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Bargaining success in the reform of the Eurozone

Magnus Lundgren, Department of Political Science, Stockholm University, Sweden

Stefanie Bailer, Department of Social Sciences, University of Basel, Switzerland

Lisa M. Dellmuth, Department of Economic History and International Relations, Stockholm University, Sweden

Jonas Tallberg, Department of Political Science, Stockholm University, Sweden

Silvana Târlea, Department of Social Sciences and Institute for European Global Studies, University of Basel, Switzerland

Abstract

This article provides a systematic assessment of bargaining success in the reform of the Eurozone 2010 to 2015. Theoretically, we develop an argument about preferences and institutions as determinants of bargaining success and contrast this argument with an alternative account privileging states' power resources. Empirically, we conduct a statistical analysis of new data covering all key reform proposals. Our findings are three-fold. First, contrary to a conventional narrative of German dominance, the negotiations produced no clear winners and losers. Secondly, while power resources were of limited importance, holding preferences that were centrist or close to the European Commission favoured bargaining success—particularly when adoption only required the support of a qualified majority. Thirdly, these descriptive and explanatory results reflect dynamics of compromise and reciprocity.

Keywords: European Union, Eurozone, bargaining success, negotiations, European Council

Corresponding author: Magnus Lundgren, magnus.lundgren@statsvet.su.se

While observers disagree profoundly on the appropriateness of the European Union's (EU's) response to the euro crisis, they tend to agree on one thing: the euro crisis ended any speculation on who is most powerful in Europe. From the first discussions on bailouts in 2010 to negotiations of successive Eurozone reforms and never-ending talks on Greece's macroeconomic adjustment, Germany has been seen to prevail. This conventional narrative pervades both popular and academic analyses. *The Financial Times* concludes that '[t]he financial crisis has given [Germany] a dominant voice in Eurozone affairs' (19 May 2016), and recent scholarship on the euro crisis shares this assessment: 'As soon as the sovereign debt crisis began, it was widely understood that Germany's response would dictate its ultimate resolution', according to Bernhard and Leblang (2016: 907). Brunnenmeier et al. trace the implications and conclude: 'The euro crisis has led to...a seismic shift of power within Europe' (2016: 2).

In this article, we offer the first systematic analysis of bargaining success in the reform of the Eurozone. Does the conventional narrative of German dominance hold up to the empirical evidence, or is the pattern of bargaining success more multi-faceted?

The conclusions from this central period of European integration carry general importance for our understanding of bargaining success and dynamics in EU policy-making. A growing literature seeks to explain the bargaining success of member states in the EU's intergovernmental institutions (Aksoy 2010; Arregui and Thomson 2009; Bailer 2004; Cross 2013; Golub 2012; Selck and Kaeding 2004; Slapin 2006; Tallberg 2008; Thomson 2011). However, this literature confronts two limitations that constitute important rationales for this paper. First, the findings fail to congeal into consistent support for any of several plausible models (Golub 2012). Secondly, the findings are based on data collected in the period just before and after the 2004 enlargement (Thomson et al. 2006, 2012), while EU policy-making during the most recent decade remains to be analyzed. Systematically evaluating the

determinants of bargaining success in the reform of the Eurozone offers a possibility to address both limitations.

Empirically, we map and explain the bargaining success of member states on the most fundamental proposals for Eurozone reform during the period 2010–2015. Drawing on collective data-gathering within the *EMU Choices* project (Wasserfallen et al. 2019), we have systematically identified the positions of all member states on the contested issues of all reform proposals. We estimate bargaining success through spatial analysis, calculating the distance between member states' positions at the beginning of the negotiations and the final outcome (Bailer 2004).

Theoretically, we draw on rational choice institutionalism to develop an argument about preferences and institutions as determinants of bargaining success. We submit that bargaining success is explained by the conditions of the strategic setting, as determined by the positioning of actor preferences and the applicable decision rules. Specifically, it is beneficial for states to hold preferences that are central in relation to those of other member states and close to those of the Commission. Moreover, the effects of these advantages should be compounded when decisions are made through qualified majority voting (QMV) as compared to unanimity decision-making. We contrast this argument with an alternative account that privileges states' power resources.

Our central findings are three-fold. First, contrary to the conventional wisdom, there were no clear winners or losers across the issues in our sample, which covered the full course of the Eurozone reforms. The average bargaining success of member states is surprisingly evenly distributed, and there is little support for larger member states, and Germany in particular, dictating the resolution to the Eurozone crisis. Secondly, while power resources were of limited importance for bargaining success, the position of preferences was a key factor. Member states with more centrist preferences were more successful in achieving their preferred outcomes.

Likewise, sharing a negotiation position with the Commission positively influenced a state's bargaining success. Thirdly, the general pattern of bargaining success reflects dynamics of compromise and reciprocity in which gains and concessions seem to have been traded both within and across issues.

We offer three complementary interpretations for why these findings run counter to the prevailing power-oriented narrative. First, the influence of larger member states was partly neutralized by their commitment to the Euro, which opened them up for exploitation by other parties. Secondly, larger member states partly exercised influence by shaping the issues up for negotiation, even if they were less successful at the negotiation table. Thirdly, larger member states often held extreme preferences, forcing them to give more ground as the parties converged on compromises.

Explaining bargaining success in the EU

Preferences and institutions

We draw on general tenets of rational choice institutionalism to develop a theory of bargaining success. Rational choice institutionalism assumes that bargaining outcomes are the result of strategic interactions between goal-oriented actors operating within institutional constraints (Shepsle 2006). Our theory submits that a state's bargaining success is explained by the conditions of the bargaining situation, specifically the positioning of actor preferences and the applicable decision rules. It suggests that a simple spatial model of bargaining is useful in explaining the success of the parties in reaching their most preferred outcomes. We conceptualize bargaining in the EU as an interaction between state and supranational actors with fixed and exogenous preferences, which are revealed through the positions actors hold at

the beginning of negotiations. Once negotiations get underway, agreements will be reached through concessions distributed across member states.

In this strategic setting, the positioning of a state's preferences shapes its likely level of bargaining success. Being close to the centre among member states and close to the Commission will be advantageous. This relationship should hold irrespective of the decision rules under which bargaining takes place. However, it should be stronger under less-demanding decision rules. Importantly, we argue that these expectations will hold irrespective of a state's relative power resources.

Our theory assumes the position of a state's preference to be sincere (Bailer 2004) and free of strategic considerations (Bailer 2011). The preferences revealed at the outset of negotiations represent the outcome of a process of domestic preference aggregation, where economic and political interests lead states to hold substantively different preferences (Moravcsik 1998; Wasserfallen et al. 2019; Târlea et al. 2019). It is plausible to assume that preferences are sincere, since the EU as a negotiation setting is characterized by rich information about state preferences (Moravcsik 1998: 61). Prior and frequent interaction on the same issues makes a state's core interests well known and makes tactical exaggerations difficult. This assumption is particularly warranted in the financial domain, where state interests may be deduced from publicly available statistics.

Accordingly, our first expectation pertains to the implications of holding central preferences in relation to other member states (Bailer 2004; Cross 2013). Assuming that bargaining is characterized by a concession–convergence dynamic (Rubin 1994) in which negotiations converge on some point in-between states' initial offers through a series of stepwise concessions, actors with more centrist preferences will be advantaged (Achen 2006; Van den Bos 1994). Conversely, states with more extreme preferences are disadvantaged by this dynamic and are generally poorly positioned to achieve outcomes close to their ideal points.

H1: The closer a state's preference to the mean position among all member states, the greater its bargaining success.

Our second expectation focuses on the advantages of holding a preference close to the Commission. The Commission functions as a formal or informal agenda-setter in EU policy-making, including the reform of the Eurozone. Where the Commission holds exclusive formal agenda-setting privileges, it can shape decision outcomes by way of the proposals it tables (Boranbay-Akan et al. 2017; Kreppel and Oztas 2017;). Where the Commission holds no such privileges but participates in policy-making next to governments, it may influence outcomes through informal agenda setting and mediation, drawing on its institutional position and reservoir of policy and process information (Bauer and Becker 2014). Assuming that the Commission exerts some level of influence over negotiated agreements, holding a preference close to the Commission will favour a state's chances of getting its most preferred outcome (Cross 2013). In the empirical analysis, we also evaluate the alternative interpretation of such a finding, namely that the Commission strategically presents proposals most likely to gain support (Bailer 2014, Hartlapp et al 2014).

H2: The closer a state's preference to the position of the Commission, the greater its bargaining success.

So far, we have stated these expectations without taking the institutional conditions of bargaining into consideration. However, there are theoretical reasons to assume that the applicable decision-making procedures will moderate the strength of these expected relationships. The effect of holding a centrist position or a position close to the Commission

should be stronger under the Ordinary Legislative Procedure (OLP) compared to the Special Legislative Procedure (SLP) or intergovernmental negotiations. When decisions are taken through the OLP, the Commission enjoys exclusive formal agenda-setting privileges, while the European Parliament (EP) functions as co-legislator next to the Council, which adopts its positions based on the principle of QMV. In case of the SLP, the Commission still functions as formal agenda-setter, but the EP only has a right to be consulted and the final decision is taken by the Council through unanimity. Finally, some decisions in EU politics (and on the reform of the Eurozone) are taken through procedures that are exclusively intergovernmental in nature. In these cases, the supranational institutions enjoy no formal privileges and decisions are taken through unanimity among the member states.

The choice of decision-making procedure is expected to shape the effects of holding a centrist position or a position close to the Commission in three ways. First, the influence of the Commission over outcomes is likely to be greater when it enjoys formal agenda-setting privileges (Tsebelis and Garrett 2001). Second, when the EP functions as co-legislator, the Commission may benefit from the EP's influence over outcomes, if the two institutions hold relatively similar preferences, which is not unusual (König et al. 2007). Third, when decisions are taken through QMV, not all member states have to be brought on board to reach an agreement, which likely hurts the influence of states with extremist preferences. Similarly, the Commission's influence over decision outcomes are expected to be greater under QMV, since single states cannot block its legislative proposals and compromise solutions (Crombez 1996; Tsebelis and Kreppel 1998).

H3: The relationships between preference positions and bargaining success predicted in *H1* and *H2* should be stronger when decisions are taken through the OLP compared to alternative procedures.

Alternative explanation: Power resources

Our argument suggests that preferences and decision rules matter. However, previous literature suggests one prominent alternative explanation of bargaining success: a state's power resources.

To begin with, this perspective suggests that states of greater structural power will enjoy the greatest bargaining success, since they can use their superior resources to coax and cajole weaker parties to submission (Drezner 2007). In the context of negotiations on Eurozone reform, it can be assumed that economic strength is the most relevant structural resource.

Voting strength is a second potential power resource. Under majority voting, a state with a larger number of votes has a better chance of turning a losing coalition into a winning one (Shapley and Shubik 1954) or a winning coalition into a losing one (Banzhaf 1965). Hence, voting power is frequently expected to influence bargaining success (Arregui and Thomson 2009; Arregui 2016; Bailer 2004).

A third possible power resource for state representatives is the network capital (Huhe et al. 2017; Naurin 2007) they have managed to build among fellow negotiators, owing to authority, skill, and experience. States with high network capital are appreciated for the expertise that they bring to negotiations and are more sought after as cooperative partners. This asset should make them better positioned to reach their preferred bargaining outcomes.

Fourthly, the chairmanship is an institutional power position that may enable states to shape negotiated outcomes (Häge 2017; Tallberg 2010). In the EU, this power position alternates between member states on a six-month basis. During its time in office, a member

state determines the overall agenda of the Council and is responsible for finding compromise solutions—functions that may open up a scope for influence (Tallberg 2006; 2003).

A fifth potential power resource is domestic constraints. The frequently cited ‘paradox of weakness’ (Schelling 1960) and the metaphor of two-level games (Putnam 1988) suggest that governments may benefit internationally from difficult situations at home. Constrained governments can make it known to their counterparts that they are under domestic pressure and threaten a collapse of negotiations unless others accept their demands (Hug and König 2002, Slapin 2006; cf. Bailer and Schneider 2006 on how this may only apply under special conditions in legislative negotiations).

Data

We investigate our theoretical expectations using *EMU Positions* data on the 2010–2015 negotiations to reform the Eurozone (Wasserfallen et al. 2019).¹ Our data cover the preferences of 28 member states and three EU institutions on 39 contested issues across seven policy packages.² They include legislative proposals at different levels of EU law (primary and secondary) and three categories of reforms: fiscal crisis management (EFSF, ESM, and programs to aid Greece), reforms of the Stability and Growth Pact (Six-Pack, Two-Pack, and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union), and the formation of the Banking Union. For each of the 39 issues, we identified the policy preferences of member states and EU institutions and represented them on policy scales ranging from 0 to 100.³ Preferences are measured at the time of greatest contention and thus represent the point in time, leading up to an agreement, in which distances between actors are the greatest. They do not represent the preferences at the time of the adoption of a formal decision. We acknowledge that our data, gathered in the tradition of the DEU projects (Thomson et al. 2006; Thomson 2011) are not flawless and may contain some measurement error (Slapin 2014).

However it has been demonstrated that model predictions based on such data produce satisfying results (Leinaweaver & Thomson 2014).

Conceptualizing bargaining success

The dependent variable is bargaining success, a continuous measure of preference attainment calculated as the distance between a state's initial policy preference and the negotiated outcome. A member state attains the highest bargaining success (100) if its position at the beginning of negotiations overlaps with the outcome and the lowest (0) if its position and the outcome are polar opposites. Because a large number of issues are bimodal, regression analysis of the continuous variable may not be able to estimate the effects of variables on the continuum between 0 and 100. We therefore also use a dichotomous measure, coded as 1 if the outcome is identical to a state's preference, and 0 otherwise.

As an illustration of how we code our dependent variable, consider the negotiations of the EFSF during 2010 and 2011. An important issue in these negotiations was whether or not the International Monetary Fund (IMF) should necessarily participate in EFSF rescue programs (EFSF2; Figure 1). Some members insisted on IMF involvement (position = 100), others favoured case-by-case decisions on IMF participation (position = 50), and still others believed that the IMF should not be involved at all (position = 0). The negotiated outcome was that IMF involvement should be the general principle (100). Hence, countries supporting IMF involvement, such as Finland, attained the highest bargaining success (distance of 0; success score of 100), whereas countries favouring the case-by-case approach, such as Spain, had to make significant concessions (distance of 50; success of 50), and countries that objected to IMF involvement, such as France, can be understood as the losers of this particular negotiation (distance of 100; success of 0). Using the dichotomous measure, which distinguishes more

abruptly between ‘winners’ and ‘losers’, the success scores would be recorded as 1, 0, and 0, respectively.

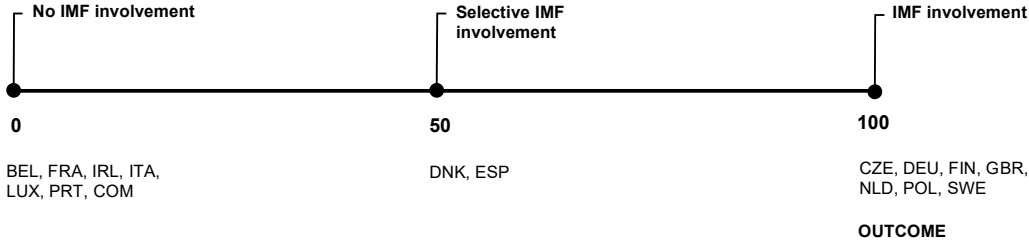


Figure 1: *Distribution of member state preferences on the issue of IMF participation in EFSF rescue programs (EFSF2).*

This spatial understanding of bargaining success is common in political economy (Arregui and Thomson 2009; Bailer 2004) and yields an appropriate measure of preference attainment in formal negotiations. This approach does not, however, capture three other dynamics commonly discussed. First, it does not reflect bargaining success defined in terms other than preference attainment, such as the scope of concessions that a country can extract. Secondly, it does not capture influence exercised informally or prior to the start of negotiations. Thirdly, the measure is not defined in relation to the status quo or disagreement value (i.e., the outcome that would result if bargaining broke down; also known as reference point). We return to the first two dynamics below. As for the third dynamic, we recognize that holding a preference proximate to the disagreement value can provide leverage (Aksoy 2010) and that some studies measure bargaining success in relation to this reference point (e.g. Dür, Bernhagen & Marshall 2015). But defining success in relation to the status quo is less useful in our context, for three main reasons. To begin with, for the majority of the issues in our data, it is unclear what constituted the status quo or what would result if negotiations failed (cf. Wasserfallen et al. 2019).⁴ Moreover, earlier research has found that ‘the disagreement outcome is highly undesirable’ in

EU bargaining, probably because failure to resolve an issue sacrifices uncontentious proposals and harms relationships (Thomson 2011: 232; for similar arguments, see Bailer 2004; Golub 2012). Given that our data concern crisis bargaining, with considerable pressure on member states to ‘do something’, we view this line of argument as particularly convincing in our case. Finally, it has been demonstrated (Thomson 2011) that models that exclude the status quo generate the most accurate predictions, potentially because of the great difficulties in validly measuring, and incorporating, the utility of disagreement outcomes (Achen 2006).

Measuring preferences, institutions, and power

To reflect the effect that may flow from holding a centrist position (*H1*), we include the variable *centrality*, operationalized as the distance from the mean issue position (cf. Bailer 2004; Thomson 2011). To reflect the direction of our hypothesis, we award the highest value (100) to members whose preference is identical to the mean and lower values to members with more extreme preferences.

To capture the influence that may flow from sharing a position with the Commission (*H2*), the dummy variable *Commission coalition* takes the value of 1 if a member state’s position overlaps with that of the Commission. As part of our robustness checks, we estimate models with variables capturing coalitions with the European Central Bank (ECB) and the EP.⁵ These measures reflect interest coalitions based on shared preferences and do not imply formal collaboration.

To evaluate our third hypothesis (*H3*), we include interactions with an indicator for *legislative procedure*. This indicator is either coded as ‘OLP’, representing the ordinary legislative procedure in which the Commission proposes legislation, decisions are adopted via QMV in the Council, and the EP functions as co-legislator, or ‘unanimity’, representing all

other intergovernmental procedures including the special legislative procedure and intergovernmental treaty procedures.⁶

To assess the main alternative explanation, we include measures of member state bargaining power, understood as a function of structural resources, chairmanship position, network capital, and domestic constraints.⁷ Here, economic power is operationalized as nominal gross domestic product (*GDP*), averaged over the period of study. The variable *presidency* indicates whether a state held the rotating Council Presidency when an issue was decided. The variable *network capital* is sourced from Naurin (2007) to measure the relative depth of states' diplomatic connections within the EU sphere. Domestic constraints are captured via three separate factors. The variable *EU skepticism* is operationalized as the percentage of the population that views membership in the EU is a 'bad thing' (Eurobarometer 2010). The variable *parliamentary power index* measures the power of the national parliament over EU policy (Winzen 2012). *Bargaining fragmentation* is the number of parties in the national parliament, weighted by relative size (Andersson et al. 2014)

Control Variables

We condition on a selection of covariates thought to be correlated both with aforementioned predictors and bargaining outcomes. To account for variation in how deeply member states care about different issues, we include the variable *preference salience*, ranging from 0 to 10. Since the data contain issues of varying importance, we control for *issue importance*. Based on the assumption that more important issues will generate a higher number of public member state positions, this variable is operationalized as the count of members that expressed a preference on an issue. To account for differences across members and non-members of the Eurozone, we include the dichotomous variable *Euro area*. Lastly, we include a set of measures to proxy the stakes involved for the observed country. The variable *aid program* is coded as 1 for all

countries that received aid from the IMF or the EFSF/ESM prior to the observed negotiation and 0 otherwise; the variable *interest rate spread* is the long-term interest rate spread over German bonds; and *budget deficit* is the budget deficit as a share of GDP.

The resulting dataset contains a total of 766 observations across 19 main variables. Some variables, including *preference salience* and variables used to proxy domestic constraints, exhibit considerable missingness; we therefore estimate models both with and without such variables.

Results

Descriptive analysis

We begin our empirical analysis by investigating descriptive patterns in bargaining success. Figure 2 exhibits the bargaining success scores attained by individual member states and different categories of member states, measured as an average across all the issues. The score thus gives an indication of how well actors fared not in any individual negotiation but over the entire course of formal negotiations over Eurozone reforms. Higher scores correspond to a smaller distance between initial preferences and outcomes and thus indicate a higher degree of bargaining success; lower scores correspond to a lower degree of bargaining success.

Two key patterns emerge from the data in Figure 2. First, average bargaining success is remarkably evenly distributed. With the exception of Slovakia, which appears to have been short-changed, there are few clear ‘winners’ and ‘losers’. On a spectrum from 100 (no loss across all issues) to 0 (full loss across all issues), member states concentrate in the span between 55 and 75, with an average of 60.8. The symmetric distribution of gains and losses indicate that the nature of these negotiations corresponds to patterns observed for other negotiation processes within the EU, which frequently exhibit similar outcome distributions (Arregui and Thomson

2009; Bailer 2004; Slapin 2006). Below, we examine some possible reasons for this pattern, including a quantitative examination of compromise and reciprocity.

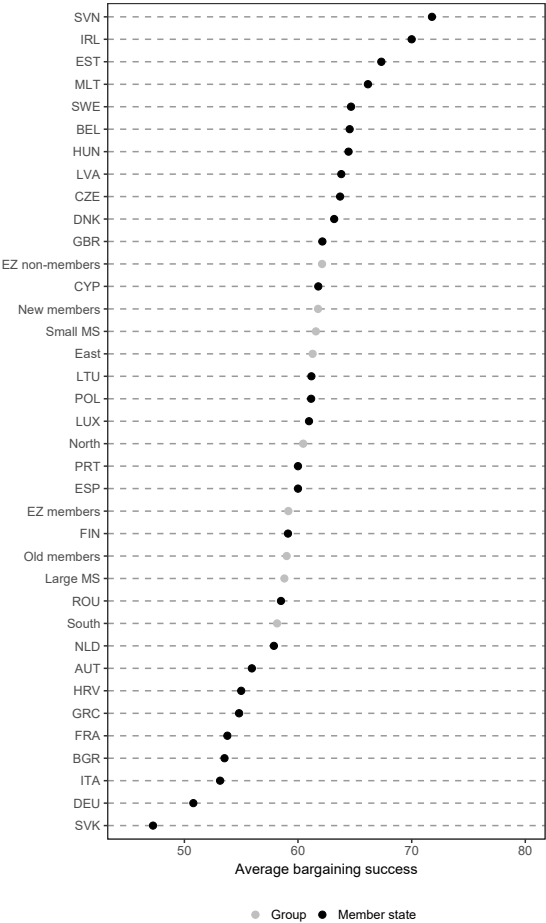


Figure 2: Mean bargaining success by country and group. Higher values indicate greater preference attainment.

Secondly, within the relative symmetry, there are indications of variation between different categories of states. Members categorized as old (above the median EU membership length) and large (above median population size), Eurozone members, and Southern members fare less well than members who are new, small, remain outside the Eurozone, and are located in the North or the East. This pattern is epitomized by the comparatively low bargaining success

attained by the three large countries in the Eurozone—Germany, France, and Italy—which all rank among the five least successful countries, and in the relative success attained by some smaller, more peripheral countries, such as Estonia or Ireland.

Explanatory analysis

To evaluate our hypotheses, we proceed to multivariate regression analysis and seek to identify whether and to which degree preferences, institutions, and power impacted negotiation outcomes. Reflecting the structure of the data, where country-level observations of bargaining success are clustered within issues (Wasserfallen et al. 2019), we employ a two-level hierarchical model with random effects for issues (Gelman and Hill 2007). This two-level model choice reflects a balance between parsimony and the need to account for dependencies among observations. Modeling the data with complex structures does not improve model performance. The AIC scores of more complex, cross-nested models with random effects for issues, countries and packages are higher compared to the main models reported in Table 1, which suggests that the model fit decreases. In addition, the more complex models reported in the Online appendix corroborate the substantive results of the simpler models of Table 1.⁸

Table 1 reports regression results across six different specifications. Models 1 and 2 are fitted on data that exclude variables for domestic constraints and preference salience, which have proportionately high missingness (see Online appendix); Models 3 and 4 include interactions with *OLP* and *Commission coalition*, respectively; Models 5 and 6 include a longer vector of explanatory variables and controls. Models 1, 3, 4, and 5 use the continuous dependent variable, Models 2 and 6 use the dichotomous dependent variable. With a few exceptions, the results are consistent across these different specifications.

Table 1: Multilevel models of bargaining success

	<i>Linear</i> (1)	<i>Logistic</i> (2)	<i>Linear, interactions</i> (3)	<i>Linear, interactions</i> (4)	<i>Linear, additional controls</i> (5)	<i>Logistic, additional controls</i> (6)
Centrality	0.31*** (0.08)	0.02** (0.01)	0.21** (0.09)	0.42*** (0.08)	0.51*** (0.10)	0.03*** (0.01)
Commission coalition	38.41*** (3.10)	2.96*** (0.33)	39.89*** (3.21)	25.78*** (4.03)	29.74*** (3.84)	3.01*** (0.48)
GDP	-0.003 (0.003)	-0.001* (0.0004)	-0.003 (0.003)	-0.003 (0.003)	-0.01* (0.01)	-0.001* (0.001)
Network capital	3.34 (3.12)	0.72** (0.34)	3.48 (3.12)	3.15 (3.08)	7.35* (4.22)	1.13** (0.55)
Presidency	0.27 (6.60)	0.47 (0.72)	-0.06 (6.60)	-1.89 (6.52)	-2.63 (7.50)	0.09 (0.95)
Issue importance	0.16 (0.60)	-0.09 (0.07)	0.39 (0.64)	0.51 (0.62)	0.41 (0.97)	-0.09 (0.12)
Euro area	-1.53 (3.60)	-0.07 (0.38)	-1.53 (3.60)	-2.93 (3.56)	5.07 (5.25)	0.74 (0.67)
Aid program	4.18 (4.65)	0.12 (0.54)	3.99 (4.65)	4.07 (4.58)	2.56 (5.73)	0.09 (0.79)
Budget deficit	-0.11 (0.39)	0.02 (0.04)	-0.09 (0.39)	-0.09 (0.39)	0.24 (0.52)	0.08 (0.06)
Spread	-0.36 (0.48)	0.02 (0.05)	-0.29 (0.48)	-0.30 (0.47)	0.22 (1.10)	0.13 (0.14)
OLP			-23.58* (12.50)	-19.23** (7.57)	-5.77 (9.75)	0.03 (1.26)
Centrality × OLP			0.28* (0.16)			
Com. coal. × OLP				28.94*** (6.11)		
Parliamentary power					1.54 (2.71)	0.47 (0.33)
EU skepticism					0.16 (0.25)	0.01 (0.03)
Bargaining fragmentation					0.57 (1.01)	0.15 (0.13)
Preference salience					0.58 (0.83)	-0.05 (0.10)
Constant	13.73 (14.37)	-2.47 (1.64)	16.14 (14.63)	9.16 (14.04)	-15.00 (22.48)	-5.64* (2.91)
Issue-level s.d.	17.0	2.0	17.0	16.3	21.5	2.7
Observations	620	620	620	620	376	376
Log Likelihood	-3,001.98	-233.36	-2,998.12	-2,985.12	-1,789.81	-130.57
AIC	6,029.96	490.73	6,026.24	6,000.24	3,615.61	295.13

Notes: Multilevel models with random effects for issues. Model 1, 3, 4, and 5 are linear models; Models 2 and 6 logistic. Standard errors in parenthesis. All models estimated with R version 3.5.0 using the lmer and glmer packages. *p<0.1; **p<0.05; ***p<0.01.

In line with *H1*, we observe that the position of a state's preferences relative to those of other states affects its bargaining success. The coefficient on *centrality* is positive and statistically significant at conventional levels across all models, regardless of whether we employ the continuous or dichotomous outcome measure. This suggests that there are benefits to centrism and, conversely, that holding a preference that departs from the EU mainstream lowers the probability of attaining that preference. In substantive terms, a given divergence from the average preference translates into an estimated reduction of bargaining success of about a third of that divergence (the coefficient is 0.31 in Model 1). For example, if a state's position is 20 points from the mean preference, its predicted bargaining success is 6 points lower than if it had shared the mean preference.

While high centrality oftentimes results in bargaining gains, we observe some cases where countries with more extreme positions achieve success. One example is the negotiation over a possible redemption fund in the two-pack legislation (TP1), where a coalition of 6 member states managed to win the day against a coalition of 12 states, despite the latter group having higher centrality.

Consistent with *H2* and some earlier work (Cross 2013), we find that sharing preferences with the Commission translates into higher success. On average, countries aligned with the Commission end up 38 points closer to their preference than other countries (Model 1). This result likely reflects the Commission's role as formal agenda setter on those EMU reforms that were negotiated on the basis of the OLP and its informal influence on those reforms negotiated through intergovernmental procedures.

The alternative interpretation, that the Commission strategically positions itself to capture the centre of the preference distribution, lacks systematic support in the data. The Commission's initial preferences are generally as distant from the centre as those of the average member state.

Furthermore, our data show that Commission adopted more extreme and more integrationist preferences, the greater its formal inclusion in the decision-making process.⁹

The expectation of *H3* that the effect of centrist positions and alignment with the Commission would be reinforced in negotiations based on the ordinary legislative procedure is also borne out (Models 3 and 4). As can be seen in Model 3, the positive coefficient on the interaction variable suggests that the effect of *centrality* is accentuated by a factor of 0.28 for issues determined via OLP compared with those determined via procedures involving unanimity. Figure 3 illustrates these effects. This finding is consistent with the expectation that extreme preferences are particularly disadvantageous when outlier states do not have to be brought on board. Likewise, the effect of sharing a position with the Commission is reinforced under OLP, likely because this procedure involves formal agenda-setting by the Commission and co-decision by the EP, which, by extension, favors the preferences of member states aligned with the Commission.¹⁰

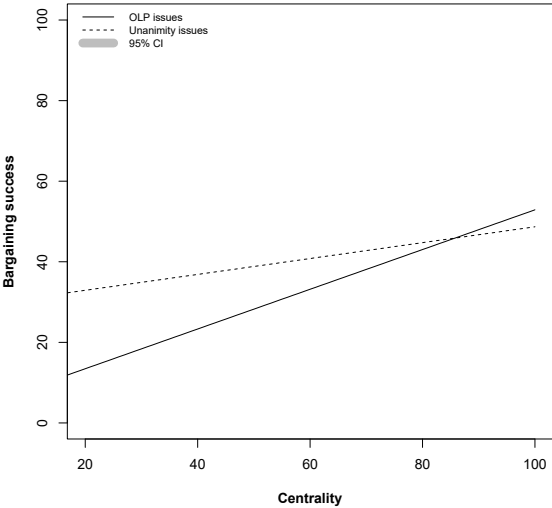


Figure 3: Interaction effect between decision rule and centrality

Our results thus far suggest considerable support for our theoretical argument. In contrast, few of the variables used to proxy the influence of power resources are positive and significant. Countries with larger economies, that held the Presidency, or which had domestic constraints were not more able to attain their preferred outcomes in the Eurozone reform negotiations. As the negative coefficient on GDP suggests, larger economies may even have done worse than smaller economies. The exception is network capital, which has a positive effect across all models and is statistically significant in some models.

Turning to the control variables, holding more intense preferences, as captured by *preference salience*, is not associated with success. Similarly, none of the variables used to capture the stakes at play for countries (*aid program*, *budget deficit*, and *interest rate spread*) has a consistent impact. Finally, of the additional controls entered in Models 5 and 6, several variables tapping domestic constraints are positively associated with success. However, as the small t-statistics suggest, our sample is too small to conclude whether these are systematic effects.

In sum, these results suggest that the spatial distribution of preferences and their interaction with institutional rules offer the best explanation of bargaining success in the reform of Eurozone. Holding a preference far from the mainstream predicts failure; sharing the Commission's preference and holding a more centrist preference predict success. These dynamics are reinforced during the ordinary legislative procedure, most likely due to the impact of OLP and the more expansive role of the Commission. Beyond that, most variables offer little explanatory insight. Some of our null findings align with previous findings, such as the impotency of structural power in formal negotiations (Arregui 2016; Bailer 2004; Slapin 2006;) and the non-impact of holding the presidency (Arregui and Thomson 2009). Taken as a whole, the findings suggest that success in formal EU negotiations is not primarily determined by

power differentials, is distributed across member states without systematic and significant asymmetries, and is dependent on the strategic parameters of the negotiation setting.

These findings are intriguing, as they run counter to the prevailing power-oriented narrative of the Eurozone reform negotiations. As a next step, we discuss three complementary interpretations. First, the influence of larger economies may have been neutralized by their deep commitment to the Euro. Qualitative data appear to support this interpretation. Dyson (2015) argues that the bargaining power of many larger members is ‘asymmetric’. While highly resourced, their commitment to and dependency on the Euro project creates vulnerabilities that can be exploited by other countries. Not only are Germany and other larger countries perceived as guardians of European integration, they are also, on account of their deep financial integration, particularly vulnerable to the Euro’s disintegration. The widely publicized 2011 statement by Angela Merkel, ‘if the euro fails, Europe fails’, is indicative of this relationship. Dyson argues that once negotiators understood that Germany ‘lacked a credible exit strategy’, its bargaining leverage was significantly undermined. If this logic generalizes to other large countries, our results may reflect how political commitments made outside the immediate sphere of the studied negotiations can constrain the exercise of power resources within them.

Secondly, our results may be influenced by selection effects. The data are restricted to issues subject to negotiation and exclude issues that were left outside, possibly on the initiative of more powerful states. A possible example is the 2012 debate about whether Greece should exit the Eurozone, an option that was eventually quieted at the initiative of Germany and France. As former French president François Hollande expressed it, the question of a Greek exit from the Eurozone ‘is a non-issue’ (Agence Europe 2012). When the debate arose again in 2015, Germany and France were once more instrumental in keeping this topic from the agenda (Agence Europe 2015). Similarly, ideas that the crisis reforms could include the creation of Eurobonds were kept off the agenda through German resistance (Degner and Leuffen 2019).

These examples suggest that powerful countries may have had some opportunities to shape the reform agenda beforehand. Still, such non-issues are likely to have been an exception, given the range of reforms negotiated in this period, several of which involved early German resistance (e.g. bailing out Greece and setting up the EFSF). Yet, recognizing the possibility that such pre-selection of issues by the EU's powerful states may have occurred, our conclusions pertain primarily to the issues under negotiation.

Thirdly, it is possible that the findings reflect larger member states having more extremist preferences than smaller states (Lehner and Wasserfallen 2019). If agreements are reached through concessions and compromises, as we theorize, these bargaining dynamics disadvantage parties with extremist preferences and benefit those with centrist. Historically, France and Germany have often defined the end points of major EU negotiations (Moravcsik 1998). Degner and Leuffen (2019) show that this pattern extends to Eurozone reform negotiations. On many issues, larger member states formulated the opposing positions that defined the bargaining space. While this caused them to make larger concessions, as we have shown, it may also have allowed them to shape the negotiations in other ways (see Finke and Bailer 2019). To consider this possibility, we estimated the extent to which member states moved the outcome toward their own preference and away from the outcome expected in a simple baseline model, calculated as the weighted median preference (cf. Achen 2006: 269). The results show that states holding more extreme preferences were more capable of extracting concessions and that Germany was the most influential member state. So, while Germany was one of the countries that had to give most ground in the reform negotiations, it was also the most successful in moving other countries—in both cases because of its extreme preferences.

Unpacking bargaining dynamics: Compromise and reciprocity

While the descriptive and explanatory findings are consistent with our theoretical expectations, they offer little direct insight into the process through which these results were produced. We therefore extend the analysis by looking more closely at the bargaining dynamics involved in the Eurozone reforms.

In a concession–convergence bargaining dynamic (Rubin 1994), also called a distributive bargaining dynamic (Walton and McKersie 1965), opposing sides go through stepwise concessions to find a negotiated outcome. Agreement can be found via *compromises*, mutual concessions within the same issue, or via *specific reciprocity*, the exchange of gains across issues within the same package (Poast 2012). These dynamics are likely to occur in information-dense negotiation environments in which issues and trade-offs are well understood and actors interact repeatedly (Tollison and Willet 1979), such as the Eurogroup or the European Council.

The presence of compromises would produce a pattern of concessions marked by balanced losses by two opposing negotiation camps, with the outcome situated somewhere between their initial positions. Of the 39 issues in our data, ten bear the marks of such compromises (Online appendix). Six of these are compromises in which the outcome is a ‘new’ position not held by any member state at the outset; four are compromises in which two camps converged on a middle position already held by a subset of member states.

One example is the question of deadlines for the Single Supervisory Mechanism of the Banking Union (BU6) where agreement was reached after two opposing camps made concessions of comparable magnitude (Figure 4). Another example, involving a more asymmetrical distribution of concessions, pertains to private sector involvement in Greek debt restructuring (ESM4). Germany and the Netherlands called for ‘necessary arrangements for an adequate participation of private creditors’, whereas Greece, Spain, and France, among others, opposed it on the grounds that it could complicate the issuing of sovereign bonds. The

negotiations involved concessions from both sides but ended with an outcome closer to the latter camp (at position 20): the compromise solution was to rely on the standard IMF practice, which calls for private sector involvement only in exceptional cases.

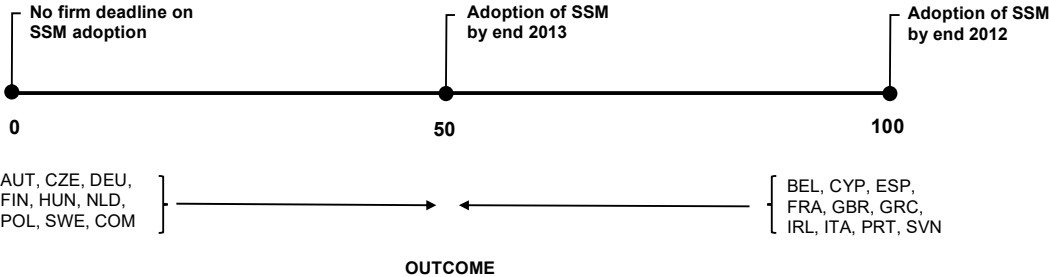


Figure 4: *Compromise outcome in negotiations on issue BU6 (Single Supervisory Mechanism implementation deadlines).*

Turning to specific reciprocity in the form of issue linkages, we are looking for signs of member states trading gains across issues. We propose that specific reciprocity is likely to have taken place where we observe large and unbalanced concessions that favour one coalition asymmetrically within a specific issue but where the overall distribution of gains within a package (set of linked issues) is relatively even (cf. Tollison and Willett 1979). We identified 13 issues in which the average concession (by those making a concession) was a maximum concession of 100 points, and such concessions were made by alternating camps across different issues within the same package. These issues are prevalent in the negotiations of the EFSF, the Greek packages, and the Fiscal Compact.

One example is the negotiation of the EFSF. As the idea of creating a mechanism for loan guarantees was first proposed, four countries took an opposing position: Germany, Great

Britain, Czech Republic, and Slovakia (EFSF 1 in Figure 5). As negotiations proceeded, they conceded this position and joined in the agreement to establish the EFSF, the preferred outcome of the opposing coalition. However, it appears that they managed to trade this concession against gains on the design of the EFSF, specifically the issue of IMF involvement, as members of the opposing coalition, including France and Italy, moved to adopt the position held by Germany, Great Britain, and Czech Republic (EFSF 2 in Figure 5).

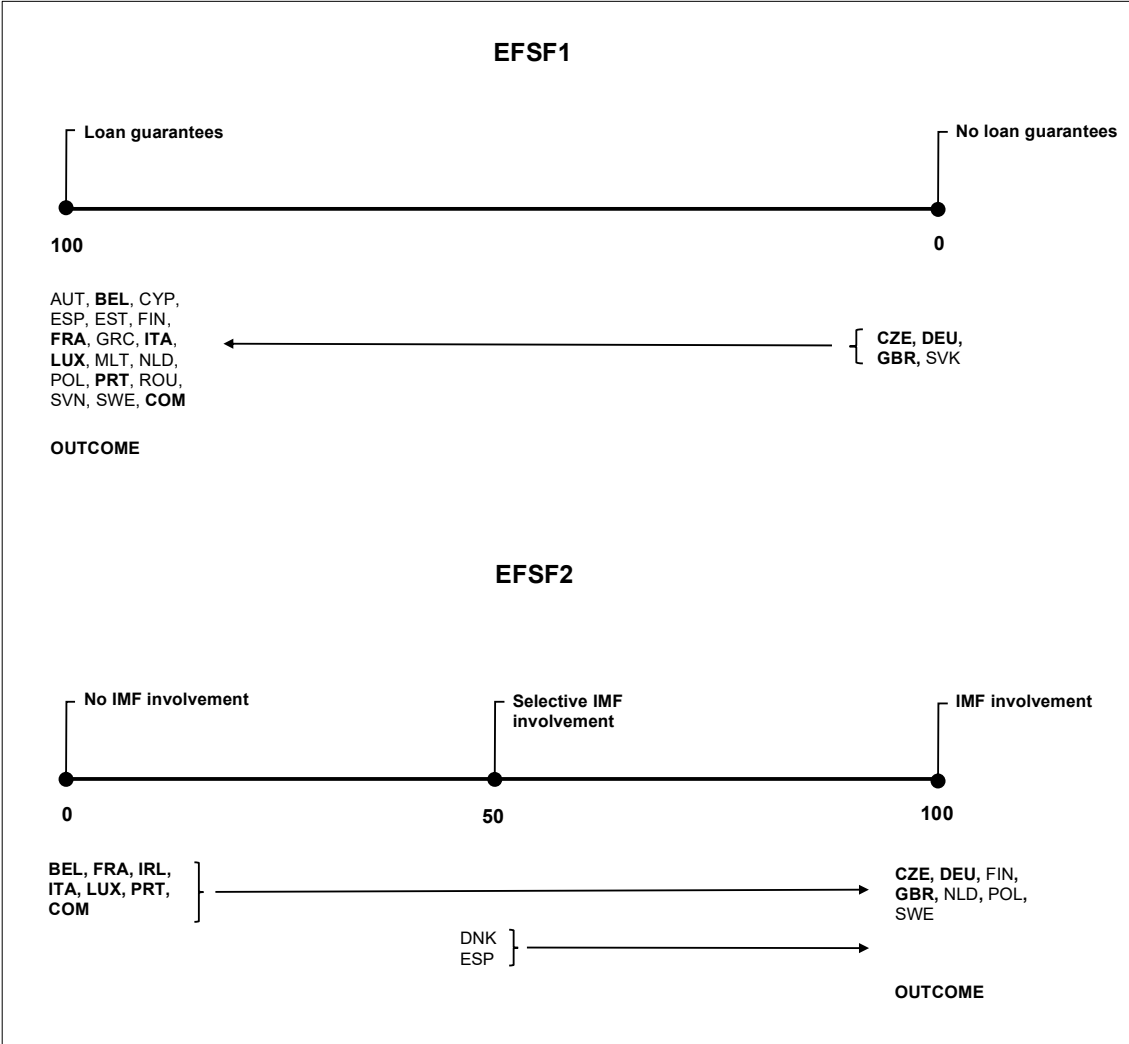


Figure 5: Trading of concessions on two issues that are part of the same package (EFSF 1 and 2), indicating specific reciprocity between countries in bold font.

In sum, these data suggest that negotiations were characterized by compromise and reciprocity, which helps to explain why power indicators do not predict bargaining success while centrism does and why gains were relatively evenly distributed. Not only does it appear that member states engaged in concession–convergence bargaining on individual issues; in addition, they seem to have traded concessions on one issue against gains on another issue as part of the same negotiation package. In a broader perspective, these dynamics also help to explain why the EU managed to arrive at a string of reforms despite negotiation issues being aligned on one central dimension of contention, which ordinarily should have made agreement more difficult (Lehner and Wasserfallen 2019).

Conclusion

From 2010 to 2015, EU governments negotiated consecutive reforms to the governance of the Eurozone which, taken together, represent perhaps the most significant deepening of European integration in modern times. According to the conventional narrative, this was a process whose outcomes were dictated by Germany. In this article, we have offered the first systematic assessment of bargaining success in the reform of the Eurozone, building on a new and unique dataset on the positions of all EU member states on all key reform proposals. We have confronted the data with expectations from two theories of bargaining success: our privileged argument, emphasizing preferences and institutions; and an alternative argument, highlighting power resources.

Our principal findings are three-fold. First, member states enjoyed surprisingly even bargaining success. Contrary to the conventional narrative, Germany did not dictate the terms of the Eurozone reforms. While larger states may have shaped the reform agenda, they were constrained in the actual negotiations by their extreme preferences and political commitments to the project of European integration. Secondly, states' power resources were of limited

importance for bargaining success. Instead, factors which mattered are related to the position of preferences and their interaction with institutional rules. Member states with less extreme preferences were more successful in achieving their preferred outcomes, as were states sharing the position of the Commission. Both of these effects are accentuated under QMV. Thirdly, these patterns in bargaining success and its sources partly reflect a dynamic of compromise and reciprocity. Member states traded gains and concessions both within issues, as they converged on compromise solutions, and across issues, as they exchanged wins and losses within larger reform packages.

These findings carry three broader implications for our understanding of negotiation and politics in the EU. First, they suggest that the EU is a bargaining setting in which power does not dictate outcomes at the negotiation table. While the EU's larger member states to some extent may have influenced what issues came up for negotiation, our results are consistent with earlier accounts finding against superior bargaining success for the most resourceful states in EU legislative negotiations (Arregui 2016; Arregui and Thomson 2009; Bailer 2004; Cross 2013; Golub 2012; Slapin 2006; Thomson 2011). Yet, it is noteworthy that this pattern extends to the reform of the Eurozone, often thought to herald a shift in European power dynamics in the direction of German dominance (e.g. Brunnenmeier 2016). This pattern sets the EU apart from some other international negotiation settings, such as global climate governance and global economic governance, in which power resources have been shown to matter. This pattern may be due to the EU's comparatively lower level of heterogeneity in the distribution of power resources, the existence of a well-developed system of concessions and compromises, or vulnerabilities emerging from the deep commitments some larger countries have made to the project of European financial integration (Dyson 2015).

Secondly, and related, the results suggest that a spatial approach anchored in rational choice institutionalism can take us far in understanding the nature of EU negotiations. This is

partly due to the limited importance of power differentials, which otherwise are a factor that such models have difficulties integrating and often are accused of neglecting. Our analysis shows that the positioning of state preferences has important implications for patterns of bargaining success and favours states with centrist preferences over states with extreme preferences. Consistent with the expectations of rational institutionalist analysis, this pattern is particularly strong under QMV, which permits outlier states to be excluded. Equally consistent is the greater bargaining success that flows from sharing a position with the EU's privileged agenda setter, the Commission. Finally, the general bargaining dynamics of the exchange of gains and concessions within and across issues make sense within a spatial setting that privileges the distribution of actor preferences and the mechanisms by which such distributions can be translated into agreements with sufficient support.

Thirdly, these results speak to concerns about legitimacy in the reform of the Eurozone. A number of researchers have pointed to the potentially detrimental consequences for the legitimacy of the EU if some states were disproportionately more influential in determining policy outcomes (Arregui and Thomson 2009; Golub 2012). A consistently asymmetric distribution of gains and burdens would challenge normative principles of fairness and could undermine public confidence in the EU as a political system serving the collective interest. For many, the Eurozone reforms have been seen as the epitome of an unfair process and outcome in which self-interested creditors have called the shots and suffering debtors have been forced to accept what they can get. Our findings shed a different light on this issue and should assuage some fears of poor legitimacy. While the economic woes of the crisis were certainly highly unevenly distributed, the steps taken to resolve the crisis reflected a balancing of gains and concessions that left no states as unequivocal winners or losers.

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¹ The *EMU Positions* dataset is described in detail in Wasserfallen et al. 2019. We use the ScoresFR version of the data.

² The *EMU Positions* data cover 47 issues. We exclude eight issues that provide no information on bargaining success, including six issues without negotiated outcomes and two issues where outcomes were reached without concessions.

³ The Online appendix exhibits the distribution of preferences for the 39 issues.

⁴ Of the 39 issues in our sample, less than half include preferences that could be interpreted as doing nothing. See *EMU Positions* codebook.

⁵ Online appendix. Our data records preferences for EP and ECB on 37 and 32 issues, respectively.

⁶ The Online appendix lists the decision-making procedure for each issue.

⁷ An additional measure of power, the voting weight in the Council, was removed due to collinearity (with GDP).

⁸ We took several steps to ensure that our results were not sensitive to particularities of model specification or operationalization. The Online appendix presents extensive robustness checks.

⁹ Across all issues, the Commission's mean centrality is 64, statistically indistinguishable from the member state mean of 67. Assuming proposals closer to 100 reflect integrationist preferences, the Commission's mean preference on OLP issues was more integrationist (73.3) and more extremist (centrality of 48) than on non-OLP issues (mean preference of 58.8; centrality of 72). The mean outcome on OLP issues was 55.5 and 42.2 for non-OLP issues.

¹⁰ The Commission may draw support from sharing a position with the EP, which occurred in 7 out of 10 issues determined via the OLP. The Online appendix presents results for interest coalitions with the EP.