

Exit Costs, Veto Rights, and Integration: Bargaining Power in International Organizations and Federal Systems

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Abstract

Literature on bargaining within international organizations points to two potential sources of bargaining power: veto rights and exit rights. In some circumstances a member state may be able to veto a rules change which it opposes. In others, it may be able to threaten to leave the organization if its demands are not met. Finally, if exit from the organization is possible, other member states may be able to force a laggard member state to accept changes it opposes by threatening to kick the laggard out of the organization if the state does not agree to the proposed change. Under what circumstances do veto rights provide bargaining leverage and under what circumstances are exit threats a source of power? When would a member state prefer to use one of these sources of power over the other? Are both of these options available simultaneously or if one is available does that mean that the other is not? What implications does this have for political integration, and more broadly, the possible creation of a federal state? This paper seeks to answer these questions using a game theoretic model to examine the interaction between veto rights and exit threats in international organizations and federal states. My model has implications for European integration and can also help explain the conditions under which independent states give up sovereignty to form a stable federal union. I test the implications of the model through a case study of EU integration in the 1970s and 1980s.

1 Introduction

Following the February 1974 British election, Harold Wilson became the first Labour prime minister since the UK joined the European Community (EC) on 1 January 1973.¹ Upon taking office, he immediately demanded the EC renegotiate British terms of entry, and threatened to leave the organization if his demands were not met. Labour's election manifesto went so far as to state, "If re-negotiations do not succeed, we shall not regard the Treaty obligations as binding upon us."² After months of negotiations, Wilson declared he had won significant concessions from the other member states and urged voters to support a referendum 1975 referendum on EC membership.

Several years later, when the Conservatives came to power, Margaret Thatcher used a very different bargaining tactic to extract a budget rebate from the EC. She did not threaten to exit the EC, but instead she threatened to stall legislation by invoking the UK's veto right if the UK did not receive the budget rebate she demanded.³ In the end the tactic was effective. The obstructionist British strategy secured them a two-thirds budget rebate.⁴ The different bargaining tactics employed by these two British prime ministers highlight an interesting puzzle. Under what circumstances does the right to a veto

¹At the time the European Union was called the European Community. It adopted its current name with the 1992 Treaty on European Union

²Labour Manifesto, February 1974, available at <http://www.psr.keele.ac.uk/area/uk/man/lab74feb.htm>

³See "How to be thoroughly obnoxious." *The Economist*, November 10, 1979, p60.

⁴See "Britain's veto fades away ." *The Financial Times* July 2, 1984, p17.

provide bargaining leverage and under what circumstances are exit threats a source of power when negotiating within an international organization or federal state? When would a member state prefer to use one of these sources of power over the other? Are both of these options available simultaneously or if one is available does that mean that the other is not? What implications does this have for European integration, and more broadly, the creation of a stable federal state?

This paper seeks to answer these questions using a game theoretic model to examine the interaction between veto rights and exit threats in international organizations and federal states. My model has implications for EU integration and can also help explain the conditions under which independent states give up sovereignty to form a stable federal state. Finally, it examines whether the ability to exit an organization is a source of bargaining power, as some international relations literature tends to suggest, or whether sometimes this may, in fact, be a liability.

The essence of my game is as follows. Two states come together to negotiate the rules of an international organization or a federal state. They may be creating a new organization or renegotiating the rules of an existing regime. One state prefers deeper integration while the second is a laggard who prefers very little change from the status quo no integration. There are two types of organizations they can form. The first type of organization provides the laggard state with an exit option, whereby it can leave the organization if it feels its partner is

pushing integration too far. In the second type of organization, exit is not possible, but the laggard can veto proposals made by its partner whenever it prefers the status quo. The first type of organization is similar to an international organization or perhaps a weak federal state, while the second type of organization more closely mirrors a stable federal state. In this framework, a stable federal state is an organization where exit by members is virtually inconceivable but vetoes are likely. I find that whether states opt for the federal style veto regime over a regime where exit is possible depends upon the states' costs associated with the laggard state leaving the regime as well as the likelihood that the state preferring integration believes that sometime in the future it may prefer to retain the right to veto a proposal it does not like. Moreover, I find that exit rights are not always a source of bargaining power for laggard states. Sometimes the mere existence of an exit option can provide the state desiring integration with a great deal of bargaining leverage.

The paper will proceed by first introducing the current literature on exit threats and veto power in international organizations and federal systems. I will pay particular attention to how literature has examined European integration. Second I will introduce my game and examine the conditions under which states are likely to make exit threats, exercise veto rights, and move from an international to federal regime. I then will examine how these findings apply to EU integration, and finally I will conclude.

2 Bargaining Power and the Creation of International Organizations

International relations literature has long considered how and why states form international organizations. Within this subfield the debate has focused on two related questions: Do international organizations matter and which states are most powerful when designing them? Answers to these questions have been shaped by two dominant traditions, realism and liberal-institutionalism. Realists argue that international politics is primarily driven by power politics and relations between states, making international organizations largely irrelevant (Waltz 1979, Grieco 1988). Liberal-Institutionalists, on the other hand, argue that under certain conditions states can design international organizations to help them realize utility gains they could not otherwise achieve (Axelrod 1984, Keohane 1984, Oye 1986). Gruber (2000), however, argues that there is a general consensus between the realist and liberal-institutionalist traditions that international organizations, regardless of their relevance to world politics, only arise when they make all states better off compared to the status quo. The debate takes for granted that international organizations may arise if they are in the best interests of all participants, and the more interesting question becomes which states get to draft the rules. Krasner (1991) argues, for example, that while there are many possible pareto improving equilibria when designing international regimes, the most

powerful states are able to select from these the equilibrium which suits them best.

Gruber, however, counters that the underlying assumption that international organizations are pareto improving for all need not be true. For some states, participation in an international organization may be a necessary evil. These states would be better off if the organization did not exist, but given that it does, they feel it is necessary for them to participate. In other words, the organization is designed in such a way that the costs to laggard states for not participating are too high, even though these states preferred the original status quo of no international organization at all.

This work begins to examine the costs associated with exiting from, or not participating in, an international organization. However, Gruber's approach lumps together two types of costs, which I argue are best disentangled. First, a state may suffer a utility loss by accepting a policy dictated by the international organization that is not identical to its own ideal point. The assumption is that if a state were to go it alone, it would be able to implement its own policy ideal point unencumbered by other states. Second, there may be additional reputational costs associated with not participating in the organization, or, conversely, reputational benefits for participating. For example, other states, financial markets, and international firms may shun a country for not joining an international organization they deem "good". Likewise, joining a highly regarded international organization may confer

some reputational benefit on states, regardless of how these states feel about the organization's policy, which they would not receive if they did not join the organization (Gray 2006). Finally, if some domestic interests prefer to participate in the organization, there may be audience costs for a state which decides not to participate. For Gruber, both types of costs are collapsed onto a single dimension.

Studies of European integration have examined the effects of laggard states on intergovernmental bargaining, and some literature has pointed to a laggard's credible threat to exit the European Union as a source of bargaining power (Schneider & Cederman 1994). This, of course, assumes that the laggard's cost associated with exiting is low enough that their exit threat is credible. Member states desiring the laggard's participation in the EU are forced to cede to the laggard's demands or they risk the laggard walking away from the EU. This was possibly true of the UK in the 1970s. However, today the likelihood that any member state would fully exit the EU is very low (Kelemen 2007). Even though some may complain at times about monetary union or other aspects of the EU, it is highly unlikely that any current members could credibly threaten to exit the EU. Moreover, it is not clear that an exit option is always a source of power. It may not always be the case that a laggard has a low cost associated exit. Instead, as Gruber (2000) has suggested, the costs to exiting an organization (or not joining to begin with) may be very real, and may

actually put the laggard at a disadvantage.⁵ Schneider & Cederman (1994) suggest that while making an exit threat may have provided Britain with bargaining leverage in 1974, it did not in 1978 while negotiating the establishment of the Economic Monetary System (EMS). In Schneider and Cederman's model, this is because Britain could not credibly commit to exiting in 1978, while in they could in 1974. In 1978, the Germans and the French called Britain's bluff and countered that they would exclude Britain from the new regime unless Britain backed down. The same dynamic occurred when negotiating the Single European Act (SEA). Thatcher was forced to accept the German and French position with regard to majority voting in the Council for the internal market when France and Germany threatened to exclude the UK from the treaty if she did not (Schneider & Cederman 1994, 639). Here, the possibility of exit from the regime actually weakened the UK's bargaining position.

Recent empirical literature on constitutional bargaining in Europe points to a second source of power for laggard states: veto power (Hug & Koenig 2002, Koenig & Slapin 2006, Slapin 2006, Slapin 2008). These studies find that states close to the status quo tend to get what they want when negotiating EU treaties. Moreover, states with domestic ratification pivots close to the status quo have more bargaining power (Hug & Koenig 2002, Slapin 2006). Because all states must ratify any major institutional changes made through an intergovern-

⁵See also Schimmelfennig (2001) for ways this argument can be applied to member states' acceptance of EU enlargement.

mental conference, laggard states can threaten to veto treaties which make them worse off compared to the status quo. Even without an exit option, laggards are powerful because they can prevent change. However, for veto rights to provide power to laggard states, states preferring integration must either really desire the laggard's participation, or exit cannot be a legitimate option. If exit were a legitimate option and states preferring integration did not care about the laggard's participation, they could simply exclude the laggard from negotiations if the laggard threatened to veto proposed changes. This suggests an interaction between the possibility of exit and veto rights when determining member state bargaining power, and it is this interaction which this paper will more closely explore.

3 Federal Bargaining

International relations is not the only literature to examine veto rights, exit strategies, and bargaining between states. Literature examining federalism in the US and comparative context also addresses these sources of power to draw conclusions about the nature and design federal institutions. Federalism literature often explores the conditions under which federal systems are stable. In other words, what prevents member states from leaving a union of federal states? There are generally two answers, both of which are similar to the answers posed above by the international relations literature. The first is the cost associated with exit from the union. If the costs associated with exiting

a federal union are too high, member states will not leave. Filippov, Ordeshook & Shvetsova (2004) cite the example of the breakup of the Soviet Union in the late 1990's. Soviet leaders attempted to convince the Baltic countries that they would be much better off under the new Soviet system than they would be if they left the union. Of course, in this case the costs of exit were not high enough to keep the Baltic countries in the union.

A second mechanism to keep member states from exiting a federal union is to guarantee them that their interests will be heard within the union through democratic political institutions (Bednar, Eskridge & Ferejohn 2001). This is accomplished by designing strong federal institutions, such as upper chambers which represent states interests, and unbiased courts which can adjudicate interstate disputes. In the EU, both of these features already exist, and help to ensure the EU's stability (Kelemen 2007).

In addition, the empirical work on bargaining at the EU's treaty negotiations suggests another possible safeguard available to EU member states, and perhaps states in other federal organizations as well. Because all member states must agree to major institutional changes made at treaty negotiations, laggards can always veto a major treaty change which they believe pushes integration too far. This also explains why constitutional change in other federal systems, such as the US, require high super majorities. Even laggard States are given a powerful voice when determining major constitutional changes.

4 The Exit-Veto Game

The literatures on international organizations, federalism and EU integration present several hypotheses about when and why laggard states should have power when negotiating the rules of the federal regime or international organization. Under some conditions, exit threats may provide laggards with bargaining leverage, but in other scenarios veto rights may help protect laggards' interests. However, veto rights and exit options may work against with one another. If exiting an organization is a realistic possibility for a laggard state, this may render veto threats meaningless depending upon the costs associated with a member state leaving the organization. I attempt to sort out the effects of two of these potential sources of power using a game-theoretic model. In doing so, I hope to demonstrate how these potential power sources relate to the design of international organizations, stability of federal states, and EU integration.

$$2 * |L - SQ| < |I - SQ|$$

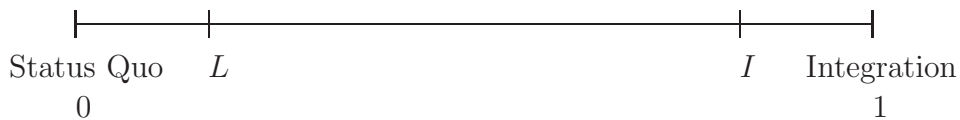


Figure 1: A Spatial Model of Integration

The basis of my game is a spatial model, depicted in figure 1. Two states have Euclidean preferences in a uni-dimensional space representing integration. In this space, zero represents no integration and

one represents maximal integration. The state, L , is a laggard has a preference relatively close to the status quo, while the state I takes a position in favor of further integration. Even the laggard, however, prefers a little integration. In other words, $L \geq SQ$. In addition, I define a laggard so that $2 * |L - SQ| < |I - SQ|$. This means that if the laggard has veto power, the state preferring integration can never receive her own ideal point. Under a veto regime, both actors are able to veto any proposal which makes them worse off compared to the status quo. I assume actor I is the agenda setter, and is thus able to make a take-it-or-leave-it proposal to L . This means that in the veto game, the outcome will be $2 * |L - SQ|$, which simplifies to $2L$ because the status quo is located at zero and L and I are both located to the right of the status quo. The payoff to the laggard, L , for this game is $-L$ and the payoff to the state preferring integration, I , is $-|I - 2L|$.

4.1 The extensive form game

Keeping this spatial framework in mind, I now explain my extensive form game found in figure 2. The state preferring integration is player 1, and she has the first move. She can choose to either offer the laggard state participation in a veto regime, under which the laggard state is granted veto rights in this round of negotiations as well as in every future round. Under this veto regime, exit from the organization is never possible. This is akin to creating a stable federal state. If player 1 chooses the veto regime route, player 2, the laggard, can either accept

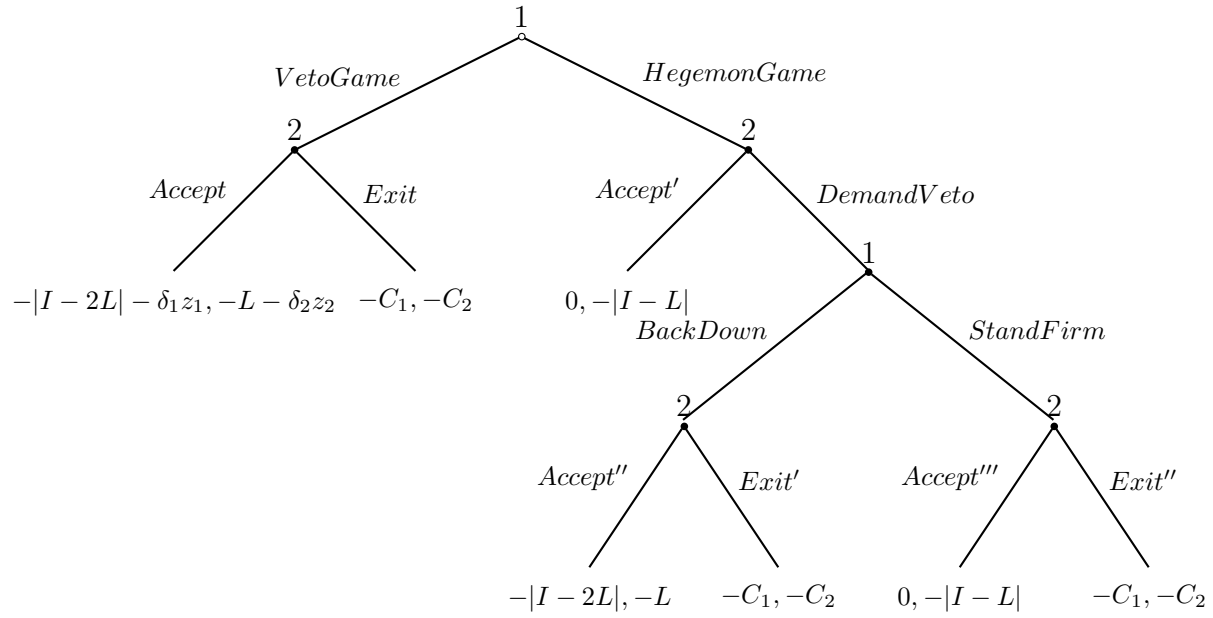


Figure 2: The Exit-Veto Game

player 1's offer to create a stable federal regime where each player has veto rights, or he can leave the organization. If player 2 accepts the veto regime, the outcome of the game mirrors the veto game from spatial model above: $2L$. The payoffs are then $-|I - 2L| - \delta_1 z_1$ for player 1 and $-L - \delta_2 z_2$ for player 2. The first part of the payoff are the payoffs from the spatial game. δ is a discount factor representing the importance of the future to each player and can range between 0 and 1, where 0 implies that the state does not care about the future at all and 1 means the player weighs the future just as much as the present. Players' beliefs about the future relationship between their preferences is captured by z . If z is negative, this implies that the player believe they are likely to switch places with the other player. In other words, the actor preferring integration believes that sometime in the future on some issues it could become a laggard and want to protect the status quo by retaining veto capabilities.

Player 2 does not have to enter into this stable federal system. If player 2 does not accept player 1's offer to participate in a veto regime, player 2 can walk away from the organization. In this case, both players can implement their own ideal points in the spatial game, making their ideological loss 0. However, they each pay a non-ideological cost, C_1 and C_2 , associated with the laggard's exit from the talks. These can be viewed as reputational or audience costs suffered because they decided not to create the organization.

Player 1 can also choose a hegemon regime by offering her own

ideal point to the laggard. Under this regime, future exit from the organization is possible and player 2 is not always guaranteed a veto. The laggard then has two options: he can either accept the offer of player 1 or he can demand a veto. If he accepts player 1's offer, the outcome the game is the creation of an international organization at player 1's ideal point, I . The payoffs are 0 for player 1 because she receives her ideal point and $-|I - L|$ for player 2, the distance between his ideal point and the outcome of the game, I . If player 2 demands a veto, player 1 can either back down and offer a veto for this round of play only, or she can stand firm. In either case, player 2 can then decide whether to accept the proposed arrangement or exit the organization. If player 1 backs down and offers a veto to player 2, and player 2 accepts, the payoffs are the outcome of the veto game, $-|I - L|$ for player 1 and $-L$ for player 2. There are no costs associated with the future because the veto is offered for the current round of negotiations only. If player 1, on the other hand, stands firm and player 2 accepts, the payoffs are 0 for player 1 and $-|I - L|$ for player 2. If player 2 decides to exit the organization, the payoffs are always $-C_1$ and $-C_2$

4.2 Equilibrium concepts and solutions

I solve the game using a subgame perfect equilibrium concept and I assume complete information. This means both players know each other's ideal points and the non-ideological costs associated with the

laggard's exit. Future work could relax this assumption by assuming that the players have full knowledge of each other's ideal points but they only know their own cost associated with the laggard's exit. This would then require me to use a perfect bayesian equilibrium concept to solve the game. However, even assuming full information, this game provides several interesting findings which I explore here.

I begin by exploring which parameter values would lead the permanent veto game to occur in equilibrium. In other words, under what conditions do we expect a stable federal system to arise under which exit is not an option? First, assume that the laggard prefers to exit the organization if not offered a veto, but would remain in the organization if provided a veto. In addition, player 1 has a very high non-spatial cost (C_1) associated with player 2's exit. This means that at the end nodes of the hegemon game, player 2 will exit if player 1 has decided to stand firm, but will remain in the organization and accept the veto game outcome if player 1 decides to backdown. Player 1 knows this and must decide whether to stand firm or back down. Because player 1 really does not want player 2 to exit (C_1 is very high), player 1 will back down. Player 2 will therefore demand a veto if player 1 chooses to play the hegemon game. If, on the other hand, player 1 had opted for the veto game at the first node, player 2 would have to choose again whether to exit the organization or accept participation in a stable veto regime. Assuming that player 2 discounts the future fairly heavily (δ_2 is close to zero) or that playing the veto game

would be fairly good for player 2 in the long run (z_2 is small), player 2 will choose to accept player 1's offer to participate in a permanent veto regime if given the chance. This leaves player 1 with a choice: either play the hegemon game realizing that player 2 will demand and succeed in securing a veto, but only for this one interaction, or opt to give player 2 a permanent veto. Player 1 will choose to offer player 2 participation in a permanent veto regime under two conditions. First, player 1 totally discounts the future (δ_1 is zero), in which case player 1 is indifferent between playing the veto game and playing the hegemon game. Second, player 1 believes that at some point in the future she may become the laggard on some issue and wish to have guaranteed veto power (z_1 is negative because the positions of the actors are reversed). In other words, by opting for the veto regime, player 1 has a hedge against future uncertainty. She never knows when she may need veto power, herself.

The players would also land in the permanent veto game equilibrium if player 2 always prefers to exit when in the hegemon game, but, if given the opportunity to take part a permanent veto regime, would accept the offer. This implies that z_2 is negative. This could happen if player 2 believes that without the security of the permanent veto, player 1 may be able to extract future concessions from him. This could potentially happen if player 2 expects to face very high costs associated with exiting the organization in the future. I will demonstrate why this is true below. When this is true, player 2

will always demand a veto in the hegemon game, and player 1 will be indifferent between standing firm and backing down because both will result in 2's exit. As long as player 1 prefers player 2's participation in the regime over his exit, she will offer him participation in the permanent veto game, and he will accept.

There are two important things to notice about these equilibria. First, in order to end up in the permanent veto regime equilibrium, player 2, the laggard, must have relatively low costs associated with exit, but they cannot be too low. If exit is costless, player 2 will always exit the regime. However, if player 2's costs associated with exit are too high, he will always accept player 1's offer even if she only offers him her own ideal point. She therefore has no incentive to offer him participation in a permanent veto regime. Likewise, player 1 must have relatively high costs associated with player 2's exit. She must prefer to keep him in the regime if she is able. Otherwise, it would be best for her simply to let him walk away.

This leads me to another equilibrium worth exploring. Under what circumstances does the ability to exit an organization actually hurt rather than help a laggard? Although much literature treats an exit option as a potential source of power, this is not always the case. As Schneider & Cederman (1994) suggest, exit threats are only a source of power when the threat is credible. Understanding this equilibrium will help us understand the scenario mentioned above where player 1 would always exit the regime in the hegemon game, but if offered a

permanent veto, would accept participation in the organization. This occurs whenever the laggard's exit is costly for the laggard (C_2 is high) but not costly for player 1 (C_1 is low). When this is true, player 2 will accept participation in any regime rather than exiting the organization at all end nodes. In the hegemon game, player 1 will stand firm if player 2 demands a veto, knowing that he will not exit. Player 2, then, will accept player 1's original offer to participate in an hegemon regime where the outcome is player 1's ideal point. Player 1 has no incentive to offer player 2 participation in a permanent veto game because she can do better if she demands her own ideal point and does not grant player 2 a veto in the hegemon game. This would mirror the scenario where a large and powerful state offers a small laggard state participation in a regime under her terms, and says the laggard must accept her integrationalist terms or walk.

5 Discussion: Negotiating The British Budget Rebate

To demonstrate how this game leads to new insights on bargaining in the EU and other federal systems, I come back to one of the examples mentioned at the beginning of the paper, the British budget rebate. I reanalyze the negotiations behind the British budget rebate with respect to the equilibrium outcomes discussed above. In light of the game, these negotiations present a puzzle. Why did other member

states eventually cave to Thatcher's obstructionist threats, granting the UK a 66% budget rebate at the 1984 European Council meeting in Fontainebleau, rather than seek other methods for dealing with the UK's obstinacy? One such method mentioned at the time was to go forward with a two-speed Europe.⁶ In other words, member states could have designed rules essentially leaving the UK on the sideline with no recourse to a veto, an outcome akin to excluding the UK from the union. Why was caving to the UK's position and granting the UK a veto a more attractive option for the remaining member states than this two-speed approach? How might this have affected EU integration in the long term?

My game suggests a possible answer to these questions. First, member states may have been willing to deal with Thatcher and eventually grant her demands because these states looked into the future and saw that there were major institutional issues on the table over which they might want to have a veto. One such issue for Germany might have been monetary union, while for France, it might have been negotiations over the Common Agriculture Policy coupled with southern enlargement to Greece, Portugal and Spain.

In 1979, when Margaret Thatcher came to power in the UK, she was at first viewed as more favorable towards Europe than her Labour predecessors. A Conservative government had been in power when

⁶See "Mitterrand Urges Western Europe To Strengthen Political Integration; Britain Is Warned Against Failing to Cooperate With Community." *The Washington Post* May 24, 1984, pA25.

the UK first joined the EC, and during the mid-70s, while Labour was threatening to leave the EC, Thatcher, the new opposition leader, made clear the Tories support for Europe (Dinan 1999, 88).⁷ Nevertheless, Thatcher was clearly not willing to accept Europe at all costs, and was very wary of supranational attempts to limit national authority. In terms of the above game, she had fairly high costs associated with exiting the EC, but they were not exorbitantly high, one of the conditions for a stable veto regime equilibrium to emerge.

Thatcher viewed the UK's budgetary obligations to the EC as a major injustice left behind in the wake of Labour's 1975 renegotiation of EC entry. In her mind, the UK paid too much and received too little. Moreover, because of a transitional agreement, the size of the UK's budget contribution became more apparent at the end of the 1970's when Thatcher took office (Dinan 1999, 89). Thatcher's bargaining tactic was to block the EC's business until the other member states caved to her wishes. However, rather than allow Thatcher to block business, the other member states had another option, as my game suggests. They could have simply opted to exclude the UK from the EC. This is, in essence, what a two-speed approach would have accomplished. France, Germany, and the other member states, however, did not use this option. Instead, they caved to Thatcher's wishes granting her a 66% rebate. In my game, this suggests that they landed at the permanent veto regime equilibrium. The member states favor-

⁷See also "A Gin for Europe." *The Economist* April 19, 1975, p40.

ing EU integration offered the UK participation in a veto regime, and UK accepted this arrangement by accepting the negotiated rebate.

For this to be an equilibrium outcome, the states preferring integration would have had to believe that in the future they might have reason to want veto power. At the time there was good reason for both Germany and France to want a recourse a veto over major institutional decisions. First, throughout this period, talk of monetary union was well underway. On this issue, Germany, and specifically the German *Bundesbank*, wanted to protect Germany's solid fiscal policy against the EC's economic laggards facing higher inflation such as Britain, France, and Italy (Moravcsik 1998). France, on the other hand, may have wanted to maintain a strong hand preserving its agricultural subsidies from the Common Agricultural Policy. This was a particularly divisive subject given the upcoming expansion of the EC to Greece, Spain and Portugal, three poor countries with large agricultural sectors which would compete directly with French farmers. Throughout accession negotiations, France was skeptical of admitting these countries, especially Spain, largely because of agricultural concerns. Enlargement could only proceed after foreign ministers had agreed to a five year deal on structural aid to farmers linked to enlargement (Dinan 1999, 108).

This case study demonstrates how my game accurately captures bargaining in the EU. Moreover, it suggests that one of the EU's darkest hours, the early 1980's when many pundits were discussing

the EU's demise, may have been the point at which the EU began to function like a more stable federal system, where exit from the organization became increasingly unlikely, and instead member states used veto power to block major institutional changes which they opposed.

6 Conclusion

This paper has examined the interactive effects of veto rights and exit options in the design of international organizations and federal states. I build the work of Gruber (2000) and Schneider & Cederman (1994), who examine exit threats, the costs associated with exit from international regimes, and how this influences bargaining power within international organizations. However, I go beyond these models by incorporating veto power into my model. In addition, I treat ideological costs associated with policy implementation as distinct from reputational costs associated with exiting an organization. My model demonstrates that effects of veto rights and exit options are intertwined and must be considered together when examining state bargaining power. Having an exit option is not always as source of power for laggard states because if laggards have high costs associated with exiting an organizations, states preferring integration may exploit this fact. They can extract concessions from the laggards, making them worse off than they would be if the status quo remained intact. The model also highlights when stable organizations are likely to arise. An interesting implication of the model is that this depends largely on

the beliefs of the actors about the future. A stable regime is more likely to develop when a state currently preferring integration believes it could potentially become a laggard in the future. It is more likely to opt to create a stable, federal-style regime with veto safeguards if it believes that it might need a guaranteed veto right to protect its interests in the future.

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