

**Sub-National Interests, Spillover and Supranationality in the
European Union: A Study of Financial Services**

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By

Kerry E. Howell

Anglia Business School

Anglia Polytechnic University

Central Campus

Bishop Hall Lane

Chelmsford

Essex, UK

Tel +44 (0) 1245 493131

Fax +44 (0) 1245 490835

e-mail: k.e.howell@anglia.ac.uk

Dr Howell is a Senior Lecturer and Jean Monnet Associate at Anglia Polytechnic University.

Abstract

There are a number of theories that attempt to shed-light on European integration each considering that a particular political explanation provides the best means of clarifying the process. Intergovernmentalism proposes that the best way to understand European integration is through the actions of nation-states. Neo-functionalism emphasises sub-national interests and the extent to which a supranational authority creates economic benefit and political acceptance of the process. Through a study of life insurance and the construction of a substantive theory this paper investigates the extent of sector involvement in EU decision-making and analyses the utilisation of sub-national actors (business associations and companies), supranationality and spillover in the process of European integration. Overall the paper recognises that a synthesis of ideas provide the most appropriate explanatory tool for understanding European decision-making procedures and European integration.

Key Words: Financial Services, European Integration Theory, Decision-making, Supranationality, Sub-National Interests, Spillover, Multilevel Governance.

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Introduction

This paper constructs a substantive theory to investigate the extent of sector involvement in the European decision-making process and analyses neo-functionalism intergovernmentalism, state-centric and multilevel governance. The paper explores whether intergovernmentalism is able to fully explain European integration. Furthermore, it argues that if European integration to be better explained and understood further analysis of neo-functionalism is necessary. In this context, the paper undertakes an analysis of the three main tenets of neo-functionalism: sub-national interests; supranationality; and spillover.

First the paper reports the results of an interview programme with individuals involved in the creation of insurance legislation (these include, business association representatives, Commission representatives, Permanent Representatives and national officials). Second, through the interviews a model is constructed regarding supranationality and sub-national interests. Third, the paper makes generalisations relating to the decision-making process, financial services and spillover. Finally the paper provides some conclusions and explanations regarding European integration theory and decision-making processes.

The paper uses a qualitative methodology (grounded theory) and generalises from one situation to other similar situations. Consequently, the paper posits that the process regarding life insurance is likely to be happening from industry to industry and sector to sector (Glaser and Strauss, 1967; Glaser, 1978; Charmaz, 1983; Strauss, 1987; Strauss and Corbin, 1990; Corbin and Strauss, 1990; Glaser, 1992; Strauss and Corbin, 1994; Howell, 2000). Indeed, these commentators consider that substantive theory may be constructed in

relation to pre-existing formal theories. “A substantive theory generated from the data must be formulated, in order to see which of diverse formal theories are, perhaps, applicable for furthering additional substantive formulations” (Glaser and Strauss, 1967; p 34). This illustrates that theories are never complete but processes in themselves. In this context, one may question the extent to which neo-functionalism, intergovernmentalism etc may be labelled formal theories. One could argue that they are substantive theories of functionalism and realism in that they have not really emerged from studies under different types of situations i.e. integration processes external to western Europe. Consequently, substantive theory needs to be verified and if changes to the theory are to be made there must be references to empiricism. Formal theory “. . . can be understood and studied in abstraction . . . one can . . . make deductions, search for inconsistencies, study the effects of changes in those postulated, and add new terms without referring to anything empirical” (Diesing, 1972; p 31). In this study substantive theory is generated through an analysis of the EU life insurance industry and the role of insurance business associations in the European decision-making. The substantive theory aims to understand the formal theories in greater detail and provide a more coherent explanation of European integration.

Intergovernmentalism and State-Centricism

Intergovernmentalism identified treaty bargaining as the main impetus behind European integration (Garrett and Tsebelis, 1996). Moravcsik (1991) disputed neo-functionalism and argued that the primary source of European integration resided with Member States. In a later work he attempted to identify the limitations of neo-functionalism by presenting a theory of liberal intergovernmentalism (Moravcsik, 1993). Intergovernmentalism has two main premises. First, that treaty bargaining provides the impetus for European integration and second that all decisions are created and made by the Council of Ministers. Both of these ideas stem from the intergovernmentalist perspective that “. . . all decisions are

products of bargaining among nations” (Garret and Tsebelis, 1996; p 294). Furthermore, intergovernmentalism underpins the state-centric model. This argues that the “. . . overall direction of policy making is consistent with state control . . . that EU membership preserves or even strengthens state sovereignty and . . . European integration is driven by bargains among member-state governments” (Hooghe and Marks, 1997; p 21).

Neo-functionalism, Supranationality and Sub-National Interests

Haas (1958) argued that through closer integration, political parties and interest groups would accept that action needed to be taken at the supranational level. Interest groups and political parties would organise and function beyond the nation-state and define their interests in the new environment. This paper concentrates on business interests and the extent that business associations relating to the insurance industry involve themselves in decision-making and European integration. Haas (1958; 1964; 1964a) provides an analysis of the process and progression of European integration through supranationality, sub-national interests and spillover. Supranationality is “. . . a cumulative pattern of accommodation in which the participants refrain from unconditionally vetoing and instead seek to attain agreement by means of compromises upgrading common interests” (Haas, 1964a; pp 64-66). This has become clearer as the treaties have unfolded e.g. the SEA and QMV. Supranationality is a process rather than an end, which may be identified by the on going accumulation of European treaties and their integrative affects.

Two types of spillover can be identified: functional spillover, which is when integration in one industry/sector creates its own impetus and necessitates further integration both in the same, and in other industries/sectors. And institutional spillover which “. . . describes the accretion of new powers and tasks to a central institutional structure, based on changing demands and the expectation on the part of such political actors as interest groups, political

parties and bureaucracies” (Haas, cited in Kirchner, 1976; p 3). Effectively, there is an interplay between spillover and supranationality in that the “ . . . establishment of supranational institutions designed to deal with functionally specific tasks will set in motion economic, social and political processes which generate pressures towards further integration” (Tranholm-Mikkelsen, 1991; p 4).

Synthesising Theories of European Integration

Since its inception the EU “. . . has mainly been studied as an example of . . . supranational integration or intergovernmental co-operation between, (previously) sovereign nation-states” (Hix, 1994; p 1). For further discussions relating to neo-functionalism, intergovernmentalism and European integration see Garrett and Tsebelis, (1996); Gehring, (1996); George (1994, 1995); Haas (1958, 1964, 1968, 1971, 1975, 1976); Heathcote (1966); Keohane and Nye (1990); Keohane and Hoffman (1990, 1991); Lindberg (1963 1967); Lindberg and Scheingold (1970, 1971); Nye (1971); Richardson, (1996); Sandholtz and Zysman (1989); Sandholtz, (1994); Puchalla (1972); Rees (1992); Tranholme-Mikkelsen, (1991); Ugur, (1997); Wallace (1990). There have been attempts to synthesise pluralist and realist theories like neo-functionalism and intergovernmentalism through multilevel governance Keohane and Hoffman (1991), Marks (1993), Marks (1995), Marks *et al* (1996) and Marks *et al* (1996a) Hooghe and Marks (1997). As well as the shift toward debates around governance, there have been studies of specific sub-national interests and their interactions with EU policy-making institutions. (see Camerra-Rowe, 1996; Coen, 1997; 1998; Greenwood *et al*, 1992; Greenwood and Cram, 1996; Greenwood, 1995; 1997; Howell, 1999; Mazey and Richardson, 1996; McLaughlin *et al*, 1993; McLaughlin and Greenwood, 1995; McLaughlin, 1995).

Sub-National Interests and Supranationality: An Empirical Inquiry

To identify interactions between supranational institutions and sub-national interests a series of interviews were undertaken with individuals involved in decisions relating to EU insurance legislation. The interviews at the both the EU and UK level provide information that may allow the work to deduce a similar process among most Member States. The individuals interviewed were representatives from the following institutions. Directorate-Generale XV (DG XV) (Finance). The Council Permanent Representative for UK in Finance. The Department of Industry and Trade (DTI). Committee for European Assurance (CEA). Paris and Brussels. Bureau International des Producteurs d'Assurance & de Reassurance (BIPAR). Association of British Insurers (ABI). British Insurers International Committee (BIIC) Irish Insurance Federation (IIF). Council Permanent Representative for France in Finance. The interviews were conducted on a semi-structured basis and centred on 12 core questions, which were asked of all interviewees and this generated a degree of triangulation (see below for interview questions).

(1) What are the major functions of the CEA/BIPAR/ABI/the Commission/the Council/National Supervisors and how do these fit with each other at;

(A) The EU level.

(B) The national level.

(2) To what extent are decisions made with interest group/COREPER/Commission/National Supervisor in-put.

(3) Is it interest groups, national supervisors, the Council of Ministers or the Commission that define decision parameters.

(4) Does the Council, the Commission, national legislatures and interest groups reach a compromise prior to a decision reaching the Council.

(5) Does an interaction exist between the Council/the Commission/national supervisors and specific interest groups at a national and European level.

(6) How does the Council/national supervisor know what to insist upon in respect of national interest.

(7) Does an interaction exist between interest groups/Commission/Council/national supervisor and the Insurance Committee

(8) Are different Member States looking for specific types of life insurance regulatory environments for the SEM which is different from other member states.

(9) Are there differences between the;

(a) The French ideal

(b) The German ideal

(c) The Dutch ideal

(d) The UK ideal

(e) The Italian ideal

Please illustrate these differences.

How does your market ideal fit into these?

(10) Is a compromise reached between the different national interest groups prior to the Commission initially drawing up draft legislation or is there an interaction between the interest group at the European level and the Commission which takes into consideration a compromise reached by the member state interest groups i.e. ABI through membership of the European interest group CEA/BIPAR.

(11) Where possible have compromises been reached between the Council, the Commission and Parliament before the final negotiations to enable a more efficient means of decision-making?

(12) What takes precedence in the formulation of a Directive Member State or sector interests?

The Interview Results

DG XV primarily deals with the CEA and BIPAR. However, the initial call for legislation may come through the Member States or from the Commission itself. The CEA sees its role, as bringing together a combined understanding of the direction negotiations should take. The CEA, BIPAR and DG XV representatives all considered that the Commission preferred to deal with a European-wide interest group. Both the ABI and BIIC agreed with this view and thought that the ABI and BIIC worked through the CEA, as these days (post-SEA) it was easier to get agreement in the latter organisation. Consequently, the importance of the CEA has continued to grow. Furthermore, the BIIC also relays common understandings to the national government (in the case of the UK) through the Department of Trade and Industry (DTI). The ABI and the IIF do the same work as the CEA at the national level. In this context, the ABI through the BIIC interacts with the DTI on a regular basis to ensure that government fully understands what the industry needs. However, this would incorporate “advice received from the industry” (DTI Representative) through the use of interest groups. The BIIC “. . . advises . . . on a regular basis and as the BIIC meeting preceded the Council working group by two weeks, we go in broadly knowing what the industry wanted” (ibid).

The Commission aims to create a common understanding between the Member States. It will negotiate with Member State interest groups, e.g. the ABI or even directly with companies. But its main contacts are the European interest groups because they allow a European perspective and this is what the Commission wants (this was substantiated by the

European interest group representatives). The IIF representative considered that “ . . . generally interest group input is taken fully on board”. However, interest group input is not the only factor. The CEA representatives both argued that the CEA played an interactive part in the creation of European legislation, as did those representatives of the ABI, BIIC and BIPAR with reference to these organisations. However, it is the economic sectors that act as a stimulus and interact with the European political institutions. There is much input by business associations who ensure their influence is part of negotiations as early as possible. (DG XV, CEA and BIPAR Representatives). Overall, interest groups are an intrinsic element in the process of negotiation. Ultimately, the CEA is a pivotal body in the process of negotiations that provides an all-round or complete perspective of the sector’s demands from the policy-making institutions. The CEA sees itself as a facilitator and like the Commission argued that European interest groups provide the means for an all-round European view and this allows for more successful legislation (CEA Representative). In principle, the Commission defines the policy-making parameters. However, as illustrated above, one may argue that it does not do this alone. Because the Council provides the ultimate decisions it could be said that it is this institution that provides parameters. Additionally, if one takes into consideration interest group input, one may consider that these define parameters prior to the involvement of any institution or through an interaction with the Commission. “The Commission provides a framework for the CEA. Then the CEA undertakes negotiations with its membership” (CEA Representative).

To ensure successful legislation, compromise between differences need to be negotiated. This is pursued prior to final negotiations and enables more efficient policy-making. “Compromises are achieved through working parties where agreements are reached and Member State and interest group policy lines merged” (UK Permanent Representative). “It occurs sometimes especially when there is a European organisation for a profession”

(French Permanent Representative). However, “. . . the Commission never loses sight of the spirit of the proposal” (DG XV Representative). “Compromises are reached through IIF involvement in a European interest group” (IIF Representative). Interest groups became more aware of what was necessary for creating European Union in a post-1986 scenario. Of course, there are a number of difficulties in attaining agreement continually and Member State interest groups and companies will continually attempt to influence the policy-making institutions themselves (see Coen, 1997; 1998). However, the European decision-making bodies make it clear that negotiations should be undertaken through the CEA or other European interest groups i.e. BIPAR. The CEA interacts with many other groups at the EU level e.g. banking employers groups and trade unions. Indeed, the CEA attempts to become part of the process as early as possible and to this extent it has a good relationship with DG XV (ABI Representative).

The interviews illustrated that there were interactions between the interests of the different Member State industries and the interests of the European institutions. They identified that compromise was reached at the European interest group level through the industries interacting with one another and with the EU policy-making institutions. The proposed legislation that goes through to the Council has been agreed by the Member State sectors/industries who either progressively or subsequently inform their own government of the agreed legislation. This indicates elements of neo-functionalism and a multilevel governance approach. However, during the process there may be disagreements between the Council and the other institutions. This identifies an interaction between neo-functionalism and intergovernmentalism and provides an example of multilevel rather than state-centric governance.

The European Decision-Making Model

There are a number of issues that need to be explained regarding the model. First, the interviews indicated that national interest groups were affiliated to interest groups at the EU level (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 interest groups. These provide a European overview of the situation. Thirdly, because the sector understands what is necessary for the successful operation of the embryonic regulatory environment, it is reasonable that they would confer and reach some agreement prior to Council or intergovernmental interference. Finally, the interviews with the CEA, the ABI, the BIIC and members of EU decision-making institutions substantiated that Member State insurance industries, through interest groups, actively participate in the formulation of EU legislation.

There are two general directions that could be taken regarding decision-making procedures identified on the model (see Fig One). These are indicated by arrows A and B; process A determines that demands are formulated through the national legislature prior to formulation at the EU level, whereas route B illustrates demand formulation compromises at the EU level prior to the involvement of the national legislature. Route A identifies a more cogent intergovernmental approach whereas route B illustrates more of a neo-functional process. Of course, the situation is not as clear-cut as depicted and as the interviews stress elements of both routes were used, however, in general route B was emphasised by the interviews. Furthermore, the European interest group rarely had any dealings with the national legislature and in this context the national interest groups and governmental departments (the ABI and DTI in the UK) facilitated information flows. At this point there is intergovernmental involvement but in most cases the DTI adheres to compromises already made at the European interest group level. More importantly, there is

intergovernmental involvement through the Council. However, since the establishment of the SEA and Maastricht, in certain areas, this has diminished. Through the involvement of sub-national interests in the form of business associations the research identifies a moderate instance of neo-functionalism, which rather than emphasising the complete transferral of allegiance identifies multilevel governance.

THE EUROPEAN DECISION-MAKING MODEL

Spillover, Financial Services and European Integration

. . . expansive logic of sector integration”(Haas, 1958; p 243). The expansive logic of sector integration through a variety of sectors swapping concessions indicated the motor of political integration (ibid). However, spillover is not automatic and the extent to which changing incentives created by spillover allowed an explanation for European integration has been a point of contention. Nye (1971) argued that the functional linkage of tasks has been a less dynamic aspect of European integration than it was originally believed. Lindberg and Scheingold (1970) wished to deny spillover, whereas Keohane and Hoffman (1990) provided a more sophisticated understanding of spillover one that interacts between domains and sectors. They argue that successful spillover necessitates prior agreements among Member States in terms of the SEA and the Maastricht Treaty etc. Indeed they identify the difference between functional and institutional spillover.

In this paper the idea of spillover is based on Keohane and Hoffman (1990) which considers that institutional bargains provide the basis for functional spillover. That “. . . successful spillover requires prior programmatic agreement expressed in an intergovernmental bargain” (p 287). In the 1980s Member State positions regarding further integration changed. The UK pursued deregulation, France changed its economic policy, Spain wanted economic modernisation and Germany wished for monetary stability. Each was changing policy in relation to global competitive pressures (primarily the USA and Japan) and internal pressures that called for a true common market and cross-border trade in the EEC. For instance when Margaret Thatcher was asked in 1989 why she had agreed to the SEA she argued that the UK “. . . wished to have many of the directives under majority voting because things which we wanted were being stopped by others using a single vote. For instance, we have not yet got insurance freely in Germany as we wished”(cited in Keohane and Hoffman, 1990; p 287). However, as well as self-interest, according to Haas major changes in European integration and spillover depend on collective interest. In the

1950s and 1960s the collective interest revolved around Keynesian economic policies and in the 1980s and early 1990s around deregulation or re-regulation. Of course, the extent that self-interest can provide a basis for the common interest is an issue much debated. Some theorists have looked at interest groups and investigated why companies join them and whether collective interests exist. Olson (1971) considered that collective interests were logically irrelevant to companies when they joined interest groups. He claimed that selective incentives were the reasons for group formation, not some collective interest. However, Grant and Marsh (1977) and Marsh (1978) provided evidence that companies do not simply join interest groups for services or selective incentives, but for the collective interests as well. Moe (1980) builds on Olson's model and replaces it with a "... broader perspective that links the decision to join with varying individual perceptions and indicates that members may join for political reasons if they think their contributions 'make a difference' in providing some of the collective good" (p 6). Howell (1999) investigated whether the drive toward a SEM forces a common interest through the self-interests of the national interest groups and argues that through an interaction of self and common interest further policy needs are identified and more legislation is implemented.

It is possible to build on the definitions of Keohane and Hoffman (1990) and devise a model to illustrate how spillover is at work in the process of European integration. Spillover may be observed in legislation specific to the insurance industry (vertical functional spillover); between legislation in the services sector e.g. between insurance, banking, pensions etc. (horizontal functional spillover). The paper also argues that institutional spillover is at work within European integration in the guise of the treaties and their outcomes. Indeed, "... spillover requires prior programmatic agreement among governments, expressed in an intergovernmental bargain. Such a bargain is clearly important in accounting for the Single European Act" (Keohane and Hoffman, 1991; p 17).

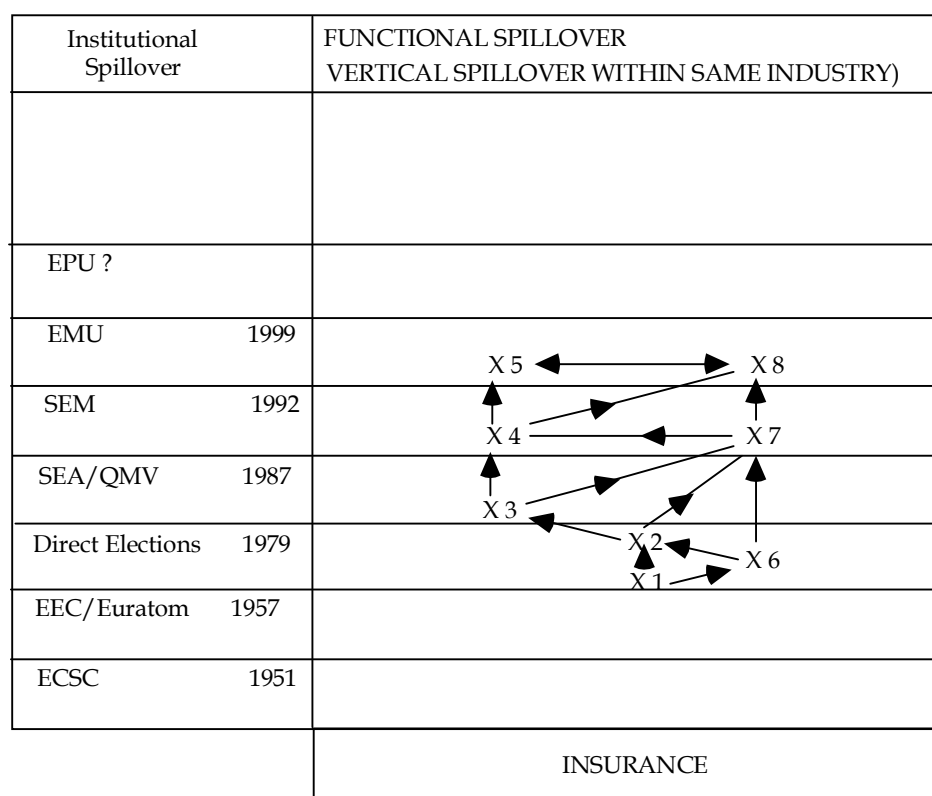
This is spillover from treaty to treaty, which is labelled institutional spillover and is indicated by definition. However, wider transnational processes are also providing an impetus for European integration. In this context, the paper contends that institutional spillover is usually confined to providing the environment for further functional spillover (vertical or horizontal) to take place. Fundamentally, there is an interaction between functional and institutional spillover, which widens and deepens European integration.

The Spillover Model (Figs Two and Three) outlines the above interactions: institutional spillover is indicated in the left hand column and is made up of intergovernmental agreements and functional spillover is illustrated on the right hand side of the model. As explained above, functional spillover constitutes two processes and the figures attempt to clarify these. The crosses on the model represent pieces of legislation that have been passed in relation to the treaties that existed at that time e.g. X1 relates to the Reinsurance Directive and X2 the Co-insurance Directive etc.

The liberalisation of insurance, banking and capital markets is tied closely to the free movements of capital. Indeed, the treaties designate that the liberalisation of the banking and insurance sectors “... shall be effected in step with the progressive liberalisation of the movement of capital” (Foster, 1999; p 14, Art 51 (I) ex Art 61). This could be seen as an example of institutional spillover providing the initial impetus for further functional spillover. Or one may consider that this type of Article provides a functional area within the Treaty, which defines the scope of integration but does not indicate, which level is responsible for their management. This provides the opportunity for multilevel governance as numerous actors become involved in the policy-making process.

THE SPILLOVER MODEL (Figs Two and Three)

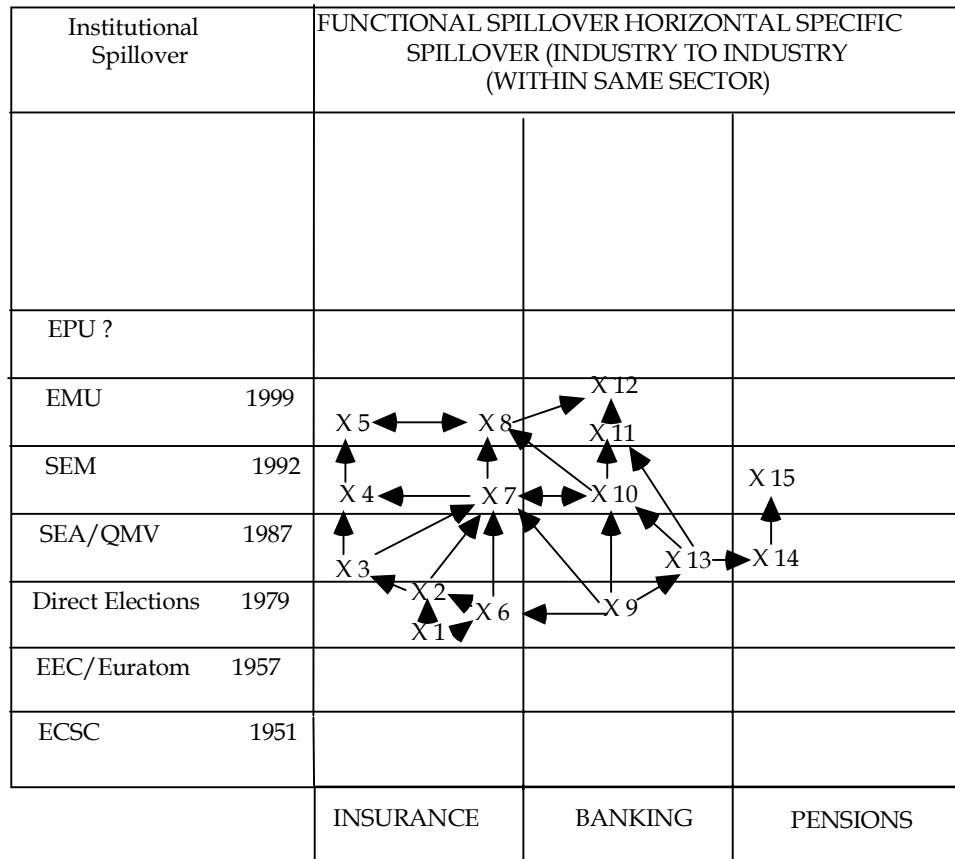
FIG 2



Neo-Functional Spillover. Vertical Spillover (Within Same Industry)

- X1. Re-insurance Directive 64/225/EEC
- X2. Co-insurance Directive 78/473/EEC
- X3. First Life Insurance Directive. 79/267/EEC
- X4. Second Life Insurance Directive. 90/ 619/EEC
- X5. Third Life Insurance Directive. 92/96/EEC
- X6. First Non-Life Insurance Directive. 73/239/EEC
- X7. Second Non-Life Insurance Directive. 88/357/EEC
- X8. Third Non-Life Insurance Directive. 92/49/EEC

FIG 3



Horizontal Specific Spillover (Industry to Industry Within the Same Sector)

- X1. Re-insurance Directive 64/225/EEC
- X2. Co-insurance Directive 78/473/EEC
- X3. First Life Insurance Directive. 79/267/EEC
- X4. Second Life Insurance Directive. 90/ 619/EEC
- X5. Third Life Insurance Directive. 92/96/EEC
- X6. First Non-Life Insurance Directive. 73/239/EEC
- X7. Second Non-Life Insurance Directive. 88/357/EEC
- X8. Third Non-Life Insurance Directive. 92/49/EEC
- X9. First Banking Directive. 77/780/EEC
- X10. Second Banking Directive. 89/646/EEC
- X11. Capital Adequacy Directive. 93/6/EEC
- X12. Solvency Ration Directive. 94/7/EEC
- X13. Accounts Directive for Banks and Other Credit Institutions. 86/635/EEC
- X14. Directive Concerning Equal Treatment for Men and Women in Occupational Social Security Schemes. 86/378/EEC
- X15. Directive Concerning the Rights of Residence for Self-Employed Persons Who have Ceased Occupational Activity. 90/365/EEC

European Insurance Legislation

Insurance legislation is an example of vertical functional spillover or spillover within the same industry. Initially, there were two general programmes proposed to ensure that both freedom of services and establishment would be realised in life insurance by the beginning of 1970. However, international and internal pressures had not demanded institutional spillover and the necessary environment for adherence to the timetable of five bi-annual targets between 1964-70. This gradually changed and because of international and Member State competitive pressures, between the 1980s and 1990s, the environment was transformed. As noted above, through changes in individual Member States policy goals institutional spillover allowed the environment for functional spillover and the realisation of legislation relating to the insurance industry. The 1980s realised the SEA, QMV and co-operation procedure and the 1990s witnessed co-decision procedure the Maastricht Treaty and EMU (see Fig 2 X1 to X8).

In its proposal for a the Third Life Assurance Directive, the Commission emphasised that “. . . the internal market in insurance represents a primary goal . . . in view of the importance of this strongly expanding sector”. The insurance industry considered that it needed priority treatment because it lagged behind the liberalisation of the other economic sectors within the financial services sector (omitting pensions). Directives in securities and banking had already been implemented and as a consequence the insurance industry had been left at a competitive disadvantage in relation to these industries. Indeed, an example of horizontal specific functional spillover (within the same sector; banking to insurance) and with regard to the capital aspects of the legislation, horizontal general functional spillover (from sector to sector; services to capital). Directive (91/675/EEC) provided a committee to act as an intermediary between the industry (sub-national interests) and the Commission and to assist in implementation procedures. The committee also examines any

questions relating to the application of existing directives and the preparation of new legislation proposals in the insurance sector. Indeed, this could be seen as an example of spillover and supranationality interacting with each other (Kirchner, 1976; Tranholm-Mikkelsen, 1991). In attempting to create a European market in insurance products further directives will be necessary and the bulk of Member State legislation harmonised. Each piece of legislation necessitated and created the basis of the next. This process has formed the basis of the SEM's regulatory structure in insurance and allows an illustration of vertical functional spillover (see The Spillover Model Fig Two X1 to X8)

European Banking Legislation

Two co-ordination directives have affected the banking industry. The First Banking Directive (77/780/EEC) cleared most obstacles to the freedom of establishment for banks and other credit institutions, introduced home country supervision and a common position for the granting of banking licences. However, problems were still apparent and certain obstacles needed to be removed before a genuine single market in banking could be achieved but these were taken up in the Second Banking Directive (89/646/EEC). This could be considered as an example functional vertical spillover in the banking industry. Indeed, the First Banking Directives led to calls from the insurance industry for a level playing field and the realisation of the first generation of insurance legislation (functional horizontal specific spillover X9 to X6).

Banking legislation and its consequent regulation spills over and necessitates legislation in other financial services industries and other sectors. The interaction between banking and pensions may be considered examples of functional horizontal spillovers could the interaction between banking and insurance; or spillover from industry to industry. Finally, vertical functional spillover is illustrated by legislation in one area of the industry, e.g.

insurance, creating the necessity for further legislation in the same area. The non-life insurance directives are, on the one hand, tied closely to the life insurance directives, while on the other, like their life insurance counterparts, they border banking and security services legislation. In this context, there has been task expansion throughout the sector and one may consider that this encompasses the above forms of spillover.

Substantive Theory

The substantive theory is built through the interviews an interpretation of the results and illustrated through the models. It has implications for the formal theories of intergovernmentalism, state-centric governance, neo-functionalism and multilevel governance in terms of spillover, supranationality and interest group utilisation. The substantive theory may be summarised in the following way:

(a) Sectors/industries (in this context the life insurance industry) negotiate the construction of the SEM and consequently further and intensify European integration.

(b) Sectors/industries interact in the decision-making process in a number of ways but primarily through the use of national and European interest groups.

(c) Each Member State's sector/industry compromises its own interest at the EU level (this is achieved through national interest groups, e.g. ABI, and European interest groups, e.g. CEA).

(d) Compromise between the EU wide sector/industry and the Commission is reached primarily through interaction and negotiation between European interest groups and European decision-making institutions.

(e) Compromise of difference between the EU legislative bodies, national legislatures and interest groups takes place throughout the creation of European legislation.

(f) There is a shift in allegiance (by the national sector industry) from the national legislature to the EU with regard to certain issues. However, the Member States still play an important role in the decision-making process. Indeed, there has been a shift toward joint sovereignty in the creation of EU legislation. Through this process integration is intensified.

(g) Difference is overcome through sub-national interests, supranationality and spillover. This creates an impetus for further integration.

(h) European integration is given impetus by economic industries/sectors pursuing their self-interest in the creation of EU legislation. However, this allows welfare for Europeans in terms of greater prosperity and peaceful co-existence. Through understanding difference European integration is intensified.

When generalising the substantive theory takes into consideration the special nature of life insurance and other financial services products. Indeed, this work considers that products such as life insurance and pensions are closely linked to individual cultures. “Differences in the way distinct countries subjectively value insurance products have not come into being by chance. They have evolved out of historically developed differences in values between one national society and another” (Hofstede, 1995; p 423). This situation exists between the separate Member States and relates to financial services products other than insurance. From this starting point, it is assumed that a study of the life insurance industry can allow generalisations about the EU regarding other financial services industries and sectors. Life insurance allows generalisations in respect of the EU because of its special nature in each of the Member States and its similarity with other financial services products. Through spillover generalisation is identifiable with regard to insurance and financial services legislation. This study generalises the processes identified through the interviews and extends the model and its theoretical implications. Indeed, a qualitative analysis generalises

from one specific situation to another like situation, rather than from a sample of a population to the total population. Consequently, this study argues that the process taking place regarding life insurance is likely to be happening from industry to industry and from sector to sector. The work recognises the limitations of such a generalisation and does so with these in mind. Indeed, industries and sectors are, on the one hand, isolated entities concerned with their own situation in the wider market place. However, it is through this self-interest that they must be aware of what is happening in other industries and sectors this in turn makes them initiators and reactors to the actions of other industries and sectors. In this context, there is *fit, comprehensibility, generalisation and control*.

Conclusion

This paper identified that there is an amalgamation of approaches to European integration processes in the form of multilevel governance. Indeed, it argues that through an empirical study of the EU life insurance industry, insurance interest groups and EU policy-making institutions it can provide some generalisations regarding both governance and European integration.

The interviews illustrate that compromise is sought and achieved at the European interest group level through negotiations with the Commission and Parliament. Indeed, if the legislation is being negotiated by the industry through sub-national interests interacting with supranational institutions (EU decision-makers) the research has identified an example of neo-functionalism. In achieving successful acceptable legislation at the EU level, the interviews illustrate that both neo-functional and intergovernmental processes need to be at work. In many cases supranational institutions share authority with the Council of Ministers. Member State executives are unable to continually stamp their authority on collective decision-making and sub-national interests are active in European

integration. However, in some instances Member State representatives in the Council of Ministers are able to impose their understandings and preferences on other European institutions. Consequently, elements of intergovernmentalism do exist in the process of European integration.

As the interviews with the CEA, the ABI, the BIIC and members of EU decision-making institutions substantiated Member State insurance industries actively participated in the creation of EU legislation through interest groups. The paper generalises the processes at work in the European Decision-Making Model and posits that functional spillover is identifiable in the EU regarding financial services legislation. If Member State industries/sectors are involved in the creation of European legislation in one context, other industries/sectors through their own self-interest are drawn into the process. This is identifiable in the interaction between the insurance and banking industries. However, to allow functional spillover to take place (as indicated by attempts in the 1970s to create a SEM in insurance) intergovernmental treaties must ensure the necessary environment e.g. the SEA and the SEM and the Maastricht Treaty and EMU

Finally, based on the synthesis of intergovernmentalism and neo-functionalism the substantive theory identifies multilevel governance procedures as the most coherent means of explaining decision-making procedures. This does not mean that the Member State is not involved, but it does indicate the difficulties with a purely intergovernmental or state-centric view. “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.” (Hooghe and Marks, 1997; p 38 author’s bracket).

The interviews suggest 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” (ibid). Sectors and business associations (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, complementary functions, and overlapping competencies” (ibid). Thus, 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 intergovernmentalism and 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 sub-national 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 European Decision-Making Model illustrated, when we speak of European legislation, the shift is toward the supranational.

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