

The More the Merrier:
The Impact of Enlargement on EU Budgetary Negotiations

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Abstract

Why were some of the European Union (EU) budgets vetoed in the earlier years of the EU but we do not observe any vetoes lately? Recent research on the EU budget proposes insufficient explanations of the reduction in conflict on budgetary negotiations. The literature on enlargement is pessimistic about the effects of enlargement, especially when dealing with EU funds where member states are expected to fight more. The existing bargaining models offer some insights on the cooperative dynamics in the EU, but provide no empirical testing. I argue that enlargement stabilizes the budgetary process and makes cooperation more durable among the budgetary authorities – the European Commission, the European Parliament and the Council of Ministers. Using formal theory and regression analysis, I show that every country that joins the EU increases the bargaining space on the budget and thus makes agreement more likely.

1. Introduction

Why were some of the European Union (EU) budgets vetoed¹ in the earlier years of the EU² but we do not observe any vetoes lately? Insights on this question might clarify why a procedure that seems conflictive - bargaining over money – can promote cooperation between states and institutions. It is important to understand the EU budgetary game because it describes the conditions under which the various players exercise their power. While studying budgets is worthwhile because decisions in politics involve money, understanding the EU budget is essential to understanding the EU as a whole, how decision-making functions and how the member states and the institutions negotiate. In addition, the outcomes of EU budgetary negotiations can provide answers to which European political goals and common policies are actually supported.

Scholars that work on the EU budget offer insufficient explanations of the variation in budgetary vetoes. Lindner (2006) argues that institutional change – the 1988 budgetary reform – significantly reduced conflict on the EU budget. Lindner explains the tensions between the budgetary authorities in the 1980s as a consequence of the problematic design of the 1970 budget treaty – the exclusion of the distributive and institutional interests of the new members and the EP, and the wide scope of interpretation (Lindner 2006, 2). Laffan and Lindner (2005) argue that lower conflict on the EU annual budget is a result of the lock-in effect of the multi-annual budgetary bargains that are, in essence, very difficult negotiations. Laffan and Lindner acknowledge the intergovernmental nature of the budgetary game, yet argue that the power of the EP

¹ I define a veto as an opposition by any participant in the budgetary game that leads to the rejection of the budget as a whole.

² European Community/ies

has increased considerably in budgetary matters, while the influence of the Commission has decreased over time (Laffan and Lindner 2005, 210-211). While one expects an increase in the power of the EP to increase the probability of vetoes on the budget, recently we have observed a more powerful EP, continued conflict between the Council and the EP as the two budgetary authorities, yet no vetoes on the budget.

Recent research does not answer the question of why there have not been any vetoes on the budget lately. I argue that enlargement stabilizes the budgetary process and makes cooperation more durable among the budgetary authorities. Using formal theory and regression analysis, I show that every country that joins the EU increases the bargaining space³ on the budget and thus makes agreement more likely. This seems counter-intuitive because policy-makers in Brussels and some social scientists argue that, as more countries join, the EU mechanisms become more complex, hence the increased likelihood to end in deadlock: “The conventional view is that the increase in the number of member states and the greater diversity of their views will not only create pressure for financial transfers, it will also trigger breakdown or gridlock in the EU’s decision-making process.” (Moravcsik and Vachudova 2003, 54) If my theory and findings are applied to other EU legislative procedures, then there will be strong evidence that enlargement does not endanger the EU construction because it has positive effects.

In the next section I briefly outline the EU budgetary procedure and assess my theory against existing explanations. In the third section I introduce a spatial model of the budgetary game, characterize the equilibrium and derive the hypotheses. In the fourth section I present the statistical results and in the last section I discuss my findings.

2. Theory

³ I define the bargaining space as the range of possible budgetary appropriations for a given year.

We no longer see vetoes on the budget because enlargement stabilizes the budgetary process and thus cooperation among the budgetary players becomes durable. While in the 1980s the EU/EC budgets were rejected almost every year, the enlargement of the EU with Spain and Portugal (1987), Austria, Finland and Sweden (1994), and then the Central and Eastern European new member states⁴ (2004 and 2007) has made negotiations on the budget easier. Even though EU heterogeneity has increased, more member states lead to many more possible ways to divide resources and many more possible coalitions for/against a certain budget. Without doubt, the EU budget is an area where inter-institutional politics plays a key role, as it is crucial to the good functioning of all the other policies. The process of making budgets in the EU involves the ‘high politics’ of the European Council and an annual budgetary cycle that includes tough battles between the two arms of the budgetary authority – the Council and the EP – mediated by the Commission. The adoption of the budget shows how cooperative outcomes can be achieved: the Council (i.e. member states), the EP and the Commission prefer different levels of the budget – different increases in resources – but in the end they are able to reach an agreement on an optimal outcome. However, if the bargaining space is extremely small, there might be no optimal solution.

Given that "the budget is a focus for repeated negotiation among the EU member states and institutions, following firmly established rules" (Laffan and Lindner 2005, 191), the EU annual budgetary procedure can be modeled from a rational choice perspective as a bargaining game between the Council, the Commission and the EP. In order to understand these negotiations, it is necessary to outline the way in which the

⁴ Poland, Hungary, the Czech Republic, Slovenia, Slovakia, Lithuania, Latvia, Estonia, Malta and Cyprus in 2004 and Romania and Bulgaria in 2007.

budgetary procedure works. The budgetary procedure is based on Articles 268 to 280 of the Treaty Establishing the European Community (Nice consolidated version 2002) and Article 177 of the Treaty Establishing the European Atomic Energy Community. The EU budget has common features with a national budget: unity⁵, annuality⁶, specification⁷, but it also differs in universality⁸ and equilibrium⁹. The EU budget relies almost exclusively on the contributions of member states, capped at 1.24% of the EU GNI (Gross National Income)¹⁰, which are collected in what is called the EU own resources mechanism. Before June 15 every year, the Commission presents the preliminary budgetary draft to the Council. The Council conducts the first reading, votes by qualified majority¹¹ before July 31 and sends the draft budget to the EP by the first half of September. In October, the EP conducts the first reading and proposes modifications on compulsory expenditures¹² (necessarily resulting from the treaties or other acts accordingly) by an absolute majority of votes cast. The EP also proposes amendments on non-compulsory expenditure by an absolute majority of members and then the draft budget is 'shuttled' to the Council. The Council conducts the second reading by the third week of November and has a conciliation meeting with the EP. Then, voting by qualified majority, the Council accepts or rejects the EP amendments on non-compulsory

⁵ There is only one budgetary document in which revenues and expenditures are listed.

⁶ The budget refers to only one financial year.

⁷ All expenditures and revenues have to be mentioned in an article of the budget, otherwise the funds cannot be collected or spent.

⁸ There are no special revenues out of which particular items of expenditures are financed.

⁹ No deficit or surplus is allowed; if a deficit occurs, it is entered as expenditure in the coming financial year; if a surplus occurs, it is carried over as revenue to the next financial year.

¹⁰ Equivalent to 1.27% of GNP according to the old European System of Accounts (prior to 1995)

¹¹ The qualified majority is explained in Section 3.

¹² Essentially the agricultural guaranteed expenditures.

expenditure and the proposed modifications on compulsory expenditure. By November 22, the Council sends back the amended draft budget to the EP, which conducts the second reading in December. By an absolute majority of members, the EP accepts or rejects the Council's proposals on non-compulsory expenditure, and then either adopts the budget with a majority of members and three-fifths of votes cast or rejects the entire budget with a majority of members and two-thirds of votes cast.

Since Laffan and Lindner (2005) argue that the EU multi-annual financial framework¹³ is critical in reducing conflict on the EU budget, the relationship between the multi-annual perspective and the annual budget needs to be explained. The multi-annual financial framework was designed to pinpoint the budgetary priorities for a given period (usually five to seven years) and set a ceiling for expenditures and revenues, so that forthcoming increases are kept under control. In this way, there are maximum amounts set for every policy, reflected by the corresponding expenditure category. Thus, the financial framework ensures annual budgetary discipline and projects future spending, establishing maximum amounts that are binding for all parties involved (the Commission, the Council and the EP). It is worth noting that the financial framework is not a multi-annual budget, but a collection of forecast of expenditures that helps to maintain budgetary discipline by introducing a budgetary constraint. Even though the adoption of the financial perspective is surrounded by heated debates, as it is subject to the unanimity decision rule, the annual budgetary procedure remains crucial in determining the actual levels of revenues and expenditures for each given year. Empirically, for every expenditure heading represented in the multi-annual framework,

¹³ The term is synonym with 'perspective' and is used interchangeably.

the maximum amounts represent ‘extreme’ preferences that the budgetary outcome rarely reaches. While Lindner (2006) makes the argument that the financial framework introduces stability, his theory cannot explain why there was a veto on the budgets in the 1990s or why the players bargain every year if they already know the outcomes – i.e. the amounts stipulated in the multi-annual perspective.

In my analysis, I draw on the existing literature that offers several ways of analyzing the bargaining between the EU budgetary authorities. Tsebelis and Money (1997) consider the EU a bicameral legislature with the Council as the upper chamber and the EP as the lower chamber: the lower chamber gains veto power over the agenda-setter when the navette¹⁴ procedure is employed, since the more impatient chamber - the upper chamber - is more willing to make a concession. Tsebelis (2002) argues that more veto players lead to policy stability because it is not possible to agree on a change, and Tsebelis and Chang note that, since the preferences of the EP and the Council are divergent in terms of increasing the budget, the EU budgetary system is stable, leaving little room for exceptional changes (Tsebelis and Chang 2004, 449). As it is not enough to explain the budgetary stability by the increased powers of the EP and the resemblance with bicameralism and federalism, my theory refines the veto players argument by claiming that increasing divergent preferences provide more room for bargaining and thus produce more stable outcomes, in line with Tsebelis’ theory.

Putnam (1988), Crombez (1997) and Snyder et al (2005) offer inspiring bargaining models that help to construct my theory, even though neither author provides

¹⁴ The navette or shuttle system is a way to resolve disagreements between the two chambers of a legislature. The house that first passes a bill sends the legislation to the second house; if the second house ratifies the legislation, the process ends; if not, the second house amends the legislation and sends it back. (Tsebelis and Money 1997, 63).

empirical tests of the respective theory. Although Putnam's bargaining space – the winset / minimal winning coalition¹⁵ – is determined by domestic constituencies and thus is derived in a different way than I do in my formal model, his claim is similar to mine: when negotiators have a larger win-set, they can more easily conclude an agreement, as they have more room for maneuver, but their bargaining positions are weaker (Putnam 1988, 450). Crombez (1997) provides a formal model for the EU co-decision procedure (but no empirical testing) from which I borrow, but the insights he derives concern the power of the actors involved and not the likelihood of agreement. If my theory on the impact of enlargement on the likelihood of agreement were to be tested on the Crombez model and significant results were found, the effect of enlargement would become not only positive but wide-spread. While considering the EU as a case where both proposal power and voting power are maldistributed, Ansolabehere, Snyder and Ting (2003, 472) offer useful insights on weighted voting and resource distribution. Snyder, Ting and Ansolabehere (2005, 991) propose and apply a competitive bargaining model to the EU, predicting nearly proportional expected payoffs to voting weights, while the addition of new members decreases the original members' expected payoffs.

As mentioned above, scholars that work on the EU budget offer theories that do not address the effect of EU enlargement on budgetary policies. Lindner (2006) argues that institutional change in 1988 and the introduction of the multi-annual perspective led to a decrease in the conflict between the budgetary authorities. In Lindner's view, the problematic design of the 1970 budget treaty – the exclusion of the distributive and institutional interests of the new members and the EP, and the wide scope of

¹⁵ Putnam (1988) defines the winset as the set of possible agreements between actors that can obtain domestic support (ratification). Crombez (1997) describes the set of outcomes as the possible minimal winning coalition for the adoption of legislation.

interpretation – explains the budgetary vetoes in the 1980s (Lindner 2006, 2). Laffan and Lindner (2005) argue that lower conflict on the EU annual budget is the result of the lock-in effect of the multi-annual budgetary bargains, which are very difficult negotiations between the budgetary authorities. Laffan and Lindner acknowledge the intergovernmental nature of the budgetary game but argue that the power of the EP has increased considerably in budgetary matters, while the influence of the Commission has decreased over time: "since it was granted budgetary powers in 1975, the EP has regarded EU finances as one of its key channels of influence vis-à-vis the Council." (Laffan and Lindner 2005, 210-211).

The literature on enlargement is pessimistic about the success of an ever bigger Europe, mainly because of the extension of qualified majority voting and the increase in the number of possible veto players. Moravcsik and Vachudova, without testing their argument, reject this pessimism, arguing that there are flexible institutional mechanisms that can combat gridlock, and that the threat of vetoes by the new members has been exaggerated (Moravcsik and Vachudova 2003, 56). However, the authors admit the possibility that enlargement might lead to an increase in budgetary conflict, while "the precise level of transfer payments is difficult to predict." (Moravcsik and Vachudova 2003, 54) My theory takes into account precisely these transfer payments and shows that the effect of enlargement is not only positive, but increases the likelihood of having agreement on the budget, the most difficult field to get an agreement on.

While the literature on veto players helps to clarify how policy change depends on the number of veto players, it does not explicitly relate veto players to bargaining on budgets. The literature on the EU budget provides useful ideas on the structure of the

bargaining game, the construction of preferences, and the possibility of change, but it does not provide an adequate understanding of the negotiations that lead to budgetary outcomes. My theory adds significant insights to the literature on enlargement. It also speaks to scholars doubting the effect of enlargement, and to those less pessimistic about enlargement who still consider budgets a very conflictive matter. My argument is based on a description of the stage game between the Council, the Commission, and the EP, which is then tested over time.

3. The Model

My theory is based on a spatial model of the EU budgetary bargaining, as stipulated by Articles 268 to 280 of the Treaty establishing the European Community. The model helps to characterize the set of budgetary outcomes that can be adopted and the equilibrium budget for a policy as a function of the ideal policies of the EU member states, the Commission, the EP, and the status quo.

3.1 The game

The EU budgetary procedure is represented by a sequential game of complete information: all actors know each other's preferences, the location of the status quo, the impact of proposed policies, and the sequence of the game. The players are the Commission, the EP and the Council. The Commission makes decisions by a simple majority of Commissioners, the EP decides by the absolute majority of members (MEPs)¹⁶, and the Council works by a qualified majority of member states.

¹⁶ In general, the absolute majority represents two thirds of MEPs.

All involved actors¹⁷ have Euclidean preferences¹⁸ over a one-dimensional policy space, considered to be one of the policy headings of the budget. The assumption of unidimensionality is realistic because it makes the model more transparent and helps characterize the different policies that are included in the budget (every policy is one dimension); it also avoids the non-existence of equilibria, typical in multi-dimensional social choice models.

To simplify the analysis, the preferences of the Commissioners and the MEPs can be represented by the median Commissioner (Com) and the absolute median MEP (P)¹⁹. Any policy is defeated in the Commission by policies that are closer to the median Commissioner's ideal policy, and the median Commissioner defeats any other policy. Similarly, the absolute median MEPs stands for a policy that cannot be defeated in the EP. On the contrary, the Council is not represented as a unitary actor because it makes decisions by qualified majority voting (QMV). However, focusing on the countries pivotal under QMV simplifies the analysis. The QMV threshold represents approximately 71% of the total votes in the Council. Between 1986 and 1994 (first period), the QMV threshold was 54 votes; this number increased to 62 between 1995 and 2003 (second period), due to the accession of Austria, Finland and Sweden, and then to 232 between 2004-2006 (the third period) due to the accession of the ten Central and Eastern European countries. There are two pivotal countries under QMV: country 1

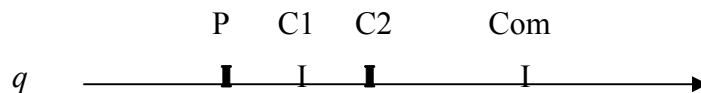
¹⁷ The Commission, the EP and the Council, but also the Commissioners, the MEPs and the EU member states have Euclidean preferences.

¹⁸ Each player has a most preferred alternative – her ideal policy and prefers policies that are closer to, rather than farther away from her ideal policy.

¹⁹ As specified in the outline of the EU budgetary procedure, the EP uses different voting procedures on the budget; however, given that $3/5 < 2/3$, the absolute median voter is considered to be at two thirds of members (the more demanding absolute majority).

(C1) is the country that represents the blocking minority and is pivotal for a move to the right; it is the country with the 23rd vote from the left in the first period, 26th vote in the second and 90th in the third period. C1 and the countries to her right constitute a qualified majority. Similarly, country 2 (C2) is pivotal for a move to the left; it is the country with the 54th, 62nd and 232nd vote from the left, respectively.

The first line in Figure 1 presents the configuration of ideal policies, which is considered to be an intergovernmental-supranational dimension, in line with Garrett (1992) and Tsebelis (1994): a move to the right represents an increase in the budget for a given policy. Since the budget is critical to the good functioning of the EU policies and thus the EU as a whole, all actors want an increase in the budgets of the EU policies. Thus, their ideal points are to the right of the status quo q – last year’s budget. The Commission is located the farthest to the right²⁰ because it is the advocate of the highest expenditures for financing the EU policies; every year, the Commission’s proposal of the preliminary budget is the highest possible, under the argument that without proper financing the Commission cannot do its job of implementing the EU policies. There are three cases for the location of the EP and the two pivotal countries C1 and C2: EP is situated to the left of C1 and C2, EP is situated to the right of C1 and C2 and EP is situated in between C1 and C2. Given that solving for equilibria produces the same results in all three cases, I consider only the first situation²¹.



²⁰ However, the figures stipulated by the multi-annual financial perspective are farther to the right of the Commission.

²¹ The other two cases are presented in a footnote in the Equilibrium section. Proposition 2 deals with different locations of the status quo.

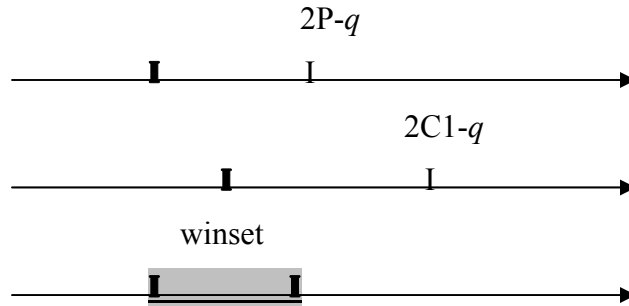


Figure 1 – Spatial representation of the budgetary game

The strategies available to each actor and the simplified budgetary procedure, as studied in the model, are presented in Figure 2. The Commission proposes a preliminary budget for each policy denoted by $b=x$, which technically can be any positive real number. Each policy is represented by a budget heading; even though all headings are encompassed in one single document (the preliminary draft budget), the same negotiations occur for every single policy. Next, the Council, under QMV, can either accept or reject b ; in case of rejection, the procedure ends with the status quo q . If b was accepted, it is sent to the EP, which by absolute majority can either amend or accept b ; in case of acceptance, the procedure ends with x . The amended b is then presented in the Conciliation Committee. Next the Council moves: by QMV it can either accept the amendments, case in which the game ends with the adoption of the amended b , denoted by b' , or reject the amendments and propose its own amendments b^* ; if accepted by a qualified majority, b^* is sent to the EP; if b^* is rejected by the Council, the reversion point is again q . If the EP rejects b^* , the reversion point is q , according to the provision

of twelfths²². If b^* is accepted by the EP, b^* is the adopted budget and the outcome of the game.

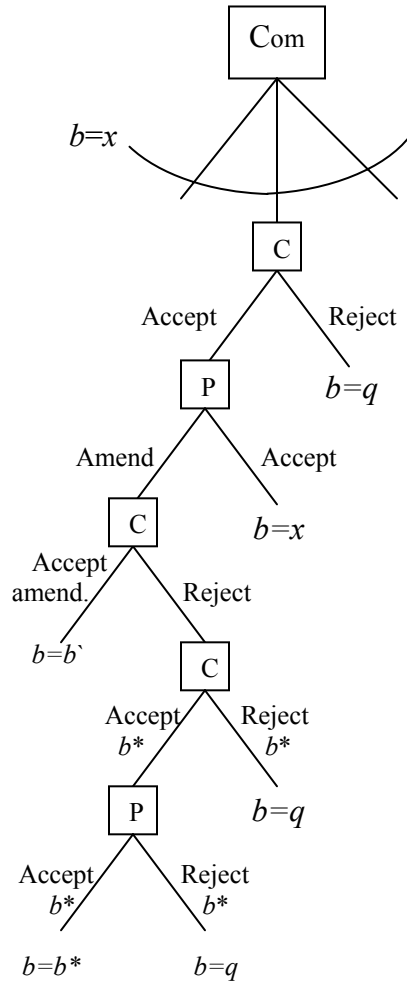


Figure 2 – The Extensive form of the game

3.2 Equilibrium

²² If the budget is vetoed, the provision of twelfths stipulates that, until the budget is adopted, the EU will function every month on a twelfth of last year's budget, for any given policy.

The game described above is solved by using backwards induction and the concept of subgame perfect Nash equilibrium²³; the equilibrium describes the optimal strategy for every player in every stage of the game, given the actions taken in prior stages. Using backwards induction means that, when they make a proposal, the players do not necessarily propose their ideal policies but think ahead of subsequent stages and propose something that actually can become the EU budget.

The last two stages of the game are reached if there is no agreement on amendments to b , case in which both the Council and the EP vote on b^* . If the EP and a qualified majority in the Council prefer b^* to q , they approve b^* and it becomes the annual budget. The set of possible outcomes b^* is described by the segment $[q, 2P-q]$ in Figure 1. In the fourth stage, the Council compares b' (the amended b) to b^* ; if a qualified majority prefers b' to b^* , the EP in the third stage can successfully propose b' , given that b' has the absolute majority of EP. In Figure 1, the segment $[P, C2]$ represents the set of all possible outcomes b' and b^* . If b^* is to the left of P (the ideal policy of EP), the EP successfully proposes b' to the right of P because the EP, C1 and thus a qualified majority in the Council prefer an outcome to the right of b' . If b^* is to the right of $C2$, the EP successfully proposes b' to the left of $C2$ because the EP, C2, and thus a qualified majority in the Council prefer an outcome to the left of b' . If b^* is between P and $C1$, the EP cannot propose b' because the EP prefers policies to the left of b^* , whereas a qualified majority in the Council prefers policies to the right of b^* ; thus, the outcome of the game is b^* . If b^* is between $C1$ and $C2$, it also reaches the last stage of the game because this segment represents an area where a qualified majority in the Council cannot agree on any

²³ The subgame perfect Nash equilibrium describes a strategy that satisfies the Nash equilibrium condition (is optimal) in every subgame of the game, including the game itself.

policy change²⁴. In the second stage, the Council compares b^* to q , and, since the former is always greater than the latter, the Council always accepts the Commission's proposal. In the first stage, the Commission proposes the b that is closest to its ideal point, such that $b=C2$.

Proposition 1 *The set $b^* \in [P, C2]$ of budgets that can be adopted under the EU budgetary procedure is the set of proposals that the EP and a qualified majority in the Council prefer to the status quo and there are no other proposals the EP and the Council prefer to them.*

In the first stage, the Commission proposes a budget b^* that both the EP and a qualified majority in the Council prefer to q and there is no b^{\wedge} that the EP and the Council prefer to b^* . In the second stage, the Council approves it and then the EP and the Council can make no amendments to it; therefore, it reaches the last two stages where it is approved by the Council and then the EP.

Proposition 2 *The equilibrium budget b^* depends on the position of the status quo q .*

Figure 3 presents the relationship between the equilibrium budget and the status quo – last year's budget. If q is situated to the left of $2P-C2$, the EP and a qualified majority in the Council prefer $C2$ to q (they prefer a move to the right), thus $b=C2$. If q is located between $2P-C2$ and P , the EP prefers q to $C2$, as the former is closer to its ideal point; the Commission proposes a move to the right (preferred by Parliament and $C1$) that makes the EP indifferent to the status quo, represented in Figure 3 by a 45-degree line with a negative slope. If q is between P and $C1$, q prevails because $C1$ and the Council

²⁴ The other two cases produce a similar solution. When P is located between $C1$ and $C2$, $[C1, C2]$ defines the solution set, with the difference that b' , not b^* is the adopted budget. When P is located to the right of $C1$ and $C2$, the solution set is $[C1, P]$, with the difference that $[C1, C2)$ represents b' and $[C2, P]$ describes b^* .

want a move to the right, whereas the EP wants a move to the left; this is represented by a 45-degree line with positive slope. If q lies between $C1$ and $C2$, the outcome is also q because there is no qualified majority in the Council that agrees on a change. If q is to the right of $C2$, both the EP and the Council agree on a move to the left, and the Commission proposes $b=C2$.

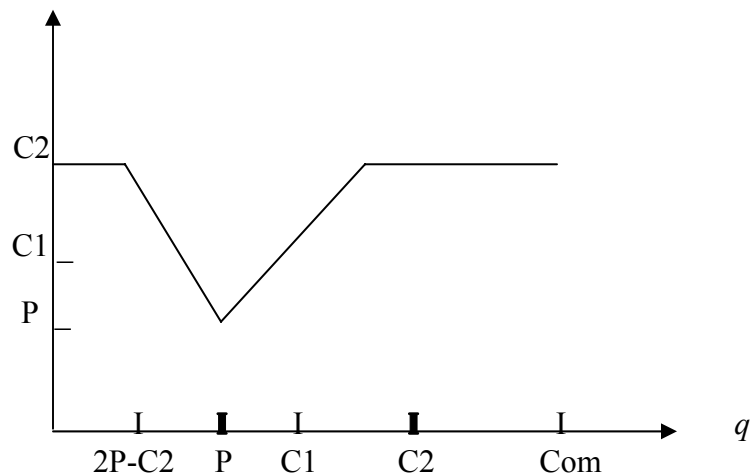


Figure 3 – The equilibrium outcome as a function of the status quo

3.2 Empirical Implications

Proposition 1 describes the winset for the adoption of the budget, represented by the segment $[P, C2]$ in Figure 1. There are two elements that determine the size of the winset: the absolute median voter in the EP and the member state pivotal for a move to the left. On one hand, the largest two European parties in the EP are the Christian Democrats and the Socialists. Even though these are European parties and behave somewhat different from the traditional national parties, an increase in the number of

Christian Democrats in the EP moves the position of P slightly to the left, as they favor more moderate budgets, whereas an increase in the number of Socialists pushes P slightly to the right, as they advocate an increase in spending for the EU policies. Empirically, the number of Christian Democrats has increased since the creation of the EU not only as a result of enlargement but also as a consequence of government changes in Europe.

On the other hand, as more countries join the EU, the number of votes required for a qualified majority in the Council increases, thus moving C2 to the right. Empirically, every enlargement increases the need for spending, the more so as the countries that join the EU, on average, are less developed than the original six that created the EU²⁵. However, when a country joins the EU, the total number of MEPs it brings to the EU are divided between the parliamentary parties, as the EP election results usually mirror the party distribution in the Parliament of the acceding country²⁶. Given this dispersion, a new accession has a rather weak effect on the location of P, which changes only marginally in most cases. Consequently, it can be argued that enlargement increases the size of the winset because the pivotal country for the qualified majority in the Council moves to the right. Consistent with Putnam (1988), I argue that a small winset increases the likelihood of no agreement, but in my argument the size of the winset is not domestically determined but depends on an increase/decrease in the composition of the bargaining parties – mainly the Council. Therefore, I derive the following testable hypothesis:

Hypothesis 1: *Enlargement decreases the likelihood of no agreement on the budget.*

²⁵ France, Germany, Italy, Belgium, the Netherlands and Luxembourg.

²⁶ When a new country joins the EU, it organizes a special EP election in order to fill the number of MEPs allocated by the Accession Treaty.

Proposition 2 shows the relationship between the adopted budget and the status quo q (last year's budget). Empirically, the first two cases are observed more often, where the status quo is smaller than the ideal point of the EP. This means that, on average, the EP prefers an annual increase in the budgets for most EU policies. When q is smaller than $2P-C2$, there is agreement on the budget $b=C2$; when q is higher than $2P-C2$, but smaller than P , there is no agreement – the status quo prevails. Given the literature on budgets that emphasizes the importance of last year's budget and the fact that for smaller values of q there is agreement, I derive the following hypothesis in support of the assumptions of my formal model:

Hypothesis 2: *For very small values of the status quo q , the likelihood of no agreement remains constant.*

4. Statistical analysis

In order to capture the idea of no agreements on the budget, I operationalize the dependent variable as the existence of a veto for a given policy/year: *veto*s is coded 0 when there is agreement and the budget is adopted and 1 when the budget is vetoed and last year's budget prevails²⁷. To operationalize enlargement, I use the independent variable *number of EU members* – a continuous variable that gives the number of EU member states in a given year²⁸. The other independent variable, the status quo, is operationalized as *Budget_{t-1}* - a continuous measure that gives the previous year's budget for every given year/policy. To make sure that the winset does not change substantially

²⁷ When there was no agreement on an important policy (i.e. agriculture), the whole budget was vetoed (almost every year in the 1980s until 1988). If there was no agreement on a certain policy for a given year, that policy was not funded that year, as is the case for example with CFSP.

²⁸ In my sample, the minimum number of EU members is 12 and the maximum is 25.

by the change in the location of P, I include two control variables: *EP electoral year* specifies the years when there are elections for the EP and is coded 1 when there is an EP electoral year and 0 otherwise; *EP socialists* is a continuous variable that gives the number of socialist MEPs.

In order to test if enlargement decreases the likelihood of no agreement and if the status quo influences the likelihood of no agreement, I construct an original data set where the unit of analysis is policy budget-year²⁹. The data on budgets³⁰ ranges from 1987 to 2006 and was collected from the Official Journal of the European Communities³¹. The six policies included in the dataset because they exhibit variation in terms of vetoes are the main expenditure headings that form the expenditure side of the EU budget: agriculture³², structural operations³³, internal market, external actions, CFSP³⁴ and pre-accession aid³⁵.

Given that the dependent variable is dichotomous and I use longitudinal data, I estimate a population-averaged logistic regression model³⁶. This model predicts the

²⁹ This type of data-set is typically used in studies on budgets.

³⁰ The budget amounts are expressed in million Ecu/Euro.

³¹ *Official Journal of the European Union* starting with 1994.

³² The budget for agriculture finances the EU Common Agricultural Policy which guarantees support to farmers and is approximately half of the budget.

³³ The budget for structural operations constitutes the Structural Funds and finances the EU regional development policy (which supports the areas lagging behind), the rural development policy and the common policies on fisheries (which helps the fishing industry).

³⁴ The Common Foreign and Security Policy.

³⁵ Pre-accession aid was offered to the countries that applied to join the EU, mostly the Central and Eastern European states.

³⁶ The Beck and Katz procedure with a lagged dependent variable is more commonly used when studying budgets. However, this procedure is not appropriate here because I am not interested in the level of budgets but in the likelihood of (no) agreement on budgets. Further, I am testing if the lagged budget value (the status quo in my model) is affecting the likelihood of agreement.

marginal population-averaged probability, conditioning only on covariates³⁷, as opposed to a random effects model that takes into account subject-specific (conditional) probabilities. In general, the subject-specific aspect of a longitudinal model explicitly accounts for the heterogeneity across subjects by describing how an individual subject's response varies based on her history, but also other individual time-varying explanatory variables. By contrast, the mean profiles of the population-averaged model give an unconnected series of averages, at each margin, both of responses and of explanatory variables for the whole group concerned (J. K. Lindsey and P. Lambert 1998, 2). Given the structure of the EU budget, I have no theoretical reasons to believe that there are different policy-specific probabilities that would imply policy heterogeneity³⁸; on the contrary, I am interested in the cross-sectional differences in average probabilities: for each year, I want to know the average probability of no agreement on the budget, given the covariates, not the probability of no agreement on each policy. For that purpose and for the sake of comparison, I also estimated a simple pooled logit model.

The appropriate population-averaged logistic model estimates marginal effects; the dependence within units is taken into account using Generalized estimating equations (GEE, Liang and Zeger 1986) with an exchangeable correlation structure³⁹. If the

³⁷ Dependence among individual responses is treated as a nuisance.

³⁸ Fixed effects and/or random effects models are not appropriate techniques for testing my hypothesis. The fixed effects model is inefficient, but accounts for unobservable individual-specific effects, which are of little importance here: I have no theoretical reason to introduce 10 dummies for policy into the model. The random effects deals with unobserved time and spatial heterogeneity by treating the effects of omitted individual specific variables as random variables, which is not of interest: I have no grounds to believe that the unobservable individual-specific effects are assumed to be random draws from a common population with a normal distribution. Of the two techniques, the random effects model produces results that are similar to the population averaged model.

³⁹ This is the default procedure in STATA. It specifies the within-group correlation structure as being constant. I also tried other constraints (ar1) or no constraints (unstructured), but the association with the logit does not produce results.

working correlation structure resembles the true dependence structure, the estimates are efficient. Marginal effects can be consistently estimated even if the dependence among units in clusters is not properly modeled because the standard errors are based on the Huber/White/sandwich (robust) estimator which takes into account this dependence; even though the correlation is misspecified, the standard errors are valid. However, given the requirement that the model correctly specifies the mean, the resulting standard errors are labeled as ‘semi-robust’ and the results are similar as in the case of clustering.

The marginal model also has the desirable property of insensitivity of parameter estimates to misspecification, which can occur in my case because my model is formally derived. As Lindsey and Lambert (1998, 6) point out, “with a single response per subject, once all covariates are in a model, it is often impossible to judge empirically if the remaining heterogeneity among individual responses should be attributed to randomness from the probability distribution or to missing covariates; the choice must depend on previous knowledge and the question at hand.”

The estimated population-averaged model with exchangeable correlation is the following:

$$\text{Logit } P(Vetoes_{ij}=1 / X_{ij}) = \alpha + \beta_1 Budget_{t-1 ij} + \beta_2 Neumembers + \beta_3 Epelecty + \beta_4 Epsocialist$$

The results are presented in Table 1:

Vetoes	Coefficient	Semi-robust Std. Err.	z	P> z
Lagged Budget	-.00006	.00006	-0.99	0.321
Number of EU members	-.856	.186	-4.61	0.000
EP electoral year	-.852	.468	-1.82	0.069
Number of Socialist MEPs	.032	.024	1.35	0.178
Number of observations	114			
Number of groups	6			
Average observation per group	19			
Wald chi2(4)	58.03			
Prob > chi2	0.000			

Table 1 – Regression results for the GEE population-averaged model with exchangeable correlation

As Table 1 shows, the coefficient⁴⁰ of interest has high statistical significance: The logit of the probability of no agreement is .856 units lower for every new country joining the EU, *ceteris paribus* (interpretation according to J.M. Neuhaus, J.D. Kalbfleisch and W.W. Hauck 1991, 11). Alternatively, .856 measures the change in the logit of the proportion with *veto*_{*t*}=1 for a one country change in *number of EU members*. Figure 4 also presents the predicted probabilities for values of *number of EU members*: the minimum probability is 0 with 15 or 25 EU member states and .62 with 12 member states. This result supports Hypothesis 1. Hypothesis 2 is not supported, in spite of the small magnitude of the coefficient of *Budget*_{*t-1*}, which implies that the likelihood of agreement does not vary with the status quo: thus, the status quo is not a good predictor for agreement on the budget. As the proportional reduction of error (PRE) is 21.45%, this model explains a considerable amount of variation in the vetoes on the budget. As Table 1 shows, the two control variables in the model that refer to the EP, electoral year and the number of Socialist MEPs have no significant statistical effect on the likelihood of no agreement on the budget.

⁴⁰ Liang and Zeger (1986) show that the estimated β_{GEE} is consistent and asymptotically normal, and the estimate of $Cov(\beta_{GEE})$ is consistent even when $Cov(Y)$ is misspecified. The population-averaged effect in the log odds scale from a unit increase in the covariate X is:

$$\beta_{PA}(X) = \log [P(Y=1/X+1) / P(Y=0/X+1)] / [P(Y=1/X) / P(Y=0/X)]$$

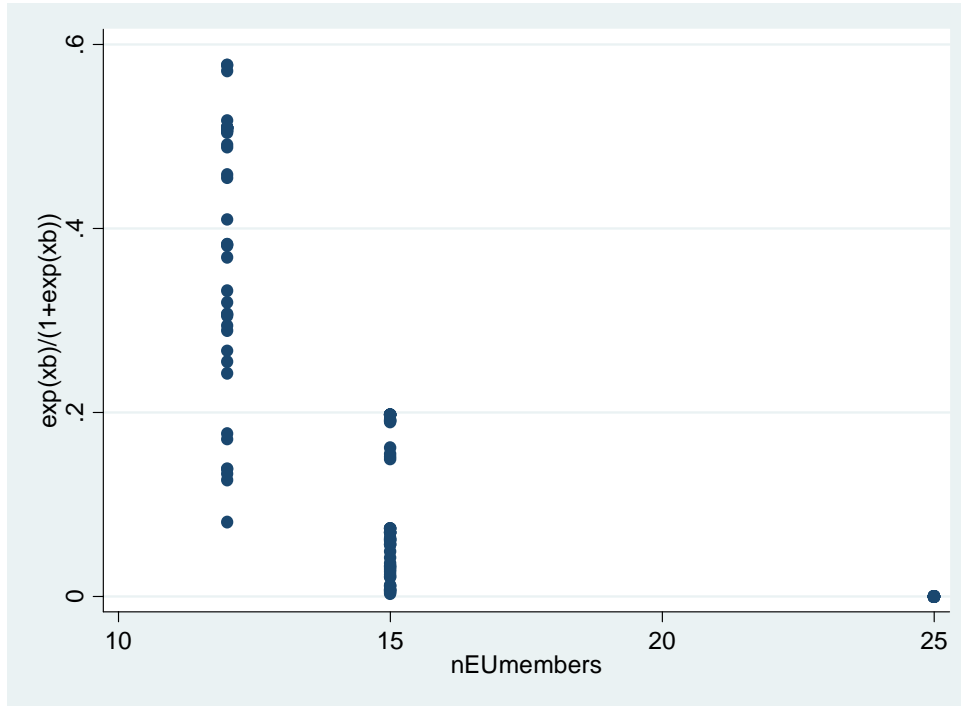


Figure 4- Predicted probabilities

Veto	Coefficient	Semi-robust Std. Err.	z	P> z
Lagged Budget	-.00007	.00004	-2.06	0.039
Number of EU members	-.887	.3005	-2.95	0.003
EP electoral year	-.903	.874	-1.03	0.302
Number of Socialist MEPs	.034	.023	1.51	0.130
Number of observations	114			
Log likelihood	-37.219			
LR chi2(4)	28.29			
Prob > chi2	0.0000			
Pseudo R2	0.275			

Table 2 – Regression results for the pooled logit model

As Table 2 shows, the coefficient⁴¹ of interest has high statistical significance in this model, too: The logit of the probability of no agreement is .887 units lower for every new country joining the EU, ceteris paribus, a result that supports Hypothesis 1.

Hypothesis 2 is also supported at .05 conventional level: the logit of the probability of no

⁴¹ Liang and Zeger (1986) show that the estimated β_{GEE} is consistent and asymptotically normal, and the estimate of $Cov(\beta_{GEE})$ is consistent even when $Cov(Y)$ is misspecified. The population-averaged effect in the log odds scale from a unit increase in the covariate X is:

$$\beta_{PA}(X) = \log [P(Y=1/X+1) / P(Y=0/X+1)] / [P(Y=1/X) / P(Y=0/X)]$$

agreement is .00007 units lower for every increase in the value of the status quo, *ceteris paribus*. However, the small magnitude of the coefficient of $Budget_{t-1}$ implies that the likelihood of agreement does not vary with the status quo: thus, the status quo is not a very good predictor for agreement on the budget. As before, the two control variables are not significant at the conventional levels.

5. Discussion and Conclusion

The empirical evidence supports the hypothesized relationship between enlargement and the likelihood of no agreement. As new countries join the EU, it becomes increasingly less likely to see a veto on the budget because enlargement increases the bargaining space. While an expansion of the winset means more heterogeneous preferences, it makes agreement easier to achieve because there are more ways to divide the pie and more coalitions are possible for/against a certain budget.

The last enlargement introduced a lot of heterogeneity into the EU – most of the countries GNI was smaller than the EU average GNI – yet agreement on the budget seemed stable. This fact would seem counterintuitive if we think that less developed countries have an incentive to fight harder for the money they get from the EU budget. However, the voting rule of qualified majority in the Council is critical here: the group of new member states managed to push the pivotal voter in the Council to the right –

towards a budgetary increase. This is also confirmed by data gathered through interviews⁴² with some of the representatives of the new member states confirm.

The reform proposed by the European Constitution, whose fate is uncertain, acknowledges this result: the changes proposed to the voting system in the Council show that the designers have understood that, with enlargement, the blocking minority can block less and less (thus making agreement more likely), therefore more constraints have been introduced, like the requirement that the qualified majority should also represent a majority of the EU population. Given that the essence of my argument lies in the specificity of the qualified majority rule, I have reasons to suspect that my argument may apply to numerous other areas where QMV is used. My theory contradicts the literature on enlargement that considers QMV as one of the main reasons for gridlock in an enlarged EU and shows that a very difficult area – budgets – offers support for positive effects of enlargement.

This result puts a new light on the power of the EP. With more heterogeneous preferences, the budgetary outcome is farther and farther away from the EP's ideal point; this means that the power of the EP to obtain its ideal preferences decreases. This, however, is different from the veto power to reject the budget: this veto power has been built into the budgetary game, once it has been stipulated by the treaty. As the formal model shows, this veto power is taken into account by the Council, which implies that the threat to veto the budget is credible – otherwise the Council would not take it into account. Since the position of the Commission is rather stable over time, as well, due to the fact that the Commissioners represent the interests of the EU and not the interests of

⁴² Interviews conducted in May-June 2006 in Brussels with the representatives of the new member states in the Budget Committee of the Council. I have to acknowledge the fact that one of the representatives drew a line and positioned all the member states on it in order to explain to me how the blocking minority works.

the countries where they come from, as the outcome moves to the right it gets closer to the ideal point of the Commission. This is consistent with the arguments that draw on the supranational power of the 'executive of the EU'.

My results also imply that an institutional feature like the EU budgetary procedure evolves towards stable cooperation as more countries join the EU, even though we have witnessed some conflict in the past. The results are even more encouraging if we think that the budgetary bargaining involves not only member states but also MEPs and Commissioners, all significant in number. It is also possible that the results are so encouraging because the domestic feature is absent here: while national politicians are responsible in front of their constituents, the EU budget does not need formal ratification in any of the European capitals. Future research should address the impact of domestic factors on the positions of the member states, and thus on the winset.

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