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Weak States and Institutionalized Bargaining Power in International Organizations[1]

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When and how can weak states increase their bargaining leverage in international organizations? I argue that during phases of routine bargaining, distributional outcomes depend on the states' political and economic leverage and less on the formal allocation rules, so they are unfavorable to weak states. This changes in phases of extraordinary bargaining, which are occasioned by significant reform such as enlargement. States that expect distributional conflict from enlargement can threaten to block accession negotiations and increase their membership benefits even if they are politically weak. Statistical and qualitative analyses of distributional bargaining in the European Union support the theoretical claims.

Historical accounts suggest that powerful member states determine the policies of international organizations and induce the cooperation of weaker members with side-payments (Moravcsik 1991, 1998).[2] The willingness of the powerful to provide such side-payments, however, is puzzling for two reasons. First, weak member states generally do not have viable alternatives to cooperation within the international organization, and because of that they cannot threaten to withhold cooperation in the absence of side-payments. Second, these payments may be quite unattractive for the powerful states because they may incur high domestic political costs. If the weak cannot credibly demand side-payments and if these payments are costly to provide, then why do strong states agree to redistribute benefits and costs in international organizations?

My analysis of EU bargaining addresses this puzzle. I argue that the institutional bargaining environment can function as an enabling condition when it provides occasions for the weak members to exercise political influence that far exceeds their status. During phases of routine operation, the actual distributional outcomes tend to reflect the states' political and economic leverage. This relationship changes during phases of extraordinary bargaining that accompany reforms, such as EU enlargement. These reforms, under certain conditions, provide the weak states with opportunities to increase their bargaining leverage with

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[2] See also Krasner 1991; Steinberg 2002; and Kauppi and Widgrén 2004.

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respect to the powerful members. Institutional reforms such as the widening and deepening of international organizations typically require unanimous approval by the current member states. If governments expect distributional conflict to arise from such reforms, they can threaten to delay, or in the extreme even veto, these changes given their veto rights. Current members expect distributional conflict to emerge after enlargement if they compete with the new member state for available resources (such as structural or agricultural transfers from the European Union) and are too weak politically or economically to avert the negative consequences of this competition. Because the powerful typically stand to gain most from these reforms, delays tend to be disproportionately costly to them, which in turn give them incentives to accommodate the weak by offering side-payments in other policy areas. In a nutshell, periods of IO reform enhance the weak members' bargaining power (i) if reforms are decided unanimously, (ii) if the current member's threat to delay enlargement is credible, and (iii) if the IO's promise to solve conflicts is credible.

This paper qualitatively studies the establishment of the Integrated Mediterranean Programmes in the 1980s to illustrate the theoretical argument. Greece feared a decline in its structural aid from the European Union after the accession of Spain and Portugal. While Greece was not powerful enough to assert its demands in the budget negotiations, the expected distributional conflict after enlargement induced the Greek government to block accession negotiations until the EU member states decided to establish new funds particularly benefitting Greece and the Mediterranean region.

The theory also yields several testable implications amenable to statistical analysis. I estimate a fixed-effects ordinary least squares (OLS) model with a panel data set of observations from EU phases of routine operation and phases of expansion from 1977 to 2006 to provide a more general test of my theoretical argument. I find that the relative winners of redistribution are typically states that are pivotal in the bargaining process. Nevertheless, enlargements tend to increase the benefits of the politically and economically weak countries when they expect distributional conflicts. Weak states can exploit phases of extraordinary bargaining only if both the threats to delay accession negotiations and the promises of international organizations to compensate the distributional losers are credible. My analysis suggests that the credibility of delay threats does not come from economic considerations (especially when enlargement is Pareto-improving) but from domestic political factors. These findings generally suggest that strong states should be willing to address the distributional problems of weak states if the institutional features in phases of extraordinary bargaining allow weak states to condition their approval of reforms to a re-distribution of benefits. Although this paper focuses on the widening of international organizations as one important example of extraordinary bargaining phases, my findings could be applied to other significant reforms such as the deepening of international organizations. For example, the EU reform process that culminated in the Single European Act in 1992 allowed weak member states to gain extraordinary bargaining power using similar mechanisms as the ones described for the enlargement process (Moravcsik 1991, 1998). Such conditions can be found in other international organizations that deal with distributional and re-distributional issues as well. The enlargement of the World Trade Organization (WTO), for example, has to be approved by all member states. Weak states that fear distributional consequences can therefore threaten to stall the accession process to obtain higher benefits (Kraft 2007).

Bargaining in International Organizations

An explanation of distributional bargaining in international organizations has to take into account changing institutional constraints. The bargaining outcomes in phases of IO reform differ from the outcomes in phases of routine bargaining. My theory distinguishes between phases of routine bargaining and phases of extraordinary bargaining. I draw on research about distributional bargaining in the WTO and European Union to describe phases of routine operation below. The implication of these insights is that politically and economically weak states tend to be worse off in this bargaining phase. I then apply bargaining theory to analyze the conditions that enable weak states to increase their bargaining leverage during phases of extraordinary bargaining, focusing on the case of IO enlargement, in the section on institutional environments, below. I argue that weak states that expect intensified distributional conflict from enlargement may use the formal rules of enlargement (which allow them to delay accession until they agree with the terms of enlargement) to increase their political leverage in the distributional bargaining process (which underlies majority voting).

Phases of Routine Operation

States join international organizations because they gain from harmonizing policies. Distributional conflicts emerge when actors' preferences over the solution to a certain problem diverge (Morrow 1994). EU members agree that they should ''promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, (...) the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.''[3] Nevertheless, they disagree on how to distribute the available financial resources to achieve these goals. Along similar lines, WTO members agree that economic integration is fundamental for their well-being and that ''any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.''[4] However, they disagree about the extent to which this most-favored-nation (MFN) principle should apply.

International organizations can mitigate these conflicts because they provide formal rules that structure the bargaining process and regulate the distribution of gains and losses among member states in the long term (Morrow 1994; Fearon 1998). Most WTO rules reflect the idea that the WTO regulates trade liberalization of states with different needs. Anti-dumping rules safeguard the interests of less competitive countries because they allow governments to take measures against imports at export prices below ''normal value'' whenever this dumping would disrupt the domestic market. The WTO rules also allow developing nations to fulfill their commitments relatively slowly to allow adjustment to competitive market pressures. The rules further increase market access for such nations through non-reciprocity rules and exceptions to the MFN rule. They also commit other states to safeguarding the interests of developing countries when adopting anti-dumping measures (WTO 2007). The European Union also aims to ensure a fair distribution of economic benefits from free trade, but additionally deals with a host of other policies that have distributional consequences. The most important ones among these are the common agricultural (CAP) and the cohesion (CP) policies. The European Union seeks to maintain agricultural production through a system of price guarantees and subsidies for farmers (the European Guidance and Guarantee Fund [EAGGF]) and reduce economic and social disparities in the level of development among regions and member states through a system of structural transfers (the European Regional Development Fund [ERDF]

[3] Treaty Establishing the European Union, Articles 2 & 3.

[4] GATT, Article 1.

and the European Social Fund [ESF]). To achieve these goals, the European Union targets economic outcomes and allocates more than 80% of its budget in favor of structurally weak and agricultural members. The formal rules then regulate who pays, who receives, what gets funded, and how much money is involved.

In general terms, the formal rules of distribution reduce conflict by structuring the negotiation process. They are supposed to allocate benefits according to the member states' needs. These need-based rules provide a stable mode of distribution and avoid repeated bargaining over the same issues. Nevertheless, international organizations do not prevent, or even fully resolve, distributional conflict. Instead, they serve as bargaining fora that help states to manage conflict effectively. Repeated negotiations—an instrument that is assumed to reduce conflict—can actually exacerbate it. Fearon (1998:270) shows that whereas a long shadow of the future can help solve the enforcement problem, it aggravates the bargaining problem because it encourages states to take tough bargaining positions on distributional issues in hopes of getting better deals.

The opportunities for power politics in distributional bargaining arise from existing loopholes in the frameworks established by the formal rules. The policies negotiated in international organizations are typically very complex and involve multiple issues. WTO members regulate tariffs on thousands of products. The United States, for example, has bound concessions for more than 5,000 different products. The common body of EU law (*Acquis Communautaire*) is more than 100,000 pages long and compromises more than 17,000 legal acts that regulate the common policies. Even then, the allocation rules, for all their attention to detail, cannot possibly capture the full complexity of distributional issues that arise in annual negotiations. Additionally, the annual budget appropriations that are negotiated in the EU multi-annual budget frameworks explicitly leave room for ''necessary political negotiations'' (EU Commission 2008:159).

Governments with high vote shares in the main decision-making body therefore can influence the outcomes of the decision-making process (Rodden 2002; Kauppi and Widgrén 2004, 2005; Mattila 2006). Compared to the WTO, which operates on consensus, voting power is important in the EU Council where states with different numbers of votes can become pivotal actors in majority decisions. Germany can extract asymmetrically large budget shares although it has always been wealthier than average. Greece and Portugal (both relatively poor countries with large agricultural sectors), on the other hand, would be among the losers if voting power were most important. In fact, Portugal receives less than half of the EAGGF subsidies it is eligible for on the basis of the size of its agricultural sector (Schneider 2009:106). Kauppi and Widgrén (2004) compare the relative effects of formal rules and voting power and find that voting power explains up to 90% of the variation in EU budget shares. Along similar lines, several scholars find that governments have more leverage if domestic constraints (such as an EU-skeptic or WTO-skeptic public opinion) effectively tie their hands in distributional negotiations (Mayer 1992; Carrubba 1997; Hug and König 2002).

However, it is not only the politically powerful states that achieve better negotiation results for themselves. Economically powerful states have sufficient resources to threaten to exit negotiations (since they are better at coping with potential negative economic consequences) to get better deals. Steinberg (2002) shows that economically strong WTO members use these strategies to extract asymmetrically large benefits from membership even though decision making is consensual. We would expect economically powerful nations to be able to secure more favorable deals in the European Union as well.

In sum, the scholarly literature suggests a gap between *de jure* and *de facto* distribution of benefits in international organizations. Whereas many international organizations aim to redistribute gains in favor of the economically weak member states, the *de facto* distribution tends to reflect the members' political and economic power. In this case, powerful states would not have an incentive to provide costly side-payments to weaker states because they do not have credible outside options. In this scenario, less populous, over-represented states are most likely to receive side-payments because they are ''cheaper to buy'' and therefore desirable coalition partners (Rodden 2002; Mattila 2006; Aksoy and Rodden 2009). These small over-represented EU member states like Luxembourg, Malta, and Cyprus tend to be relatively rich, and their leverage depends on the number of over-represented member states.[5] In the following, I argue that politically weak member states, no matter whether rich or poor, can increase their bargaining power in phases of extraordinary bargaining, like periods of IO expansion.

Extraordinary Institutional Environments

Whereas routine bargaining is at the heart of distributional bargaining in international organizations, significant reforms such as IO enlargement create institutional environments that allow for extraordinary bargaining situations to occur. In international organizations that serve as bargaining fora to resolve distributional conflicts (such as the European Union, the WTO, Mercosur, Andean, and ASEAN), enlargement typically requires unanimous approval of all current member states.[6] EU enlargement is conditional on all current members agreeing on the accession conditions for the entire *Acquis Communautaire*. Along similar lines, enlargement of the WTO can only take place if all interested WTO members agree that their individual concerns have been resolved in the course of the bilateral and multilateral negotiations (WTO 2008).

These unanimity rules guarantee that states cannot be worse off after enlargement. They allow governments to delay the accession of new members until they are satisfied with the overall agreement. Why is this important? In the long run, enlargement is beneficial (Pareto-improving) for all states because it increases the gains from trade, political stability, and the harmonization of policies among other things. However, weak member states often experience losses after enlargement because they do not have enough power to avert the negative consequences of increased competition from states that have rival claims to the same benefits (Baldwin, Francois, and Portes 1997; Schimmelfennig 2001; Kauppi and Widgrén 2005; Kraft 2007). For example, the accession of relatively poor states to the EU increases the competition for current member states qualifying for the Cohesion Funds because they have to compete with a larger group of net recipients. In the WTO, enlargement increases distributional conflict especially for developing countries and countries in transition. Import competition increases when WTO members have to eliminate existing anti-dumping practices against the acceding states because these measures would be at odds with WTO regulations. China's request for WTO membership threatened to increase import competition for Mexico. The Mexican government had anti-dumping measures against imports of more than 1,400 Chinese products. All of them were disallowed under WTO rules and would have to be abandoned once China joined the organization.

The distributional conflict that is induced by enlargement aggravates because strong member states oftentimes block any painful adaptations such as an increase in their budget contributions to alleviate distributional conflict for the

[5] One would expect, for example, that the leverage of small member states such as Luxembourg declined with the accession of further over-represented states to the European Union.

[6] International organizations that do not deal primarily with distributional issues have less restrictive admission requirements such as supermajority (e.g., United Nations, Interpol, International Hydrographic Organization), simple majority (e.g., African Union), or ratification by the accession state (e.g., International Seabed Authority, International Organization for the Prohibition of Chemical Weapons).

weak member states. However, weak states that expect distributional conflict after enlargement can exploit the extraordinary institutional environment during enlargement to increase their own membership benefits in other policy areas. Although the enlargement rules do not change the majority rules that apply to routine bargaining, weak states that expect distributional conflict in the course of enlargement can credibly link the fate of enlargement to a redistribution of benefits in their favor. The member and applicant states that gain from enlargement more likely concede to the relative losers if they fear that enlargement might get derailed over distributional conflicts. The threat of bargaining breakdown or delay creates opportunities for issue linkages and for the provision of side-payments that can solve expected conflicts in favor of weak states. In other words, in their function as safeguards for existing members, enlargement rules create a new bargaining environment, in which weak members gain political leverage vis-a-vis other member states in the short term.

The main empirical implication of my argument is that during phases of accession negotiations, EU member states that expect to be exposed to distributional conflict after enlargement should receive higher budget transfers *no matter* whether they are politically powerful or weak. Accordingly, weak states can increase their bargaining leverage in phases of enlargement if they expect distributional conflicts. Whether the claim is successful depends on (i) whether enlargement is decided unanimously, (ii) whether the current member's threat to delay enlargement is credible, and (iii) whether the IO's promise to solve conflicts is credible.

Most importantly, institutional veto power would not be an effective means of achieving compensation if the current member's threats to delay accession negotiations are not credible. If the winners of enlargement do not believe that the state that threatens with the veto would actually follow through on its threat, they would not provide it with costly compensation. Threats can only be credible if the state (i) actually experiences distributional conflict and (ii) demonstrates that it will have to act on its threat if compensation is not forthcoming for domestic political and economic reasons. In the empirical analysis, I will discuss the extent to which these requirements obtain.

The compensatory burden could be shouldered by winners either among existing members or among applicant states. Because new member states are usually in an unfavorable bargaining position relative to existing members, it is they who are more likely to be asked to pay for this redistribution. We should thus see that if existing member states fear distributional conflict and negotiate for compensation, it is most likely to be the new members that receive lower budget receipts.

Greece and the Mediterranean Programs

Before I turn to the statistical analysis, I trace the workings of the causal mechanism with a case study of the implementation of the Integrated Mediterranean Programs (IMPs) in the European Union. The case is illustrative because Greece's position in the European Union should not have allowed it to re-negotiate its budget receipts as substantially as it did. Economically, the country was the poorest EU member state, and even the two applicants during that time (Spain and Portugal) were richer. The Greek gross domestic product (GDP) per capita was barely 48% of the EU average, and almost a third of the population was still employed in the agricultural sector (compared to a 10.2% EU average). Politically, the government had just entered the Union in 1981 and did not have much influence in the Council decision making where only Luxembourg, Denmark, and Ireland had less voting power.

Nevertheless, the EU-skeptic PASOK party, which came to power shortly after Greece joined the European Union, tried to re-negotiate the terms of the accession agreement. The government claimed that the terms were ''unfair'' because Ireland received higher per capita benefits than Greece and because the accession of Spain and Portugal would reduce Greek membership benefits even more because both of them would be major structural aid beneficiaries and both competed with Greece in Mediterranean agricultural products. The Greeks demanded special treatment that included permanent derogations from the rules of competition, agricultural production limits, state aid, and financial redistribution—that is, an increase in transfers and expenditure on social infrastructure covered, the creation of a new fund for Mediterranean regions, and a special long-range program for least-favored regions like islands and mountainous areas (EC Commission 1983a).

The Greek government was not successful during the first phase of renegotiations. The EU Commission promptly rejected any permanent rule derogations and allowed Greece only some minor transitional measures (EC Commission 1982). With respect to financial redistribution, the EU Commission referred Greece to the proposed IMPs (EC Commission 1981, EC Commission 1983b). The IMPs were not approved yet, and the Greeks could hardly have chosen a worse time for requesting financial redistribution in the Council of Ministers. Not only was Greece in no position to make any demands so soon after accession, but the British government had just started to renegotiate its own budgetary position within the European Union. The UK had been granted temporary rebates since 1979, but Prime Minister Margaret Thatcher was able to obtain a permanent rebate in 1984. To make things worse for Greece, the budgetary crisis that resulted from the rebate contributed to a general aversion to increasing spending any further. Many EU member states came to suspect that the regional programs were generally inefficient and too expensive and thus opposed their further development (Pollack 1995; Smyrl 1998). As a result, between 1982 and 1984 all Greek attempts to implement the IMPs failed.

In December 1984, Greece's bargaining position improved dramatically. At the Council meeting in Dublin, which was supposed to help settle some of the issues arising from the coming accession of Spain and Portugal, the Greek government conditioned its approval of an accession agreement on Mediterranean products on the implementation of the IMPs (EU Council 1984). This presented a *de facto* veto on enlargement because unanimous agreement was required for the accession talks to continue. Margaret Thatcher—who had just successfully negotiated that Britain would get back two-thirds of its net contributions at the end of each year—argued that the funds Greece was requesting were ''so far out of sight that they should never have been mentioned'' (Nicholson and East 1987:227). Nevertheless, the Greek ultimatum worked. A few months later, the EU member states seriously negotiated the Commission proposal, which was finally approved in December 1985. From the 4.5 billion ECUs that were to be allocated to the Mediterranean countries over a period of 7 years, Greece received approximately half. The IMPs were designed to ''improve the socioeconomic structure of (southern regions of the Community), in particular that of Greece, in order to facilitate the adjustment of these regions to the new conditions created by the Community's enlargement.''[7]

To finance the program, the EU budget had to increase by 1.6 billion ECU, while the rest was redistributed from other structural programs. Thus, the redistribution was paid mainly by the net contributors to the budget as well as the other beneficiaries of structural funds. Under the agreement, Greece did a complete about-face and stated enthusiastically that the accession of Spain and Portugal would ''reinforce the front of Mediterranean countries in the Community.''[8]

[7] Council Regulation 2088/85.
[8] *Financial Times*, April 1, 1985.

The IMP's negotiations amply demonstrate how member states that would otherwise be unable to pull the distributional outcomes in their favor can use their veto power during accession negotiations to obtain much more favorable terms. In the phase of routine bargaining, the European Union did not attempt to implement additional regional programs, and the Greeks failed to impress the Council to do otherwise because of their relative political weakness. For 3 years, the European Union did nothing. But when the extraordinary phase began and the Greek ultimatum arrived, it was barely a few months before the Council began negotiations over the details of implementation. The rules of the distributional game changed dramatically when the institutional setting was temporarily transformed by the prospect of expansion.

Enlargements and EU Budget Negotiations, 1977–2006

The European Union provides a nearly ideal case for empirical tests because distributional conflict is what most of the bargaining in the European Union is all about. The EU budget is spent almost exclusively on redistributive issues. We can use annual budget data to analyze the determinants of bargaining outcomes in the two different environments. This direct approach eliminates the need to rely on proxies or indirect measures (like policies or economic outcomes) as we would have to do in other cases such as the WTO. We know the actual size of the ''pie'' that is being divided and can observe the actual redistribution. The direct connection between power, needs, admission rules, and budget shares makes for an appropriate test of my argument. A failure to find statistically significant results could not be attributed to weak proxies for redistribution.[9]

The European Union is also somewhat unique in the amount of information available on distributional negotiations, most of which tend to be rather secretive (especially in the WTO). It is very difficult to trace the policy positions and debates of member states and to link them to actual negotiation outcomes. The EU enlargement rounds, however, have traditionally been accompanied by extensive public debates about the distributional consequences for individual member states. It is in these debates that individual positions are usually revealed despite the closed-door policies surrounding the negotiations themselves.

Finally, the volume of theoretical and empirical work on the allocation of the EU budget is considerable (unlike the situation with other international organizations). This allows me to build on these insights and contrast and compare my findings with those in the literature.

Variables

The data set consists of observations for 25 EU member states between 1977 and 2006. It includes four enlargement rounds: 1981 (Greece), 1986 (Spain and Portugal), 1995 (Austria, Finland, and Sweden), and 2004 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Malta, and Cyprus). The unit of analysis is the country-year, which allows me to investigate the dynamics of distributional bargaining in phases of routine and extraordinary operation.

Dependent Variables

In the budget game, EU member states care most about how much they get relative to other members and whether they belong to the group of net beneficiaries or net

[9] The *Financial Perspectives*, which serves as a multi-annual framework for the annual budget negotiations, is usually dominated by requests of powerful states to limit overall budget expenditures. If weak states manage to obtain higher shares despite this opposition during extraordinary phases, we would have additional support for my argument. For a detailed description of the EU budget process, see Nugent (2006).

contributors to the EU budget. These considerations partially owe to the preferences on the domestic level. Generally, the EU budget is very salient for the electorate (Mueller and Bowie 2003; Hix and Follesdal 2006). Although most Europeans do not know what the budget is spent for, they care how much of the EU budget their country receives relative to other countries.[10] Budgetary issues became particularly eminent with the EU Eastern enlargement in 2004. This expansion of the European Union threatened to incur additional costs for the net contributors to the budget. Germany, which was one of the main supporters, reacted quite sensitively to the German public which was ''tired of paying when other member states expect to keep receiving even when enlargement happens.''[11] On average, more than 83% of the European public considered it important in 1999 that the new member states would be able to pay their share of the EU budget. This makes it even more important for them than a sufficient economic development of the candidates (e.g., Eurobarometer 52 1999). Indeed, most of the resistance to enlargement arose from the fear that their country would receive smaller budget shares after enlargement, whereas other countries would receive larger shares.

Accordingly, the negotiations at the EU level are plagued with a net contributor debate and the problem of a fair distribution of the EU budget. In a press conference regarding the negotiations on the British budget rebate on November 1979, Margaret Thatcher justified her rejection of a budget rebate that was smaller than expected by saying that

> Look! We, as one of the poorer members of the Community, cannot go filling the coffers of the Community. We are giving you notice that we cannot afford it. [The proposed budget rebate] would still have left Britain with much much much too big a net contribution—a contribution next year of the same size as the German one and many many many times that of France. (Thatcher 1979)

The slogan in the European Union soon became ''We want our money back.'' To capture this logic, I will use two dependent variables: total budget shares and total net receipts.[12] First, I use the EU member's budget receipts as percentage of the overall EU budget appropriations for that year, *Total Budget Shares*. I use annual budget appropriations in the denominator rather than the actual budget to avoid assuming, incorrectly and *ex post*, what states could get.[13] The second dependent variable, *Total Net Receipts*, measures the total budget receipts minus the total budget contributions in millions of constant (2006) euro/ECU of a country in a given year.[14] All budget data are from the annual reports of the European Court of Auditors.

Budget shares and net receipts vary over time and across member states. Figure 1 shows that Greek budget shares (Figure 1A) and net receipts (Figure 1B) vary over the time from accession in 1981 to 2006. Greece was exposed to distributional conflict and bargained for compensation in the 1986 and 2004 enlargement rounds, and the government managed to increase its budget shares in both instances. The 2004 case is particularly interesting because in 1999, the

[10] It is not that voters care *per se* about how much their country got relative to another (they do care for absolute gains), it is just that they use that information to gauge the performance of their government.

[11] *Financial Times,* February 11, 2002.

[12] Most scholars use either a measure of budget shares, total/per capita budget receipts, or total/per capita net transfers (Carrubba 1997; Kandogan 2000; Rodden 2002; Kauppi and Widgrén 2004, 2005; Mattila 2006). The effect of distributional conflict in phases of enlargement on EU budget transfers is substantively the same if I use total/ per capita budget receipts or per capita net receipts instead of budget shares or net receipts.

[13] The results do not change if I control for the natural logarithm of total budget appropriations in millions of constant (2006) euro/ECU or the EU members' contributions to the EU budget.

[14] The EU's budget revenues mainly consists of levies on each member state's gross national income, and to a lesser extent of levies on the member state's value added tax bases as well of customs duties, agricultural duties, and sugar levies (Council Decision 2000/597/EC, Euratom).

FIG 1A. Greece's Budget Shares, 1981–2006

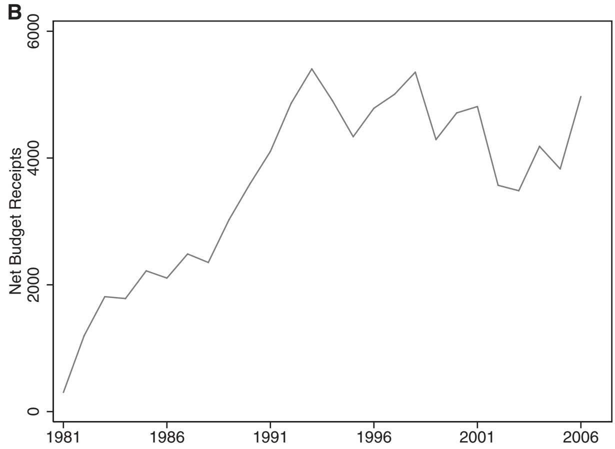

FIG 1B. Greece's Budget Receipts, 1981–2006

EU governments had agreed to substantial reductions in budget expenditures. Despite the declining trend, the Greek shares peaked in the year of enlargement.

The sharp increase in shares in the late 1980s and in the 1990s was caused by the two Delors packages that reformed the budget and significantly increased the amount of structural funds allocated within the Union. The reforms of the cohesion policies were part of a much larger reform of the European Community that culminated in the Single European Act in 1992. Structural funds doubled from 1988 to 1992 despite resistance from net contributors to the budget. Spain, Greece, and Portugal insisted on doubling the structural funds as a *quid pro quo* for approving the Single European Act because their accession and the proposed reforms would lead to intensified conflict for structural transfers in the poorest regions. This is consistent with the logic of my argument that countries can increase their leverage in times of reforms if they fear distributional conflict and can credibly threaten to veto reform.

Independent Variables

I argue that weak states can use accession negotiations to increase their bargaining leverage within the EU Council if (and only if) they expect that enlargement will lead to economic hardship. In this case, they can threaten to delay the accession of new states until they are promised compensation. This increases their bargaining leverage during those periods dramatically. I will thus measure my main independent variable, *Enlargement & Conflict*, as whether EU members expect distributional conflict after enlargement.

Distributional conflict intensifies when members compete for limited resources in the European Union. For example, when the new member state becomes a major beneficiary of the cohesion funds it reduces the share of all other current beneficiaries. This induces distributional conflict. Most of these conflicts arise over the distribution of farming subsidies and cohesion funds, but members occasionally fear the distributional consequences of the free movement of labor as well. I analyze the impact of conflict in any of these three fields on the distribution of the budget.[15]

EU member governments typically state their enlargement preferences publicly during the accession negotiations. This includes statements about whether they expect distributional conflict in certain policy fields. For example, Greece expected distributional conflict about structural transfers when Spain and Portugal—expected to be main beneficiaries of these funds—applied for membership. The doubling of the Cohesion Funds in the course of the Single European Act is another example of member states explicitly tying the bargaining success to compensatory demands. To collect all the necessary information, I conducted a systematic content analysis of documents from the EU Parliament, summaries from the relevant EU Council summits, reports of the EU Commission, various scholarly secondary sources, and several official interviews. In addition, I searched the international newspapers in the *Lexis-Nexis* database. I analyzed these documents and recorded all information about EU member positions during accession negotiations for each of the three policy areas.[16]

The dichotomous variable codes whether an EU member officially demanded compensation because of expected hardship due to enlargement. Countries have an incentive to play the ''veto-card'' very late in the enlargement process because the stakes in the final phase of negotiations are highest, and the winners of enlargement are most likely to make concessions. Since the promised redistribution is not realized immediately, we are unlikely to observe compensation before accession actually takes place. Thus, the variable takes a value of 1 in the enlargement year if a member government expects distributional conflict during accession negotiations, and a value of 0 otherwise. For example, Greece is coded as 1 in 1986, the year when Spain and Portugal acceded the European Union. A list of cases in which member states experienced distributional conflict is provided in Table A1.

One could argue that this measurement fails to truly reflect the existence of distributional conflicts. States could just claim to expect distributional problems to increase their budget receipts. However, false claims of distributional conflict are very unlikely during enlargement talks because the formal rules of redistribution help identify potential losers even before expansion, especially when it comes to financial transfers. Enlargement talks also occur with extensive scholarly research often funded or undertaken by the EU Commission. These reports are widely distributed and discussed during the enlargement negotiations and provide more objective evidence about expected winners and losers. This dramatically limits opportunities and incentives for cheap talk (EU Commission 2006).

[15] The findings do not differ substantively if I exclude conflict over the free movement of workers. I exclude conflict on economic integration because the European Union generally agreed to implement transitional integration of new members into the scheme (EU Accession Treaties).

[16] The EU Parliament compiles information about the positions on expansion of EU members and candidates (European Parliament 1999). A list of the most important secondary sources is available upon request.

The qualitative evidence also finds quantitative support. Specifically, I compiled a dyadic data set to *predict* expectations of distributional conflict. To test for distributional conflict in the Cohesion Policy, for example, I regressed official (member-applicant specific) claims of distributional conflict on variables that reflect the current eligibility of the member state and the expected eligibility of the applicant (e.g., using GDP per capita measures and other economic data). Both member state and applicant state characteristics are most crucial to predict the occurrence of distributional conflict. Most importantly, I found that the claims about distributional conflict are not cheap talk. With very few exceptions, claims were based on expected distributional conflict measured with variables that influence the distribution of funds. This means that the present findings cannot be interpreted as ''the squeaky wheel getting the grease.'' The most important implication of these findings is that the dichotomous distributional conflict variable provides virtually the same results as the estimated distributional conflict variable.

The effect of distributional conflict could be due to other events in the enlargement year. To ensure that this is not the case, I also control for whether the year is an enlargement year or not (*Enlargement Year*). At the same time, *Enlargement Year* provides a test for whether states that do not expect distributional conflict have to take some of the compensatory burden. To test whether redistribution of enlargement gains disadvantages the applicant states, I code new member status with a dichotomous variable that takes a value of 1 for new members from their accession up to the next enlargement if a *current* member expects distributional conflict (*Conflict & New Member*). Theoretically, I expect that new members are the main losers of redistribution followed by the relative winners of enlargement.

If distributional conflicts are expected, then members should increase their EU budget shares irrespective of their political leverage within the European Union. In fact, my theoretical argument implies that politically weak members are the main beneficiaries of redistribution in phases of enlargement as they are most likely to face distributional conflict with an increase in membership (recall, politically weak states are more likely to lose potential competition against new members with rival claims). To test this argument, I will analyze the effect of distributional conflict on budget shares for different levels of political power. The Shapley–Shubik index (SSI) is widely used to measure EU decision-making power (Shapley and Shubik 1954). *SSI Council* (%) takes into account the majority threshold and the allocation of voting weights and measures the power of an actor as the frequency with which a state's membership in a coalition is pivotal when all voting coalitions are assumed equally likely (data from Bräuninger and König 2005). I expect that political power should increase budget shares individually, but should have no (or even a negative) impact on budget shares if states expect distributional conflicts after enlargement.

Furthermore, I want to assess the length of the extraordinary bargaining environment and thus how long weak member states can gain from compensation. The case of the Mediterranean countries is one example where countries were able to sustain redistributional benefits over a long period. This is partially due to two successive phases of extraordinary bargaining and a strengthening of the Mediterranean coalition in the 1980s. Usually, however, I expect that as phases of enlargement pass, so do extraordinary benefits for politically weak member states decline. Such a decline is most likely at the end of the multi-annual budget periods. If a new *Financial Perspectives* is negotiated, the new member states can veto any further discrimination toward them and the powerful member states can also decline further redistribution at their expense. I use a dichotomous variable from the year after accession to the year before a new multi-annual budget plan if a country experienced distributional conflict (*Extraordinary Phase* [*Dummy*]).

The model includes variables that capture the country's eligibility for the two major funds of the European Union (the agricultural [EAGGF] and structural [ERDF/ESF] funds). GDP is the main criterion for ERDF/ESF eligibility. About two-thirds of these funds are allocated to regions with a GDP per capita below 75% of the EU average (so-called cohesion countries). I use the GDP of EU members as an average of the European Union (*GDP per capita* [*EU = 100*]) as well as a dummy variable for the group of cohesion countries (*Cohesion Country*).[17] Agricultural payments generally depend on the agricultural sector size (*Employment Agriculture*). I use the natural logarithm of the total number, in millions, of employees in the agricultural sector (data from Eurostat).

Controlling for the size of the population (in millions) allows me to exclude the possibility that some effects (for example, *SSI Council*) merely reflect the size of the country. An additional variable (which takes a value of 1 for all new members until the next enlargement) allows me to examine whether new members are generally disadvantaged because they entered the Union during a multi-annual budget period (*New Member State*). I also control for the number of EU members to account for increasing conflicts over the budget (*Number of EU Members*). Finally, Carrubba (1997) argues that countries that lack public support for EU membership can extract larger gains from the European Union to ''buy'' political support. *Domestic EU Support* is measured as the percentage of citizens who believe that ''EC/EU membership is a good thing'' minus the percentage of those believing that ''EC/EU membership is a bad thing'' (data from Eurobarometer). Descriptive statistics can be found in Table A2.

Estimation Procedure

The data are time-series cross-sectional. Panel estimation techniques may overcome potential problems of panel-heteroscedasticity and serial correlation. I use a fixed-effects model because the Hausman test suggests that alternatives (such as the random effects model or the pooled OLS model) would render the coefficients inconsistent and biased.[18]

I apply panel-corrected standard errors to correct for the heteroscedasticity of the error terms across EU member states (Beck and Katz 1995). A Prais–Winsten transformation of the data is also necessary because the Durbin Watson statistic of an untransformed model points to serial correlation of the error terms. Whereas both the Prais–Winsten transformation and the Lagged-Dependent-Variable model (LDV) address the problem of serial correlation, modeling a panel-specific AR1 process seems more appropriate in this case (Achen 2000; Plümper, Troeger, and Manow 2005; Keele and Kelly 2006). The size of the coefficients in a LDV model cannot be interpreted directly because the coefficient of the LDV includes the first lags of all the coefficients of the other independent variables (which are correlated with the variables on the right-hand side of the equation). A LDV should also not be estimated if it was not explicitly derived from the theory because the variable will eliminate most of the variance in the dependent variable. This necessarily reduces the significance of all other independent variables. Achen (2000) demonstrates that claims that budgets are caused primarily by last year's budget are probable statistical artifacts. Including the LDV leads to a substantial downward bias of the substantive coefficients

[17] GDP per capita could itself represent economic power instead of economic needs (Steinberg 2002).

[18] Compositional data analysis is not warranted in this case because I use receipts as percentage of overall budget appropriations. As the estimated budget is usually larger than the actual budget, the actual budget shares do not add up to 100%.

Table 1. Distributional Conflict and the Allocation of the EU Budget

	Budget shares (Model 1)	*Net receipts (Model 2)*
Enlargement & conflict	0.474 (0.097)**	484.170 (161.655)**
Extraordinary phase	0.288 (0.090)**	458.596 (142.040)**
Conflict & new member	−2.804 (0.528)**	−2,560.967 (584.398)**
Enlargement year	−0.247 (0.067)**	−78.107 (71.387)
GDP per capita (EU = 100)	0.030 (0.005)**	3.069 (4.450)
Cohesion country	−0.164 (0.259)	343.522 (285.897)
Employment agriculture (ln)	0.513 (0.305)*	−34.237 (295.774)
SSI Council (%)	0.497 (0.049)**	406.199 (51.287)**
Domestic EU support	−0.010 (0.003)**	10.203 (2.900)**
New member	−0.433 (0.134)**	−502.046 (151.934)**
Number of EU members	−0.062 (0.026)**	−13.942 (24.134)
Population (ln)	−11.088 (2.447)**	−1,367.530 (2,264.710)
Constant	178.103 (39.296)**	17,798.327 (35,965.288)
Observations	401	401
R^2	.869	.692
Wald test χ^2	7.06e+06**	9.12e+06**

(*Notes*. Prais–Winsten regressions with country fixed effects.
Panel-corrected standard errors in parentheses.
**$p < .05$, *$p < .1$.)

(sometimes even to incorrect signs) and an artificial inflation of the effect of the LDV. Because my theory does not warrant the inclusion of a LDV, I chose to use the Prais–Winsten transformation. The Durbin Watson statistic indicates that the transformed estimator sufficiently reduces serial correlation.

Empirical Results

Table 1 presents the main results.[19] All models fit the data very well. The results of the Wald test indicate that the variables together exert a significant effect on EU budget shares. The *Budget Shares* model explains almost 87%, and the *Net Receipts* model explains about 69% of the variation in the data.

Phases of Routine Bargaining

Turning now to the statistical significance of the estimated coefficients, I find strong support for the existence of different bargaining environments in the European Union. Consistent with the findings in the literature, the distribution of benefits in the European Union in phases of routine bargaining seems to depend less on formal needs, but mainly on the economic and political power of the member states. EU members with high voting power can use existing loopholes in the *Acquis Communautaire* to significantly increase their budget receipts. Additionally, the positive coefficient on *GDP per capita* indicates that the rich rather than the poor countries tend to receive the largest shares of the common budget. Whereas countries with large agricultural sectors significantly increase at least their budget shares, the group of cohesion countries does not receive significantly more than the group of the rich member states. These results imply that formal needs are not important in explaining budget allocations in the European Union at least during phases of routine bargaining.

There are two possible caveats to this interpretation. First, the effect of income on budget receipts could be negative for cohesion countries only and therefore

[19] All models are estimated with Stata 11.

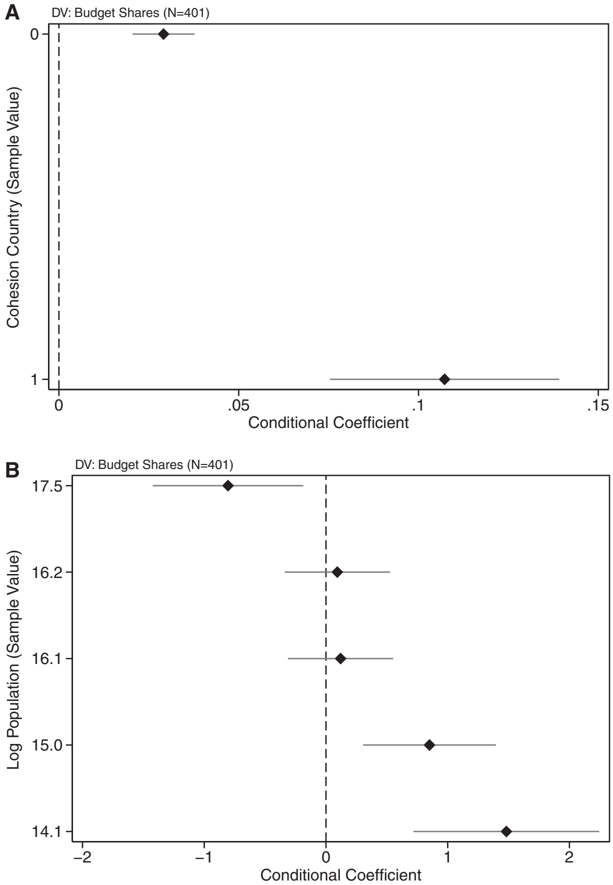

Fig 2. Economic Needs and Budget Shares

conditional. Second, smaller cohesion countries might be more able to receive higher transfers because they tend to be over-represented (Rodden 2002; Mattila 2006).

I test for both possibilities by (i) conditioning the effect of income on whether the country is a cohesion country and (ii) by conditioning the effect of cohesion countries on their population size (estimation results in Table A3). Figure 2 depicts the impact of income on budget shares for the group of cohesion and non-cohesion countries and the cohesion country's budget shares for different population figures. In Figure 2, the y-axis depicts the actual sample values corresponding to the 1st, 10th, 50th, 75th, and 99th sample percentiles of *Population (ln)*. The *x*-axis presents the conditional coefficients (diamonds) with their 95% confidence intervals with a dashed line at zero.

The results provide some interesting insights into the process of budget bargaining. Figure 2 shows that the effect of income on budget shares indeed is nonlinear, but not in the direction expected based on the formal allocation rules. Economic power is an important asset in EU budget negotiations for rich and poor countries alike, but it is significantly more important for cohesion countries. In other words, in the group of cohesion countries, it is not the poorest that stand to gain the most, but the richest. Figure 2 further shows that the budget shares of cohesion countries depend on their population size. Cohesion countries with large populations receive significantly smaller budget receipts, whereas small cohesion countries are advantaged. This provides some support to the argument that small states tend to be over-represented in the European Union, and more generally that economic and political power matters even more within the group of cohesion countries.

Finally, consistent with the literature, I do not find a robust impact of domestic EU support on budget receipts. Whereas the *Budget Shares* models suggest that countries with EU-skeptic populations receive higher budget shares (consistent with Carrubba's argument), the *Net Receipts* models suggest the exact contrary. Neither of these results is robust to different model specifications. These findings mimic what other scholars have found calling for a more in-depth theoretical and empirical analysis of EU public opinion and distribution in the European Union.

To sum up, economic and, particularly, political power is crucial to explaining the outcomes of EU budget negotiations in phases of routine bargaining. Weak states are generally disadvantaged even if the formal rules designated them as main beneficiaries of the common budget. However, whereas weak states cannot assert themselves in phases of routine bargaining, I find strong and robust evidence of *extraordinary bargaining environments* in which weak states can alter the balance of distribution if they expect distributional conflict.

Phases of Extraordinary Bargaining

Enlargement negotiations provide windows of opportunity for EU member states that do not receive favorable shares in the routine process. The finding that a member state that expects distributional conflict obtains a statistically significant increase of almost 0.5% in budget receipts during the accession year supports my main argument. An assessment of the substantive implications of this effect naturally depends on the size of the country's economy. A 0.5% increase in budget shares should substantially be more important for cohesion countries than non-cohesion countries. In the group of cohesion countries, 0.5% implies an average of an €211 million increase in total budget receipts, or an average 0.2% increase in the domestic GDP. For Ireland in 1991, this would have implied an increase of even 0.4% in its domestic GDP (€197 million). However, governments generally can claim domestically that they enhanced the relative position of their country in the EU budget game. The *Net Receipts* model fosters this result. EU members significantly increase their net receipts by an average of €484 million if they expect distributional conflicts. Additionally, the positive and significant coefficient on *Extraordinary Phase* suggests that the additional benefits that states can achieve during enlargement negotiations last at least until the beginning of the next *Financial Framework*.

The effect of distributional conflict on budget shares is not caused by a general increase in budget receipts during times of enlargement and demonstrates that the existence of distributional conflict indeed is a necessary condition for a redistribution of membership benefits. The dummy variable for enlargement years indicates that members receive less during enlargement years if they do not face distributional conflicts. Note, however, that the variable is only significant in the *Budget Shares* model. Whereas the negative coefficient on *Enlargement Year* implies that redistribution partially hurts the relative winners of enlargement, the main burden is shifted toward the new member states (see *Conflict & New Member*). New members generally receive a significantly lower share of the budget, but the share is particularly low if current members expect distributional conflict in the enlargement process (by €2,561 million over the period until the next enlargement).

This tells us that anticipated conflict can provide member states with more benefits in enlargement years (at least in terms of shares) and that this occurs as a result of genuine redistribution at the expense of those who anticipate a

Table 2. Distributional Conflict, Political Power and the Allocation of the EU Budget

	Budget shares (Model 3)	*Net receipts (Model 4)*
Enlargement & conflict	0.491 (0.198)**	508.758 (209.802)**
Extraordinary phase	0.294 (0.088)**	472.078 (142.709)**
Conflict & new member	−2.808 (0.530)**	−2,560.789 (587.540)**
Enlargement year	−0.247 (0.067)**	−81.854 (72.277)
GDP per capita (European Union = 100)	0.030 (0.005)**	3.003 (4.484)
Cohesion country	−0.168 (0.261)	339.304 (287.848)
Employment agriculture (ln)	0.518 (0.306)*	−29.141 (297.034)
SSI Council (%)	0.496 (0.048)**	406.058 (50.055)**
Conflict*SSI (interaction)	−0.002 (0.022)	−1.814 (20.610)
Domestic EU support	−0.010 (0.004)**	10.272 (2.949)**
New member	−0.430 (0.138)**	−501.407 (164.179)**
Number of EU members	−0.063 (0.026)**	−14.983 (23.161)
Population (ln)	−10.994 (2.506)**	−1,322.793 (2,289.016)
Constant	176.608 (40.228)**	17,106.859 (36,308.630)
Observations	401	401
R^2	.870	.695
Wald test χ^2	4.22e+06**	1.04e+07**

(*Notes.* Prais–Winsten regressions with country fixed effects.
Panel-corrected standard errors in parentheses.
**$p < .05$, *$p < .1$.)

benefit. It does not tell us who benefits from this redistribution—does it depend on political power? Theoretically, I expect that whereas there is a positive relationship between power and budget receipts in phases of routine bargaining, there should be no or even a negative relationship in phases of enlargement if members expect distributional conflict. To test this argument, I estimated the full model and included an interaction term that allows me to analyze the effect of distributional conflict on budget outcomes conditional on different levels of voting power.

Table 2 depicts that all of the main findings are robust to the inclusion of an interaction term between *SSI Council* (%) and *Enlargement & Conflict*. The coefficient on the interaction term is insignificant, which already provides some preliminary evidence that EU members that experience distributional conflict can increase their membership benefits during enlargement negotiations *independent* of their political power. Figure 3 graphically depicts the impact of distributional conflict on budget shares and net receipts for members with different voting power. The y-axis depicts the actual sample values corresponding to the 1st, 10th, 50th, 75th, and 99th sample percentiles of *SSI Council (%)*. Figure 3A presents the results for the *Budget Shares* model and Figure 3B presents the results for the *Net Receipts* model. The *x*-axis presents the conditional coefficients (diamonds) with their 95% confidence intervals with a dashed line at zero.

Both graphs show that EU members can increase their budget share during accession negotiations if they expect distributional conflict *unconditional* of their voting power. The results even provide weak evidence that less powerful members that experience conflict in the accession negotiations receive higher budget shares in the enlargement year (the increase itself is not significant).

Thus, whereas economic and political power is very important in explaining bargaining outcomes in routine negotiations, politically weak countries can increase their shares during times of expansion (independent of their voting power) because the formal accession rules give them the power to veto enlargement until they are satisfied with the terms of accession. This argument assumes

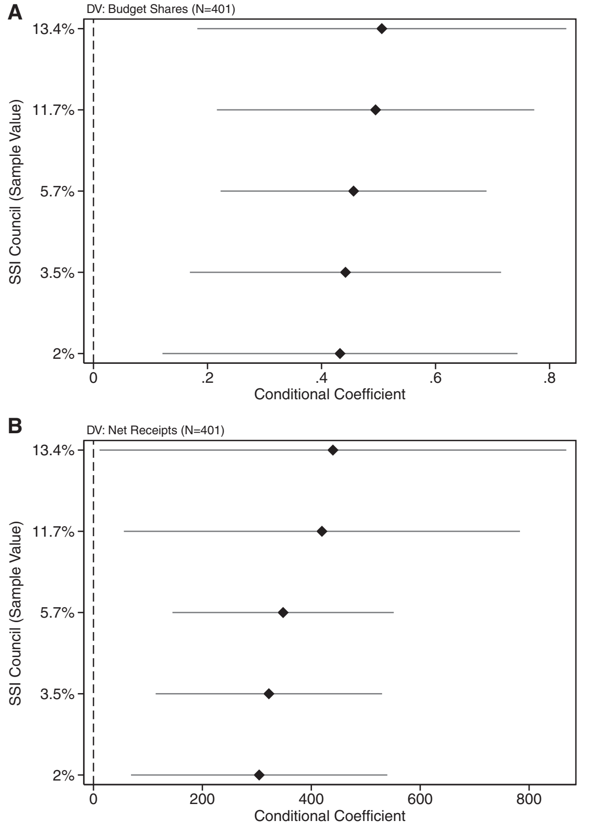

FIG 3. Budget Receipts for Different Levels of Voting Power if Countries Expect Distributional Conflict

that such threats are credible, an issue glossed over in the statistical analysis, but one that I address in more detail now.

Enlargement and Credibility of Threats

Recall that weak member states can only increase their shares during phases of enlargement if (i) enlargement is decided unanimously, (ii) the current member's threat to delay enlargement is credible, and (iii) the international organization's promise to solve conflicts is credible.

The institutional rules satisfy the first condition immediately, but the last two require more investigation. Credibility is a crucial implicit assumption in bargaining with veto players (Schelling 1960; O'Neill 1991). If threats are not credible, then other EU members have no incentive to provide side-payments. Similarly, if the EU promise is not credible, then the losers of distributional conflict have no incentive to lift the veto. The scholarly literature on IO enlargement insists that neither threats nor promises are credible. Threats are not credible because enlargement is Pareto-improving, at least in the long run. Although states might lose out in individual policy fields, the gains across policy fields are positive, and this holds for all countries (Baldwin et al. 1997; Moravcsik and Vachudova 2003; Schimmelfennig 2003). This immediately implies that threats cannot be credible because members would not risk enlargement over some particular issue if they stand to gain overall.

In addition—and consistent with the statistical results above—the benefits that current members receive when they face distributional conflict after enlargement

Table 3. Distributional Conflict, EU Support, and the Allocation of the EU Budget

	Budget shares (Model 5)	*Net receipts (Model 6)*
Enlargement & conflict	0.239 (0.429)	−387.701 (449.207)
Extraordinary phase	0.293 (0.090)**	463.605 (134.491)**
Conflict & New member	−2.788 (0.528)**	−2,525.122 (590.492)**
Enlargement year	−0.247 (0.069)**	−86.535 (68.473)
GDP per capita (EU = 100)	0.030 (0.005)**	2.456 (4.956)
Cohesion country	−0.165 (0.253)	377.418 (242.692)
Employment agriculture (ln)	0.509 (0.318)	−89.048 (313.630)
SSI Council (%)	0.499 (0.050)**	408.471 (42.785)**
Domestic EU support	−0.009 (0.003)**	10.140 (3.064)**
Conflict*EU support (interaction)	0.005 (0.008)	16.414 (7.866)**
New member	−0.453 (0.135)**	−560.021 (162.616)**
Number of EU members	−0.061 (0.026)**	−10.311 (23.874)
Population (ln)	−11.171 (2.409)**	−1,667.896 (2,046.566)
Constant	179.425 (38.662)**	22,514.829 (32,358.077)
Observations	401	401
R^2	.871	.69
Wald test χ^2	8.526e+06	189,021

(*Notes*. Prais–Winsten regressions with country fixed effects.
Panel-corrected standard errors in parentheses.
$^{**}p < .05$, $^{*}p < .1$.)

are only temporary. In fact, the European Union has refused permanent derogations in the vast majority of cases. This indicates that any concession is renegotiable once the weak states revert to their subordinate political status. The gains obtained in the extraordinary phase dissipate over the years. This implies that promises made by the organization on behalf of the more powerful states cannot be credible in the long run. The European Union cannot credibly commit to persistent concessions to weak members.

With these two facts in place, bargaining theory tells us that we should not expect any effect of distributional conflict on budget receipts even in extraordinary phases. Even though weak states seem to acquire more power during phases of enlargement, their actual power remains quite limited. They can neither credibly threaten to veto the process nor could they secure lasting benefits. In other words, we should not observe the empirical findings above.

So why were weak states able to negotiate compensation? And why did they agree to receive transitional compensation? One could argue that threats are more credible when the population in these countries is more EU skeptic. When citizens do not believe that the overall gains from enlargement would be positive, the government could argue that lack of compensation would increase dissatisfaction with its performance and with EU membership in general. In the face of such a public backlash, the government would have serious incentives to veto expansion without compensation. To test the conjecture that EU-skeptic countries have more credible threats, I estimated the full model, but included an interaction term that accounts for the effect of distributional conflict on budget shares conditional on public support for EU membership. Table 3 presents the estimation results and Figure 4 graphs conditional coefficients for different levels of EU support (Figure 4A presents the results for the *Budget Shares* model and Figure 4B presents the results for the *Net Receipts* model).

The findings do not support the argument that EU skepticism can make threats more credible. Quite to the contrary, countries with populations that are more supportive of the European Union tend to obtain more compensation when they experience distributional conflict from enlargement. Even more

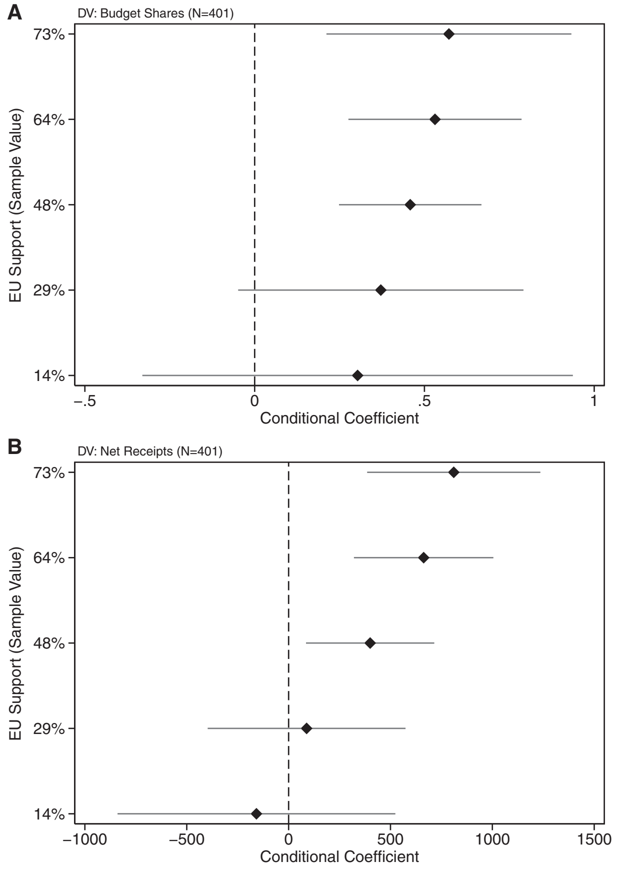

Fig 4. Budget Receipts for Different Levels of EU support if Countries Expect Distributional Conflict

interestingly, it appears that states can receive better deals only if at least half of the population thinks that the European Union is a good thing.

General EU skepticism does not increase credibility. However, the findings point to another explanation that is consistent with the literature on bargaining and is consistent with the observations made throughout the analysis. Citizens can be generally optimistic about the long-term benefits from EU membership, but fear the short-term negative distributional consequences of enlargement. Even if everything will get better eventually, the government cares about re-election in the short-term and must respond immediately to these concerns. Budgetary compensation can achieve this goal. First, it is mostly the poor states—and thus large parts of the population—that are exposed to distributional conflict. Redistributive policies are thus particularly salient politically in poor countries. Second, these policies are readily measurable. If the government fails to obtain compensation in these areas during the negotiation process, then the public has no reason to believe that gains in other (much less visible) policy areas would be positive. This also implies that the threat is to delay enlargement, not to veto it permanently. A threat to veto enlargement is not even necessary because the threat to delay is effective in itself. Delay preserves a status quo that is less painful than enlargement without compensation. It also deprives the big potential beneficiaries from enlargement from their expected gains, making them more amenable to agreement to compensation.

This also explains why compensation is not permanent. The straightforward answer is that it does not have to be. Distributional conflicts are expected to decline over the long run due to the economic and structural reforms in the new member states induced by their membership. The population expects long-term benefits and is only concerned with the short-term costs that arise during the first few years after enlargement. A transitional compensation for these costs is thus sufficient to generate support for reform. The temporary gains obtained during these periods also work because governments tend to over-emphasize short-term strategic considerations. They are most concerned to get re-elected in the present legislative term and do not expect to be in power when the gains they have negotiated vanish years later.

Coming back to the Greek re-negotiations, given the expected short-term disruptions for the domestic market and the bad current state of the economy, many Greeks were rather skeptical about the gains for Greece relative to other member states in the period after enlargement. The Eurobarometer shows that the Greeks were the most positive about the effects of enlargement on the future of the European Community, but were also among the most negative about the effects on their own country. Only 25% of Greeks thought enlargement would be good for Greece, but 49% of Greeks indicated that EU membership is a good thing. The successful negotiations that increased Greece's budget shares from 0.6 billion ECUs in 1982 to 2.5 billion in 1992 produced a sizeable shift in public opinion (Kazakos 1994; Tocci 2004). The PASOK government focused the 1985 electoral campaign on this bargaining success and achieved another land-slide victory in 1985 (Nicholson and East 1987; Tsakaloyannis 1996).

Conclusion

This article explains why powerful states provide costly side-payments to weaker states that generally cannot force them to do so. To address this question, I analyzed when and how weak states can increase their bargaining leverage in the European Union. The outcomes of distributional negotiations depend on the specific bargaining environment. Although international organizations are supposed to favor countries in need, politically or economically powerful member states can influence the bargaining outcomes to their advantage. However, expansion also drastically changes the institutional setting in which bargaining takes place. EU enlargement requires the approval of all member states. This increases the bargaining leverage of the weak when they expect distributional conflicts from enlargement. In this case, the relative winners of enlargement inside the organization or the applicants have to make concessions to the relative losers or risk the failure of enlargement over distributional issues.

Whether weak states can generally use these strategies in the enlargement process depends on the institutional framework of the international organization. However, most international organizations that deal with re-distributional issues require unanimous approval of enlargement. For the WTO, Steinberg (2002) has shown that weak member states tend to belong to the relative losers in phases of routine bargaining. However, because enlargement is decided by all members unanimously, weak states that fear distributional consequences can also threaten to stall the accession process to obtain higher benefits. The case of Chinese accession to the WTO can serve as an illustration. After 14 years of negotiations, Mexico managed to delay the accession of China for another year after all other members had announced their satisfaction with the terms. The Chinese government at first insisted on the abolition of the WTO-illegal anti-dumping measures Mexico had in place against China, but then Mexico refused to approve the terms of accession. China finally agreed on a transitional period of 6 years in which the Mexican government was still allowed to apply its anti-dumping measures. In addition, GATT/WTO members would be allowed to apply product-specific transitional safeguard measures for up to 12 years (Kraft 2007).

This implies that enlargement of international organizations never fails if the rules allow states to redistribute the gains and costs of enlargement among themselves to compensate current members that expect distributional conflict. These rules have to adapt to increasing constraints over time. Whereas redistribution has been always transitional, in the case of Turkey's accession to the European Union, for example, politicians are already debating about allowing states to limit permanently membership rights for newcomers or to introduce higher hurdles for accession.

I have focused on enlargement as an instance of extraordinary bargaining environment, but my argument should apply to any situation in which states are exposed to distributional conflict and can credibly threaten to veto or delay negotiations. Accordingly, in phases of ''grand bargaining''—the Intergovernmental Conferences (European Union) and Trade Rounds (WTO)—weak states can use their veto power to ameliorate negative distributional consequences of reforms. My study has provided some insights to explain cooperation in international organizations. If the institutional setting in which widening and deepening of international organizations enable the weak states to negotiate temporary measures that enable them to avoid the negative consequences of reform, then these states would cooperate even though they cannot hope to prevail in routine operations of the organization. Additionally, strong states have incentives to solve distributional conflict of weak member states to further their long-term benefits in the international organization. These finding suggests that accounting for the existence of different bargaining environments in the study of international organizations can help scholars to answer questions about international cooperation more generally.

Appendix

Table A1: Cases of Distributional Conflict (CAP, CP, FM)

Country name	*Year(s)*
Austria	2004, 2007
Belgium	2004, 2007
Denmark	2004, 2007
France	1981, 1986, 2004, 2007
Germany	1981, 1986, 2004, 2007
Greece	1986, 2004, 2007
Ireland	1986, 2004, 2007
Italy	1981, 1986, 2004, 2007
Luxembourg	1986, 2004, 2007
Netherlands	2004, 2007
Portugal	2004, 2007
Spain	2004, 2007
Sweden	2004, 2007
United Kingdom	2004, 2007

Table A2: Descriptive Statistics

	N	*Mean*	*SD*	*Min*	*Max*
Budget receipts (%)	401	6.14	5.32	0.02	23.37
CSP receipts (%)	384	1.45	1.72	0.00	9.19
Total net receipts	401	−513.55	3,624.14	−17,357.63	9,335.94
Population (ln)	401	16.28	1.48	12.80	18.23

Table A2: (Continued)

	N	Mean	SD	Min	Max
GDP per capita (EU = 100)	401	100.08	41.28	23.05	301.18
Cohesion country	401	0.29	0.45	0.00	1.00
Employment agriculture (ln)	401	−1.30	1.59	−5.91	1.15
Domestic EU support (%)	401	45.76	22.93	−30.00	86.00
SSI Council (%)	401	7.43	4.85	0.90	17.86
Enlargement & conflict	401	0.06	0.23	0.00	1.00
Conflict & new member	401	0.13	0.34	0.00	1.00
Extraordinary phase	401	0.74	1.76	0.00	9.00
Number of EU members	401	14.89	5.22	9.00	25.00
New member state	401	0.23	0.42	0.00	1.00

Table A3: Economic Needs and the Allocation of the EU Budget

	Budget shares (Model A1)	Budget shares (Model A2)
Enlargement & conflict	0.312 (0.116)**	0.407 (0.107)**
Extraordinary phase	0.171 (0.114)	0.159 (0.110)
Conflict & new member	−2.958 (0.467)**	−2.700 (0.554)**
Enlargement year	−0.207 (0.053)**	−0.258 (0.062)**
GDP per capita (EU = 100)	0.029 (0.004)**	0.028 (0.005)**
Cohesion country	−5.445 (0.920)**	11.141 (2.638)**
GDP*cohesion (interaction)	0.078 (0.014)**	
Employment agriculture (ln)	0.794 (0.272)**	0.578 (0.313)*
SSI Council (%)	0.501 (0.056)**	0.561 (0.053)**
Domestic EU support	−0.011 (0.004)**	−0.009 (0.003)**
New member	−0.280 (0.144)*	−0.507 (0.111)**
Number of EU members	−0.060 (0.022)**	−0.045 (0.025)*
Population (ln)	−11.533 (2.286)**	−8.893 (2.433)**
Population*cohesion (interaction)		−0.684 (0.163)**
Constant	186.047 (36.681)**	142.428 (38.980)**
Observations	401	401
R^2	.873	.870
Wald test χ^2	2.85e+08**	1.22e+06**

(*Notes.* Prais–Winsten regressions with country fixed effects.
Panel-corrected standard errors in parentheses.
$^{**}p < .05$, $^{*}p < .1$.)

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