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Political Performance, Leadership, and Regional Integration in Europe: An Examination of the French and German Roles

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Political Performance, Leadership, and Regional Integration in Europe: An Examination of the French and German Roles

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Abstract

Prior research on a regional leader's role in the deepening of regional integration assumes that economic power translates directly into political capabilities. Relative political capacity among states is central to the creation and deepening of regional integration since it is this capacity that smoothes out the transition from a closed to an open economy. Should a state have low levels of this capacity but desire openness, it will partner with regional leaders given the leaders' higher relative political capacity. However, the leaders' subsidy of a partner's capacity comes at a price. The leaders would trade political capacity for forming a regional bloc along its preferences. A partner will join with a regional leader so long as it is satisfied with the leaders' preferences. By doing so, it reduces the cost of the subsidy. Our analysis of European integration indicates that French and German relative political capacities are an important factor in the continent's unifying efforts by conditioning institutional homogeneity and capital stocks mobility, both of which are critical for political and economic union. However, the German effect contrasts with the French effect in that we discover greater German effectiveness in mitigating potential barriers to integration.

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Introduction

Regional integration has grown in scholarly interest as progress in European integration repeatedly exceeded expectations. Today, the European Union (EU) represents the largest area of economic and monetary union in the world comprising 27 sovereign nation-states and nearly 500 million people (European Commission, 2008). There are numerous other regional integration efforts around the world. However, the scholarly community has only begun to pinpoint exact factors behind the deepening of regional integration even if we have an understanding of how and why states chose to enter into regional integration agreements initially. Often, one is confronted with the question, why is regional integration in Europe such a success story while other regions have not been as successful? In this paper, we attempt a more precise explanation of regional integration that goes beyond current models in the literature.

We adopt a systemic approach to explaining regional integration that focuses on the capabilities of regional leaders, member states, and the similarities of preferences among all members of the regional integration project. The literature does note the important role regional leaders play in developing integration.[1] Prior research has often assumed that these leaders would be capable of aiding integration based on their economic size. It is assumed that if the economic size asymmetry of the leader, vis-à-vis other members, is large and similarity of preferences is high, then the probability of integration increases. We question if economic size asymmetry alone is a satisfactory measure of capability; it is possible for a larger member-state to lack the ability to draw from its society the means to lead an integration effort. Therefore we propose to include not the economic size but the regional leaders' capabilities to mobilize resources in support of its policy preferences. This would be relative political capacity (RPC) of the regional leader. Finally, this paper will also include the role of the member-states other than the regional leaders. A focus on regional leaders' capabilities can mask the work of member states and we may therefore over-estimate the leading states' role. Therefore it is important to also examine capabilities relative to other member states in explaining regional integration.

The paper begins by briefly reviewing regional integration theories and examines the need to include the capabilities of member states with special attention to the capabilities of regional leaders. We then include a design to test our hypotheses followed by conclusions.

Theories of Regional Integration

Why do sovereign states decide to enter into formal treaty agreements to form regional communities at differing levels of economic and political union by surrendering part or all of their national sovereignty to supranational institutions? Political Scientists and Economists have been studying the causal

[1] Charles Kindleberger first talked about the important role a leader, not a hegemon as understood by political scientists like described by Robert Keohane, plays in international cooperation. See Charles Kindleberger "Dominance and Leadership in the International Economy," *International Studies Quarterly,* Vol. 25, no. 2 (June 1981):242-254 and "Hierarchy versus inertial cooperation," *International Organization,* Vol. 40, no. 4(Autumn 1986):841-847.

factors behind this phenomenon with varying degrees of success. Moreover, varying successes and failures of states in different regions of the world have not made this query any easier. To the contrary, such results have led to the formulation of multiple theoretical explanations for what makes regional integration work.

Early theories of regional integration include federalism, functionalism, and Monnetism. *Federalists* believed that the vulnerable post-WW II states of Western Europe should join together in a political union in which they could exercise mutual self-help in the face of threats to their common security (Petland 1973). States would maintain control of most of their domestic affairs, define levels of political authority and act as one actor towards external players. *Functionalists* had a different perspective in that they did not consider political factors and focused on the immediate economic needs of post-WW II states (George 1990:16-22). The leading functionalist theorist was David Mitrany (1966, 64-65) who rejected federalism on the grounds that it would replace the old states with a new, larger one without necessarily reducing human misery. Mitrany was interested not in the functional integration of European nations but in the creation of international organizations to fulfill certain specific needs like relief efforts for war refugees, regulating air traffic, formulating and enforcing international health and safety standards, or promoting more efficient agricultural methods. Such organizations might come into being for different purposes and comprise different sets of member states, sometimes including members from different continents and sub-regions around the globe. They would not all involve a given set of members found in a particular region. That is, they would not gradually become a collective state-like territorial entity in their own right! Yet, despite his clear focus on international organizations and not merely European integration, Mitrany is generally regarded as a forerunner of a movement for European functional integration, which actually did achieve the first real success in that direction: the European Coal and Steel Community (ECSC). Jean Monnet's brainchild carried out the functional thought: when faced with their own inability to solve problems that could be solved only by international cooperation, states would, even though reluctantly, relinquish limited elements of their sovereignty and pool their efforts in international organizations.

Government leaders of the Monnetist persuasion formulated a new agenda for the European six in the mid-1950s. The result was the creation of the ECSC and later in 1958, of the European Atomic Energy Community (Euratom) and the European Economic Community (EEC). Monnet's ideas not only led to the creation of ECSC but influenced scholars like Ernst Haas to develop his theory of *neofunctionalism* which combined individual and institutional economic and political factors as determinants of regional integration.

Haas (1958 and 1964) was impressed by Monnet's strategy and tactics to put them into a theoretical framework that was more elaborate and academic in nature. He argued that functional integration would most likely occur if influential and powerful elites were motivated to take decisive steps toward it. He introduced a number of *neofunctionalist* concepts to help explain the steps toward regional integration that had already occurred, as well as elucidating any further steps that might occur. Two central concepts are *spillover* and *supranationalism*. Spillover means that if the tasks of a regional organization were to expand, it would occur as a result of experiences with the tasks the organization was already performing. In other words, cooperation and success in one issue area would spill over into a similar cooperation in a related issue area among states. But unlike his functionalist predecessors Haas emphasized that spillover was not automatic regardless of how much closer the actors had become through cooperation. Task expansion by the regional organization would require political initiative. "Cross-national networks" were becoming more frequent and broader and that made it possible for elites to address common problems in concrete terms and to discover an "upgraded common interest." But what were these communications networks?

According to Stanley Hoffmann and Robert Keohane (1991) this communications net corresponded to neither a federal nor a confederal framework; instead, it would be supranational instead of intergovernmental. In the EU experience, this form of decision making became part of the governance structure with institutions like the European Commission, the European Parliament, the European Central Bank, and the European Court of Justice. Although the principal actors were nationally based, they came together predisposed to find common solutions to their mutual problems, and their method of arriving at decisions was by unanimous consent, avoiding votes, vetoes, and subsequent expressions of antagonism.

More contemporary variations on these theories came about as scholars tried to explain the complex nature of the EC's transition to an Economic and Monetary Union (EMU) and challenges produced by deepening of integration. One of these theories is *liberal intergovernmentalism* (Moravcsik 1993 and 1998). According to Moravcsik, the member states are motivated primarily by economic interests when they decide to propose, accept, or reject compromises on EU policy issues. Moravcsik argues that these national interests, interests of the supranational players as well as the institutional constraints, must be examined in order to understand policy outcomes (Moravcsik 1998, 481).

Both neofunctionalism and Moravcsik's liberal intergovernmentalism emphasize economic issues as central to their analyses of EU decision making. For Haas, initial integration of economic decision making gives supranational agencies the leverage to induce governments to support further integration. According to Moravcsik, on the other hand, governments can be persuaded to pursue cooperation within the EU framework for economic objectives, but this is because they cannot attain their objectives unilaterally, not because they have been maneuvered into giving up their best interests by supranational policy entrepreneurs. For Moravcsik, there is no automatic spillover from fulfilling one policy commitment to reaching agreement on another. The process is controlled by the member governments coordinating their own agendas, with very limited help from the Commission.

Moravcsik's view of how EU decisions are made could, without too much trouble, be converted into a version of what is called rational-choice institutionalism proposed by Simon Hix (1994). It posits that national governments act rationally on behalf of their preferences, but Moravcsik downplays the significance of the

EU's supranational institutions, whether the Commission, the European Parliament, or the European Court of Justice.

According to Hix (1994, 13) "if preferences change, outcomes will change, even if institutions remain constant, and if institutions change, outcomes will change, even if preferences remain constant." Thus, both preferences and institutions are important for analysis of what happens in any decision-making process for understanding deepening of regional integration and enlargement of membership. The example of the unanimity rule suggests that outcomes would change if the preferences of the last holdout changed to become more compatible with those of the rest of the members. But if the institutional rule were to change so that a qualified majority on the issue would suffice to adopt a proposed action, then the holdout can be ignored and concessions would not have to be made.

A more recent response to the rationalist and institutionalist approach to regional integration come from the constructivist reinterpretation of neofunctionalism (Sandholtz and Sweet 1998, and Risse 2004) and can be traced back to early works of Karl Deutsch on amalgamated security communities. Deutsch (1969: 122) defined integration as a process of cultural assimilation, leading to the formation of "pluralistic security communities' in which states retain legal independence but where their interactions are guided by feelings of 'we-ness' and by 'dependable expectations of peaceful change." However, as Mette Eilstrup-Sangiovanni (2008: 107) notes Deutsch (1969) did not assume that social assimilation would automatically lead to the adoption of shared legal or institutional frameworks. Integration was simply synonymous with the emergence of a shared regional identity. This view raises and interesting and important point about what is the end game of integration and even more significantly what is assumed by integration – social, economic, political, or some combination of all? This leads to a dilemma similar to the chicken and egg question: is it presence of institutions that foster integration or emergent common norms lead to establishment of supranational institutions? Either way, from the constructivist perspective, the key to compliance is learning, development of common norms and establishment of trust (Wendt, 1987, 369; Hasenclever et al., 1997, 160; Kupchan, 1998).

Contemporary constructivists' explanation of EU integration argues that the deepening of integration is a consequence of an interaction of members' interests and social norms, in which actors are embedded, regulate their behavior and constitute their identities, interests, and preferences. This is consistent with the constructivist argument that structures of world politics are social rather than material in character (Checkel 1999, 83-115). That is, constructivists focus on how European identities, common norms, emerge and how such norms, in turn, affect the behavior of the players. These writers argue that this perspective captures intergovernmental bargaining much better than its realist or liberal intergovernmentalist alternatives.

Despite their relative explanatory powers, the regional integration theories have a gap which needs to be filled in order to satisfactorily answer to the questions we propose in this study. Each of these theories of integration leaves out two important variables that are central to understanding regional integration. The first is the role of a regional leader, or leaders, in promoting deepening of regional integration. The second is the capacity of each member state to carry out proposed plans that would lead to that end. Typically, theories of regional integration implicitly assume that states that enter into regional integration treaties have similar abilities and therefore treat their political capacity as a constant. However, research has shown that that assumption is not valid. Therefore, a more comprehensive theory of integration must examine the role of political capacity and how relative capacity among the member states would influence the level of integration (Genna, Yesilada, and Noordijk 2012). An additional factor that affects deepening of integration is the role regional leaders play in this process. The leaders' role (in the global sense) was first examined by Charles Kindleberger (1973, 1981, 1984, and 1986) who drew attention to settle differences between *hegemony* and *leadership.* According to Kindleberger, the US's role in restructuring of post-WW II international regimes was best described by *leadership* and not by *hegemonic stability* as argued by Robert Keohane (1984). Kindleberger drew attention to the capacity of the US to provide for and maintain international regimes which brought participating states closer together in the post-WW II period. When viewed from the constructivist alternative explanation, integration among states of uneven strength could be seen to promote peace simply by virtue of its socializing effects.

In our previous study (Genna et al 2012) we examined this concept within the context of European integration and identified the leadership role Germany played in deepening and widening of regional integration. In this paper we expand the analysis to take into account the capacities of France and Germany in pushing forward deepening and widening of regional integration in Europe. We include France in this analysis given the two countries' important and enduring partnership in developing the EU. Theoretically and empirically, France is also an important factor given that its economic size and importance is closely matched by Germany's.

The Relative Political Capacity of States and Regional Leaders

As Arbetman and Kugler (1997) correctly observed, all countries face challenges of economic development with mixed results. Their answer to the puzzle of uneven development is the role of government capabilities. Capable governments are able to resolve these challenges while those that lack capability cannot. Globalization produces yet another set of challenges that all states must come to terms with. Coming up with solutions is often easier than putting policies into action. This is where state capacity becomes important, because solutions that require a shift from closed to open markets can have detrimental effects to specific industries and groups. It would be up to the governments, both individually and in partnership, to smooth out the adverse effects of economic policy changes.

Regional integration is one method to deal with the challenges of globalization. By focusing on regional partnerships, states offer firms access to markets that have close proximity and consumers with similar tastes and preferences. Also within any region there can be enough of a variation in factor endowments that would allow the logic behind comparative advantage and economies of scale to be persuasive. But the idealism of open markets may run counter to the desires of protected and entrenched economic sectors. Bargaining with groups that oppose regional integration is one way that state leaders can broker deals in order to garner vital support. However offering incentives is not enough. The offers must be credible. Threatened groups require that the state have the ability to produce these incentives. Of course not all states can do this, but their regional partners may be able to fill in the capability gap, which would help assuage any doubts.

What incentives do states need to provide? Basically they are the same ones that all states at one time or another provide in order to foster development. These include stimulating economic growth without the debilitating effect of inflation, producing high levels of employment, and promoting technological advancement. A shift in policy orientation from relatively closed to open economies will harm the ability of some sectors, in the short-term, to have these outcomes. It will be the capable government that can change policies while maintaining these promises of development for the needed supporters. Therefore the idea of regional integration is tied to the capability of the state to smooth out the problems of the transition through incentives like side-payments, worker retraining, improved social insurance, and so forth.

Government capability is the capacity to tap resources in order to carry out adopted policies (Arbetman and Kugler 1997). In other words, it is the ability for the government to extract material resources in the society and mobilize them to advance goals. In this study we refer to this as political performance since the specific goal is politically derived. How can political performance help explain the deepening of integration? We can envision a set of conditions that help explain and predict the likelihood of states to partner in and deepen integration. While all member states could have sufficient capability to deal with the policy transition independently, it would be highly unlikely for this to occur given the uneven distribution of capabilities.

Partnerships of only equally capable states are also unlikely for the following reasons. Since regional integration, by definition, is a partnership among neighboring countries, this reasoning would limit cooperation to only those that happen, by geographic luck, to border countries with sufficient capacity to carry out the necessary reforms. Also there is the problem of enforceability of agreements. The partners would need to have the capacity to not only carry out the internal policy changes but also be independent enforcers to prevent free-riding by partner states. Of course this would stretch the capacity of any one state if they have equivalent capabilities. The final and related issue is the occurrence of economic shocks. Such a shock in any one member's market can lead it to defect from regional agreement because of the current political leadership's need for survival. Similarly capable states may not be able to aid the troubled partner given limited capacity especially if the economic shock spills over the political boundaries.

Therefore it is unlikely for similarly capable states to deepen their integration. First, the idealism of integration can evaporate when agreed goals fail to materialize. Second, the far-sighted pragmatism of credible execution may override any idealistic tendency among leaders. If the scenarios of free-ridership and defections produced by economic shocks are in the minds of negotiators, then they would seek out some sort of assurance that the capacity resources used in creating and deepening integration would not be wasted. It is unlikely to see leaders enter into long-term partnerships that use resources unwisely. If the scenario of similarly capable states leads to a theoretical dead end, then an alternative scenario of asymmetry of capability can prove to be the answer.

Of late, some researchers have examined the role of asymmetric power distribution in explaining the level of regional integration (Efird and Genna 2002; Efird, Genna, and Kugler 2003; Genna and Hiroi 2004). All other things being equal, this research assumes that greater economic power translates to greater capability. However, does this assumption really hold? Do higher levels of national output correlate with higher levels of performance of governments? The theory of integration proposed in this paper hypothesizes that states that lack or have low levels of political capacity necessary to open markets will require the partnership of a regional leader due to its high level of political performance. It is also theorized that the likelihood for a regional partnership formed by the regional leader and other member states will improve with higher levels of mutual status quo satisfaction.

The role of a leader is first brought to attention in the works of Charles Kindleberger (1973, 1981, 1984, and 1986) who drew attention to settle differences between *hegemony* and *leadership.* According to Kindleberger, the US's role in restructuring of post-WW II international regimes was best described by *leadership* and not by *hegemonic stability* as argued by Robert Keohane (1984). For Kindleberger (1986, 841-842), hegemony has uncomfortable overtones of force, threat, and pressure whereas a leader can lead without "arm-twisting, to act responsibly without pushing and shoving other countries." In this regard a crucial issue that arises in economics is what has been called "the agency problem" (Jensen and Meckling 1976, 305-60). The dilemma revolves around interests of the agent who is hired to carry out a task for the principal and those of the principal itself. When the two interests clash, the agent might be tempted to pursue his own interests at the expense of his principal! Typical solution involves the principal's decision to "add to the wage bill the expense of monitoring the agent's actions and of bonding him to cover the possible loss from malfeasance" (Kindleberger 1986, 845). In the world of politics a similar relationship exists between majority and minority in democratic governance. Majority exercises restraint towards minority not only because roles might change in the future but also due to common ethical concern for the larger polity. In international relations, a similar relationship can exist as a contract between the leader and followers – that effective leadership will be met with effective followership. Our view on this relationship is that effectiveness of this leadership-followership relationship largely depends on the relative political capacity of the stakeholders.

If a state possesses sufficient capacity to unilaterally open markets, integrate into the global economy, and deal with any negative shocks then regional partnerships would not be necessary. States that lack sufficient levels of capacity would venture into partnerships with others that could subsidize their capacity. The capacity of the regional leader would carry the policy transition costs of the less capable partner(s) and perhaps help partners in time of economic downturns (Genna and Hiroi 2007).

If a state possesses sufficient capacity to unilaterally open markets, integrate into the global economy, and deal with any negative shocks then regional partnerships would not be necessary. States that lack sufficient levels of performance would venture into partnerships with others that could subsidize their capacity. The capacity of the regional leaders would carry the policy transition costs of the less capable partners and perhaps help partners in time of economic downturns (Genna and Hiroi 2007).

A state's capacity is theorized to include extraction of material resources, referred to as relative political extraction. The extraction of material resources would aid in developing regional integration efforts because the wealth accumulated by the state can be redistributed to those that are harmed by greater market competition. Also, joining a regional integration project that has undergone a series of stages of "deepening of integration," like the EU, could require the state to commit to fiscal responsibility, among other things. Again, the state's capability to extract taxes would therefore contribute to a successful implementation of regional integration. Using the capabilities asymmetry arguments just discussed above, as a state's level of this capability decreases, the new member state might then need aid from regional leaders. In fact we do see some evidence of this by examining how the more economically powerful countries are net contributors to the EU's social cohesion and common agriculture policy funds, while the less economically affluent are net recipients. Therefore, it is crucial to see the independent effect of RPE on integration as well.

Based on these observations we propose the following set of hypotheses:

> *H_1: The higher a state's RPE, the higher the level of regional integration with other states.*

> *H_2: The higher the regional leaders' RPE, the higher the level of regional integration of one state with other states.*

However we do not assume purely benevolent behavior of the regional leader. The regional leader would use this carrying capacity in order to shape agreements towards its preferences. The final bargain would be an exchange of capacity for regional economic policies (such as fiscal responsibility or conditions of labor mobility) that the leader prefers. Knowing that its policy preferences would be constrained, the smaller partner would integrate with a regional leader whose preferences are not distant from its own. This would reduce its "cost of integration" while improve benefits of the desired openness. Therefore there is an interaction between a regional leader's capacity and level of satisfaction among partners. The regional leader's RPE conditions the effect the level of satisfaction has on the level of regional integration.

> *H_3: The higher the level of satisfaction among partners, the higher the level of regional integration as a regional leader's political extraction increases.*

To move from closed to open markets and to further integrate require transition costs. These costs must be borne by someone with the state being the assumed entity given its role in promoting economic stability. A state's level of capacity can promote or harm the likelihood of regional integration. However states will seek out others to aid them in these transitions given the lack of political performance. Regional leaders are likely candidates since they possess ample performance. Since trading carrying capacity for preferences is a reality, smaller states would partner with larger states that share similar policy preferences. Finally, regional leaders are not immune to the costs of regional integration. They too will help or hinder regional integration depending on the type and level of performance it has in supply. The next step is to test these ideas using available data.

Modeling

We test our hypotheses using a directed dyadic relationship between European countries with a time series span from 1981-2007. As we further explain in this section, our timeframe begins in 1981 due to data limitations:

$IAS_t = \alpha + \beta_1 RPE_{ti} + \beta_2 PRE_{tl} + \beta_3 S_{ti} + \beta_4 (PRE_{tl} * S_{ti}) + \gamma Controls_t + \varepsilon$

Where;
IAS_t = The Integration Achievement Score in year *t*;
RPE_{ti} = Relative Political Extraction of state *i* in year *t*;
PRE_{tl} = Relative Political Extraction of regional leader *l* in year *t*;
S_{ti} = Level of Satisfaction of *i* in year *t*; and
Controls = The vector of control variables in year *t*.

For the dependent variable, the level of regional integration, we use updated data compiled by Efird and Genna (2002) (also see Efird, Genna, and Kugler 2003, Feng and Genna 2003, and Genna and Hiroi 2004). The measure is referred to as the Integration Achievement Score (IAS), which is based on the work pioneered by Hufbauer and Schott (1994). IAS codes regional integration projects around the world by using implemented treaty text. The score is an index of the following six categories: degrees of trade in goods and services, capital mobility, labor mobility, supranational institutional importance, monetary policy coordination, and fiscal policy coordination. Each category is given a value from 0 to 5, using a Guttman scale, with higher values indicating a deepening of integration. The categories (Ci) are summed, and then divided by six to give an average across all categories:

$$IAS = \frac{\sum_{i=1}^{6} Ci}{6}$$

Since the data is limited to European countries, the values of IAS include the European Free Trade Area and the European Union. The two groupings together are referred to as the European Economic Area (EEA).[2] Effort was made to group IAS values according to membership and degree of membership. For example, Finland was a member of the EFTA from 1986, but then left this block to join the EU in 1995. Also, not all EU member-states are members of the euro zone, so the IAS values for non-members are lower than for members. Finally the eastern expansion of the EU introduced ten new members in 2004 and two new members in 2007, but with conditions. None had the right to full free labor mobility and

[2] Although Switzerland is a member of the EFTA, it is not formally a member of EEA. However it is economically connected to the EU through a separate bilateral agreement.

they were not members of the euro-zone. Therefore, their IAS values are lower than full members of the EU. IAS values for nonmembers of the EFTA and EU are zero.

RPE is our first independent variable (Arbetman and Kugler 1997). Capable governments are able to 'extract' resources from their populations. The extractive component of capacity represents efforts by a government to acquire the *material resources* necessary to carryout policy objectives. Since the observations are directed dyads, the first country's RPE is included in the equation.

The next independent variable measures satisfaction. We operationalize satisfaction in two ways so as to capture political as well as economic dimensions. The political dimension is operationalized by the dyadic *regime/institutional dissimilarity*. Lemke and Reed (1998) have shown that satisfaction with a compatible regime type produces stronger peace effects. Their argument is supported by Andreski (1980) who found that military dictatorships have little incentive to engage in foreign military adventures and Russett (1993) and Faber and Gowa (1995) who demonstrated unexpected cooperative pattern among democratic states and among narrowly defined authoritarian regimes. Feng and Genna (2003) have also demonstrated that states with similar institutions are more integrated that states that are dissimilar. Therefore past research suggests that institutional similarity can operate as a good proxy for satisfaction. Indeed one of the major prerequisites of joining either the EU or EFTA is a state's continuing commitment to democracy. Therefore current and aspiring members need to be satisfied with this criterion. We use Polity IV (Marshall and Jaggers 2001) data in order to measure regime similarity. We believe that it provides the superior measure and is more comprehensive than Vanhanen (2000) data[3]. Polity IV provides a composite democratic regime score for each country in our data set. We calculate a dissimilarity variable by taking the different of score for each dyad. The larger the difference of Polity IV regime scores, the more dissimilar the

[3] Existing long term data sets on democracy include Munck and Verkuilen (2002), Alvares, Cheibub, Limongi and Przeworski (1999) (n=141 time table: 1950-1990), Freedom House (2000), covering all natons from 1972, Gasiorowski (1996) Political regime Change (n=97 time table: independence-present), Hadenius (1992), (n=132 time table: 1988), POLITY IV Marshall and Jaggers (2001),(n=161 time table 1800-1999), and Vanhanen (2000),(n=187 time table: 1810-1998). Three are quite comprehensive. Freedom House (2000) data measure politics rights (9 components) and civil rights (13 components), both as ordinal data using additive (at the level of components) and as the aggregation rule. It is a comprehensive data set with clear and detailed coding rules. It is limited by a minimalist definition and omits participation in coding. The Polity IV is an improved and updated version of the earlier Polity III (Juggers and Gurr 1995) and measures competitiveness of participation, regulation of participation, competitiveness of executive recruitment, openness of executive recruitment and constraints on executive power scale is comprehensive and reliable. The weakness is a minimalist definition and again omits participation. Aggregation procedures can be experimented with. Finally, Vanhanen (2000) measures competition and participation as interval data using a multiplicative aggregation rule. It has clear coding rules and comprehensive scope. It is limited by a minimalist definition as it omits offices and agenda setting. Appropriateness of the aggregation rule is also in question.

pairs are. According to hypothesis two, we expect to see a negative relationship between the dissimilarity variable and the IAS.

Another dimension of satisfaction would need to estimate the economic closeness (proximity) between the pairs of states. A very large number of alternatives are available here but we propose to use a measure of direct foreign investment stocks between countries measured in dyads, but as a ratio of total FDI stock over time using OECD data. Our rationale behind using FDI stock is based on the assumption that the more the satisfactory the relations are between pairs of countries, the more willing their respective firms to be in making long term investment decisions in each other's economies. Our time series is limited by the fact that this data is only available from 1981.

We estimate our models using the following controls. The first is a Cold War dummy variable with the value of one for each dyad between 1981 and 1991 inclusively, and zero otherwise. Since the ending of the Cold War demonstrates an external shock to the international order, it may affect the pace of integration. Second, neo-functional theory stipulates that spillover occurs when integration is successful. Therefore a 5 year lagged IAS value is also included. Third, each satisfaction proxy variable will operate as a control for the other. For example, when we include the institutional dissimilarity variable, both interactively with the regional leader's RPE values and independently, the FDI stock ratio variable operates as a control without interacting it with the regional leader's RPE value. Finally, the models are estimated using time-series regression techniques with panel corrected standard errors. We assume heteroskedasticy among the panels observations based on diagnostics.

Results

Overall the results demonstrate that French and German political capacity does significantly explain European integration. The effect, however, of the German role is different than the French role. The first table displays the results of the first two models. The first model is our baseline that tests the association RPE of an individual member state along with institutional dissimilarity and FDI stock ratio of the dyad. Of the three key variables, a member state's RPE and institutional dissimilarity are statistically significant. The FDI stock ratio does not help explain deepening of European integration. However, the more dissimilar a state's Polity IV score is with a European country, the lower the level of integration. Also, the increase in a member state's RPE does have a positive effect on the level of integration, but the impact is small. What is interesting is the negative coefficient on the Cold War variable ($p \leq 0.001$). Contrary to what is often stated, this period in time actually had a reducing effect on integration when compared to the post-Cold War period.

[Place Table 1 Here]

Model two introduces the French and German RPE values. In order to see the conditional effect each one has on the other, model two included the interaction of the two RPE variables along with the institutional dissimilarity and FDI stock ratio variables in an additive form. Brambor, Clark, and Golder (2006) demonstrate that examining the statistical significance of the interaction variables' coefficients is inappropriate when attempting to determine their explanatory value. Instead all three variables (the two RPE variables and their product) need to be assessed based on Germany's RPE effect on France's variable.

[Place Figure 1 Here]

Figure one plots the marginal effect of French RPE on the level of European integration as the level of German RPE increases. The graph indicates that the French RPE coefficient's reducing effect on integration increases as Germany's RPE increases. The findings tell us that German and French capacities do not reinforce each other in producing greater integration. Instead we see an oscillating effect between the two partners on the level of integration. In periods of low German RPE, French RPE matters more. In periods of low French RPE, German RPE matters more.

[Place Table 2 Here]

[Place Figure 2 Here]

Model three of table two begins the examination of France's RPE on integration. The model uses institutional dissimilarity as a proxy for satisfaction and the interaction between French RPE and dissimilarity, leaving FDI stock ratios as a control variable. The FDI stock ratio variable is not statistically significant, but the member state's RPE is statistically significant. Figure two plots the marginal effect institutional dissimilarity has on regional integration as French RPE increases. The downward slope of the line indicates that French RPE magnifies the effect of dissimilarity. When French RPE has the value of 1, the dissimilarity variable has a value of -0.15. This translates to as high as a 3% *decrease* in the value of the integration indicator (IAS) for every one point increase in dissimilarity. Model four of table two substitutes FDI stock ratios for institutional dissimilarity as a proxy for satisfaction. The dissimilarity variable is negative and statistically significant, as hypothesized. Figure three plots the effect FDI stock ratios has on the level of integration as French RPE increases. The results show a similar patter (downward slope). However, the effect is not significant for a large range of French RPE values. This tells us that French RPE does not condition the effect of FDI stock ratios on integration and when it does have some effect, it is negative. It needs to be noted that according to model four, FDI stock ratios, by itself, does have a strong, positive, and statistically significant effect on the level of integration.

[Place Figure 3 Here]

[Place Figure 4 Here]

Models five and six of table two substitute German RPE for French RPE with opposite results. In model five, the member state's RPE does have a positive effect on integration, but the FDI stock ratio is not statistically significant. Figure four plots the marginal effects institutional dissimilarity has on integration as German RPE increases. With higher German RPE, the institutional differences among EU member states matter less. At the highest values of German RPE mitigate differences to the point where they have almost no effect. This is sharp contrast with the illustrated findings found in figure two.

[Place Figure 5 Here]

Figure five completes the analysis by plotting the interaction effects of German RPE and FDI stock ratios. The graph indicates that the FDI stock ratio coefficient's value increases as Germany's RPE increases. This relationship is statistically significant throughout the range of German RPE except at approximately 0.8. When German relative extraction is low (<0.8), FDI stock ratios have a negative effect on the level of European integration. When German RPE is high (>0.875), FDI stock ratios have an increasingly positive effect on the level of European integration. Moreover, the relationship is large. An increase in German RPE increases the marginal effect of a dyad's FDI stock ratio on their level of integration. At the highest level of German RPE, an increase of one percentage point in the FDI stock ratio represents a 1 point increase in the IAS value in the post-Cold War era. This translates to a 20% increase. Therefore once again German RPE has a statistical and substantive effect on regional integration based on its effect on FDI stocks.

Conclusions

The regression results support our hypotheses on RPE: We can conclude that a state's political capacity alone is not solely important in entering into integration agreements with other European states. It needs help to smooth out the policy adjustments' adverse effects. Furthermore, results show that states will more likely join when they are satisfied with conditions under integration. This means that they would prefer little institutional differentiation and greater FDI. Finally, the level of integration improves when there is a regional leader who can provide the carrying capacity some partners' lack. This was observed in the German case, but not in the French one. This last observation supports Kindleberger's argument on the important role a leader plays in the international system with the caveat that the regional leader's RPE is the key determining variable and not its mere economic size. Our findings not only support his premise at the European regional setting but also shed some light onto his observation concerning the significance of followership by other states. This is indeed a delicate balance between RPE and levels of satisfaction among all parties and presents some interesting insights for policy makers.

The carrying capacity of a regional leader is an important factor in deepening regional integration, but it is a finite resource. Therefore an expansion of membership with partners that greatly lack individual capacity may stagnate the process of integration or possibly threaten it. As others have demonstrated (see Arbetman and Kugler 1997), the lack of political capacity makes development harder to achieve. Since integration is often seen as an avenue of prosperity, it will take the regional leader's political capacity to help the lower achieving states. But this comes at a cost for the regional leader and its carrying capacity may not be large enough to achieve policy aims and goals.

The recent Greek debt crisis in Europe handily illustrates three of the main elements of our argument. One, that the extractive capacity of governments is important to implement policy in general, and two, that the political will and capacity of the leading states is central to the project of economic and political integration, because, three those same leading states have not allowed the European Union institutionally, to have the political capacity to enforce its own standards. When the Greek debt crisis began to rattle markets in January 2010 the European Union had just finally passed the Lisbon Treaty creating the office of the President of the European Union; a single leader to call in a time of crisis. When that phone rang this winter it was answered by Belgian Herman Van Rompuy, an anonymous consensus builder supported by German leader Angela Merkel precisely because he would not threaten the initiative of individual national leaders. When the crisis hit, the German leader got what she asked for as the markets turned to Europe's leaders in France and Germany for a response.

The crisis began to simmer in October 2009 as Greece's low RPE came to the fore. Generations of patronage-based Greek governments have won elections by handing out fiscal treats to their constituents; not enforcing tax laws for conservatives, and high public salaries and low tuitions from the left. In October, the newly elected Greek Prime Minister announced that the new government discovered that Greek debt levels had been higher than previously reported and submitted an updated report to the Commission (Coy, Petrakis, et al., 2010 and *Report on Greek Government Deficit and Debt Statistics*, 2010).

This event caused such stern reverberations in the markets not because it was unexpected, Greece had been warned about their numbers before, and investigations of off-books financing have been ongoing since 2004 (Chaffin & Hope, 2010) but because it occurred in the context of an institutionally and politically weak European response to the crisis. Despite keen interests in stemming the crisis; 72% of Greek debt was held by Eurozone banks, preventing the spread of panic to Portugal, Spain, Ireland, or Italy, and stabilizing the Euro, Germany and France disagreed on the form and type of intervention ("The cracks spread and widen.," 2010; A very European crisis," 2010) . With Germany expressing reluctance to underwrite a rescue of a southern spendthrift while tightening their own belt and France also working to keep the IMF out of any bailout, the lack of leadership intensified the crisis and Greek debt interest rates climbed and Euros shriveled (Roche, 2010). The late and reluctant leadership of Germany simply amplified the crisis because Germany is the economic anchor of the Eurozone (Coy, Matlack, et al., 2010). The argument over a proposed €35 billion of European Union support in March became a pledge of €155 billion in early May, with €35 billion from the IMF, and the European System of Central Banks backstopping Greek debt in May sales. Finally, after markets found the May 1st effort wanting on the fear that the Bundestag wouldn't support the effort, the € 750 billion European Financial Stability Facility was created with € 440 billion from Eurozone states, € 60 billion in ECB debt instruments and a € 250 billion IMF contribution (Reuters, 2010). During this episode, crucial position of the German government came to be the determining factor. Without German leadership no progress would have been possible at the Eurozone side just as without US the IMF support would have been questionable.

Yet, despite this show of leadership on part of Germany, one crucial factor also became evident. This crisis further adds to taxing of EU's regional leader and that, in turn, is bound to result in slowing of deepening of regional integration in Europe. An additional factor in this regard is what Eastern enlargement meant for regional integration.

The latest enlargement of the European Union increased the population of the EU by over 150 million but only added 5 percent to the Union's GDP! It is no wonder that the German government favors slowing of enlargement of the EU for the foreseeable future. Completion of the EMU and shoring up of the economies of the new member states are two important policy areas that EU leaders must acknowledge rather than extending membership to current candidate and potential candidate countries of the Balkans. Among these countries only Turkey has a large and dynamic economy but its low per capita GDP signals nothing but danger for sharing of EU's structural and regional development funds. This country's ability to contribute significantly to EU's economic growth is not likely to be realized until 2030 - 2040 (Yesilada, Efird, and Noordijk 2006). In the meantime, the weaker economies of the Western Balkan states will negatively impact the ability of the regional leader to provide the needed assistance for deepening of integration. This reality cannot be reversed by a mere growth in EU's supranational institutions' decision-making power. Despite enthusiastic comments by EU officials over how the future looks bright for the Union, the fact of the matter is that the EU is not a substitute for Germany's regional leadership role in deepening of integration. Without a political union that would substantially change the EU's RPP, member states' RPP remain to be the key variables in future success of regional integration in Europe.

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Table 1. Heteroskedastic Panel Correct Standard Errors Time Series Regression results on Integration Achievement Score for European countries, 1981-2007: France and German Partnership

	Model 1	Model 2
RPE_{ti}	.0716* (0.043)	0.077* (0.039)
$RPE_{tFrance}$	---	57.3*** (6.51)
$RPE_{tGermany}$	---	61.59*** (7.28)
$RPE_{tFrance}$*$RPE_{tGermany}$	---	-65.3*** (7.40)
Institutional Dissimilarity$_t$	-0.052*** (0.008)	-0.056*** (0.008)
FDI Stock Ratio$_t$	-0.063 (0.127)	0.032 (0.112)
IAS_{t-5}	0.863*** (0.012)	0.864*** (0.011)
Cold War	-0.252*** (0.026)	-0.091** (0.122)
Constant	0.574*** (0.050)	53.6*** (6.41)
Wald χ^2	7338.6***	9160.2***
R^2	0.689	0.704
# of groups	406	406
N	3,732	3,732

*Notes: Unstandardized coefficients reported, standard errors in parentheses; one-tailed significance tests: ***$p \leq 0.001$, **$p \leq 0.010$, *$p \leq 0.050$.*

Table 2. Heteroskedastic Panel Correct Standard Errors Time Series Regression results on Integration Achievement Score for European countries, 1981-2007: French and German Leadership Effects

	Model 3	Model 4	Model 5	Model 6
RPE_{ti}	0.085* (0.040)	0.073* (0.040)	0.090* (0.040)	0.083* (0.040)
$RPE_{tFrance}$	1.32*** (0.268)	1.06*** (0.267)	---	---
$RPE_{tGermany}$	---	---	-3.73*** (0.319)	-3.58*** (0.336)
Institutional Dissimilarity$_t$	0.873*** (0.195)	-0.051*** (0.008)	-0.707*** (0.030)	-0.047*** (0.008)
$RPE_{tFrance}$* Institutional Dissimilarity$_t$	-0.984*** (0.210)	-0.624 (0.320)	---	---
$RPE_{tGermany}$* Institutional Dissimilarity$_t$	---	---	0.727*** (0.225)	---
FDI Stock Ratio$_t$	0.033 (0.128)	7.12*** (0.112)	0.010 (0.126)	-7.99** (0.112)
$RPE_{tFrance}$* FDI Stock Ratio$_t$	---	-7.23*** (1.99)	---	---
$RPE_{tGermany}$* FDI Stock Ratio$_t$	---	---	---	9.43** (3.16)
IAS_{t-5}	0.850*** (0.013)	0.864*** (0.119)	0.855*** (0.012)	0.868*** (0.012)
Cold War	-0.198*** (0.030)	-0.189*** (0.031)	-0.068* (0.030)	-0.060** (0.030)
Constant	-0.709* (0.050)	-0.483* (0.265)	3.71*** (0.281)	3.55*** (0.289)
Wald χ^2	7894.6***	7822.2***	8831.0***	8624.8***
R^2	0.692	0.690	0.700	0.699
# of groups	406	406	406	406
N	3,732	3,732	3,732	3,732

*Notes: Unstandardized coefficients reported, standard errors in parentheses; one-tailed significance tests: ***p≤0.000, **p≤0.001, *p≤0.050.*

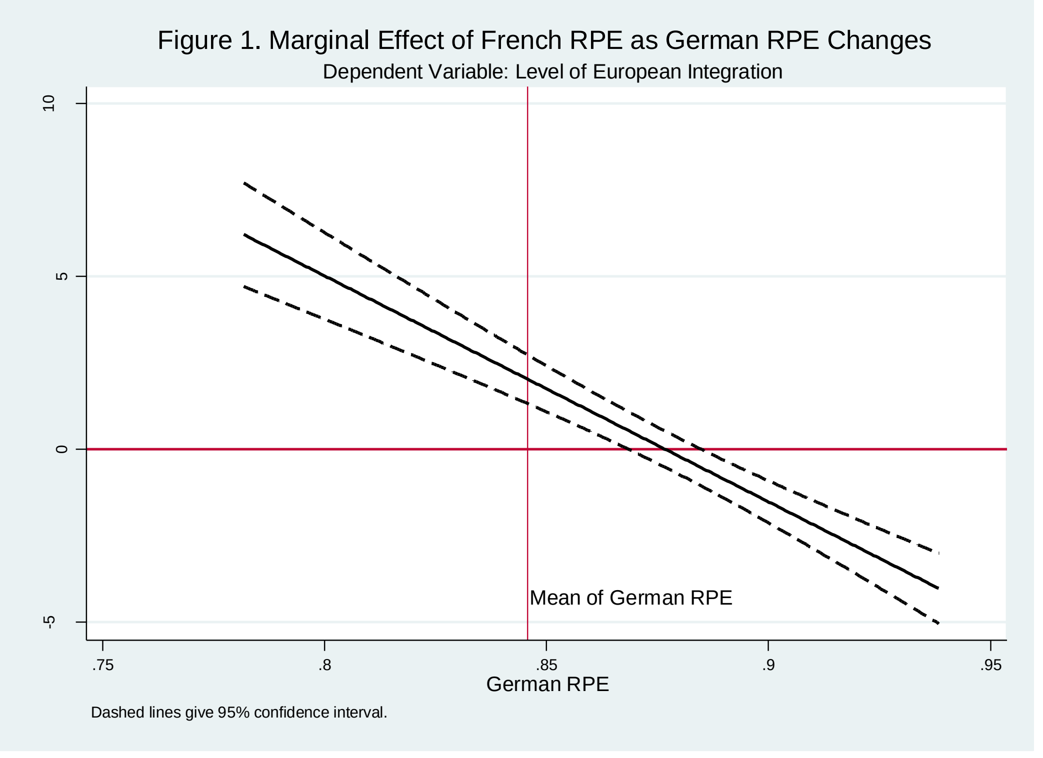


Figure 1. Marginal Effect of French RPE as German RPE Changes
Dependent Variable: Level of European Integration
10
5
0
-5
Mean of German RPE
.75
.8
.85
.9
.95
German RPE
Dashed lines give 95% confidence interval.

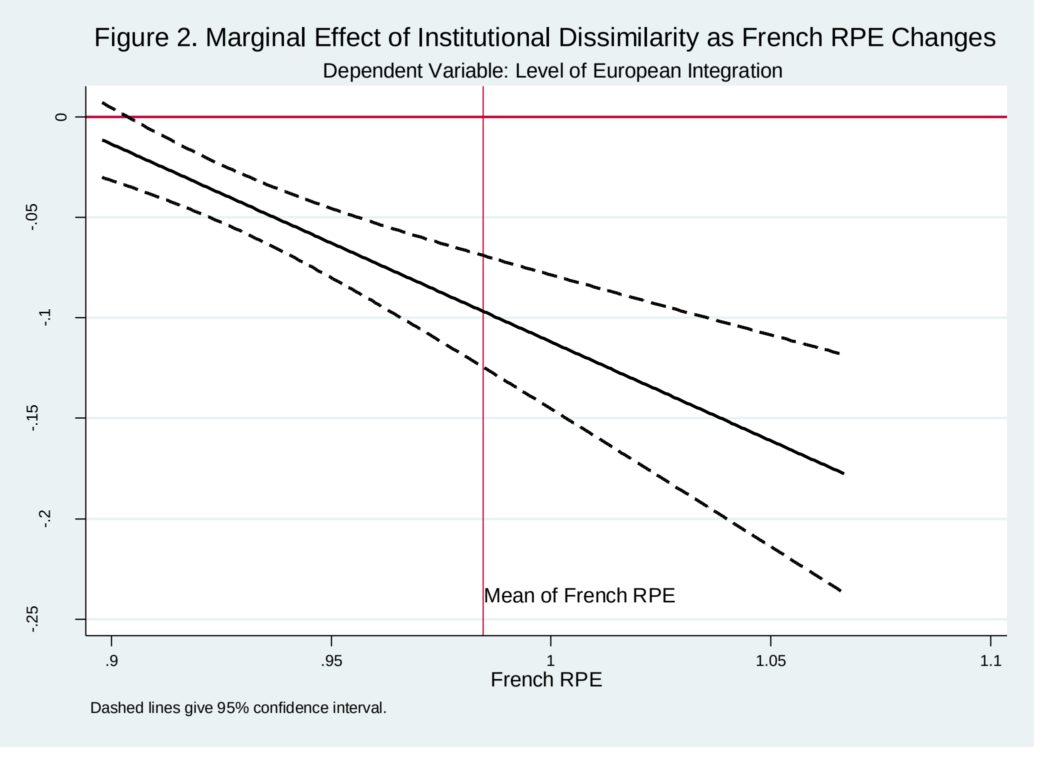
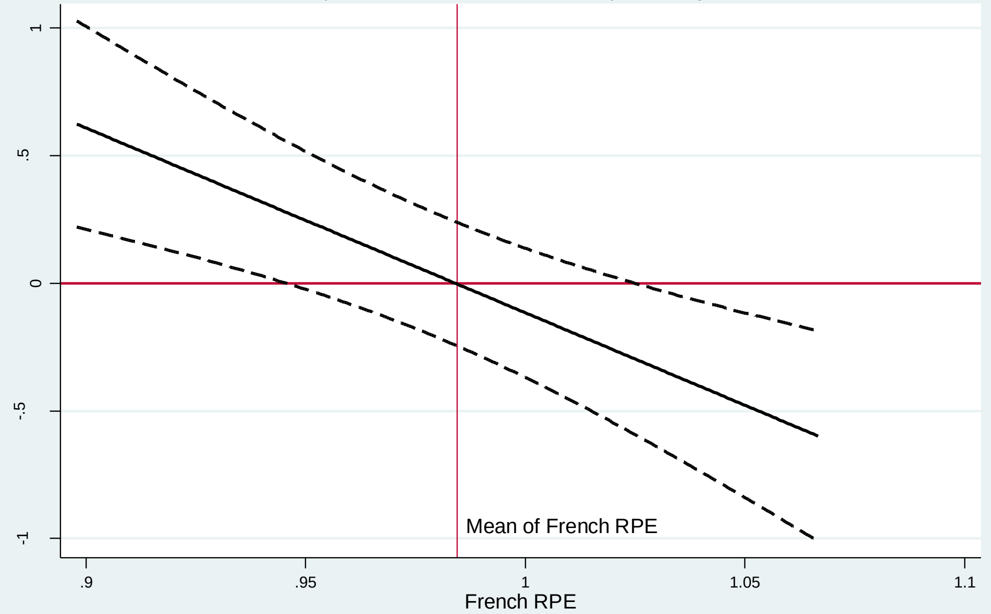


Figure 2. Marginal Effect of Institutional Dissimilarity as French RPE Changes
Dependent Variable: Level of European Integration
0
-.05
-.1
-.15
-.2
-.25
Mean of French RPE
.9
.95
1
1.05
1.1
French RPE
Dashed lines give 95% confidence interval.

Figure 3. Marginal Effect of FDI Stock Ratio as French RPE Changes

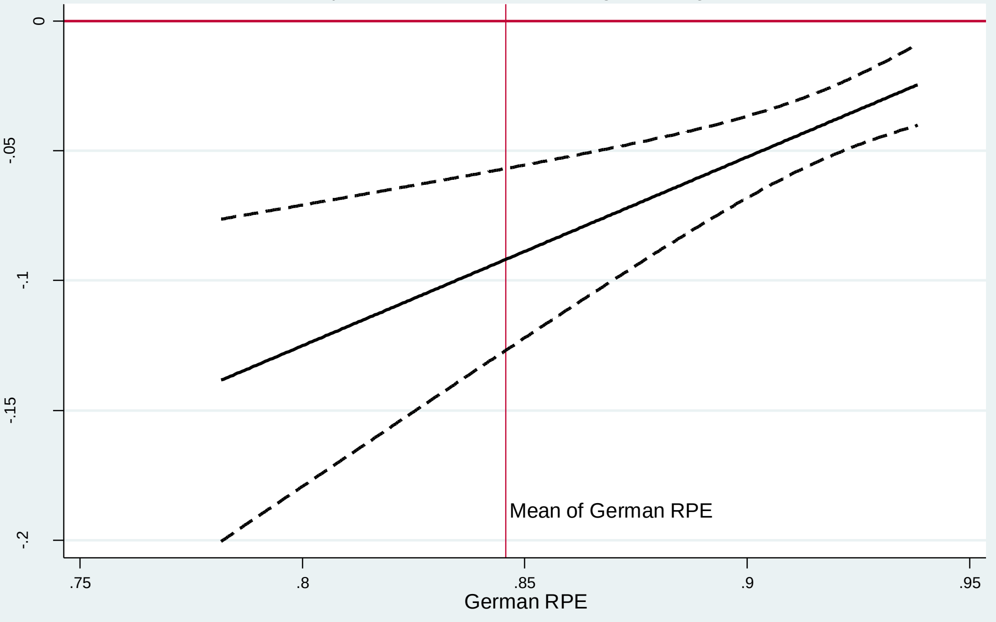
Dependent Variable: Level of European Integration



Dashed lines give 95% confidence interval.

Figure 4. Marginal Effect of Institutional Dissimilarity as German RPE Changes

Dependent Variable: Level of Regional Integration



Dashed lines give 95% confidence interval.

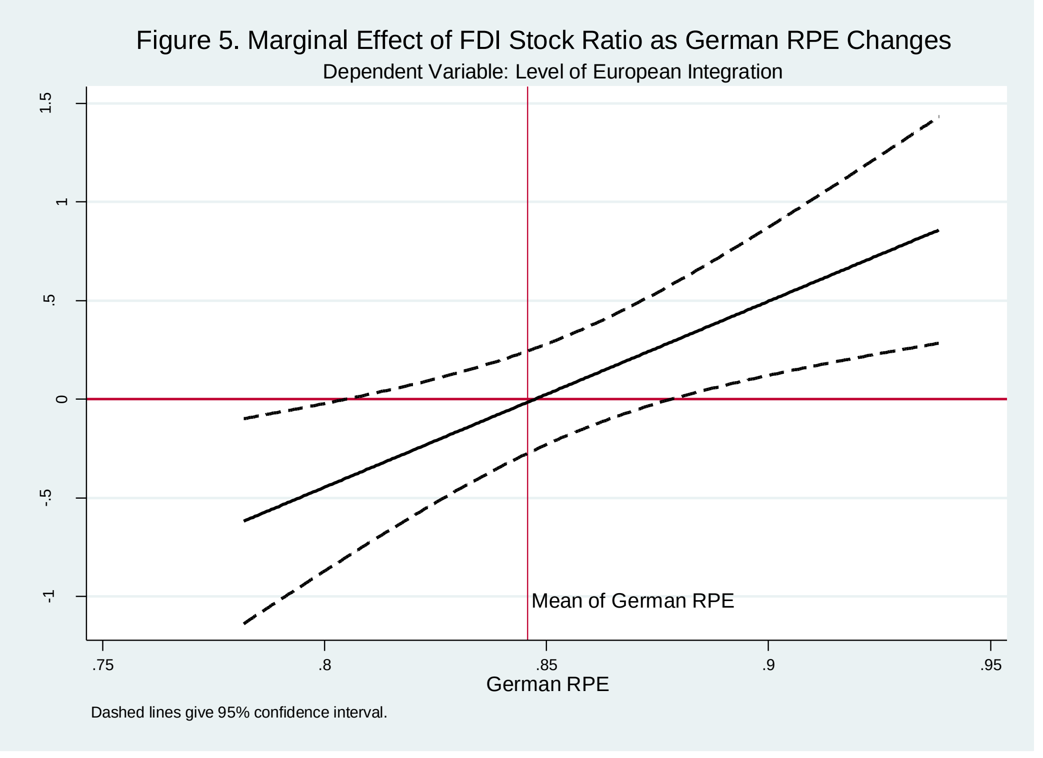


Figure 5. Marginal Effect of FDI Stock Ratio as German RPE Changes
Dependent Variable: Level of European Integration
1.5
1
.5
0
-.5
-1
Mean of German RPE
.75
.8
.85
.9
.95
German RPE
Dashed lines give 95% confidence interval.