated to a liberal one, eventually leading to the privatisation of the banking sector. Three major Icelandic banks (Landsbankinn, Kaupthing and Glitnir) passed into the hands of a small group of local investors close from the then government coalition (consisting of the conservative Independence Party and the agrarian/liberal Progressive Party), instead of specialised financiers with experience in modern banking (OECD 2011). As a result of aggressive expansion strategies, Iceland switched its economic future on international banking, without establishing the necessary safeguards to protect the country from the dangers of international banking crises (Danielsson and Zoega 2009). When Lehman Brothers collapsed in 2008, the three Icelandic banks faced the prospect of defaulting. The Icelandic Parliament passed an Emergency Act on 6 October 2008, authorising the Financial Supervisory Authority of Iceland to intervene in the banks’ operations and take them over (OECD 2011). The Icelandic government (then consisting of the Independence Party and the Social Democratic Alliance) was criticised for failing to implement policies to mitigate the impact of the banking crisis on the Icelandic society. Further investigations conducted after the financial crisis revealed that a number of Icelandic political and economic authorities showed negligence in the management of the financial crisis (Rannsóknar nefnd Alþingis 2010).

The series of economic events, coupled with political mistakes, led to a series of protests in Reykjavik, often referred to as the ‘pots and pans revolution’. Following these protests and the decision of Prime Minister Geir Haarde to step down for health reasons, the government collapsed on 26 January 2009, triggering a general election. The official election campaign started on 17 April and was centred on one particular issue: Iceland’s relationship with the EU as a way out of the crisis. Opinion on this matter was split among political parties but party preferences started to change (Thorhallsson and Rebhan 2011). Whereas the Social Democratic Alliance prioritised an application for EU membership, other parties were divided on the issue. One week before the election, the Independence Party opted to support the adoption of the Euro to replace the Icelandic Króna, while two other parties, the Progressive Party and the Citizen’s Movement, switched their position shortly before the elections by becoming in favour of an application. Following the election which saw the Social Democratic Alliance becoming the largest party represented in parliament, the first left-wing coalition in Iceland’s history was formed under Johanna Sigurðardóttir. The government submitted a formal application for EU membership in July 2009. Accordingly, in Iceland, the financial crisis stimulated demand for more integration, that is moving away from the existing patterns of differentiation by applying for full membership (or, in the case of the Independence Party, adopting the Euro as currency).

However, as the Eurozone crisis worsened and as the Icelandic economy (including its currency) recovered within 2 years, public support for such membership progressively decreased. This is also partly explained by public and industrial opposition to join the Common Fisheries Policy. Following the 2013 elections, a centre-right government consisting of the Independence and Progressive parties (under Progressive Party leader Sigmundur Davíð Gunnlaugsson) took over and opted to freeze accession talks between Iceland and the EU, before informing the European Commission that ‘Iceland should not be regarded as a candidate

country for EU membership' in March 2015 (see further in Thorhallsson 2015). In sum, the post-crisis period was marked by a 'back to normal' situation, where the status quo was perceived as more beneficial than seeking closer cooperation and integration with the EU, either in the form of EU membership or by seeking to adopt the Euro as the domestic currency. The Icelandic case thus differs from the other ones included in this chapter, as it suggests that the crisis (almost) created unique factors that would have triggered a move away from differentiation.

The situation was strikingly different in Greece. A full EU member state that adopted the Euro in 2001 (2 years after the first wave of Eurozone member states), Greece was the European country that was the most severely hit by the Great Recession: still recording a (mild) recession in the fourth quarter of 2018 (GDP growth of -0.14 per cent), an harmonised unemployment rate that reached 27.5 per cent in 2013 and still remains the highest in Europe, and a government debt that increased from 113 per cent of GDP in 2008 to 188 per cent in 2018 (the highest in Europe; OECD 2018). Following a general election held in October 2009, the Papandreou government unexpectedly announced a revised budget deficit forecast that was twice larger than expected (12.7 per cent of GDP). The government also revised its fiscal accounts, demonstrating serious breaches in the Eurozone's fiscal rules. These revelations 'shaped an influential political narrative of the crisis, which laid the primary blame on the fiscal irresponsibility of the peripheral nations, even though the underlying financial and macroeconomic imbalances were more important factors' (Lane 2012: 56). Papandreou, however, also blamed the previous government and corruption for Greece's fiscal imbalance, also arguing that Greece does not have the credibility that other European partners may have (Visvizi 2014). The First Economic Adjustment Programme was signed by the Greek Government and the so-called Troika (the European Commission, the European Central Bank and the International Monetary Fund) on 3 May 2010, providing €107.3 billion of financial assistance in exchange of a programme of imposed austerity measures to reduce the deficit. This was followed by a second bailout and private sector sovereign-debt restructuring in March 2012 (Clements et al. 2014). Back then, a scenario under which Greece would leave the Eurozone was only hypothetical; yet, it was considered as an 'extreme' possibility by the three supranational institutions involved in preparing the first Adjustment Programme. Such scenario was nicknamed 'Plan Z' and uncovered by the Financial Times (2014). 'Plan Z' differed from the Danish scenario of a withdrawal from the EU (discussed above) as it was developed in secrecy in order to anticipate the socio-economic effects that a Grexit would have had on other EU member states. Even though the content of Plan Z was not revealed (no single Plan Z document was ever compiled 'and no emails were exchanged between participants about their work'; *ibid.*), this could have contributed in shaping some EU leaders' views on Grexit.

Discussions over a potential Grexit significantly intensified following the General Election held in 2015, which saw Syriza becoming the largest party represented in the Greek Parliament and forming an anti-austerity coalition government with the Independent Greeks. Following negotiations with the Troika over a third bailout programme, the government decided to hold a referendum on whether to approve this proposal. This decision to hold a referendum on the matter was unplanned and came as a shock across Europe. The government campaigned for a 'no', invoking national pride and dignity, while the 'yes' camp framed the referendum as an informal vote on Grexit, arguing that rejecting the bailout could pull Greece out of the Eurozone and ultimately out of the EU (Rori 2016). Unsurprisingly, a majority of voters (61.1 per cent) voted against this bailout agreement, pushing both Greece and the EU into another period of uncertainty. Among the scenarios proposed as a response to this outcome, German Finance Minister Wolfgang Schäuble proposed a temporary Grexit for a period of 5 years, even against the will of the Greek government. This proposal was deemed unacceptable by some EU member states such as Austria, Italy and Luxembourg (Spiegel 2015). Ultimately, after long discussions between Tsipras and his EU partners, a tough compromise was found. The agreement imposed harsher austerity measures on Greece – meaning

that Tsipras lost his plea, as he had hoped that the outcome of the referendum would give him more leeway to negotiate to ‘milder’ deal.

In sum, and in contrast to the Icelandic case, the Greek experience of the crisis almost triggered a process of ‘accidental’ differentiated disintegration. Grexit was not the scenario favoured by any domestic actors, and such prospect (as advocated by Schäuble) was met with strong resistance by most European partners. It was mostly considered as a last resort solution if Greece was to default and the Greek banking system was to collapse, as demonstrated by the existence of the so-called ‘Plan Z’ in the earlier stages of the Greek crisis. Visvizi (2014: 336) goes even further by arguing that initially, Grexit was ‘the product of irresponsible and inaccurate discursive interventions by key Greek politicians who since late 2009–2010 employed an essentially anti-Greek discourse’.

Both Greek and Icelandic examples show that economic and financial crises likely trigger a move away from the integrationist status quo. In Iceland, a centripetal effect was created through a formal application for EU membership submitted by the government and the European Commission’s decision to open accession talks; in Greece, it almost had the opposite effect even though Grexit never was the outcome preferred by most ‘suppliers’ of differentiation (and there was no formal domestic demand for such scenario either).

#### *Brexit, disintegration and the future of Europe*

Even though there were discussions over Denmark leaving the European Community in the early 1990s (as explained above), the constitutionalisation of differentiated disintegration in the EU only occurred with the ratification of the Lisbon Treaty, which incorporated a withdrawal clause under Article 50 of the Treaty on the EU. This article not only puts a unilateral withdrawal on the table effectively, but also sets out the rules that are to be followed in order to negotiate an orderly exit. Brexit is the first instance of Article 50 being triggered by a member state, thus creating a ground-breaking process of differentiated disintegration.

Studying the process of Brexit between 2016 and 2019 was an incredibly hard task for all scholars and practitioners. Since a majority of British voters opted to leave the EU, the process has been unstable, marked by infightings within the Conservative Party over the terms of withdrawal. While the Brexit referendum campaign (also marked by the murder of a pro-Remain Labour member of the parliament, Jo Cox) and its consequences on differentiation have been extensively discussed elsewhere (see e.g. Rosamond 2016; Schimmelfennig 2018), it is worth getting back to the initial terms of the referendum, which is often wrongly framed as a ‘status quo or leave’ decision.

Holding a referendum on the UK membership in the EU followed a promise made by David Cameron to renegotiate the terms of membership in his Bloomberg speech aimed at appeasing some of Conservative backbenchers who were considering defecting to the UK Independence Party ahead of the 2015 General Election. As summarised by Schimmelfennig (2018: 1163), all postfunctionalist ingredients of disintegration were in place: identity-challenging feedback effects of integration, a non-mainstream party seizing on these effects and mobilizing voters, and the creation of an institutional (referendum) venue. These conditions are best seen as necessary enabling conditions.

Following the (somewhat surprising) outright victory of the Conservative Party in 2015, Cameron fulfilled his pledge by holding negotiations with the European Council and setting the referendum date to 23 June 2016, with the objective to mirror the effects of referendum of 1975. Negotiations held between Cameron and the European Council aimed at using internal mechanisms of differentiated disintegration (ibid.). Demands surrounded some symbolic issues, such as a legally binding opt-out of the notion of an ‘ever closer union’, and some more practical ones, such as the so-called emergency brake which would have

restricted in-work benefits to EU citizens for a period of 4 years and would have ended childcare payments sent overseas. These reforms were all included in the European Council's draft decision released on 2 February 2016. Yet, the 'suppliers' of differentiation (i.e. all other member states in this case) were not united on this issue, and divergences appeared between countries. For instance, Poland was opposed to some elements of the proposed emergency brake, and Belgium, Greece and Italy had concerns over the 'ever closer union' opt-out which could alienate other member states' commitment to this principle (see Weiss and Blockmans 2016). Yet, an agreement was reached during the European Council summit on 19 February 2016, and Cameron subsequently confirmed that a referendum will be held on 23 June with the government recommending that the UK remains in the EU under the renegotiated terms of membership.

This means that, either way, the referendum would have led to the emergence of differentiated disintegration, that is what Schimmelfennig (2018: 1154) defined as 'the selective reduction of a state's level and scope of integration'. In the case of a 'remain' vote, the introduction of the emergency brake would have meant a move away from the existing integrationist path; a 'leave' vote, on the other hand, would offer a more complex form of differentiated disintegration, with no clear strategy advocated by pro-Brexit groups such as the official Vote Leave campaign which focused on the benefits of leaving the EU rather than discussing a withdrawal strategy. For a wide range of reasons discussed elsewhere (see e.g. Oliver 2018), Cameron and other pro-Remain campaigners failed to convince a majority of voters to vote 'remain' and resigned on the day the results were announced. Here again, differentiated disintegration was thus triggered by different actors: Conservative Eurosceptic backbenchers, who put pressure on David Cameron to call a referendum; David Cameron himself, who ultimately agreed to the backbenchers' demands; Vote Leave campaigners, including prominent figures such as Boris Johnson and Michael Gove; and ultimately the British public, who voted in favour of Brexit. The European Council (2016) set the tone for the upcoming negotiations in its reaction to the referendum: "As regards the United Kingdom, we hope to have it as a close partner of the European Union in the future. We expect the United Kingdom to formulate its proposals in this respect. Any agreement, which will be concluded with the United Kingdom as a third country, will have to reflect the interests of both sides and be balanced in terms of rights and obligations".

Even though negotiations were delayed by almost a year as Theresa May triggered Article 50 of the Treaty on EU on 29 March 2017 (i.e. almost a year after the Brexit vote), supranational institutions were well-prepared. EU actors focused on three key priorities from the beginning of the negotiations: citizens' rights (for EU citizens in the UK and UK citizens in the EU), the financial settlement (the so-called 'divorce bill') and the Northern Irish border. After holding seven rounds of negotiations between 19 June 2017 and 9 February 2018, a draft Withdrawal Agreement was agreed on 28 February followed by a draft Political Declaration on the post-Brexit EU-UK relations on 22 November. Yet, Theresa May failed to pass the Withdrawal Agreement before the House of Commons on three occasions, mostly due to divisions within the Conservative Party especially with regards to the proposed Irish border backstop which was deemed unacceptable by most hard Brexiteers, including future Prime Minister Boris Johnson. This prompted the UK government to seek an extension of the Brexit deadline on two occasions. Following mounting pressure within her own party, Theresa May was left with little choice but to resign, being replaced by Johnson on 24 July 2019 following an internal leadership contest.

The British strategy changed during Boris Johnson's first weeks as Prime Minister. After reshuffling the cabinet to include some prominent Brexiteers, the government's strategy switched from trying to pass May's withdrawal agreement before the House of Commons to scrapping the controversial backstop (which was considered unacceptable by the Conservative hard Brexiteer, including the European Research Group) or to leave without a deal. Boris Johnson eventually managed to renegotiate a revised Withdrawal Agreement and following an early General Election won by the Conservatives on 12 December 2019, the

UK left the EU on 31 January 2020. However, the terms of the new UK–EU relationship were yet to be negotiated, with the end of the transition period being set on 31 December 2020.

At the time of writing, it is too early to predict the kind of relationship the UK and the EU will have at the end of this transition period. The process of disintegration remains unclear, and could seriously damage the relations between both parties. The events that took place under Theresa May’s premiership demonstrate that the preferred pattern of differentiated disintegration for both sides was a managed, progressive process of disintegration, which proved to be insufficient due to other actors’ intervention in an attempt to shape the constantly changing demand-side of differentiation (i.e. Tory backbenchers, the European Research Group and the House of Commons, among others).

## Conclusion

This chapter introduced the broad concept of differentiation (both in terms of integration and disintegration) in the EU. It demonstrated that the mechanisms of differentiation were used to get out of situations of crises since the early 1990s. Five examples were discussed, all referring to different types of crises with different outcomes, as summarised in Table 12.1. Denmark’s initial rejection of the Maastricht Treaty was overcome by agreeing on the demands set out by most Danish political parties and holding a second (compulsory) referendum on the matter; Sweden’s decision not to join the Eurozone following the 2003 referendum effectively created an unsustainable form of de facto differentiation, beyond the traditional concept of multi-speed Europe; Iceland applied for EU membership as a response to the financial crisis, but withdrew it once the economy recovered; Greece avoided an accidental Grexit following the referendum on the third bailout and fostered divisions among the supply-side of differentiation; and Brexit has moved away from being an ‘event’ to becoming a ‘process’ of differentiated disintegration. Other forms of differentiation are likely to occur in the future, as demonstrated with Poland’s ‘opt-out’ of the European Council’s carbon neutrality by 2050 pledge in December 2019.

**Table 1. Supply and demand for differentiation in Denmark, Sweden, Iceland, Greece and the UK**

Country	Year	Context	Demand for differentiation	Supply for differentiation	Outcome
Denmark	1992–93	Referendum on the Treaty of Maastricht – rejected	Danish citizens via referendum  ‘National compromise’ between seven political parties and ‘Denmark in the EU’ document imposed to the Danish government	Eight scenarios proposed (including differentiated disintegration), joint agreement not to discard the Maastricht Treaty	Compromise through the Edinburgh Agreement: three opt-outs, new referendum and adoption of the Treaty
Sweden	2003	Non-binding referendum on the adoption of the Euro – rejected	Swedish citizens via referendum	Tolerated by the European Commission, but legal	De facto differentiation, multi-speed Europe,

				obligations prevail	unsustainable model
Iceland	2009–13	‘Pots and pans revolution’ – financial crisis	Application for full EU membership (i.e. move away from differentiation)	Application accepted – willingness to ‘scale back’ differentiation	Accession talks frozen after the crisis, status quo
Greece	2012–18	Sovereign debt crisis	None, but the risk of ‘accidental Grexit’ in the context of the 2015 bailout referendum	Preparations for a Grexit (‘Plan Z’); Schäuble’s plans of a temporary Grexit	No differentiation
The UK	Since 2016	Brexit referendum	British citizens via referendum;  Article 50 of the Treaty on European Union (TEU) subsequently triggered by the government  May’s withdrawal agreement – failed to be ratified;  Johnson’s amended Withdrawal Agreement;  Pending negotiations on the future UK–EU relationship	Flexibility, adapting to the UK demands on three conditions	Planned differentiated disintegration

Is differentiation a response to the crisis, and what factors play an important role in shaping differentiation (both in terms of integration and disintegration)? Although the crises discussed (Maastricht, the early Eurozone years and the Great Recession) took place under different socio-economic and political contexts, the empirical evidence discussed in this chapter demonstrate that some factors are more likely to produce differentiation than others. First, referendums are more likely to produce differentiation than economic considerations. In the cases of Sweden and the UK, the referendums dealt with differentiation (whether to join the Eurozone and whether to leave the EU, respectively). The results of both referendums were respected, suggesting that a referendum on differentiation is thus more likely to be respected by all parties

involved. In the case of Denmark, the initial rejection of the Maastricht Treaty was not directly connected to mechanisms of differentiation; yet, the Danish opt-outs appeared as a compromise between Danish political parties and the European Council to avoid further integrational stagnation (e.g. by cancelling the ratification of the Maastricht Treaty) or a pattern of differentiated disintegration (e.g. by relegating Denmark to the European Economic Area). Second, putting the temporary instrumental model of differentiation aside, both supply and demand for differentiation have (so far) been difficult to roll back, suggesting that once a country leaves (or decides not to join) the ‘inner core’ of EU member states, differentiation becomes (quasi-)permanent. This is illustrated by the unsuccessful attempts made by the Danish government to transform ‘opt-outs’ into ‘opt-ins’ and by Iceland’s failed application for the EU membership – in both cases as a result of public opinion through elections or referendums. This further suggests that differentiation is not only elite-driven, but also public-driven. Third, differentiation is a path-dependent model of integration. Since the introduction of formal opt-outs from primary law for the UK and Denmark, differentiation has become increasingly used as illustrated in Leuffen et al.’s (2013) volume. Some examples of differentiation do not produce or are the consequences of crises: for instance, Malta’s non-participation in the Permanent Structured Cooperation was for constitutional reasons, and not political unwillingness to participate.

Accordingly, differentiation is not ‘the’ response to political crises in the EU but one of the responses that have been advocated to avoid integrational stagnation or differentiated disintegration. Demands for differentiation do not always produce the expected outcome. Yet, differentiation has become a persistent phenomenon in the European Union. Yet, it remains misunderstood, and more work needs to be done, especially in order to understand its full impact on European integration (see Gänzle et al. 2020). This chapter has demonstrated that such mechanisms have played an important role in shaping the outcome of crises over the past couple of decades. The most recent polycrisis offered three new case studies (Iceland, Greece and the UK), but other member states could trigger unprecedented ‘moments’ that will shape the future of a differentiated EU. This is particularly the case for countries who are yet to join the Eurozone (Poland, Hungary and Czech Republic), as well as countries where Eurosceptic parties have managed to become increasingly influential and join governments (such as in Italy). These are likely to create other periods of uncertainty in the history of European integration. Now, more than ever, scholars of European studies should focus on the consequences of differentiation on the future of the Union.

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