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**Integration Processes in the European Union: Some
Theoretical Implications**

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Abstract

This paper examines the extent to which a neo-functional or intergovernmental process may be at work in the evolving European Union (EU). Indeed, it investigates two models of governance that relate to these theories to allow an understanding of decision-making procedures at the EU level. An analysis of a service sector (the life insurance industry) has been undertaken in respect of its relationships with the EU decision-making institutions and it is considered that through self-interest, national life insurance industries attempt to create a Single European Market (SEM) in their own image.

Following a discussion of the theoretical implications of neo-functionalism, intergovernmentalism, state-centric and multi-level governance the paper undertakes a comparative analysis of the Member States' regulatory regimes and combines this study with the results of a survey conducted in 1994 to create a regulation matrix: this gives an understanding of different regulatory environments in twelve Member States. Secondly, the survey results illustrate the separate kinds of regulatory environments that Member States wanted the single market to be and offers an explanation of how different understandings of legislation and regulatory structures may have been compromised. Additionally, a second survey and a number of interviews indicate decision-making procedures at the EU level and these are illustrated through a decision-making model. Finally, the extent of neo-functional and intergovernmental processes are posited in relation to the findings.

In theoretical terms the paper identifies aspects of both neo-functionalism and intergovernmentalism. Indeed, it considers that multi-level governance is the predominant means of decision-making at the EU level. On a practical level, the paper indicates implications for the financial services sector in relation to participation in the EU decision-making process. Fundamentally, the paper identifies a process in a situation that relates to financial services and tentatively makes generalisations in respect of other industries within the financial services sector.

A conclusion of peace nullifies all existing reasons for future war, even if these are not yet known to the contracting parties (Kant, 1991; p 93).

INTRODUCTION

This paper examines the extent to which a neo-functional or intergovernmental process may be at work in the evolving European Union (EU). Indeed, it investigates two models of governance that relate to these theories in an attempt to understand decision-making procedures at the EU level. An analysis of a service sector (the life insurance industry) has been undertaken in respect of its relationships with the EU decision-making institutions. It is considered that through self-interest, national life insurance industries attempt to create a market in their own image.

Following a discussion of the theoretical implications of neo-functionalism, intergovernmentalism, state-centric and multi-level governance the paper undertakes a comparative analysis of the Member States' legislative regimes and combines this study with the results of a survey conducted in 1994 to create a regulation matrix: this gives an understanding of different regulatory regimes in twelve Member States. Secondly, the survey results illustrate the separate kinds of regulatory environments that Member States wanted the single market to be and offers an explanation of how different understandings of legislation and regulatory structures may have been compromised. Additionally, a second survey and a number of interviews illustrate decision-making procedures at the EU level and these are illustrated through a decision-making model. Finally, the extent of neo-functional and intergovernmental processes are posited in relation to the findings.

NEO-FUNCTIONALISM AND INTERGOVERNMENTALISM

“Neo-functionalism and intergovernmentalism were contending theories of European integration in the 1960s but by the 1970s intergovernmentalism appeared to have carried the day, until in the 1980s the single market programme and the Single European Act led to a revival of neo-functionalist explanations” (George 1994 p 1). Indeed, neo-functionalism considers that the integration process is one where political actors are persuaded to allocate their loyalties and political activities towards another setting. Political actors are persuaded to do this through pressures from organised groups that express demands for further integration. The neo-functional model does not need overall consent it is driven by self-seeking interest groups who are restrained only by the acceptance of the rules of the game, rules they themselves have a hand in creating. It has been posited that integration results through the process of institutionalised patterns of interest group politics undertaken in existing organisations. The self seekers in this context are the individual Member State insurance industries and companies. Haas presented the European dimension as one where,

. . . political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states. The end result of a process of political integration is a new political community, superimposed over the pre-existing ones (Haas, 1958; p 16).

On the other hand, intergovernmentalism is underpinned by the realist model of international politics. This considers that international relations is based on

power politics and that nation-states are the main actors in the international arena. Indeed, international relations in the form of foreign policy are pursued by nation-states. Consequently, these are the motors of change. However,

. . . political realism does not assume that the contemporary conditions under which foreign policy operates, with their extreme instability and the ever present threat of large scale violence cannot be changed . . . Nothing in the realist position militates against the assumption that the present division of the political world into nation states will be replaced by larger units of a quite different character, more in keeping with the technical potentialities and the moral requirements of the contemporary world (Morgenthau, 1973; pp. 9-10).

But this may only be achieved through the forces at our disposal and these forces are provided in the form of the nation-state. The question is; will the nation-state ever make itself obsolete?

Subject to this critique intergovernmentalism considers a number of points: firstly, it considers that regional integration should take global criteria into account; secondly, it contends that the real power-houses in the process of European integration are the nation-states and these will remain committed to national interest; finally, intergovernmentalists think that the transference between high and low politics would never take place; integration would be condoned in technical fields to ensure mutual benefit but would never move into areas like defence, monetary policy and national security.

There is no need to dispute the first of these points as everything is determined by wider parameters and historical change in this context neo-functionalism

considers global criteria. The second of these assumptions denies the neo-functional idea that through sector bargaining the political process would shift from the national to the supranational and overcome the dichotomy that the realists create for themselves; in terms of things will change but only through the perpetuation of what already exists. Finally, the third assumption may be disputed because of the potential advent of monetary union and the extensions of decision-making powers that the European institutions have incrementally accrued.

Mutimer (1989) revisits neo-functionalism and emphasises the importance of the SEA. He also considers that federalism is inappropriate when analysing the EU. However, he eventually dismisses neo-functionalism because ". . . even in amended form it is not sufficient" (ibid p 101); this, one may consider, is rather an ambitious statement given the evidence that his paper provides. Pederson (1992) considers that intergovernmentalism should be combined with elements of neo-functionalism to enable a new framework of analysis. Keohane and Hoffman (1990, 1991) emphasise a pooling of sovereignty rather than its transference from the Member States to supranational institutions. A stronger intergovernmental stance is taken by Moravcsik (1991, 1993) whose analysis of the SEA considers that the primary source of integration resides with the Member States themselves. A more neo-functional perspective is taken by Sandholtz and Zysman (1989) who contended that three groups reshaped the EU: industrial elites, EU institutions and Member State governments. Furthermore, Sandholtz (1994) investigates why Member States are prepared to give up their currencies and the sovereignty this entails. He contends that membership of the EU defines preference parameters and decisions. Intergovernmentalism alone fails to explain the impact that membership of the EU has on Member State preferences, interests and demands. Indeed, if European integration is to be fully understood a combination of approaches is

necessary. This is a theme that has also been posited by Tranholme-Mikkelsen (1991), George (1994, 1995), Gehring (1996) who also consider that further empirical work is necessary to enable greater understanding. In an empirical study of European integration over the late 1960s and early 1970s, Kirchner (1976) argues that the ". . . logic and forces outlined by Haas were generally found to be operative" (p 4).

Peterson (1995) considers that ". . . the gap remains wide between theoretical models which seek to explain broad patterns of European integration and those which seek to explain the EU's policy-making process" (p 69). However, the debate has turned toward governance through the arguments initiated by Keohane and Hoffman (1991), Marks (1993), Marks *et al* (1996) and Marks *et al* (1996a). A number of questions have been formed regarding the political order that is emerging in the EU and based on more general theories, policy-making has been investigated. Indeed, two theories predominate within the debate.

On the one side, functionalists and neo-functionalists have conceived of the process of institutional innovation as one of integration in which supranational institutions compromise state autonomy and sovereignty by shaping institutional competencies, resources and decision-making rules. On the other side . . . intergovernmental theorists have argued that member states and their executives continue to dominate decision-making in the European Community . . . While they differ substantively, these contending accounts share a fundamental assumption about how to conceptualise the European Community. Both view the defining features of the outcome in terms of the relative role of supranational versus national institutions. They share a conception of the outcome of institution building in the European Community

as varying along a dimension characterised by intergovernmentalism at one extreme and a supranational state at the other (Marks, 1993; p 391).

STATE-CENTRIC AND MULTILEVEL GOVERNANCE

Hooghe and Marks (1997) link neo-functionalism (through supranational actors and interest groups) to multilevel governance and intergovernmentalism to state-centric governance. They conclude that the state-centric approach is not capable of fully explaining European policy making processes; that EU decision-making and policy-making are of a multilevel nature. Indeed, Marks *et al* (1996) provide an interesting interpretation of the present situation. "Multilevel governance does not confront the sovereignty of states directly. Instead of being explicitly challenged states in the European Union are being melded gently into multilevel polity by their leaders and the actions of numerous sub national and supranational actors. State-centric theorists are right when they argue that states are extremely powerful institutions that are capable of crushing direct threats to their existence" (p 371). However, it is not necessary ". . . to argue that states are on the verge of political extinction to believe that their control of those living in their territories has significantly weakened" (*ibid*).

The intergovernmental approach adheres to the state-centric model. This considers that the ". . . overall direction of policy making is consistent with state control" (Hooghe and Marks, 1997; p 22). Furthermore, ". . . the core presumption underlying the state-centric governance model is that European integration does not challenge the autonomy of nation-states. "State-centrists contend that EU membership preserves or even strengthens state sovereignty and that European integration is driven by bargains among member-state governments . . . In this model, supranational actors exist to aid member states to

facilitate agreements by providing information that would not otherwise be available. Policy outcomes reflect the interests and relative power of member-state executives, not those of the supranational actors (ibid, p 21).

If the state-centric model is the dominant means of decision-making in the EU, three conditions would need to hold: Member State representatives in the Council of Ministers should be able to impose their understandings and preferences on other European institutions; Member States should always be sovereign in relation to other Member States; Member States should be able to control sub national interests (ibid).

The multilevel governance model is based on certain aspects of neo-functionalism. It considers ". . . that European integration is a polity-creating process in which authority and policy making influence is shared across multiple levels of government sub national, national and supranational" (ibid, p 22). The model recognises the central role played by Member States in the decision-making process and considers that elements of control have been passed on to supranational institutions. Consequently, in certain areas Member States have lost aspects of their sovereignty.

In Short, the multilevel governance model claims that the locus of political control has changed. Individual state sovereignty is diluted in the EU by collective decision-making among national governments and by the autonomous roles of the European parliament, the European Commission, and the European Court of Justice (ECJ) (ibid, p 22).

If the multilevel governance model is to be accepted a number of premises must hold. Initially the supranational institutions (European Parliament and

Commission) should share authority with the Council of Ministers. Secondly, that the individual Member State executives should be unable to continually stamp their authority on collective decision-making. And finally (especially in respect of this paper) we would require that". . . that sub national interests mobilise directly in the European arena (ibid, p 24).

MARKET ENVIRONMENT LEGISLATION

This section of the paper wishes to illustrate how the different legislative structures of the individual Member States create differing regulatory environments and provide an example of how turbulence may be overcome through harmonisation. This process is evident in the life insurance sector because of the amount of differing legislation and the consequent problems in establishing an SEM. To this extent, changes in legislation display changes in individual regulatory environments which give an indication of the final framework that will identify the SEM in the life insurance sector.

The Regulation Matrix

The matrix gives an interpretation of what a regulatory environment entails, and identifies both similarities and differences within this context and displays how the process of legislative change may be examined. This is pursued through illustrating the 12 Member State life insurance industries on the matrix (this displays the amount of regulation through the use a scale of 1-12), each unit of the matrix indicating the regulatory regime of the given Member State. The matrix was initially compiled in 1994 hence it only deals with the membership of the EU at that time.

The matrix is broken down into three categories each designated by the type of legislation which indicates a regulatory environment. These are: liberal, prescribed, nationalised or (state controlled). It displays the different regulation in each individual Member State. To enable such an analysis, a study of the different legislation in respect of life insurance has been undertaken which has given an understanding of each Member State's regulatory environment.

Through the use of the matrix, the analysis compares the regulatory environments of the individual Member States and illustrates the process involved in the pursuit of a single market in relation to the normative perceptions of legislation. Each Member State has a different cultural tradition in relation to financial institutions and investment which is illustrated through historical attitudes that are exemplified through legislation and the subsequent regulation relating to life insurance.

A liberal market is illustrated between one and four on the scale and is specified by the basic premise of self regulation with minimal legislation. The analysis considered that four life insurance industries had relatively liberal markets in respect of their legislation: these were, Netherlands, Luxembourg, the UK and Eire. The liberal markets are similar in respect of ideology i.e. free market ethos and limited legislation. However, despite these similarities each market has distinct differences. One may consider that the differences relate to cultural existence's that are manifest in the economic sphere through definite legislation and institutional norms. The differences between the Member States in this area do however seem to be diminishing, as the European legal system becomes further harmonised. All four Member States have had to bring themselves into line with EU legislation which does seem to be moving toward greater rather than less regulation.

The prescribed market environment lies between five and eight on the scale and within this range there is tight legislation without any or limited Member State interference in the companies themselves. Within this section, the study has identified four Member States with lesser or greater degrees of prescription. One may consider that Belgium is a five on the scale Spain and Denmark a six and Germany a seven. It may be argued that through its legislative programme, the French structure also falls into this category. However, there is still state ownership in the French environment consequently it is treated as a partially nationalised or state-controlled regulatory structure. Within the prescribed regulatory environments there are differing amounts of prescription some border on the liberal and others on the state-controlled. One may consider that Germany is the most prescribed, whereas in Spain and Denmark, although highly regulated, some flexibility is allowed. It may be contended that the Belgian market indicates the impending European regulatory environment in respect of its existing legislation. What is apparent is the democratic nature of Belgian supervision and how this does not negate but is indicative of EU guidelines.

The study placed four Member States in the state-controlled regulatory environment area. Each has a state-controlled element to its life insurance market in that there is a preponderance of state ownership in respect of life insurance companies. Regulation is extreme in the four state-controlled life insurance markets which may be considered typical of a nationalised ethos. However, each Member State within this category is providing changes to its legislation, which will allow greater freedom and allow more competitive regulatory structure which is more in line with the impending SEM. To compile the matrix these propositions were amalgamated with the results of the following survey of Member State regulatory structure. Both sets of data are displayed in the regulation matrix below.

REGULATORY ENVIRONMENT SURVEY

To provide a more objective analysis of the data the results of a survey were added to the comparative analysis undertaken above. The comparative analysis indicated both the subjectivity of the author along with the objectivity of the data itself i.e. the regulation in the individual Member States. On the other hand, the survey illustrates the subjectivity of the questions put and the imperfect objectivity of the respondents.

The Survey Questions

To supplement the initial categorisation of the EU regulatory environments, a survey was conducted to investigate the perceptions of life insurance companies throughout the EU. The main purpose of the questionnaire was to gain an understanding of how the Member State industries viewed their own regulatory environments and what they considered would be most advantageous for them at the EU level. Following a detailed explanation of the meaning of the 1-12 scale the questions below were asked:

- (1) How liberal or state-controlled is your national life insurance regulatory structure?
- (2) Where would you place the Single European Market (SEM) life insurance sector regulatory environment?
- (3) What type of regulatory environment do you consider that the SEM should be to allow your company its greatest advantage?
- (4) What type of regulatory environment do you consider the SEM in life insurance should be to allow the greatest consumer protection?

(5) What type of regulatory environment do you consider the SEM in life insurance should be to allow the greatest consumer choice?

300 questionnaires were sent out and 121 completed questionnaires were returned (the survey was undertaken in 1994). These were broken down by Member State as follows;

UK = 36

Germany = 25

Netherlands = 15

Italy = 12

France = 17

Belgium, Spain & Eire (Other) = 16

Total = 121

No responses were received from Greece, Denmark, Portugal or Luxembourg.

As with the comparative analysis, the responses were categorised into liberal, prescribed and nationalised markets, for each of the eight responding Member States. The results are summarised in Table 1.

INSERT TABLE 1.

The responses summarised in Table 1 were then used to add to the initial comparative analysis and compile the matrix illustrated by Fig 1. The means of the responses shown in Table 1 were averaged with the analysis of the legislation. This gave equal weight to both the comparative analysis of the regulatory environments and the perceptions of the insurance industry. Indeed, the survey results were similar to the categorisation of the markets illustrating a degree of agreement between the two sources of data.

INSERT FIGURE 1.

The second question asked the companies where they would position the SEM at that moment in time in respect of regulation. Once again this was on a scale of 1-12 and categorised the regulatory types as liberal, prescribed and nationalised; the responses are summarised in Table 6.2. In general, there was agreement that the SEM as it stood was located between 5.0 and 7.0 with the mean of the responses of all Member States equal to 6.0.

INSERT TABLES 2 & 3.

The third question asked the respondents to indicate which type of regulatory environment would give their company its greatest advantage. The results are summarised in Table 3.

Generally, the Member States pursue market environments that are less regulated or similar to their own. There is no push for greater regulation. However, there are differences between the amount of liberality that should be allowed. This suggests that a compromise needs to be reached between the prescribed and liberal markets which is indicated in Fig 1 and Table 3.

Question four asked what type of regulatory environment would allow the greatest consumer protection and question five which would allow the greatest consumer choice. Each of these allowed an understanding of what the respondents considered a regulatory environment to entail and gave an insight into their initial perceptions in respect of the first three questions. Responses are summarised in Tables 4 and 5.

INSERT TABLES 4 & 5.

These responses suggest that the respondents were aware of what was meant by a regulatory environment and fully understood the questions that they were being asked. Indeed, there was a form of hegemony when it came to understanding the survey and the concept of a regulatory environment. However, this is more explicit in terms of the understanding of consumer choice. It was around the issues of choice and protection that the debate with regard to market legislation difficulties revolved. The extent that Member States considered that consumer protection was more or less important than consumer choice and the amount of legislation that should be used in enabling consumer protection at the cost of consumer choice. At some point these differing ideas of best market environment needed to be compromised; the problem was where and how?

Convergence Procedures

The state-controlled and greater prescribed regulatory environments indicate the convergence process with the greatest clarity as these markets are either choosing or being forced to bring their legislation into line with the less regulated markets. However, the more liberal structures also need to change their legislation to bring them into line with European directives. The less prescribed and less liberal markets (those between 4 and 5) have the fewest changes to make and this is apparent in their adroitness at bringing in the directives. This is particularly so of Belgium and to a lesser extent Eire, Spain, Denmark, the UK and the Netherlands. The matrix attempts to identify the compromise point between the Member States. It also allows for a more illuminating comparison between the Member State legislative regimes in relation to a specific regulatory environment. Member State industries start

negotiations looking for legislation as near to, but usually more liberal than, their own i.e. the UK pursuing point 3 and Germany and Italy point 5 and France point 6 (see table 3). Consequently, on this evidence it may be posited that a more liberal market than was generally held in Europe would be the most amenable type. Ultimately, it is suggested that the legislation finally formulated should be between points 4 and 5 and then mutual recognition will come into play. However, the next question is how does this compromise take place?

The matrix illustrated such questions as how agreement may be reached in the face of differing views on market environments between Member State life insurance sectors, the European life insurance sector and the EU decision making institutions and the EU institutions and Member State governments? It is in answering these questions that one begins to understand the importance of interest groups at the European and national levels in the creation of European legislation. If the EU institutions are not to determine the process completely and have an understanding of what the sector wants, the national industries need to compromise their views and these can only be genuinely unified at the EU level; the easiest way to do this is through an EU interest group. Indeed, if the sector is to emphasise what it wants, it must interact with the EU decision-making institutions (the supranational entity). Finally, if the legislation is to be accepted by the Council it must have the acceptance of a majority of Member States. These are informed of the EU's position by the national interest groups. In this context we see a mixture of neo-functional and intergovernmental processes. However, the activities of interest groups and the supranational entity do seem to be a central aspect of the process.

Interest Group Usage in the UK (A Further Survey)

To substantiate interest group use, a further survey asked the UK insurance industry the extent to which it used interest groups at the national and European level. For this survey 70 questionnaires were sent out and 36 were returned. When asked if they used a European interest group in their participation of the formulation of the Third Life Insurance Directive 81.4% said no. Yet, 81.5% considered that they used a national interest group in most cases, the ABI and BIIC. The BIIC negotiates on behalf of the ABI at the EU level and represents the views of the ABI's membership. The link between the European and national interest groups was further substantiated by questions three and four 85.2% did not directly use European interest groups at all 74.0% contending that they didn't even subscribe to one, whereas, 100.0% of respondents subscribed to a national interest group. Even when their European interests were threatened 77.7% of companies did not directly approach European institutions whereas 51.8% would approach their national government. However, 59.2% would usually use interest groups to lobby on their behalf at the European level and 89.9% at the national level. When asked if they prefer to use interest groups at the European level to enable European-wide sector compromises 81.5% of respondents rejected this idea. However, 85.2% used interest groups at the national level because this enabled nation-wide compromise. In general, national interest groups are members of European interest groups which pursue national sector/industry compromises at the EU level, it is through this process that European-wide compromises are reached and the importance of European interest groups emphasised.

Those respondents that indicated which interest groups they were members of, 28 were members of the ABI and 2 of the BIIC; these two considered that through their membership of the BIIC they were affiliated to the CEA. However, all 30 were affiliated to the CEA (the other 28 through their membership of the ABI). However, none of the respondents considered that they were direct

members of any European interest group. One respondent did point out that his/her company was a member of other national interest groups in other Member States and would seek to influence their views on important matters .

THE INTERVIEW PROGRAMME

Additionally, an interview programme of EU and Member State officials was undertaken with regard to the third life directive. The key individuals that were interviewed were representatives from the following institutions.

Directorate-Generale XV. (DG XV) (Finance).

The Council Permanent Representative for the UK, France and Eire (Finance).

The Department of Industry & Trade (DTI).

Committee for European Assurance (CEA).

Bureau International des Producteurs d'Assurance & de Reassurance (BIPAR).

Association of British Insurers (ABI). Under the title British Insurers International Committee (BIIC).

Each interviewee was an individual who dealt explicitly with the Third Life Insurance Directive and each illustrated interaction with the other.

The interviews indicated agreement on a number of points: the Third Life Insurance Directive was unanimously perceived as a means of providing the environment that would allow mutual recognition to be achieved; it was also

acknowledged that many influences went into the drafting of a directive. Since 1988 interaction between industries and the Commission has become more apparent at the EU level. The representative of DG XV considered that a fluent contact with the life industry was imperative in respect of legislative input. Most importantly, the interviews illustrate the interactory procedures at work within the creation of the third life directive and the extent of the use of interest groups in the process. However what is also clear is the intergovernmental aspects. The following understanding of the process and decision-making flow model (see fig 2) were provided by the above interviewees.

For the purpose of this study the European Court of Justice (ECJ) is not discussed. Indeed, there are a number of issues to be explained with regard to the model. Firstly, the survey regarding Member State interest group membership and the interviews illustrated that the majority of insurance companies were members of national interest groups. Further interviews indicated that national interest groups were affiliated to interest groups at the EU level (for insurance mainly the CEA and BIPAR). Secondly, in the formulation of legislation (although Member State interest groups may approach the European institutions), the Commission and European Parliament preferred to deal with European wide interest groups because these allow a European picture of the situation. Thirdly, because the industry/sector allows further understanding what is necessary for the successful operation of the embryonic European regulatory environment it is highly likely that they will confer and reach some agreement prior to national involvement. Finally, the interviews with the CEA, the ABI, members of the BIIC and members of EU decision-making institutions substantiated that other Member State insurance industries actively participated in the creation of EU legislation through interest groups.

INSERT FIGURE 2.

There are two general decision-making procedures that can be identified on the model shown in fig 2. These are indicated by arrows A and B; route A considers that demands are formulated through the national legislature prior to formulation at the EU level; whereas route B illustrates demand formulation being compromised at the EU level prior to the involvement of the national legislature. Route A is a stronger intergovernmental approach whereas route B illustrates more of a neo-functional process. Of course the situation is not as clear-cut as depicted and elements of both routes were in use but in general the interviews emphasised route B.

However, the European interest group rarely had any dealings with the national legislature and interaction between the two was undertaken between the national interest group and the national governmental departments, (the DTI in the UK). Consequently, at this point there is intergovernmental involvement even though it is minimal and in most cases the DTI adheres to decisions already made at the EU interest group level. More importantly there is intergovernmental involvement in the Council. However, since the SEA and QMV, this has been minimised because if a directive is to be successful it needs only the support of a majority of Member States, not unanimity.

The interviews illustrate that agreement is sought and usually accomplished at the European interest group level in tandem with the Commission and Parliament. Indeed, if the legislation is being negotiated between the sector through interest group involvement with a supranational institution (EU decision-making institutions) the research has uncovered elements of neo-functionalism. If a compromise is not reached at the EU level, then each Member State industry would pursue its own ideal regulatory environment (as indicated by the matrix) and compromise would be difficult if not impossible to achieve.

To enable successful acceptable legislation at the EU level the interviews and surveys illustrate that both neo-functional and intergovernmental processes need to be at work.

THEORETICAL PROPOSITIONS AND PRACTICAL IMPLICATIONS

As the free movement of services is being attempted and monetary union is no longer perceived as unattainable, more and more difficulties become apparent. Consequently, it becomes ever more necessary for Member States to make mutual concessions; compromise becomes the central factor and any national assertion in the face of the need for pragmatism slows up or destroys the process. However, as the process becomes more intense, agreements are harder to win, as Lindberg indicated,

. . . there is no paradox between the progress of economic integration in the Community and sharpening political disagreement; indeed, the success of economic integration can be a cause of political disagreement. The Member States are engaged in the enterprise for widely different reasons, and their actions have been supported or instigated by elites seeking their own particular goals. Therefore, conflicts would seem endemic as the results of joint activity come to be felt and as the pro-integration consensus shifts [Lindberg, 1963; p 80].

These conflicts may be illustrated through the intergovernmental role in the integration process. As international difficulties with regard to European competitiveness became paramount pressure was put on governments by sectors to enable a true common market in Europe. This engendered the necessity to

agree the SEA and the Maastricht Treaty at the Member State level but also indicated the part played by sectors while pursuing self-interest.

The SEA, the SEM and the Maastricht Treaty create clarity of objectives and what is necessary if these objectives are to be realised. It also becomes necessary for each area to be looked at in the context of its own specifics and this necessitates the involvement of interest groups and sectors. The sword is double edged, what needs to be changed becomes clearer but winning these changes becomes harder. This is the situation the EU is in at the moment in respect of the free movement of services, capital and EMU. This paper considers that Member State sectors are forced to participate in the harmonisation process to ensure that evolving regulations are not completely alien to those with which they already work. This *fait-accomplis* indicates supranationalism and spillover. It is not the EU nor the Member States alone creating and forcing the pace of integration but also the separate sectors of different industries in the different Member States which because of their membership of the EU are forced to deepen and widen integration. This process is at least considered partly neo-functional and partly intergovernmental but the shift is toward the neo-functional aspects with regard to interest group use, supranationalism and spillover: and through these processes greater clarity is created.

The knowledge of national regulatory structures and what is necessary for harmonisation negates turbulence. Indeed, working parameters are drawn up by the actors involved and through the neo-functional processes of spillover and supranationality compromise is reached and integration intensified. However within the process there is an intergovernmental element i.e. The Council of Ministers and the sectors interaction with national governments but as integration intensifies this aspect of the process diminishes and Morgenthau's understanding that political change will be linked to its historical circumstances

is verified (Morganthau, 1973). Effectively, the process of harmonisation is neither purely intergovernmental nor neo-functional but as the paper has sought to illustrate an amalgamation of both and in this context it carries elements of realism and functionalism.

Agreement is sought and usually reached at the European interest group level through interaction with the Commission and Parliament. Indeed, if the legislation is being negotiated by the industry through interest group involvement with a supranational institution (EU decision-makers), the research has uncovered elements of neo-functionalism. If a compromise is not reached at the EU level, then each Member State industry would pursue its own ideal legislation (see Tables) and compromise would be difficult if not impossible to achieve. The proposed legislation that goes to the Council has generally been agreed by the Member State sectors/industries who either progressively or subsequently inform their own government of the situation in relation to the agreed position. During the process there may be disagreements between the Council and the other institutions. However, to enable successful acceptable legislation, the interviews and surveys, illustrate that at the EU level both neo-functional and intergovernmental processes need to be at work.

This paper illustrates a supranational body which, through the use of interest groups, national organisations have partially shifted their allegiances. However, intergovernmental processes are at work in terms of the creation of the Treaties that allow a neo-functional process to take place and the Council still plays a major role in the EU decision-making process. Ultimately, European interest groups and supranationality are employed in the creation of EU legislation (aspects of neo-functionalism): subsequently elements of both intergovernmentalism and neo-functionalism are apparent in the European integration process.

The interviews indicated that in some cases state executives are unable to hold onto sovereignty. Indeed, collectively they are unable to define the agenda ". . . because they are unable to control the supranational institutions they have created at the European level" (Marks and Hooghe, 1997; p 38). Sectors (sub national actors) circumvent the national legislature and directly lobby the EU institutions. It is apparent that decision-making at the European level ". . . is characterised by mutual dependence, complimentary functions, and overlapping competencies" (ibid). In this context, there is an interaction between intergovernmental and neo-functional processes at the EU level. During the 1960s and the 1970s an intergovernmental system was in ascendance and this provided the environment for the state-centric model. However, with the advent of the SEA in the 1980s and the added authority of the EU institutions ". . . a system of multilevel governance arose, in which the activities of supranational and subnational actors diluted national government control" (ibid, p 39). The interviews illustrated that the Member States were ". . . no longer . . . the exclusive nexus between domestic politics and international relations" (ibid). Indeed, sub national actors were making ". . . direct connections . . . in diverse political arenas. Traditional and formerly exclusive channels of communication and influence are being side-stepped" (ibid). Multilevel governance allows interest groups to be involved at both EU and national levels. However, as the interviews and subsequent Decision-Making Model illustrated, when we speak of European legislation, the shift is toward the supranational. Multilevel governance does not confront the sovereignty of states directly. Instead of being explicitly challenged, states in the European Union are being melded gently into a multilevel polity by their leaders and by the actions of numerous sub national and supranational actors. State-centric theorists are right when they argue that states are extremely powerful institutions that are capable of crushing direct threats to their existence. The organi(s)ational form of the state emerged because

it proved an effective means of systematically wielding violence . . . One does not have to argue that states are on the verge of political extinction to believe that their control of those living in their territories has been significantly weakened (Hooghe and Marks, 1997; p 38 author's bracket).

CONCLUSION

In theoretical terms the paper illustrates aspects of both neo-functionalism and intergovernmentalism. Indeed, it identifies multi-level governance as the predominant means of decision-making at the EU level. On a practical level, the paper indicates implications for the financial services sector in relation to participation in the EU decision-making process. Fundamentally, the paper identifies a process in a situation that relates to life insurance and tentatively makes generalisations in respect of other industries within the financial services sector and the professions. Given the predominance of multi-level governance the empirical data implies that if an industry or profession is to have an impact on the formulation of EU legislation it must be involved in the process as early and for as long as possible.

APPENDIX

A Survey of the UK Insurance Industry regarding Interest Group Use.

- (1) Your company used organised interest groups at the European level i.e. the CEA in the formulation of the third life directive.
- (2) Your company used organised interest groups at the national level i.e. the ABI in the formulation of the third life directive.
- (3) Your company uses organised interest groups at the European level for most European issues.
- (4) Your company subscribes to a European interest group.
- (5) Your company subscribes to a national interest group.
- (6) Your company lobbies European institutions when its European interests are affected.
- (7) Your company lobbies the national government when European interests are affected.
- (8) Your company primarily uses interest groups to lobby on its behalf at the European level.
- (9) Your company primarily uses interest groups to lobby on its behalf at the national level.
- (10) Your company prefers to use interest groups at the European level because this allows European sector wide compromises.
- (11) Your company prefers to use interest groups at the national level because this allows nation-wide sector compromises.

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