How Effective is Differentiation in the EU Economic Policy Field?

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Abstract

So far, most research on differentiated integration has focused either on its causes or on its broader consequences for the process of European integration. In contrast, in this paper we apply a public policy approach. Through an analysis of the functioning of various differentiated governance arrangements that exist in the EU economic policy field (particularly governing the EMU, the EU energy sector and the access of third countries into the Single Market) we aim to understand under which conditions differentiated procedures and institutions prove to be effective in attaining the stated objectives and in adjusting to changing circumstances while minimising undesirable effects. Doing so, we make two contributions to the existing scholarship. First, we develop an encompassing and dynamic definition of policy effectiveness that allows us to assess and compare the performance of economic differentiated integration arrangements. Second, we identify a number of institutional factors that positively influence the effectiveness of EU differentiated economic policy arrangements. These include (1) institutional set-ups tailor-made to the policy objectives of the differentiated organisation, (2) unified, simple and clear governance frameworks, (3) adaptable and flexible institutional designs and (4) institutional provisions to include non-participating and third countries. The theoretical framework presented in this paper to study the conditions under which differentiated integration is effective may inspire the research agenda on differentiated integration also beyond the economic policy field.

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Introduction

Following its inception, the gradual broadening and deepening of the European project fostered differentiated integration, for which "the legal boundaries of EU rules [and policies] are not congruent with the boundaries of membership" (Schimmelfennig 2019: 177; for alternative definitions of differentiated integration see Schmidt 2019, Matthijs et al. 2019, Chopin and Lequesne 2016).[1] As Holzinger and Schimmelfennig (2012: 292) have pointed out, in differentiated integration arrangements certain policies only cover a subset of member states (e.g., the Economic and Monetary Union, EMU), other policies include all EU countries and certain third countries (such as the European Economic Area, EEA) while a final group of policies apply to a subset of member states as well as some non–EU member states (e.g., the Schengen regime). Depending on the included and excluded countries inside and beyond the EU, we can thus speak of "internal" and "external" differentiated integration.

From the 1970s to the 1990s, the real-world growth in differentiated integration arrangements also led to increasing scholarly interest. During this period, researchers focused on conceptualising the nature of differentiation and categorising its various empirical manifestations (see Stubb 1996, Lavenex 2011). Starting from the 2000s, academic interest shifted towards explaining the causes of differentiation and studying the implications of using differentiation from the perspective of the overall EU polity (see Kölliker 2001, Holzinger and Schimmelfennig 2012). Scholars applied the different "grand theories" of European integration – neo-functionalism, intergovernmentalism and post-functionalism – to explain processes of differentiated integration and their broader consequences (see Winzen and Schimmelfennig 2016, Schimmelfennig and Winzen 2019). Central research questions in this strand of literature are the conditions under which EU member states opt for or against differentiation, or whether specific differentiation arrangements have centripetal or centrifugal effects that foster further integration or rather endanger the European project. Recently, Brexit has prompted further interest in phenomena of differentiated disintegration (see Schimmelfennig 2018, Leruth et al. 2019, Chopin and Lequesne 2020). As a response, scholars have explored the extent to which differentiated integration can help address EU-wide crises and related reform processes, eventually preventing disintegration (Schimmelfennig 2020).

This paper adopts a different approach. Rather than looking at differentiated integration through the lens of the grand theories of European integration, we study the phenomenon from a public policy perspective (see, for instance, Bali et al. 2019, Compton et al. 2019, Peters et al. 2018, Howlett 2011). Following Lavenex and Križić (2019), we focus on

1 "Differentiated integration is generally taken to mean that, beyond the Single Market, to which all member-states naturally belong, and assuming the non-negotiable requirements that members be democracies that respect the rule of law and accept the *acquis* [*communautaire*], member-states need not all proceed together at the same rate with a uniform set of institutions to converge on the same single array of policies" (Schmidt 2019: 295)."Differentiation in the EU context means the existence of varying institutional rules across states that participate in some EU arrangements" (Matthijs et al. 2019: 211). "Differentiation may be defined as the process that allows some EU member states to go further in the integration process, while allowing others to opt not to do so. It therefore runs counter to the assumption of 'ever closer union' among the member states" (Chopin and Lequesne 2016: 531). In the framework of the EU IDEA project, differentiation is defined as "any modality of integration or cooperation that allows States (members and non-members) and sub-State entities to work together in non-homogeneous, flexible ways" (Lavenex and Križić 2019: 3).

differentiated integration arrangements, understood as a set of specific institutional and organisational arrangements involving several member states, third countries and/or sub-national authorities and aimed at jointly taking and implementing joint decisions in a given policy area. Through an analysis of their functioning, we aim to understand under which conditions differentiated arrangements prove to be effective in attaining the stated objectives and in adjusting to changing circumstances while minimising undesirable effects.

Exploring the performance of differentiated integration arrangements is relevant for several reasons. First, the gradual development of a large variety of EU differentiated institutional arrangements allows us to analyse and compare under which conditions these arrangements seem to work more effectively. Second, despite much discussion about centripetal and centrifugal effects (see Kölliker 2001, Lavenex 2015, Basedow 2018, Schimmelfennig 2019), the empirical reality shows that most differentiated integration arrangements have a tendency to persist over time once they are created. Even in cases where differentiation is conceived as a temporary step forward by an avant-garde group, and intended to progressively cover all of the Union (such as the EMU[2]), in practice this rarely happens. Path dependence (see Pierson 2000) is a key factor explaining such enduring differentiated integration patterns. As explained by Schimmelfennig (2020: 7), "if prior integration has put states on two different paths, sunk costs and endogenous interdependence may propel states onto divergent integration trajectories and increase the costs of changing paths". Finally, recent EU crises and their management suggest that radical scenarios of further EU integration or complete disintegration are unlikely. What we have learnt over the past decades is that the EU tends to muddle through crises through path-dependent and incremental responses instead of taking radical shifts towards major reforms (see Aizenman 2015, Crespy 2020). Thus, in those areas in which differentiation was a reality (such as in the EMU or in Schengen), the response to the crisis has been more differentiation, or a different type of differentiation (e.g., its deepening) rather than less differentiation.

To investigate the effectiveness of different types of differentiated integration arrangements, we focus on the EU economic policy field. The wide variety of differentiated arrangements in this area allows us to analyse differentiated institutions and procedures with a varying degree of institutionalisation, covering forms of internal and external differentiation, and with diverse policy objectives. The differentiated integration arrangements under analysis include arrangements governing the EMU, institutions and procedures governing sub-areas of the Single Market (particularly in the energy sector), as well as the complex arrangements structuring third countries' participation in the Single Market.[3]

2 When the EMU was set up, both the United Kingdom and Denmark negotiated an opt-out. With the British EU departure, only Denmark possesses an opt-out, while all other EU member states are supposed to join the euro as soon as they fulfil the economic criteria for its adoption. Countries such as Sweden have nevertheless decided not to join the euro.

3 Pilati and De Angelis (2020) on the EMU, Mack (2020) on Banking Union, Eisl (2020b) looking at external access to the Single Market, and Franza et al. (2021) on the energy sector.

The paper is structured as follows. Section one discusses the literature on differentiation and policy effectiveness. It highlights the lack of a public policy perspective in studying effectiveness in the existing scholarship, analyses the few contributions that have dealt with this issue and provides a summary of their explanations for the varying performance of policies in differentiated integration arrangements. In section two, we conceptualise our understanding of policy effectiveness, moving from a narrow to an encompassing definition, from a static to dynamic one, and highlight the need to take into account side-effects when assessing policy effectiveness. Section three presents our comparative and inductive approach to study the effectiveness of various differentiated integration arrangements in the EU's economic policy field. It draws on four studies that provide most of the empirical materials used in this paper and summarises their different notions of policy effectiveness. Drawing on a public policy approach, section four identifies four institutional factors influencing the policy performance in differentiated arrangements: (1) institutional set-ups that fit to the policy objectives of differentiated organisations, (2) unified, simple and clear governance frameworks, (3) adaptable and flexible institutional designs and (4) institutional provisions to include non-participating and third countries. We find that policy "success" is higher for differentiated integration arrangements that are adapted to its objectives, that are based on unified, simple and clear institutional frameworks, that allow for dynamic adaptations in the face of changing circumstances and that pay attention to the inclusion of non-participants and the balance between them to minimise inter-group externalities. The concluding section summarises the key messages of this paper and provides some policy recommendations to improve the policy effectiveness of differentiated integration arrangements in Europe.

1. The existing literature on differentiation and policy effectiveness

As explained above, while much research on differentiation has explored the reasons why member states opt for differentiated solutions, comparatively fewer studies have investigated the consequences of using differentiated integration. Among the latter, the focus has mostly been on the impact of differentiation for the EU as a polity, that is, whether differentiated integration leads to further EU integration, creates new dynamics between EU institutions or member states or poses new challenges to the European project. Some scholars have also investigated the relationship between differentiated integration and collateral aspects directly or indirectly influencing policy effectiveness, such as the accountability mechanisms (Zeitlin and Brito Bastos 2020), the perceived substantive and procedural fairness (Bellamy and Kröger 2019) or the dynamics of power dominance and fragmentation (Eriksen 2018, Fossum 2020, Neuwahl 2020).

To our knowledge, there are very few studies that explicitly engage both theoretically and empirically with the relationship between differentiated integration and policy effectiveness. Zhelyazkova (2014) focuses on the link between internal differentiated

integration and national conformity with EU legislation. She compares the level of national compliance with EU law between fully participating, selectively participating and non-participating member states in differentiated integration arrangements. This is done by analysing the implementation of ten EU directives in the policy area of asylum and immigration adopted in the period 2001–2004. Zhelyazkova concludes that selective participants (that is, countries that do not participate in the whole policy domain but can legally commit to specific EU laws by opting-in) show more conformity with EU laws than is the case for non-participating countries (opting-out). Yet, "opt-in" countries are still less likely to correctly and timely implement EU laws they have committed to implement than fully integrated member states. The author provides some tentative explanations for this gap. First, according to Zhelyazkova (2014: 743), "opting-in countries are less sensitive to the Commission's signal of enforcement through the use of infringement proceedings. [Second], the effect of domestic opposition to policy implementation is stronger for selective participants".[4] These hypotheses point towards institutional and country-specific factors as opting-in countries are less sensitive to institutional pressure for rule compliance than full participants, while domestic opposition to rule compliance is more relevant for selective participants.

Through a detailed assessment of the functioning of the European Economic Area (EEA),[5] Frommelt (2017) explores the factors that influence the effectiveness of external differentiated integration arrangements. For the purpose of his study, he defines effectiveness "as homogeneity, which is the main goal laid down by the EEA Agreement, and therefore an essential part of a well-functioning relationship between the EU and the EEA EFTA states" (Frommelt 2017: 4).[6] In the framework of the EEA, he argues, homogeneity in EU and EEA legislation serves to guarantee a level playing field between the participating countries. This can be achieved "by consistent selection, timely and complete incorporation and correct application of EEA relevant EU legislation by the EEA EFTA states" (Frommelt 2017: 4). Frommelt (2017: 5) identifies three types of factors that may influence the effectiveness of the EEA: (1) policy-specific factors (related to the characteristics of the EU act being adopted and implemented), (2) institutional factors of the EEA and (3) country-specific factors (such as a country's political power or administrative capacity). First, he considers policy-related factors such as institutional incompatibility, functional ambiguity, political salience and regulatory misfit to be negatively correlated with policy effectiveness, while he suggests that economic interdependence might be positively related to effectiveness (Frommelt 2017: 131). Second, he proposes that institutional factors such as access to EU policy-making, mutual understanding and inter-institutional dialogue, institutional capacity and inter-country collaboration should improve effectiveness in the context of the EEA (Frommelt 2017: 139). Finally, he also discusses country-specific factors such as countries' bargaining power and power of participation, their capabilities and resources, their efficient

4 Zhelyazkova (2014: 743) acknowledges that the effect of domestic opposition to policy implementation "is driven by one single case, which creates uncertainty about the reliability of this finding".

5 The EEA includes the EU27 and the three non-EU countries Norway, Iceland and Liechtenstein.

6 EFTA stands for the European Free Trade Association.

administration of EEA matters and the domestic legitimacy of the EEA as positively correlated with policy effectiveness (Frommelt 2017: 110ff). Frommelt's analysis particularly highlights various weaknesses in the EEA's institutional architecture that have led to delays in or incomplete implementation of EU laws in EEA European Free Trade Association countries. Frommelt also points out the importance of some policy-related factors. For instance, highly salient EU acts are correlated with more implementation problems because they are likely to be scrutinised more thoroughly by EEA EFTA states before incorporating them into the EEA Agreement. In contrast, EU acts of high economic relevance for the functioning of the EEA will be more easily implemented.

One of the most ambitious contributions to reflect on the relationship between differentiated integration and policy effectiveness to date has been provided by Lavenex and Križić (2019), albeit as a mainly theoretical exercise. Drawing on research on international regimes and the performance of international organisations (Lavenex and Križić 2019: 10), the authors develop an analytical framework which serves to lay out several hypotheses on how differentiated integration arrangements may affect policy performance. They conceptualise policy effectiveness by distinguishing between three dimensions: output, outcome and impact. Output is defined as the extent to which "the specific tasks and narrow functions the organization is intended to perform […] are successfully carried out" (Gutner and Thompson 2010: 235, cited by Lavenex and Križić 2019: 12). Outcome is defined as "whether the institution (through its policy output) affects the behaviour of target groups, i.e., whether the latter implement agreed-upon output and comply with it" (Lavenex and Križić 2019: 13). Impact refers to the extent to which "the overall objectives enshrined in an institution's mandate are met" (Lavenex and Križić 2019: 13). The authors consider this last dimension as "arguably the most intuitive form of studying effectiveness as it reflects the common definition that effectiveness is about whether an institution solves the problems that led to its creation" (Lavenex and Križić 2019: 13).

Based on the broader scholarship, but without an empirical test, Lavenex and Križić (2019: 14ff) discuss three factors that could affect the effectiveness of differentiated integration arrangements. Among these are (1) the character of the issue area, (2) institutional explanations and (3) power-based explanations. First, referring to the work of Kölliker (2001), they argue that differentiation is more effective when the benefits of cooperation can be confined to those who participate in the differentiated framework. In other words, differentiated policies that allow for "free-riding" of non-participating countries undermine the effectiveness of differentiated integration arrangements. Second, the authors stress the importance of stringent institutional arrangements, stating that differentiated integration "mechanisms with a strong regulatory dimension are more likely to ensure member compliance, which, in turn, should enhance the prospects of problem solving" (Lavenex and Križić 2019: 16). In addition, they "expect that domestic institutional capacity influences the effectiveness of [differentiated integration] frameworks" (Lavenex and Križić 2019: 16). Finally, Lavenex and Križić (2019: 17) suggest that the effectiveness of differentiated integration arrangements depends on their support by powerful EU member states.

Table 1 summarises the various explanations for the variation in effectiveness across a range of policy areas and forms of differentiation, which have informed our inductive approach to studying policy effectiveness.

Table 1 | Explanatory factors for policy effectiveness in the context of differentiated integration arrangements discussed in the literature

Study	Zhelyazkova (2014)	Frommelt (2017)	Lavenex & Križić (2019)
Policy-specific factors	-	• Institutional incompatibility • Functional ambiguity • Political salience • Regulatory misfit	Character of the issue area (excludability)
Institutional factors	Sensitivity to institutional pressure for rule compliance	• Access to EU policy-making • Mutual understanding and inter-institutional dialogue • Institutional capacity • Inter-country collaboration	• Stringency of institutional mechanisms • Domestic institutional capacity
Country-specific factors	Domestic opposition to rule compliance	• Bargaining power and power of participation • Capabilities and resources • Efficient administration of EEA matters • Domestic legitimacy of the EEA	Importance of powerful member states

Source: Own depiction based on the studies of Lavenex and Križić (2019), Frommelt (2017) and Zhelyazkova (2014).

2. Conceptualising policy effectiveness

While providing useful insights for our analysis, the way in which these various studies conceptualise policy effectiveness has a tendency to be both too narrow and too static. We suggest that a more encompassing definition of policy effectiveness, going beyond the enforcement of EU-level rules at the national level, more adequately reflects various differentiated integration arrangements in the EU's economic policy field. In addition, we consider that the scholarship should move towards a more dynamic understanding of policy effectiveness, challenging the notion that differentiated organisations have clear mandates and respond to commonly agreed, fixed and well-articulated objectives, which translate into specific tasks and functions the organisation has to perform.

2.1 From a narrow to an encompassing approach to policy effectiveness

In our view, a narrow vision of policy effectiveness contrasts with the reality of today's public policy-making. In many policy fields, there is no consensus about the nature of the problem to be solved (Howlett and Mukherjee 2018). This typically translates into the creation and maintenance of – sometimes multiple – organisations endowed

with vague mandates and multiple and sometimes conflictual goals. In these cases, assessing the performance of an organisation or a governance arrangement is a difficult task, which will inevitably include a degree of subjectivity. It will depend on how the researcher defines the nature of the problem to be addressed and how she hierarchises the multiple goals of an organisation or governance arrangement.

Even when there is a consensual view on the problem to be solved, many of the contemporary problems are complex and have no clear solutions (Peters 2017). As a result, the objectives of the organisation are defined in a broad and open way, such as fostering mutual learning and enhancing the capacity to anticipate how an approximate solution can be realised (Bali et al. 2019). This is particularly the case for certain differentiated arrangements, which are initiated by a "coalition of the willing" consisting of actors desiring to work together in a certain policy area in a rather informal way. For these organisations, rule compliance is not a good indicator of performance. Besides, in face of strategic uncertainty, many of today's public organisations rely more on experimental and flexible modes of governance than on the classic enactment and enforcement of common rules. This is particularly the case at the EU level. As pointed out by Zeitlin (2016: 1073), EU governance in many areas takes "the form of an experimentalist decision-making architecture, based on a recursive process of framework goal-setting and revision through comparative review of implementation experience in diverse local contexts, which is well adapted to the Union's turbulent and polyarchic environment". Examples of EU experimental governance are found in areas as diverse as financial regulation, the energy sector or the EU cohesion policy (Gänzle 2016). In some cases, differentiation is itself used as a form of experimentation. In his study of the EU's electricity regulation, for instance, Rangoni (2020: 4) shows that the diversity in policies caused by differentiated integration, often furthered through experimentalist processes, did "actually le[a]d to the generation of gradually more uniform rules" on higher governance levels. He points out that "prompted by environmental volatility and aware of persistent diversity, policy actors made provisions to monitor and learn from such lower-level diversity in order to review and revise higher-level rules", often in a rapid and frequent manner "based on regular review of implementation experience" (Rangoni 2020: 38, 39).

2.2 The need to take into account side-effects

The studies on public policy evaluation also show that there may be different ways of defining and evaluating the success of a policy or a public organisation, which are not necessarily mutually exclusive (McConnell 2013). Success can be defined as the fulfilment of predefined goals but also as an improvement with respect to a prior state of affairs or achieving more than another comparable jurisdiction.

Besides, public interventions may produce other things than intended results. These can be positive side-effects which, if well measured and incorporated through feedback, may lead to adjustments to the policy. Conversely, a policy can also create negative or perverse effects which may even run contrary to the intended objectives of the intervention (Vedung 2013).

In the case of differentiated integration organisations or arrangements, empirical studies show the existence of some unintended positive effects. Vos and Weimer (2016: 35), for example, demonstrate that successful invocations of opt-outs in the fields of public health and environmental protection have, in some cases, "ultimately triggered a process of further harmonisation at the EU level aiming to remove the regulatory disparities among the Member States". They further state that "it seems that it is not coincidental that the approval of the derogations resulted in the adjustment of the EU rules at the higher level of protection, pushed for by the derogating Member States" (Vos and Weimer 2016: 36).

Differentiated policies may also have negative side-effects. A "typical" negative externality arises when a specific differentiated integration arrangement differs in its policy vision and actions from the whole EU-level policy direction, thus creating problems of incoherence. The establishment of the differentiated arrangement may also create what we call inter-group externalities, that is, tensions between "ins" (countries participating in the arrangement) and "outs" (non-participating member states). This may be the case, for instance, if the non-participating states perceive the distribution of costs and benefits between the two groups as unfair.[7] External differentiated integration can also create negative externalities for non-participating third countries (see Eisl and Fabry 2020). Another typical negative effect of external differentiated arrangements is distortions in the functioning of the Single Market, when there are imbalances in the rights and obligations of third countries accessing the Single Market (see Eisl 2020b, Eisl and Fabry 2020). To be effective, a differentiated arrangement should be able to address such negative inter-group externalities by having the capacity to prevent, resolve or mitigate them.

2.3 A dynamic definition of policy effectiveness

In a world increasingly shaped by rapidly changing circumstances, the effectiveness of public action also depends on the capacity of public actors to adapt to them, calibrating the objectives and instruments to respond to new or altered problems. This "notion of 'dynamic' policy effectiveness", as Bali et al. (2019: 3) have put it, "requires designers to accommodate for turbulence and uncertainty in policy environments, and policy 'surprises' through feedback mechanisms and procedures that allow for automated or semi-automated calibrations to be made". Similarly, Compton et al. (2019: 122) have argued that any evaluation of the effectiveness of a public policy cannot be reduced to a single point of time, as

> contexts change, unintended consequences emerge, surprises are thrown at history: robustly successful policies are those that respond to these dynamics through institutional learning and flexible adaptation in program (re)design and delivery, and through political astuteness in safeguarding supporting coalitions and maintaining public reputation and legitimacy.

7 It is important to notice that whether a differentiated integration arrangement creates tensions between "ins" and "outs" is different from the question of whether it has centripetal or centrifugal effects (that is, whether it has a tendency to expand and include new members, or to lose some of the participant members).

Again, this capacity to adjust to circumstances is also important for differentiated integration arrangements. The EMU would not have survived the eurozone crisis (nor the current covid-19 crisis) had EU leaders and institutions, such as the ECB (European Central Bank), not understood the need to reform the existing policies and procedures to respond to the new challenges and needs. As Frommelt (2017: IV) has pointed out, dynamism is also crucial for a well-performing external differentiation arrangement. This is because the "extent and effectiveness of the EEA EFTA states' integration with the EU are continuously being redefined due to the incorporation or non-incorporation of new EU legislation into the EEA Agreement".

3. Measuring the impact of differentiation on policy effectiveness

3.1 A comparative and inductive approach

As interviews with various politicians in the framework of the research project have shown, differentiated integration is – most of the time – not the instrument of choice but rather a second-best alternative where unanimity requirements block a unified advancement of specific policy areas. From the perspective of political actors, it is thus often less pertinent to assess whether differentiated integration arrangements are more or less effective than non-differentiated solutions, and more relevant to evaluate and compare the policy effectiveness of various types of potential differentiated solutions.

In line with these reflections and based on our encompassing and dynamic understanding of policy effectiveness, our empirical approach to analyse the performance of differentiated integration arrangements is built on several qualitative case studies in the EU's economic policy field. The empirical materials include semi-structured interviews with policy-makers and public officials, documents such as treaties, agreements, publicly available documentation on negotiations and implementation, as well as other written sources such as newspaper articles and press releases. We consider a qualitative approach as best suited to handle different definitions of policy effectiveness. Our research is influenced by the hypotheses developed in the literature about the factors affecting the performance of differentiated integration arrangements (as discussed in the literature section), but the analysis of the empirical materials is mainly an exploratory inductive exercise. This approach allows us to go further than the existing research, while providing enough space to look for additional explanations.

3.2 Empirical materials

The empirical findings of this paper draw on the analyses of 16 differentiated integration arrangements in the EU economic policy field that were conducted in four studies in the framework of the research project EU IDEA (Pilati and De Angelis 2020, Mack

2020, Eisl 2020b, Franza et al. 2021). They cover major parts of the EMU, specific parts of the financial sector and the energy sector, and various institutional arrangements providing third countries access to the Single Market. EMU arrangements include monetary policy arrangements (the ECB), rules and procedures for fiscal surveillance (the Stability and Growth Pact and the Fiscal Compact), differentiated institutions providing financial assistance for euro area member states (the European Stability Mechanism) and rules and procedures for macroeconomic policy coordination (the European Semester and the macroeconomic imbalance procedure) (Pilati and De Angelis 2020). The analysis of the financial sector focuses on the arrangements and institutions included in the Banking Union, that is, the Single Supervisory Mechanism, the Single Resolution Mechanism and the Single Resolution Fund (Mack 2020). The research on external access to the Single Market includes various arrangements such as the European Economic Area, the EU-Swiss bilateral agreements, the EU Customs Union with third countries, deep comprehensive free trade areas (DCFTAs), stabilisation and association agreements (SAAs) and comprehensive free trade agreements (Eisl 2020b). The study on the energy sector, finally, centres on three differentiated integration arrangements, the Energy Community, the Pentalateral Energy Forum and the Covenant of Mayors (Franza et al. 2021). Table 2 provides an overview of these various arrangements. They were selected to include internal and external differentiation, national and sub-national differentiation and various institutional and organisational set-ups, with different degrees of formalisation and institutionalisation, and based on diverse regulatory and organisational rules and practices. In addition, there is wide variation of the meaning of effectiveness across the different policy areas and also the key challenges for policy effectiveness vary significantly.

This diverse case selection strategy (see Gerring 2007, Gerring and Cojocaru 2016) to maximise variation across several key elements of differentiated integration arrangements is useful to explore the diversity of existing forms of differentiation and derive hypotheses about the factors influencing policy effectiveness. As said above, we take into account various explanations for effectiveness from the literature (e.g., Lavenex and Križić 2019, Frommelt 2017, Zhelyazkova 2014) but our study is of a largely exploratory nature, engaging in an inductive manner with the empirical materials collected in the case studies. We thus do not systematically refer back to all individual case studies when presenting our hypotheses, but present selected empirical evidence to underline the validity of our arguments.

Table 2 | Analysed differentiated integration arrangements in the EU economic policy field based on four policy studies

Policy study	Pilati & De Angelis (2020)	Mack (2020)	Eisl (2020)	Franza et al. (2021)
Policy area	EMU	Financial sector	Single Market	Energy sector
Studied differentiated integration arrangements	Monetary policy (ECB), Fiscal surveillance (Stability and Growth Pact, Fiscal Compact), Financial assistance (European Stability Mechanism), Policy coordination (European Semester, Macroeconomic Imbalance Procedure)	Single Supervisory Mechanism, Single Resolution Mechanism, Single Resolution Fund	EEA, EU-CH bilateral agreements, Customs Unions, DCFTAs, SAAs, Comprehensive FTAs	Energy Community, Pentalateral Energy Forum, Covenant of Mayors
Internal / external	Internal	Internal	External	Internal + External
Government level	National	National	National	National + Sub-national
Degree of formalisation	High	High	High to Low	High to Low

Source: Own analysis based on research on the EMU (Pilati and De Angelis 2020), the financial sector (Mack 2020), third country access to the Single Market (Eisl 2020) and the energy sector (Franza et al. 2021).

3.3 Different (perceived) notions of policy effectiveness

In line with our encompassing and dynamic approach to policy effectiveness, the various case studies on which this paper draws provide tailored definitions of policy performance or success to evaluate the impact of differentiated integration arrangements. These definitions are based on the researchers' particular interpretations of the problem to be solved, the objectives of the differentiated arrangement and/or the expectations as regards the capacity to adjust to changes or to address inter-group externalities (see Table 3).

Pilati and De Angelis (2020: 12) provide information on the extent to which EMU arrangements have fulfilled their intended goals (e.g., keeping inflation close to 2 per cent or public deficits below 3 per cent) but take a broader problem-solving approach to analyse their performance. Their main goal is to "analyse effectiveness by exploring the extent to which the introduction and/or reform of these differentiated arrangements has strengthened the functioning of the EMU and/or reduced its vulnerabilities". Mack (2020: 4) takes particular account of inter-group externalities when looking at the performance of the arrangements compounding the Banking Union. He explores whether "the creation of the Banking Union [has] been effective in promoting integration among its members ('problem-solving capacity') while strength-

Table 3 | (Perceived) policy effectiveness of the studied differentiated integration arrangements in the EU economic policy field

Policy study	Pilati & De Angelis (2020)	Mack (2020)	Eisl (2020)	Franza et al. (2021)
Policy area	EMU	Financial sector	Single Market	Energy sector
Regional cooperation	Strengthen the functioning of the EMU, reduce its vulnerabilities Lay the path for the adoption of the euro by basically all member states Monetary policy: Ensure monetary dominance and follow an inflation target of close to 2 per cent Fiscal surveillance and financial assistance: Ensure rule compliance and provide support for countries in need in exchange for conditionalities Policy coordination: Ensure coherent EU-wide fiscal policies to support monetary policy-making and economic prosperity across member states	Problem-solving capacity of the Banking Union Break the sovereign-bank nexus ("doom loop") Foster financial stability by improving prudential supervision, avoiding public bailouts of credit institutions and protecting bank depositors Strengthening the Single Market, avoiding economic distortions or political fragmentation	Provide third countries (with partial) access to the European Single Market Foster long-term integration and cooperation between the EU and third countries For some forms of external economic differentiation: Lay the foundations for EU accession	Promote energy policy goals of affordability, security of supply and sustainability Energy Community: Create an integrated pan-European energy market across the borders of the EU Pentalateral Energy Forum: Promote cooperation between north-western European Transmission System Operators Integrate electricity (and gas) markets Discuss cross-border trade issues to improve security of delivery and system adequacy Covenant of Mayors: Reduce their CO_2 emissions by at least 40 per cent Increase their resilience to the impacts of climate change Take action to alleviate energy poverty

Source: Own analysis based on the studied differentiated integration arrangements in the EU economic policy field as part of the research project EU IDEA.

ening the Single Market and avoiding economic distortions or political fragmentation". Eisl (2020b: 3) assesses the effectiveness of the various agreements providing third countries access to the Single Market by taking a dynamic approach. He defines policy effectiveness as "the capacity to foster long-term integration and cooperation". In their analysis of the energy sector, Franza et al. (2021) view effectiveness as the (gradual) attainment of predefined objectives. They look at "how differentiated integration in the energy field is effective in promoting the three key EU energy policy goals of affordability (or economic competitiveness), security of supply and sustainability (or decarbonisation)" (Franza et al. 2021: 4).

4. Which factors influence the effectiveness of differentiated integration arrangements?

A focus on institutional factors

As further developed in the following subsections, our case studies seem to indicate that the policy effectiveness of differentiated arrangements is very much influenced by institutional factors. We highlight several features of institutional frameworks governing differentiated integration arrangements that we deem particularly relevant for achieving and preserving good policy performance.

First, which institutional set-up is appropriate for effectiveness depends on the concrete objectives of a differentiated arrangement. Policy success is not necessarily related to the degree of institutionalisation or formalisation. Instead, it crucially depends on how much the institutional design "fits" with the policy goals of the organisation. The goals can be the implementation of some common EU rules or the adoption and enforcement of joint decisions, but can also be the exchange of information and the promotion of mutual learning on how to address a common problem. Second, a key concern for policy effectiveness is the degree of institutional complexity and fragmentation. Many differentiated integration arrangements are characterised by an overly complex architecture of rules and procedures, which hampers their effectiveness. The existence of various arrangements for the same policy areas also creates problems of coherence. Unified, simple and clear governance frameworks generally are better suited to achieve policy effectiveness. Third, the adaptability and flexibility of institutional frameworks is also key to ensure policy effectiveness. Institutional mechanisms that facilitate more dynamic adjustments are better suited to avoid problematic path dependencies and keep differentiated integration arrangements performing well. Finally, differentiated integration arrangements are more effective when they include specific provisions to prevent or mitigate potential negative side-effects to non-participating countries.

Before delving in more detail into these four identified factors, we want to highlight that these might not be the only (decisive) ones affecting the performance of differentiated arrangements. Nevertheless, they were the factors that we could identify most consistently across the wide range of analysed differentiated integration arrangements in the EU economic policy field.

4.1 Institutional fit with the policy objectives of differentiated organisations

A key empirical finding from our case studies is the importance of having an institutional set-up that fits with the objectives of an organisation. As said above, these can be very different, ranging from the adoption and implementation of joint decisions to the promotion of experimentation or mutual learning. Each of these various objectives requires a different type of institutional set-up, more stringent in the first case and more informal in the second. This nuances the hypothesis of Lavenex and Križić (2019: 16) which postulates that more stringent institutional frameworks should lead to better policy performance (e.g., based on the legal quality of agreements).

In their comparative analysis of differentiated integration arrangements in the energy sector, Franza et al. (2021: 3) highlight their diversity in terms of "objectives, types of regulatory commitment, level of engagement of EU institutions and organisational features". Their three case studies of the Energy Community, the Pentalateral Energy Forum and the Covenant of Mayors "demonstrate that [differentiated integration] arrangements with very different degrees of institutionalisation, binding nature of the rules, membership, mandate and so on can all contribute to effectiveness. There is no 'one size fits all' approach in differentiation" (Franza et al. 2021: 18). Franza et al. (2021: 3) show that in the three studied cases there are different underlying logics inspiring the set-up of differentiated arrangements: whereas the Covenant of Mayors follows a "coalitions of the willing" approach, the Energy Community adheres to an "enhanced regional cooperation" approach and the Pentalateral Energy Forum carries features of both approaches. As Franza et al. (2021: 7) put it,

> coalitions of the willing emerge from the ambition to incentivise a faster pursuit of EU energy objectives by countries or sub-national actors that show higher-than-average levels of ambition. These [differentiated arrangements] will probably tend to rely predominantly on soft power and soft law, i.e., attempts to 'lead by example' through persuasion rather than coercive means.

Regional cooperation mechanisms, on the contrary, "are likely to emerge from the need to enhance coordination among interdependent countries" (Franza et al. 2021: 3). They have a stronger focus on rules compliance.

We want to highlight the importance of identifying the most fitting institutional set-up for the specific objectives laid out by the involved partners. This does not necessarily imply that a more stringent institutional set-up performs well in terms of policy effectiveness. Franza et al. (2021) have highlighted this in their cases studies. First, they consider that the flexibility and low degree of institutionalisation of the Pentalateral Energy Forum has helped to reach consensus on sectoral cross-border integration (Franza et al. 2021: 13). Second, they point out that the bottom-up approach of the Covenant of Mayors, based on voluntary participation, has facilitated "the capacity to attract new members and make sure that each one can undertake policy implementation and problem-solving as it sees fit" (Franza et al.

2021: 16).[8] In their view, differentiation actually allows for policy effectiveness as it enables towns and cities of different sizes (implying varying degrees of technical capacities) and in different circumstances (in geographical, political, economic, social and environmental terms) to advance policies in an adapted manner (Franza et al. 2021: 16, 17).

4.2 Unified, simple and clear governance frameworks

Complexity and the fragmentation of institutional frameworks can be a key factor hampering the effectiveness of differentiated arrangements. This is highlighted as a particular problem in the EMU case study (Pilati and De Angelis 2020) as well as in the analysis of external economic differentiation arrangements (Eisl 2020b). Complexity and fragmentation in an institutional set-up can be linked to the objectives, to the policy instruments used to attain these objectives, or to the procedures to implement these instruments.

A prime example of institutional complexity and fragmentation is the European fiscal framework, which is a central feature of European fiscal policy surveillance and coordination (Bénassy-Quéré et al. 2018, Deroose et al. 2018, Eyraud et al. 2018, Feld et al. 2018, Blanchard et al. 2020, EU IFIs 2021). Developed over the course of the last three decades, the European set of fiscal rules and institutions has grown increasingly complex. As Deroose et al. (2018) elaborate,

> there are multiple substantive rules (headline balance, structural balance, public expenditure, debt), mirrored by different indicators for measuring compliance with them and including several clauses allowing for derogations. The implementing procedures (preventive arm and corrective arms of the Pact, ex ante and ex post assessments) are equally complex.

In addition, the Fiscal Compact includes the obligation for member states to introduce national fiscal rules. Inconsistencies and contradictions between the European fiscal framework and these national fiscal frameworks can arise when modifications differ between these two governance levels (Deroose et al. 2018).[9]

Institutional complexity and fragmentation in EU fiscal policy surveillance and coordination are, for several reasons, a problem for policy effectiveness. First, the existence of several – and potentially contradictory – rules and instruments can "blur the key requirements" or open up "opportunities for 'cherry-picking'" (Deroose et al. 2018, see also Sheingate 2010). This also applies to the inconsistencies that can

8 As Franza et al. (2021) discuss, the low degree of institutionalisation of the Covenant of Mayors also carries some limitations.

9 Similarly, problems for policy effectiveness can also arise when there are inconsistencies in differentiated integration arrangements between the national and the sub-national level (see the case study on the Covenant of Mayors by Franza et al. 2021).

arise between the fiscal frameworks at the European and the national level.[10] Even when policy-makers attempt to adhere to the European fiscal framework, compliance with a multitude of partially inconsistent rules can make overall rule compliance challenging (Eyraud et al. 2018: 11). Second, as Pilati and De Angelis show, the fact that parts of fiscal surveillance are governed in a supranational manner (e.g., the Stability and Growth Pact), while others are based on an intergovernmental treaty, such as the Fiscal Compact, creates further complexity and increases fragmentation (Pilati and De Angelis 2020: 3). According to them, "the intergovernmental approach to the creation of new instruments [such as the Fiscal Compact] should be avoided, as it increases the complexity of procedures and legal actors" (Pilati and De Angelis 2020: 19).[11]

Also for third-country access to the Single Market, institutional complexity and fragmentation constitute a major challenge for policy effectiveness. As the comparative analysis of Eisl (2020b: 10) shows, "complex and fragmented institutional frameworks hamper the timely adoption of decisions and increase opportunities for the exploitation of ambiguities and incoherencies in their institutional set-up, potentially compromising the adequate functioning of agreements". Interviews with policy-makers from the European level and countries that participate in external economic differentiation highlight that particularly those arrangements that are based on a multitude of different agreements and lack a unified governance framework (such as the EU-Swiss bilateral agreements, see e.g. Vahl and Grolimund 2006, Jenni 2015) pose difficulties for policy effectiveness. Rules not only need to be complied with but also have to be interpreted and enforced. If the mechanisms and institutions that are assigned to perform such functions are complex "this might lead to varying interpretations of Single Market rules across different policy fields, threatening the homogeneity of the market inside and across different forms of external economic differentiation" (Eisl 2020b: 10, see also Eisl and Fabry 2020). Another example of third-country access to the Single Market that suffers from excessive complexity is the DCFTA between the EU and Ukraine (Van der Loo 2016), where a "high degree of variation in the depth of market access across different and often very precise sub-policy areas" leads to "lengthy discussions between the EU and Ukraine about the interpretation of new legislation and whether it is covered by the topics and obligations of the agreement" (Eisl 2020b: 11). Beyond this issue of horizontal inconsistencies, the absence of a unique rule arbiter such as the European Court of Justice or a competent joint committee to decide on disputes over legal interpretation can equally create problems for policy effectiveness.[12] As different

10 In some countries, the evolving interpretation of the European fiscal framework was not followed by adaptations in national rules, which "has complicated the tasks of all players involved and allowed certain member states to ease the more stringent commitments that stemmed from national rules, thereby undermining their credibility" (Deroose et al. 2018). Overdevest and Zeitlin (2014: 22, 23, see also Alter and Meunier 2009) call such political behaviour "strategic inconsistency", which is a negative side effect of what they call "regime complexity" in transnational governance.

11 Institutional complexity and fragmentation also undermines accountability mechanisms, as it is often not clear which organisation or actor is responsible for which policy actions. This can, subsequently, also negatively influence policy effectiveness.

12 As in the case of Switzerland, such shortcomings are sometimes resolved informally, where "the Swiss Federal Tribunal refers for legal interpretation to the superiority of international law over national law" (Eisl 2020b: 10). This, however, cannot fully compensate for more formalised and

authors have pointed out, such institutional complexity and fragmentation might contribute to "lengthy decision-making procedures" (Frommelt 2017: 238) which pose problems for the timely implementation and modification of agreements between the EU and third countries (Eisl 2020b: 11 on the case of the EU-Ukraine DCFTA, see also Van der Loo 2016).

For both the EMU and arrangements governing third-country access to the Single Market, proposed solutions for reducing the complexity and fragmentation of institutional frameworks and improving policy effectiveness are similar. Discussions on the reform of the European fiscal framework, which have intensified since 2018 and especially with the covid-19 crisis, circle – amongst other issues – around the question of how to render the set of fiscal rules and institutions simpler (Blanchard et al. 2020, Thygesen et al. 2020, Martin et al. 2021). While the various propositions still differ substantially and the political negotiations have not yet started in earnest, there is growing consensus on significantly reducing the number of fiscal rules to improve policy effectiveness.[13] Similarly to these proposals, experience with the various existing forms of economic external differentiation suggest that simpler and less fragmented agreements with third countries are more effective. Recent reform efforts of the EU mirror this insight, attempting to renegotiate institutional frameworks to allow for the dynamic integration of the evolving EU *acquis* in individual agreements, to include mechanisms for uniform interpretation and implementation, and to base them on uniform, single and clear governance frameworks (Eisl 2020b: 12f).

Both the EMU fiscal rules and procedures and the arrangements governing third-country access to the Single Market are primarily intended to secure compliance of member states and/or third countries with EU rules. In this type of differentiated arrangements, overly complex and ill-designed rules and fragmented procedures to interpret and enforce these rules clearly hamper the effectiveness of the mechanisms. For differentiated integration arrangements with different objectives, as inside the energy sector, the negative effects of complexity and fragmentation seem to be comparatively lower but are not absent either. The policy effectiveness of the Covenant of Mayors for example, which is a sub-national level organisation, is hampered by the lack of political coordination of policy actions between the cities/towns and the national governments (Franza et al. 2021: 17). Institutional means to improve political coordination would be helpful to counter such fragmentation.

4.3 Adaptable and flexible institutional designs

Another finding from the case studies is the importance of institutional differentiated arrangements being readjusted and adapted over time in response to changes in the economic, political, social and environmental context (Deroose et al. 2018).

institutionalised forms of arbitration.

13 Many scholars suggest to replace the multiplicity of rules with a debt anchor (focusing on the medium- to long-term debt sustainability of member states) which is subsequently broken down into an operationalisable expenditure rule providing short- to medium-term limits to the growth of public expenditures in line with a "sustainable" public debt trajectory (see, for instance, European Fiscal Board 2019).

Adaptations might also be necessary as the result of learning processes, when shortcomings in the functioning of specific policies are identified through policy feedback (see Compton et al. 2019: 124).

Various case studies show that the ability to adjust arrangements to changing circumstances has been crucial to guarantee policy performance over time. Pilati and De Angelis (2020), for instance, discuss the reforms introduced in EMU governance in response to the eurozone crisis. Even with some limitations, they conclude that after these reforms "the EMU emerged less vulnerable to shocks, and better equipped to tackle future challenges, although some limitations remain, and political unity has weakened" (Pilati and De Angelis 2020: 2).

The paper comparing the various forms of third-country access to the Single Market (Eisl 2020b: 10) also reveals that the constantly evolving EU *acquis*, changes in economic conditions and political preferences at the global, European and national levels pose constant challenges for policy effectiveness. It highlights the deleterious effects of path dependence in institutions and policy objectives. Agreements that neither include mechanisms for the dynamic adaptation to the developing EU *acquis*, nor easily allow objectives and instruments to be adapted to changing circumstances (be they economic, political, social or environmental) are generally considered to be ineffective (or even actively rendered ineffective) by at least one of the agreement partners.

A key factor explaining such decreases in policy performance over time is "institutional drift", as laid out by Streeck and Thelen (2005). In their seminal analysis of institutional stability and change, they highlight that "institutions require active maintenance; to remain what they are they need to be rested and refocused, or sometimes more fundamentally recalibrated and renegotiated, in response to changes in the political and economic environment in which they are embedded" (Streeck and Thelen 2005: 24). As Streeck and Thelen (2005: 25, referring to the work of Hacker 2005) point out, "analyses that focus only on the continuity of existing rules miss the potential slippage between these and the real world to which they are supposed to apply [… as] the world surrounding an institution evolves in ways that alter its scope, meaning and function". An important feature of institutional drift is that not only may it be exogenous, it can also be actively sought by political actors as Hacker (2005) has shown for the case of US health care policy. As Streeck and Thelen (2005: 25) conclude, the "failure actively to maintain an institution […] may amount to actively allowing it to decay", thus undermining its policy effectiveness. The study on third-country access to the Single Market has highlighted this phenomenon especially for the case of the EU-Swiss bilateral agreements (see Eisl 2020b: 13).

Effectiveness across different policy areas in the context of differentiated integration arrangements thus demands not only an encompassing but also a dynamic approach to policy objectives and instruments. To improve policy effectiveness, the institutional frameworks of differentiated integration arrangements should include mechanisms that allow for flexibility and adaptation over time without demanding a full renegotiation of treaties or agreements.

4.4 Institutional inclusion and political balance

Policy effectiveness also depends on the extent to which differentiated integration arrangements prevent or mitigate potential negative externalities for non-participating member states. In the EU economic policy field, a common concern is that the creation of differentiated arrangements undermines the integrity of the Single Market. These worries were very vivid during the EMU reform debates of 2011–13. Many non-eurozone countries, above all the UK, raised objections to proposals to reinforce the existing EMU governance structures and institutions in response to the crisis, or to create new ones. They feared that these institutions would run against the interests of non-euro area states. As explained by Craig and Markakis (2017), their concerns covered two elements. One was that efforts to strengthen the EMU would lead to the enactment of new Single Market legislation specifically geared to suit the needs of the eurozone but that could be prejudicial for non-euro member states. The other was that emergency and crisis measures created to help eurozone countries would entail a budgetary cost for non-euro countries.

In their study on the EMU, Pilati and De Angelis recognise that

> the deeper differentiation resulting from the EMU reforms of the early 2010s widened the difference between the euro area and non-EMU members. The arrangements created institutions from which non-euro members are deliberately excluded, such as the ESM. The Eurogroup meetings denied participation to non-EMU countries, which had to fight for including in the TSCG [Treaty on Stability, Coordination and Governance] their once-a-year participation in Euro Summits. (Pilati and De Angelis 2020: 16, see also von Ondarza 2013)

At the same time, they notice that the reforms have created more differences in the stringency and detail of supervisory processes applied to the euro area and non-euro area, e.g., regarding the frameworks for fiscal and macroeconomic surveillance. This reinforces the differences between "ins" and "outs" but also secures that the latter are not negatively affected by the deepening of the EMU. Overall, this may explain why the strengthening of the EMU governance arrangements is generally accepted by non-eurozone member states.

During the 2011–13 debates on EMU reform, the concerns were particularly important with regard to the risk that the Banking Union would undermine the integrity of the EU financial market. To prevent this happening, as noted by Mack (2020), the institutional set-up included specific legal safeguards addressing disintegration risks for non-participating member states. First, the regulations of the Single Supervisory Mechanism and the Single Regulation Mechanism contain unity-protection provisions requiring the ECB and the Single Resolution Board (SRB) to refrain from any "action, proposal or policy" that would discriminate against any member state or group of member states. Second, non-participating member states' national resolution authorities always participate in the SRB's plenary sessions, as well as in any SRB executive session where the crisis management concerns an institution that has subsidiaries or significant branches in the non-participating member state.

Third, the voting procedure for important decisions taken by qualified majority in the European Banking Agency's Board of Supervisors – which represents competent authorities on banking supervision from all EU27 member states – requires a single majority from both participating and non-participating member states. This "double majority" ensures the balancing of interests from member states inside and outside the Banking Union (Gren 2014: 72, cited by Mack 2020: 14).

In addition to these legal safeguards, Mack (2020: 14) notes that from its inception the Banking Union was focused on the eurozone but constructed in a fashion that was – as much as possible – open to all member states that wanted to participate in it. The legal framework thus facilitates admission for non-participating member states by putting them on equal footing with the founding members of the Banking Union. These institutional features have translated into overall policy effectiveness (even if the Banking Union remains incomplete for the moment[14]) and incited Croatia and Bulgaria to join the Banking Union recently.[15] According to Mack (2020: 3), other "outs" such as Denmark and Sweden are equally rethinking their stance, especially since the EU exit of the United Kingdom (see also Pilati and De Angelis 2020: 16).

In contrast to the Banking Union, some other – typically more bottom-up – differentiated integration arrangements have been less attentive towards potential negative inter-group externalities, undermining policy effectiveness. Franza et al. (2021: 17), for example, see risks in the design of the Pentalateral Energy Forum, as it might participate in "accentuating differences between contracting parties and non-contracting parties in default of mitigation strategies by some contracting parties". Their suggestion for avoiding such divergences is for both groups to make efforts to integrate across the in-out divide (Franza et al. 2021: 3). Such an inclusive approach is also proposed by Pilati and De Angelis (2020: 3) for the differentiated integration arrangements in the EMU which should "include non-EMU countries as much as possible in the Eurogroup and Euro Summit discussions, especially those relevant for the Union as a whole or for the euro architecture".

Conclusion

In this paper we have sought to better link the literature on differentiation with public policy scholarship to study the effectiveness of differentiated integration arrangements in the EU economic policy field. In doing so we have made theoretical and empirical contributions to existing research. In more conceptual terms we have shown that existing definitions of effectiveness regarding differentiated integration arrangements have tended to be rather narrow and static, and pay little attention to potential side-effects such as inter-group externalities. In response we have proposed a more encompassing and dynamic definition of policy performance, which allows the integration of a variety of different policy objectives and the capacity to adapt

14 Mack (2020: 3) stresses that while "the Banking Union was successful in containing the euro area sovereign debt crisis and contributed to a more viable banking sector" it did not remove the doom loop and "financial fragmentation continued".

15 For both Croatia and Bulgaria, Banking Union membership also matters because they plan to join the eurozone in the coming years.

to changing circumstances. In more empirical terms, we have made use of 16 case studies of differentiated integration arrangements in the EU economic policy field to identify – in a comparative and inductive manner – key factors influencing their policy effectiveness. Based on our analysis, we have strongly stressed the role of institutional factors affecting the policy performance of differentiated arrangements in the EMU, the EU energy sector and external access to the Single Market. In our view, the following institutional features matter in particular for effectiveness: (1) an institutional set-up which is adapted to the concrete objectives of the differentiated arrangement, (2) the unity, simplicity and clarity of institutional frameworks that govern differentiated policy areas, (3) the adaptability and flexibility of institutional frameworks in the face of changing circumstances and preferences, and (4) the extent to which the institutional arrangement prevents or mitigates negative side-effects for non-participating countries. We thus contend that policy effectiveness is not only affected by the stringency of institutional frameworks as some of the existing scholarship stresses.

Our study is of a largely exploratory nature. These are tentative hypotheses, formulated in an inductive manner on the basis of empirical materials collected in a limited number of case studies. Besides, there are some caveats to our hypotheses. First, there might be trade-offs between the different institutional elements, which need to be taken into account in institution building and "tending". Second, depending on the concrete policy objectives, some institutional features might be more important than others, for example, the role of simple, unified and clear governance frameworks. Third, institutional designs of differentiated integration arrangements might not correspond to our policy recommendations not for technical reasons but rather because of the need for ambiguity (see, for instance, Jabko 2006, Palier 2005, Eisl 2020a) to achieve consensus between participating countries. In this case, it might be difficult to implement institutional changes, typically favouring actors that prefer the status quo, even if based on inadequate, complex, static and exclusionary institutional frameworks. Further research should thus investigate which context conditions allow the implementation of institutional frameworks that favour policy effectiveness in differentiated integration arrangements.

Differentiated integration arrangements in the EU economic policy field are not going to go away any time soon, with all their advantages and shortcomings for European integration. This should not, however, discourage us from aiming to improve their policy effectiveness. In this paper we have shown which institutional principles and reforms could help to ensure and preserve good policy performance across a variety of policy objectives and circumstances. Following them would also support the sustainability of differentiated integration arrangements over the long run, by strengthening policy outcomes, improving accountability and fostering political unity.

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EU Integration and Differentiation
for Effectiveness and Accountability

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

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

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

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