GLOBALIZING ELECTORAL POLITICS: Political Competence and Distributional Bargaining in the European Union

Author(s): CHRISTINA J. SCHNEIDER
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ABSTRACT:

This article analyzes electoral cycles in distributional bargaining in the European Union. The author argues that governments attempt to increase their EU membership benefits above average levels in the preelection period, hoping to appear politically competent to voters. The theory discusses when and how EU members can increase these gains before elections through negotiations in the Council of Ministers. A time-series cross-sectional analysis of EU member states' annual budget negotiations from 1977 to 2006 supports the existence of conditional electoral cycles in distributional bargaining and generally points to the importance of accounting for such cycles when analyzing patterns of international cooperation.

GLOBALIZING ELECTORAL POLITICS

Political Competence and Distributional Bargaining in the European Union

By CHRISTINA J. SCHNEIDER*

I. Introduction

THE received wisdom in international relations research is that globalization and domestic governance are profoundly interdependent. From the inside out, public opinion, political institutions, and political competition influence international negotiations, the content of trade agreements, and behavior in international crises. From the outside in, globalization influences domestic political alignments, foreign policies, and the patterns of democratization. Over time, these processes have invaded some of the most traditional areas of domestic politics—including electoral politics. International economic and political integration have changed electoral accountability and limited governments' ability to exploit monetary and fiscal policies for electoral gain. While some governments still seem capable of active electioneering on the domestic level, many more are forced to resort to new, passive, strategies such as timing elections according to the international business cycle.

Given that international integration has increasingly penetrated public life, it seems unlikely that governments would only react passively to these processes when conducting electoral politics. The fol-

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lowing example illustrates that governments do indeed actively use international negotiations to affect public opinion. In 2004, one year before the British general elections, the European Commission proposed to eliminate the UK budget rebate that returned approximately two-thirds of the amount by which its payments into the European Union (EU) exceeded its receipts. According to the Commission the UK rebate was no longer justified. The British government spent the rest of the year assuring the British public it would not make a deal on future financing that did not protect the rebate. In particular, it deemed a compromise from the French on the reform of the Common Agricultural Policies to be absolutely necessary for any potential reduction of the rebate. It also procured a deal with other EU member states under which those issues would not be discussed before the May 2005 British elections, as had been originally planned, and that postponed the debate until after the election. When the French government broke the deal and announced its backing of the Commission's proposal early in 2005, before the British elections, the British foreign secretary immediately responded in a BBC interview that President Jacques Chirac's statement was incorrect and that the reasons for the rebate still applied, adding that the UK would vehemently defend itself against any opposition to the rebate and, if necessary, would use its veto to block any legislation to eliminate the policy. Nevertheless, just half a year after the election Prime Minister Tony Blair agreed to cut the UK rebate by €10.5 billion without obtaining concessions from the French on the reform of the Common Agricultural Policies. German Chancellor Angela Merkel had brokered the deal and was hailed in the German press for her extraordinary bargaining success. This deal not only broke the standoff between France and the UK, but also involved reductions in Germany's net contributions to the EU by €300 million.

This episode presents just one way among many in which EU members have either used negotiations at the European level with an eye toward gathering political support at home or deferred negotiations with potentially bad outcomes until after an election. I argue that the Europeanization of policies in areas that affect everyday life has also Europeanized electoral politics. This article provides a theoretical and empirical analysis of how governments use the bargaining dynamics in the European Union's Council of Ministers to generate electoral cycles in distributional bargaining. These cycles occur when governments in a preelection period increase their membership benefits from the EU above average levels in order to appear politically competent to their voters. That is, governments believe that voters care about how well they perform in EU negotiations, particularly if the negotiations have distributional consequences at the domestic level. Electoral cycles in distributional bargaining are a consequence of a strong consensus norm as well as the reciprocal nature of bargaining in the Council of Ministers. EU members can exploit this consensus norm to assert their preferences in the decision-making process particularly if they are in electoral distress.

To test the theoretical hypotheses, I use a data set on annual Council bargaining over the common EU budget with observations of twenty-five EU member countries from 1977 to 2006. The distribution of the budget has been at the heart of distributional bargaining in the European Union because it is particularly salient on the domestic level. At the same time, it is a hard test case for the theory because most distributional bargaining occurs for the multiannual financial frameworks (where EU member states outline EU spending for a period of usually five years). The annual budget leaves EU members little leeway for political negotiations amongst themselves. The results of a fixed-effects model with an unbalanced panel data set strongly support the importance of elections for the distribution of EU membership gains. EU members on average receive larger budget receipts in the year before an election than in other years, particularly if they are in electoral distress. Various robustness checks demonstrate the consistency of these results over alternative operationalizations of the dependent and independent variables and over specifications that test for the endogeneity of election-timing in EU member countries.

The findings demonstrate the globalization of electoral politics at least in the EU. Incumbents actively exploit negotiations in the EU in an attempt to garner domestic support by either maximizing the resources distributed or by exploiting successful deals struck on the European level. The resulting cycles in distributional bargaining are highly problematic because they could reduce the effectiveness of European governance by triggering inefficient policies in a preelection period. While this article focuses on an analysis of the EU, it also discusses the conditions that make these cycles possible and how they relate to other international institutions. For example, in the developing world, governments could also be trying to receive more development assistance from the World Bank, better trade deals from the EU in African Caribbean Pacific-European Union (ACP-EU) negotiations, or better lending conditions from the International Monetary Fund (IMF). Consequently, on a more general level, the article provides some support for a globalization of electoral politics.

II. The Europeanization of Electoral Politics

Politicians are opportunistic. They choose policies that help them survive in office. A positive assessment of a government's economic performance is particularly important when voters choose whom to vote for in an election. Accordingly, incumbents stimulate monetary and fiscal policies in order to raise voter welfare immediately before elections in the expectation that favorable economic conditions will cause voters to increase their support for them.[1]

Governments can expand fiscal policies before elections and contract them afterward. The underlying logic is that voters observe how well the government converts revenues into public goods and form expectations about its economic performance. Since not all incumbents are equally competent in their ability to provide this preelectoral increase in public goods, they have incentives to exert hidden effort. That is, incumbents increase deficits covertly before elections to finance the larger provision of public goods hoping that the electorate will attribute the increased provision of those goods to their performance. Since governments can signal economic competence only if voters do not observe the increase in the deficit before the election, much research has gone into analyzing the conditions under which governments can overtly use deficits to affect public goods provision before elections. The findings of recent work paint a rather bleak picture of incumbents' opportunities to induce electoral cycles in fiscal policies. In particular, electoral cycles are not likely when fiscal transparency is high.[2] This could be bad news particularly for EU-member governments because their incentives to signal competence have dramatically increased due to the general weakening of voters' identification with West European political parties over the past decades.[3]

Besides its negative impact on opportunities to induce electoral cycles in deficit spending, European integration has had another potentially important impact on domestic electoral politics. Increasing integration and interdependence in the EU have increased the impact of European-level negotiations on domestic public welfare in Europe. Consequently, questions of European integration have become contested issues in national elections.[4] This is particularly true for issues

[1] Franzese 2002 provides an excellent overview of the literature.

[2] Hallerberg, de Souza, and Clark 2002; Brender and Drazen 2005; Alt and Lassen 2006; Shi and Svensson 2006.

[3] Kayser and Wlezien 2011.

[4] Franklin and Wlezien 1997; Gable 2000; Tillman 2004; Schoen 2008; de Vries 2010.

that are salient on the domestic level, including EU enlargements, the EU budget, and EU institutional reforms, among others.

An example of this is the German debate about the first financial bailout for Greece. In April 2010 the Greek government formally requested a bailout package from the IMF and the EU. The proposal required Germany to pay €8.4 billion of the €45 billion earmarked for cash loans by May 19, 2010, which made it the biggest contributor to the bailout package. Even though the IMF and all the other EU members agreed to the bailout, Germany was reluctant to approve such a deal officially.[5] The biggest stumbling block to Germany's approval was the regional election in Nordrhein-Westfalen (NRW) scheduled for May 9, 2010. At the time, the federal government under the Christian Democratic Union's (CDU) Merkel also had the government majority in NRW. The elections there were important because they affected the majorities in the Bundesrat. An electoral defeat of the CDU-led coalition in NRW would have led to a loss of the majority in the Bundesrat (thereby leading to a divided government) and very important implications for the decision-making ability of the federal government. Public polls indicated a close race with a small advantage for the governing CDU, but opinion poll experts predicted that the bailout debate would have a strong impact on the voters' choice.[6] A majority of Germans opposed the Greek bailout, particularly in light of domestic austerity measures that were necessary to meet fiscal consolidation targets in Germany.[7] In NRW, which had become one of the most indebted states in Germany, public opposition to the Greek bailout was 90 percent. To avoid negative electoral effects, Merkel wanted to delay an agreement on the Greek bailout until after the regional elections. She was hailed domestically as the "Iron Chancellor," but became known as "Madame No" of the EU. Her actions were harshly criticized in other EU countries, in non-EU countries, and domestically as well.[8] The uncertainty created by her tactic led to an almost uncontrolled increase in the price of the Greek debt. This worsened the Greek situation and increased the threat of regional crisis contagion and thereby endangered the stabil-

[5] Reuters. 2010. "German elections bring forward a possible stalemate situation for EMU." April 28. At http://blogs.reuters.com/great-debate-uk/2010/04/28/german-elections-bring-forward-a-possible-stalemate-situation-for-emu, accessed March 14, 2013.

[6] RP Online. 2010. "Griechenland entscheidet die Wahl." May 8. At http://www.rp-online.de/politik/nrw/griechenland-entscheidet-die-wahl-1.877336, accessed March 14, 2013.

[7] Die Welt Online. 2010. "Mehrheit der Deutschen lehnt Griechen-Hilfe ab." April 27. At http://www.welt.de/politik/deutschland/article7354187/Mehrheit-der-Deutschen-lehnt-Griechenland-Hilfe-ab.html, accessed March 14, 2013.

[8] Spiegel Online. 2010. "Euro-Angst treibt Merkel zur Griechen-Rettung." April 28. At http://www.spiegel.de/politik/deutschland/kanzlerin-unter-zugzwang-euro-angst-treibt-merkel-zur-griechen-rettung-a-691783.html, accessed March 14, 2013.

ity of the euro itself.[9] Under this pressure, Merkel agreed to the Greek bailout a few weeks before the NRW elections.[10] The bailout and the federal government's poor negotiation results became the most important topic in the election campaigns.[11] Despite early positive predictions, the CDU lost ten percentage points; it the worse electoral defeat of the CDU in NRW to date. The government was eventually replaced by a coalition of Social Democrats and Greens.[12] While the electoral defeat cannot be solely attributed to the federal government's handling of the Greek problem, the government's actions played a pivotal role in the week prior to the election.

The example illustrates that Council of Ministers' negotiations can be salient domestically, particularly if they have distributional consequences. If the welfare of domestic publics has become more dependent on interactions at the European level, then this dependency should have effects on the attractiveness of electoral strategies at the European level as well. Governments should have begun to shift electoral politics into the European arena. Given that many policy decisions with domestic distributional consequences have been pushed to the European level, the understanding of the Europeanization of electoral politics remains surprisingly limited.[13]

In the following section, I develop a theory of distributional bargaining that takes into account incentives to use negotiations on the European level as a strategy to gain voter support. A theory of the effects of domestic elections on distributional bargaining in the EU has to address three questions. First, what is the incumbent's motive for increasing her benefits from EU membership before elections? Second, how do incumbents appear competent in distributional negotiations? Finally, under what conditions are incumbents able to achieve greater membership gains before elections? The theory addresses these questions and analyzes the conditions under which electoral cycles in European distributional bargaining occur. It builds on two important

[9] New York Times Online. 2010. "As Greek drama plays out, where is Europe?" April 29. At http://www.nytimes.com/2010/04/30/world/europe/30europe.html?_r=0, accessed March 14, 2013.

[10] Spiegel Online. 2010."Merkel's bluff called in poker over Greece." April 12. At http://www.spiegel.de/international/europe/an-aid-package-in-the-billions-merkel-s-bluff-called-in-poker-over-greece-a-688580.html, accessed March 14, 2013.

[11] Spiegel Online. 2010. "Wahlkampf in letzter Minute: Rüttgers kämpft gegen Griechenland-Effekt." May 8. Athttp://www.spiegel.de/politik/deutschland/wahlkampf-in-letzter-minute-ruettgers-kaempft-gegen-griechenland-effekt-a-693779.html, accessed March 14, 2013.

[12] N-tv.de. 2010. "Quittung für die Bundesregierung. Rüttgers brutal zurückgestutzt." May 9. At http://www.n-tv.de/politik/pressestimmen/Ruettgers-brutal-zurueckgestutzt-article864052.html, accessed March 14, 2013.

[13] See also Kayser 2006.

literatures: the scholarly work on electoral incentives of incumbents at the domestic level (as discussed above) and the scholarly work on intergovernmental bargaining in the EU.[14] Specifically, I argue that existing institutional bargaining constraints in the Council of Ministers allow EU members to bargain harder in a preelection period and thereby increase their membership benefits particularly if they have strong preferences for such election-induced cycles.

III. Electoral Cycles in EU Budget Bargaining

The theory builds on the assumption that the incumbent wants to be reelected and she believes that voters care about their welfare. As discussed above, even when voters care only about their domestic economic welfare, many distributional issues that affect it are currently decided at the European level. It is because of this that distributional negotiations in the EU have become more salient in domestic public opinion and that domestic factions have partially Europeanized as well.[15] Accordingly, I assume that the incumbent believes that voters also care about her political competence, that is, how well she bargains in European distributional negotiations.[16] Political competence is the ability of a government to achieve better outcomes in the Council of Ministers' negotiations given the country's formal eligibility and bargaining leverage in the decision-making process. Governments can signal political competence to voters, for example, by publicly announcing that they received an unusually good deal during negotiations about issues that are important on the domestic level.

But how can EU governments achieve outcomes in EU negotiations that are above the benefits they would receive given their formal eligibility? Most issues in the EU are officially decided by majority rule, but unofficially, bargaining in the Council is attached to a very strong norm of consensus.[17] The necessity to reach consensus in Council ne-

[14] Moravcsik 1991; Schneider and Cederman 1994; Hug and König 2002; König and Slapin 2006; Thomson et al. 2006; Slapin 2008; Schneider 2011.

[15] Hix 1998. See also empirical examples and the literature cited above.

[16] The theoretical predictions do not depend on the more restrictive assumption that voters care about international deals. One should observe the predicted effect as long as the incumbent believes that these deals could have an electoral effect. If there is at least some uncertainty about the electoral saliency of a policy issue then incumbents would have strong incentives to induce an electoral cycle because the nonexistence of a cycle would be a signal of incompetence (see below). The empirical analysis directly tests the assumption. If voters did not care (or if incumbents did not believe that these issues are salient on the domestic level) then one would expect no electoral cycles in distributional bargaining.

[17] Mattila and Lane 2001; Heisenberg 2005; Achen 2006; Hayes-Renshaw and Wallace 2006.

gotiations has important implications for the ability of governments to increase their membership benefits before elections. Specifically, consensual rules increase opportunities for EU members to assert their preferences even against the preferences of other EU members. Since all members of the Council have to agree on the distributional policy (that is, how the budget will be allocated), they are more likely to take into account the preferences of each individual member state, particularly if those preferences are salient. EU members facing domestic elections can increase their leverage in Council negotiations because of their electoral constraints at the domestic level. If their political survival depends on their ability to get a better deal in the Council negotiations, they can credibly threaten to stall negotiations until the negotiated policy reflects their needs better.[18] Thus, expecting to lose elections at home provides the government with more credibility in Council negotiations. These members can bargain harder in preelection periods to get better deals in the distributional negotiations.

Electoral cycles in distributional negotiations do not have to be purely a result of noncooperative bargaining, however. Interaction between EU members in the Council is frequent, regularized, and provides ample room for reciprocal arrangements that help reduce the costs of electoral cycles in distributional bargaining for all EU members. If other EU members can expect that an incumbent will return the favor in the future when their own political future is on the line, they will be more likely to forgo some benefits in order to help the EU government that is in trouble electorally. In fact, the literature provides mounting evidence for cooperative strategies that are based on reciprocity.[19] EU members seek compromise when negotiating. Jeffrey Lewis finds that "there is a value in reaching agreement, in collectively solving problems, and understanding each other's domestic political constraints. . . . For example, a deputy of one of the large Member States claimed, 'there is a higher sense of defending national interests and of leaving aside instructions, which is rooted in preserving the goodwill of my colleagues for the future. Without this, I won't have their respect and their help

[18] Delaying negotiations to get better deals is common practice in the EU. EU members have frequently delayed EU accession negotiations in order to get better deals (Schneider 2011). The same is true for institutional reforms and EU budget negotiations. The adoption of the 1986 budget was delayed because the opponents of agricultural subsidies blocked timely adoption. Infamously, Britain's then-Prime Minister Margaret Thatcher delayed budget negotiations in the late 1970s and early 1980s in order to get the UK rebate. Similarly, Germany's then-Chancellor Helmut Kohl and his follower Gerhard Schröder delayed budget negotiations in the late 1990s in order to "defend national interests" before the national elections.

[19] Bueno de Mesquita and Stokman 1994; Lewis 1998; Stasavage 2004.

next time.'"[20] A government increases its chances to get a better negotiation result in the preelection year if it is willing to grant this to other members as well.[21] The consensus rule and reciprocal bargaining thus provide opportunities for EU governments to exploit EU negotiations for domestic electoral politics by providing each other greater membership benefits before elections. This leads to my first testable empirical hypothesis:

—H1. EU member governments receive larger membership benefits in preelection periods, ceteris paribus.

Hypothesis 1 indicates a positive effect of elections on EU members' membership benefits, on average. However, the theoretical discussion also alludes to the importance of credibility, which depends on the electoral constraints at the domestic level and the ability of EU governments to extract better deals through consensual negotiations.

The need to obtain disproportionately good deals would be especially strong when a government is in trouble electorally. The reasons for electoral distress vary. A government facing adverse economic circumstances might have trouble persuading the electorate that the tough times are not due to its economic incompetence, for instance. The worse the domestic economic circumstances are, the greater the incentives to signal political competence. In addition, even if the economy is doing relatively well, a government might face low levels of public support for other reasons—for example, a scandal or because they have failed to perform up to par on some other social or international issue. Note too that public approval might not necessarily decline in tough economic times if the government is favored for ideological reasons or because of its social policies. Generally, the lower the public support for the incumbent, the greater the incentive to signal political competence. Finally, the government might have more reasons to worry if opinion polls show that a significant portion of the electorate is undecided rather than low support. The uncertainty of electoral outcomes increases with the number of undecided voters. Because this group is not deeply committed to an ideology and is generally more concerned with economic benefits, it is a prime target for the government's strategy. The larger the group of undecided voters, the greater the govern-

[20] Lewis 1998, 489.

[21] Whereas the consensus norm provides a strong incentive for cooperative bargaining, it might very well be that governments would benefit from the electoral defeat of others if that leads to the success of a government that is more desirable as a partner in international cooperation. The most obvious reason for such noncooperative incentives is ideological differences (Schneider and Urpelainen forthcoming). I test this argument below, and find support for it.

ment's incentive to signal political competence. Electoral distress can thus provide a credible bargaining constraint and consequently provide EU members with greater opportunities to get better deals in the Council negotiations. [22]

—H2. The effect of the preelection period on EU membership benefits should be stronger when the incumbent is in electoral distress, ceteris paribus.

Thus far I have assumed that the consensus norm grants equal power to all EU members but favors those with intense preferences. Since all members have to agree on the common policy, more powerful countries (in terms of formal voting power) should not be able to assert themselves even if they achieve the formal majority requirements. Informally, however, powerful states may have an advantage at the bargaining table. The capacity to exploit loopholes during EU negotiations should be much greater for countries with more resources at their disposal. Powerful member states have the resources to coax other countries into accepting bargains favorable to them and find it easier to create supporting coalitions. In addition, they tend to have more administrative staff, which provides them with informational and expertise advantages. This enables them to more easily organize studies in support of their positions, be more effective in building favorable coalitions among the Council members, exercise more effective control over the administrative apparatus at home or bureaucratic representatives at the European level, and ensure a consistent message is being sent at all levels. Thus, despite consensus rules, powerful states have the indirect capacity to do better in distributional negotiations.

—H3. The effect of the preelection period on EU membership benefits should be stronger when the incumbent has greater bargaining capacity in the Council, ceteris paribus.

Before moving to the empirical test, it is important to discuss an assumption underlying Hypotheses 1–3. I assume that voters attribute the above-average increase in membership benefits to the incumbent's political competence in the distributional negotiations. Voters would

[22] If an incumbent is almost certain not to be reelected, EU members should have very little incentive to help that incumbent in the first place because reciprocity is not very likely to be forthcoming. Paradoxically, colluding to help a government in electoral distress is least likely precisely when its need to appear competent is greatest. Consequently, the distressed government is on its own: any favorable outcome it can secure must be mostly due to its competence at extracting better deals from reluctant partners. That is, I would expect electoral cycles to still exist but as a consequence of hard bargaining instead of reciprocity.

not be very impressed by the government's "walking on water" if they found out that it is being propped up by other EU members under the surface. Even worse, they might actually punish the government for trying to deceive them. In other words, EU members' strategies can only work if voters cannot observe any reciprocal cooperative behavior between EU members. This assumption is realistic for Council negotiations, which are quite secretive in contrast to negotiations in other European institutions such as the European Parliament.[23] In the media, EU governments tend to paint a picture of tough negotiations that are mainly characterized by the pursuit of national interests. Contrast this tendency with the picture of a reciprocal bargaining culture that emerges from statements defending the need for secrecy in the Council:

> The Council normally works through a process of negotiation and compromise, in the course of which its members freely express their national preoccupations and positions. If agreement is to be reached, they will frequently be called upon to move from those positions, perhaps to the extent of abandoning their national instructions on a particular point or points. This process, vital to the adoption of Community legislation, would be compromised if delegations were constantly mindful of the fact that the positions they were taking, as recorded in Council minutes, could at any time be made public through the granting of access to these documents, independently of a positive Council decision.[24]

Thus, EU members can achieve better deals either by bargaining harder in Council negotiations or by relying on reciprocity during negotiations. Even if an electoral cycle would result from the cooperative behavior of Council members, one can assume that because voters cannot observe cooperative bargaining within the Council, they still attribute the benefits to the incumbent's political competence.

IV. Empirical Analysis

To test my hypotheses, I analyze the annual EU budget bargaining of twenty-five EU member states from 1977 to 2006. The sample includes all nine states that were members of the EU in 1977 (Belgium,

[23] Even if negotiations were secret, it would be relatively easy to observe that better deals are a consequence of reciprocal bargaining if governments would always receive better deals in the preelection year (if not observed by individual voters, then certainly by the media). Since receiving better deals on a regular basis would decrease the gains from reciprocity, governments would strive to obfuscate any regular patterns: if they do strike deals they would do so in a manner that would make it difficult to discern a pattern. The fact that EU members are more likely to get a better deal if they are in electoral distress or have greater bargaining leverage in general provides additional uncertainty.

[24] Statement by the Council of Ministers of the European Union in 2004.

Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, and the UK), and is subsequently augmented by enlargement rounds: Greece (1981); Portugal and Spain (1986); Austria, Finland, and Sweden (1995); and Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia (2004).

Analyzing EU budget negotiations provides a good test case for my theory for several reasons. First, EU budget negotiations are salient on the domestic level. The EU budget is the main source of funding for European collective and redistributive actions within the EU. It is financed through levies on gross national income and value-added taxes, as well as on customs and agricultural duties. The main bulk of the EU budget, approximately 80 percent, is used to fund sustainable growth and employment in the EU—the European Regional Development Fund (ERDF) and the European Social Fund (ESF)—as well as preservation and management of natural resources—the European Agricultural Guidance and Guarantee Fund (EAGGF). In addition, EU members use the budget to pursue foreign policies, such as providing foreign aid to the developing world, and to promote policies on citizenship, freedom, and justice. Given the focus on redistributional policies, it is not very surprising that at the domestic level the size of EU budget transfers is one of the most important EU topics despite the fact that the EU budget is relatively small (currently 1.05 percent of the EU's gross national income).[25] In his book on conflict in EU budgetary politics, Johannes Lindner argues that the EU budget is—although limited in size—of high political importance.

> Moreover, the relationship between national contributions to the EU budget and gains from it play an important role within the national discourse over the costs and benefits of EU membership. . . . The visibility of budgetary figures gives the net contributions a high symbolic value that goes far beyond their financial importance.[26]

To give an example, budgetary issues figured prominently in the EU Eastern enlargement. The German government was quite sensitive to the German public, which was "tired of paying when other member states expect to keep receiving even when enlargement happens."[27] Most of the public resistance to enlargement arose from the fear that Germany would receive smaller budget shares after enlargement. The UK budget rebate is another example. It is the most contentious

[25] Zimmer, Schneider, and Dobbins 2005; Hix and Follesdal 2006; Lindner 2006.
[26] Lindner 2006, 6.
[27] *Financial Times* 2002.

European issue in the United Kingdom even though its domestic economic impact is minimal (the size of the UK rebate in 2010 was approximately 0.2 percent of the country's GDP). Finally, in addition to the importance of the EAGGF subsidies for farmers, Steffen Osterloh finds that individuals take into account the size of ERDF/ESF transfers from the EU when forming opinions about the EU itself.[28]

Negotiations over the budget therefore belong to the most important dimensions of political conflict in the Council of Ministers.[29] Distributional conflict has frequently delayed the adoption of the EU budget. The intergovernmental conflict about the UK rebate discussed in the introduction is just one example. In another example, German Chancellor Helmut Kohl stalled the negotiations of Agenda 2000 (the financial framework for 2000–2006) until after the federal elections because of the perceived electoral consequences of allowing the EU budget to increase.[30] In addition, the adoption of the 2000 EU budget was seriously delayed because conservative members of the European Parliament with left-wing national governments were eager to give their governments a bargaining failure.[31]

Second, defining a negotiation success is straightforward. Divergent national interests, rather than a common European interest, drive EU budget negotiations.[32] Debates about net contributors and fair distribution of the budget typically dominate. In a press conference on negotiations about the British budget rebate in November 1979, Prime Minister Margaret Thatcher rejected the Commission's proposal and justified her stance quite explicitly:

> "Look! We, as one of the poorer members of the Community, cannot go filling the coffers of the Community. . . . [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."

The slogan in the European Union soon became "we want our money back." As each net contributor member state has sought some of its contribution back, the EU budget has become much more political for governments who are keen to show their electorate that they are get-

[28] Osterloh 2011. The ERDF/ESF transfers are a financial tool to reduce regional disparities in respect to income. They predominantly serve to redistribute financial resources from wealthier member states to poor regions in the EU.

[29] Zimmer, Schneider, and Dobbins 2005.

[30] *Financial Times* 1998.

[31] Lindner 2006, 104.

[32] Haas 1958; Sbragia 1994; Lewis 1998.

ting their 'fair share' from the EU budget.[33] In order to signal political competence incumbents aim to increase their share of the budget allocation above average levels.

Third, analyzing the annual budget negotiations (as compared to the multiannual financial framework negotiations) provides a hard test case for the theory because governments have little leeway for political bargaining. The EU budget process is divided into multiannual financial frameworks and annual spending plans. Financial frameworks are negotiated every few years between the EU members and indicatively outline EU spending by setting ceilings on expenditures for each budget category and on total expenditure. In annual negotiations, EU members negotiate the exact level of expenditures and the breakdown between the various budget lines for the year in question. The important bargains in regard to the budget are struck in multiannual negotiations. Those negotiations therefore provide the greatest opportunities for EU governments to strike good deals before elections. Political bargaining is still possible in the annual negotiations, however.[34] For example, Deniz Aksoy shows that EU members who hold the Council presidency can use their proposal-making power to achieve greater gains during the annual budget negotiations.[35]

Nevertheless, the room to maneuver in those negotiations is much smaller than in multiannual negotiations. EU members may shift expenditure within and even across spending categories in cases of "unforeseen changes in expenditures," but annual spending cannot exceed the overall expenditure ceiling set in the financial perspective.[36] Consequently, if electoral cycles are found in annual budget negotiations, then they should also be found in distributional bargaining in the EU more generally.

Variables

EU governments appear politically competent if they increase their EU budget receipts before elections (Hypothesis 1). I refer above to a baseline level of benefit obtained in the negotiations, and use it as the reference to define the "better" outcomes that competent governments can obtain. In a way, using such reference points might place extremely heavy demands on a voter's ability to gauge her government's perfor-

[33] McIver 2008; Le Cacheux 2008; Laffan 1999.

[34] Carrubba 1997; Rodden 2002; Mattila 2006; Aksoy and Rodden 2009; Aksoy 2010; Schneider 2011.

[35] Aksoy 2010.

[36] EU Commission 1999.

mance in intricate negotiations where the outcome is produced from the complex interaction at the bargaining table and a set of often quite impenetrable formal rules. Given the cost of collecting and processing information, it is unreasonable to expect most, or even many, voters to do so. An alternative question voters could ask is: Did my government get a deal at least as good as the deal a comparable country got? Since both deals are observable, the relative performance can provide cues to competence. This logic reflects empirical observations very well. When negotiating the budget, EU governments are keen to show their electorate that they are negotiating their fair share of the EU budget, as argued above.

The appropriate dependent variable is therefore the budget share: did the government obtain a larger share relative to the rest or not? *Total Budget Shares* measures each EU member's annual budget receipts as a share of overall annual EU budget commitments. All budget data are from the annual reports of the European Court of Auditors. This operationalization has the added benefit of allowing me to distinguish between agricultural and structural transfers. All budget decisions are negotiated between the European Parliament and the Council of Ministers and are based on a Commission proposal, but the relative power of these actors differs depending on whether they negotiate structural transfers or agricultural subsidies. Whereas the Council has the final word on all decisions about compulsory spending (covering all expenditures resulting from international agreements and EU treaties such as agricultural subsidies through the EAGGF), the Parliament has the final word on noncompulsory decisions (such as structural transfers through the ERDF/ESF). The Council is therefore more constrained when it comes to opportunistic distribution of noncompulsory spending. In addition, since ERDF/ESF transfers are allocated on a project-level basis, states are more restricted in their annual negotiations to move around already stipulated funds. I would therefore expect that the effect of the preelection period on EU budget receipts is stronger in EAGGF transfers than in ERDF/ESF transfers.

Figure 1 presents a scatter plot of budget receipts for EU member countries over time. It shows considerable variation in the budget shares that each member extracts from the EU budget. According to EU law, this variation should mainly depend on each member's eligibility as determined in the common policies. Figure 2 compares EU budget receipts for Spain, a very eligible country, with the receipts for the Netherlands, a much less eligible country. The Dutch GDP per capita has been consistently higher than the EU average, while its unemployment rates and the size of its agricultural sector have been below the EU

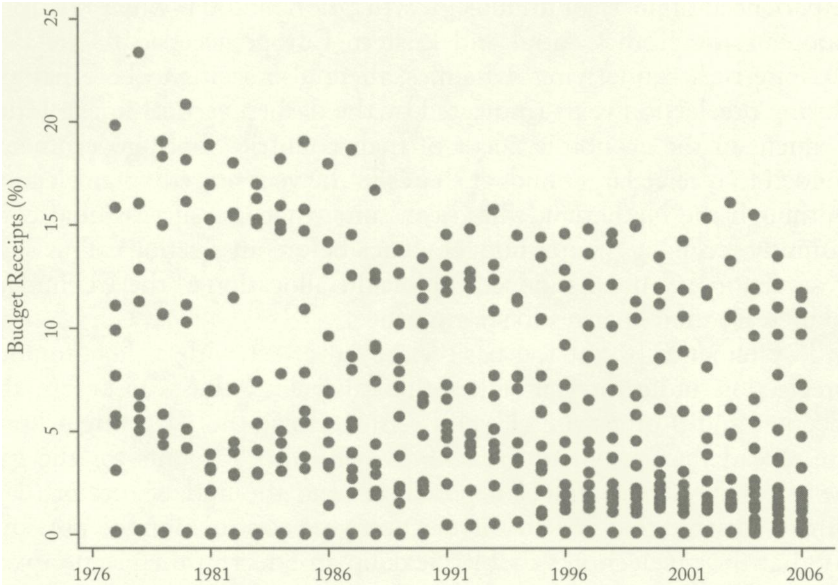
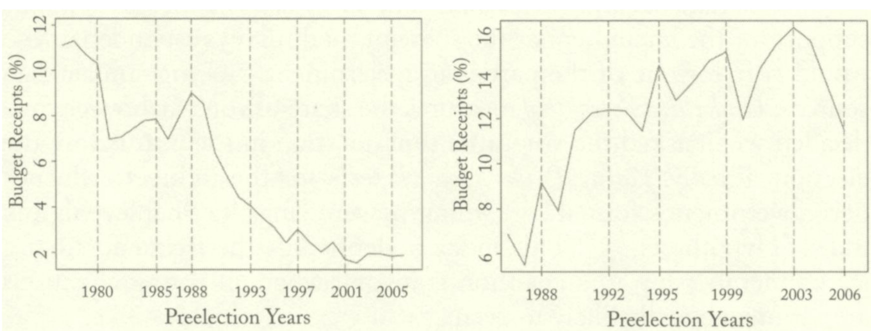


FIGURE 1
VARIATION OF BUDGET RECEIPTS IN THE EU



(a) THE NETHERLANDS (b) SPAIN

FIGURE 2
ELECTIONS AND EU BUDGET RECEIPTS

average. Spain has an average unemployment rate of 14.4 percent (almost twice the EU average of 8.4 percent), with 11 percent of its workforce employed in the agricultural sector.

The graphs lend support to the claim that the EU budget is primarily allocated according to formal eligibility criteria. Whereas the Dutch budget receipts declined over time, Spanish budget receipts experienced almost continuous growth prior to 2004, when relatively poorer states from Central and Eastern Europe acceded to the EU. Despite these underlying dynamics, there also seems to be a pattern during preelection years (indicated by the dashed vertical lines). Independent of the economic needs of their countries, both governments tended to receive larger budget shares in the year preceding an election (although the Netherlands has been somewhat less successful at consistently receiving greater budget shares before an election). This suggests that governments indeed exploit the allocation of the EU budget to increase their chances to stay in office.

I systematically test the basic electoral effect with a dichotomous preelection indicator that takes the value 1 in the year before the election and 0 otherwise (Hypothesis 1). Since the EU budget flows are spread throughout the year, *Preelection Year* accounts for the gap between the actual budget negotiations and the budget receipts.[37] A binary variable that is 1 in the election year controls for the possibility that the preelection variable picks up an effect in the election year (*Election Year*).

I use several variables to test whether electoral distress strengthens the electoral cycle (Hypothesis 2). *Unemployment Rate* accounts for the fluctuations in domestic unemployment as a measure for hard economic times. The data are from Eurostat. *Incumbent Support* measures public support for the incumbent as the share of total survey respondents who would vote for one of the parties in government.[38] Using similar data sources, *Undecided Voters (%)* measures the share of voters who were undecided when asked the vote intention question in the year before the election. Finally, *Voting Power Council* tests for the indirect influence of a government's formal bargaining power using the Shapley-Shubik index (Hypothesis 3).[39] This index is defined as the frequency that a state's membership in a coalition is pivotal when all voting coalitions are assumed equally likely to occur.[40]

My choice of further control variables is guided by the empirical literature on EU budget bargaining. It is important to control for the formal eligibility of member states. To be eligible for most of the ERDF/ESF resources, the per capita GDP of the country has to fall below 75

[37] The fourth subsection of Section IV demonstrates the robustness of my findings when I use an election indicator that takes into account the election month.

[38] Data are from "Parties and Elections in Europe" database, available at www.parties-and-elections.de); Schmitt et al. 2005; Müller and Strom 2000.

[39] Data from Indices of Power IOP 2.0. Available at http://www.tbraeuninger.de/IOP.html.

[40] Note, the cross-temporal variation of this measure is a result of changes in the individual and total number of votes after enlargements.

percent of the average GDP in the EU (*Per Capita GDP [EU=100]*). Agricultural subsidies are distributed to farmers directly and depend on the total size of the agricultural sector. *Employment Agriculture* is the natural logarithm of the total number, in millions, of employees in the agricultural sector. The data are from Eurostat. In addition, domestic Euroskepticism could improve a member's bargaining leverage in the budget game. *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 who believe that "EC/EU membership is a bad thing." The data are from the Eurobarometer. New member states typically receive relatively low budget shares in their first years of membership because they do not yet possess the administrative capacity to absorb all funds, and are yet not powerful enough to assert themselves in the bargaining process. The variable *New Member State* takes a value of 1 for all new members until the next enlargement and 0 otherwise. Finally, I control for the size of the EU to account for the step-wise increase in the sample size and for increasing restrictions on redistribution of a budget that has not increased proportional to the number of member states. Descriptive statistics are presented in Table 1.

TABLE 1
DESCRIPTIVE STATISTICS

	N	*Mean*	*SD*	*Min*	*Max*
Total Receipts (%)	401	6.13	5.30	0.02	23.37
EAGGF Receipts (%)	383	3.89	3.90	0.00	17.49
ERDF/ESF Receipts (%)	383	1.46	1.73	0.00	9.19
GDP per capita (EU=100)	401	100.15	41.29	23.05	301.18
Employment Agriculture (ln)	401	5.61	1.59	0.99	8.05
Unemployment Rate (%)	401	8.15	3.65	0.50	21.3
Shapley-Shubik Council (%)	401	7.42	4.82	0.90	17.86
Domestic EU Support (%)	401	45.85	22.86	–30.00	86.00
Election Year (dummy)	401	0.27	0.45	0.00	1.00
Preelection Year (dummy)	401	0.26	0.44	0.00	1.00
Postelection Year (dummy)	401	0.25	0.43	0.00	1.00
Number of EU Members	401	14.93	5.24	9.00	25.00
New Member State (dummy)	401	0.23	0.42	0.00	1.00
Incumbent Seats (%)	398	54.40	10.20	22.01	99.00
Incumbent Support (%)	274	31.73	9.61	7.79	60.32
Undecided Voters (%)	274	16.54	8.81	0.60	48.64
Member Contribution (%)	400	6.73	7.56	0.03	31.22

Model Specification

The time-series cross-sectional nature of the data raises concerns of panel heteroskedasticity and serial correlation. I estimate an unbalanced panel model with fixed effects. The fixed-effects estimator controls for unobserved country heterogeneity that is constant over time. This procedure is warranted because the time-independent country effects are significant in the regression and the results of the Hausman test suggest that alternatives would render the coefficients inconsistent and biased. The model testing Hypothesis 1 is specified as

$$Y_{it} = \alpha + \beta P_{it} + \gamma X_{it} + v_i + u_{it}, \tag{1}$$

where Y_{it} denotes the share of budget receipts for each country-year, P_{it} is the dummy variable for the preelection year, X_{it} is the vector of explanatory and control variables, α is the constant, v_i is the unit effects, and u_{it} is the error term. The coefficients for P_{it} and X_{it} are denoted by β and γ respectively. When testing for the conditional effects (Hypotheses 2 and 3), the model specification changes to

$$Y_{it} = \alpha + \beta P_{it} + \gamma X_{it} + \delta P_{it} X_{it} + v_i + u_{it}, \tag{2}$$

where $P_{it} X_{it}$ denotes the interaction between the preelection year and the conditional variables. The coefficient for the interaction effect is denoted by δ.

All models have panel-corrected standard errors (PCSE) to correct for panel heteroskedasticity as well as for contemporaneously correlated errors across panels. Whereas a PCSE model can solve problems that occur in unbalanced panel data, I also include a variable measuring the number of members in each year in order to account for an increasing number of panels over time.[41] Additionally, the Durbin-Watson statistic of an untransformed model points to a serial correlation of the error terms. The main specifications use a Prais-Winsten transformation of the error term (autoregressive AR(1) process).

Main Results

Table 2 reports the results for the basic electoral cycle.[42] The models fit the data very well. The robustly significant Wald test and the high

[41] Using EU size dummies instead does not substantially alter the findings.

[42] All models were estimated with Stata 12.1. A replication package is available on the author's Web page, available at http://polisci2.ucsd.edu/cjschneider.

TABLE 2
ELECTORAL CYCLES IN EU BUDGET BARGAINING, 1977–2006

Dependent Variable	*Model 1* *Total Shares*	*Model 2* *EAGGF*	*Model 3* *ERDF/ESF*
Preelection Year (dummy)	0.104*	0.114**	0.053
	(0.063)	(0.043)	(0.044)
Election Year (dummy)	0.037	0.074*	0.019
	(0.067)	(0.043)	(0.044)
Employment Agriculture (ln)	0.639**	1.159**	–0.698**
	(0.306)	(0.201)	(0.189)
Per Capita GDP (EU=100)	0.026**	0.017**	–0.009**
	(0.006)	(0.003)	(0.002)
Unemployment Rate	0.060**	–0.054**	–0.017
	(0.030)	(0.014)	(0.028)
Voting Power Council (%)	0.624**	0.581**	0.003
	(0.062)	(0.027)	(0.031)
Domestic EU Support (%)	–0.008**	0.001	–0.007**
	(0.004)	(0.002)	(0.003)
New Member State (dummy)	–1.331**	–0.936**	–0.794**
	(0.282)	(0.171)	(0.266)
Number of EU Members	–0.039	–0.028	0.037*
	(0.028)	(0.019)	(0.021)
Constant	–6.072**	–7.880**	4.377**
	(1.330)	(0.906)	(1.073)
Country Fixed Effects	yes	yes	yes
Observations	401	383	383
$R2$	0.871	0.895	0.759
Wald $\chi 2$	413055	7.401e+07	6.053e+06

Prais-Winsten regressions with country fixed effects; panel-corrected standard errors in parentheses; two-tailed test: **p<0.05, *p<0.1

adjusted-$R2$ suggest that the variables together explain a large amount of the variation in the dependent variable.

The findings in models 1 and 2 provide support for the existence of an electoral cycle in EU budget negotiations (Hypothesis 1). The average budget share grows by 0.11 percent in preelection years, and the effect is statistically significant. As expected, the results in models 2 and 3 show that the budget cycle is stronger in EAGGF subsidies than in ERDF/ESF transfers.[43] Depending on which model is used, in a preelection year EU members receive between €51–€280 million from

[43] In the conditional models, the electoral effect becomes stronger for both agricultural subsidies and structural transfers. The coefficient on *Preelection Year* increases to a maximum of 0.61 percent growth in the budget share.

the EU budget on top of what they usually receive. These numbers are based on averaging the changes in receipts across countries and times, and the exact amount varies with the size of individual receipts. Germany, for example, would receive €101–€561 million more in a preelection year, depending on which model specification is used to calculate the effects.

The substantively small effect of the preelection period on EU budget shares provides interesting insights for the theoretical argument. I argue above that governments increase their EU budget receipts before elections in order to appear politically competent. Voters directly observe the increase in their government's budget share and attribute this to the government's ability to bargain well in European negotiations. To appear politically competent, the increase in the budget shares does not have to be substantively large. Since voters usually do not know how large their country's budget shares are and only care about whether the government increased its budget shares (or net receipts) relative to other governments, it suffices if governments can credibly announce that they negotiated an increase of their budget shares.

Of course, governments could additionally appear economically competent if they received sufficient funds from the EU to boost the provision of public goods on the domestic level. However, the problem with this as a strategy is twofold. First, in contrast to the domestic arena where governments have fiscal authority to increase the deficit independently, a government's increase in the EU budget share depends on negotiations with other EU member states. Since the electoral boost in budget shares redistributes resources from some EU members to other EU members, such a large increase in budget shares is not very likely. Second, even if EU members agree to a large redistribution of EU resources, the EU budget itself is so small that the preelectoral boost in EU resources could not compare to the preelectoral boost in domestic resources. On the domestic level, government surplus deteriorates by approximately 0.4–0.5 percent of a country's GDP in the preelection period.[44] To generate domestic political budget cycles, these large fluctuations in expenditure are necessary because governments want to increase the provision of public goods before an election. The small substantive effect therefore supports the argument above, that on the EU level governments use distributional bargaining in order to appear politically competent rather than economically competent. Such a

[44] Persson and Tabellini 2002; Brender and Drazen 2005; Alt and Lassen 2006; Shi and Svensson 2006.

strategy complements any domestic preelectoral strategies the government may pursue.

Turning to the control variables, the size of the agricultural sector significantly increases the share of budget receipts particularly in the EAGGF subsidies for farmers, and countries with high unemployment rates are also more likely to receive larger budget shares. Furthermore, formal voting power significantly increases the government's budget shares. New member states receive lower budget shares in their first years in the EU. The effect of income across models depends on the budget item. Model 3, which is restricted to ERDF/ESF transfers, reveals the expected negative relationship. Models 1 and 2, which analyze total budget shares and EAGGF shares, reveal a positive relationship. This is likely due to the fact that income is most important for formal eligibility of structural transfers through the ERDF/ESF. In other sectors, richer countries are not constrained by formal eligibility rules regarding national income and can therefore use their resources to sway negotiations in their favor. Finally, budget shares have declined over time, but not significantly so.

In addition, the theory predicts that electoral cycles should be more likely if governments are in electoral distress or have greater bargaining capacity. To test Hypotheses 2 and 3, I estimated the main regression (model 1) with interaction effects. The interaction effects cannot be interpreted directly from the regression tables, but are calculated and presented graphically in Figures 3–6 (full estimation results are available from the author). In these, the *x*-axis depicts the different levels of the independent variables (actual sample values) and the *y*-axis depicts the marginal preelection effect. The solid line denotes the marginal effect together with its 90 percent confidence interval.

Figures 3–5 support Hypothesis 2. In line with my theoretical expectations, Figure 3 shows that high unemployment rates boost a state's budget shares in the preelection year. Unemployment rates of 13.4 percent (90th percentile in the sample) lead to an increase of ERDF/ESF and EAGGF transfer shares by over 0.28 percent and 0.14 percent, respectively.[45] The preelection effect under high electoral competition is almost three times as big as the unconditional effect. Budget shares significantly decline with lower unemployment rates. Election cycles in international cooperation are not likely if unemployment falls below the EU median.

[45] The fact that the conditional effect is insignificant for unemployment rates above 16.5 percent is most likely due to the fact that there are only very few observations in that sample range.

Figure 4 indicates that incumbents only increase their preelectoral transfers significantly when fewer than 30 percent of the respondents support them in the preelection year. This is the median value in the sample. The incumbent's preelectoral budget share grows by 0.23 percent when only 19 percent of survey respondents indicate intent to vote for the government. I also find a significant electoral cycle in structural transfers when support for the incumbent is low. This implies that the European Parliament is still not an effective guardian of the budget process, particularly if governments are in electoral distress. If a majority of respondents indicate that they would vote for the incumbent par-

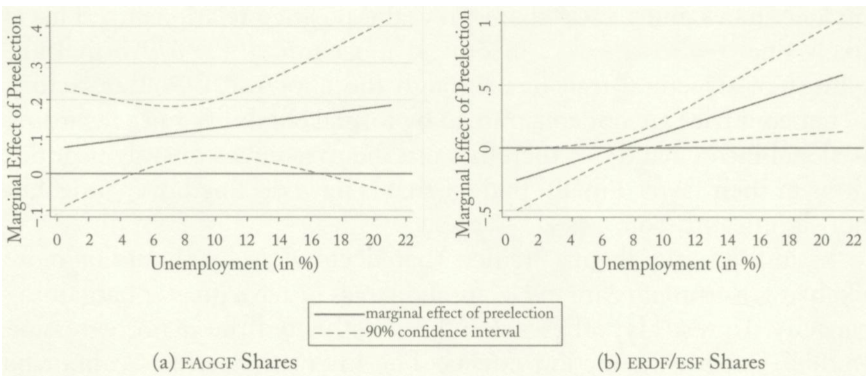


FIGURE 3
EFFECT OF PREELECTION ON BUDGET SHARES AS *UNEMPLOYMENT* CHANGES

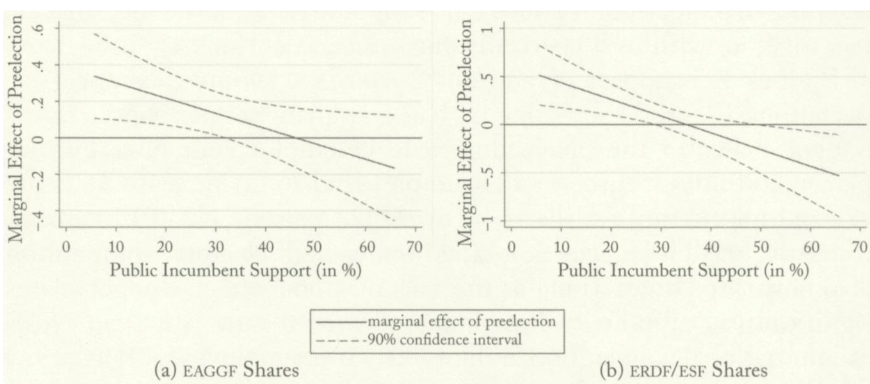


FIGURE 4
EFFECT OF PREELECTION ON BUDGET SHARES AS *INCUMBENT SUPPORT* CHANGES

ty, however, then governments do not increase their EU budget shares significantly.

Figure 5 shows that an incumbent obtains larger budget shares in the year before the election when a sufficiently large share of the population is still undecided (the increase in budget shares is significant when more than 10 percent of respondents under the EAGGF are undecided and more than 14 percent of respondents under the ERDF/ESF are undecided). If more than 29 percent of respondents are still undecided (90th percentile in the sample), then preelection budget shares grow by over 0.2 percent in both funds. The incumbent's incentive to pursue opportunistic politics is weaker when most voters have already decided who they will vote for. Political competition is therefore an important condition for electoral cycles in EU budget bargaining. In fact, electoral cycles in the EU only exist if governments face some electoral distress.

Figure 6 provides support for Hypothesis 3, showing that while all member states attempt to increase their budget shares in the preelection year, only relatively powerful member states can consistently do so. The effect is significant at least at the 10 percent level when voting power is above median levels (5.7 percent) and much stronger for the EAGGF than for the ERDF/ESF.

Robustness And Extensions

The findings strongly support the existence of electoral cycles in EU budget negotiations across different specifications of the main model. However, empirical results are often fragile to model specification choices. I next present the findings of several robustness checks. Tables 3–6 depict only unconditional results due to space constraints and because they are the most conservative estimates. The results for the conditional electoral cycles are generally stronger (and are available from the author).

First, I check for the possibility that elections are endogenous to the budget allocations. Instead of generating electoral cycles, which might be economically and politically costly, governments could just wait until they receive large EU transfers and then call an election. I implement the Hausman specification test to check whether there exists a two-way reciprocal causality between redistribution of membership gains and the timing of elections. I test whether the correlation between the residuals from the reduced-form regression (using the timing of elections as the dependent variable) and the error term of the main model is zero. I estimate a logit model that regresses the dichotomous preelection variable on budget shares, a dummy variable for minority governments,

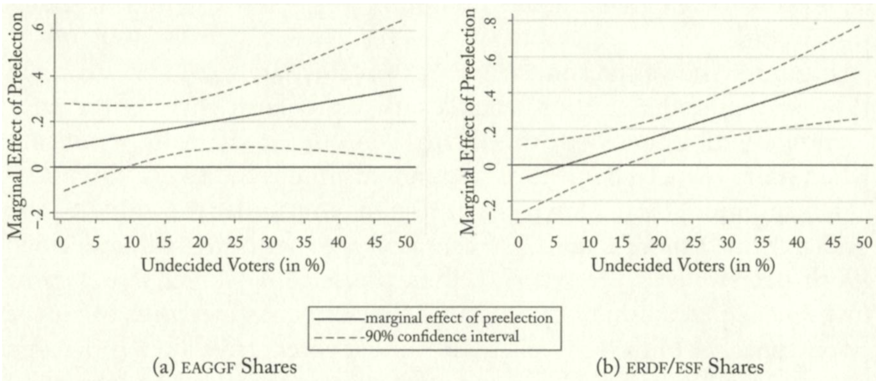


FIGURE 5
EFFECT OF PREELECTION ON BUDGET SHARES AS *UNDECIDED VOTERS* CHANGES

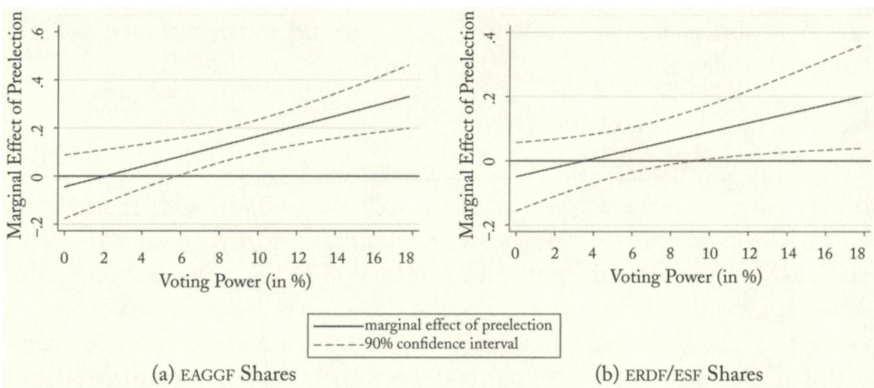


FIGURE 6
EFFECT OF PREELECTION ON BUDGET SHARES AS *VOTING POWER* CHANGES

and country fixed effects, which allow me to control for many country-specific effects that are constant over time. I then incorporate the residuals from this reduced-form model into my baseline model and test whether the coefficient is significantly different from zero (which would imply simultaneity). Table 3 shows that the coefficient for the residuals is not significantly different from zero. This means that the null hypothesis that there is no simultaneity cannot be rejected.

TABLE 3
ENDOGENEITY OF ELECTIONS

Dependent Variable	*Model 1* *Total Shares*
Preelection Year (dummy)	0.107*
	(0.062)
Election Year (pres/leg)	0.650
	(1.184)
Employment Agriculture (ln)	0.888**
	(0.298)
Per Capita GDP (EU=100)	0.021**
	(0.006)
Unemployment Rate	0.045
	(0.028)
Voting Power Council (%)	0.601**
	(0.060)
Domestic EU Support (%)	−0.008**
	(0.004)
New Member State (dummy)	−1.336**
	(0.266)
Number of EU Members	−0.032
	(0.029)
Residuals	−0.272
	(0.534)
Constant	−6.740**
	(1.448)
Country Fixed Effects	yes
Observations	395
R2	0.872
Wald $\chi 2$	3.45e+07**

Prais-Winsten regressions with country fixed effects; panel-corrected standard errors in parentheses; two-tailed test: **p<0.05, *p<0.1

It is therefore not likely that my estimation suffers from endogeneity problems.

In addition, I analyze qualitatively all elections that occurred at least twelve months early in countries where the executive can de facto call early elections opportunistically (so-called premier timing).[46] I find twenty-two early elections. Of these, only five were called early without any external reason such as the collapse of coalitions or a vote of no confidence. A summary of these elections is presented in Table 4.

[46] Kayser 2006, 442.

TABLE 4
EARLY ELECTIONS IN COUNTRIES WITH PREMIER TIMING

Country	*Year*	*Months*	*Snap*	*Reasons for Early Election*
Austria	1995	34	✗	collapse of government coalition
Denmark	1977	24	✗	disagreements about economic policy between minority government and smaller parties
	1979	16	✗	collapse of government coalition
	1981	22	✗	government resigns after parliament condemns government plans
	1984	23	✗	government resigns after defeat of its budget
	1988	40	✓	snap election over Danish membership in Western alliance
	1990	17	✗	minority government failed to reach agreement over 1991 budget and other economic measures
Greece	1996	30	✗	change in prime minister (same party but radically different policies)
Ireland	1981	12	✓	Prime Minister Haughey calls early elections
	1982	37	✗	collapse of Fine Gael-Labour coalition after budget fails in parliament by one vote
	1989	32	✓	Prime Minister Haughey calls early elections
	1992	19	✗	vote of no confidence
Italy	1983	12	✗	collapse of government coalition
	1987	12	✗	collapse of government coalition
	1994	37	✗	resignation of the prime minister after the reform of the voting system for parliamentary elections
	1996	35	✗	no agreement on electoral reform and new rules governing media coverage of electoral campaigns
Netherlands	1982	32	✗	collapse of government coalition
	1994	12	✗	collapse of government coalition
	2003	40	✗	collapse of government coalition
Spain	1996	15	✗	collapse of government coalition
UK	1987	12	✓	Prime Minister Thatcher calls early elections
	2005	14	✓	Prime Minister Tony Blair calls early elections

SOURCE: Keesing International

I also estimate the main model: (1) excluding the five snap elections; (2) excluding the twenty-two early elections; (3) excluding all observations for the countries that are most prone to snap elections (United Kingdom, Denmark, Ireland); and (4) including a variable that controls for the number of months early or late the election was held. None of the estimated regressions yield results that are substantively different from the findings reported above (results are available from the author). The coefficient on *Preelection Year* decreases slightly and the lowest level of statistical significance is 10 percent in a one-sided test. The findings for the unconditional EAGGF model (Table 2, model 3) remain positive and significant at conventional levels. Most importantly, I find that the conditional results are robust to the exclusion of early elections.

Second, I analyze to what extent alternative operationalizations of my main independent variable, *Preelection Year*, influence the empirical findings. An important question is whether the negotiation outcomes and the distribution of payments fall into the preelection year as measured by the simple preelection dummy. Council negotiations regarding the annual budget typically take place between June and October in the year before payments are made and the final budget is adopted on January 1st of the year in which the payments are made. The bulk of payments are made in the first half of the budgetary year. *Preelection Year* only captures whether the year in which the budget is adopted and payments are made is the year before an election takes place. That is, it does not take into account when the election takes place. This could be problematic since elections that fall late in the next year would be far removed from the current negotiations. The electoral cycle should be stronger if the election falls earlier in the year. I account for this with two measures. First, I generate an indicator for the preelection year that varies between 0 and 1. In the preelection year the indicator is calculated as $(12 - (M - 1))/12$, where M is the month in which the election takes place. The indicator varies between 0 and 1. It takes smaller values the later the election takes place and is 0 for all other years. It takes the value 1 if the election takes place in January of the next year. Second, I revise the preelection dummy such that the variable takes the value 1 only if the election falls within the first half of the next year, and 0 if otherwise.

In addition, even though I focus on legislative elections because the budget negotiations are conducted by government ministers (Council of Ministers of the European Union) and not by the head of states (European Council), I analyze whether EU budget cycles exist in presidential elections by coding the dependent variable for presidential elections where applicable. I also use a variable that measures the years to an election instead of the preelection variable. Finally, I test whether budget shares decline in the postelection year. Theoretically, I expect no decline since the EU cannot induce budget deficits but rather finances the increase in budget shares by redistributing the benefits across members. Table 5 presents the results, which are robust to a different operationalization of *Preelection Year* (models 1 and 5). In

TABLE 5
PREELECTION EFFECT

Dependent Variable	*Model 1 Total Shares*	*Model 2 Total Shares*	*Model 3 Total Shares*	*Model 4 Total Shares*	*Model 5 Total Shares*
Preelection Indicator	0.200*				
	(0.102)				
Preelection Year (president)		–0.010			
		(0.127)			
Years to Election			–0.025		
			(0.025)		
Postelection Year (dummy)				–0.089	
				(0.071)	
Preelection Year (dummy)					0.139*
					(0.075)
Election Year (pres/leg)	0.038	0.021		–0.061	0.030
	(0.066)	(0.123)		(0.068)	(0.064)
Employment Agriculture (ln)	0.634**	0.643**	0.665**	0.684**	0.637**
	(0.303)	(0.316)	(0.312)	(0.304)	(0.304)
Per Capita GPD (EU=100)	0.026**	0.027**	0.026**	0.026**	0.026**
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Unemployment Rate	0.061**	0.058**	0.058*	0.061**	0.060*
	(0.031)	(0.030)	(0.030)	(0.030)	(0.031)
Voting Power Council (%)	0.625**	0.622**	0.622**	0.618**	0.625**
	(0.061)	(0.063)	(0.062)	(0.062)	(0.061)
Domestic EU Support (%)	–0.008**	–0.009**	–0.009**	–0.008**	–0.008*
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
New Mem. State (dummy)	–1.318**	–1.316**	–1.317**	–1.299**	–1.315**
	(0.280)	(0.283)	(0.282)	(0.284)	(0.004)
Number of EU Members	–0.038	–0.040	–0.040*	–0.041	–0.038
	(0.028)	(0.029)	(0.029)	(0.029)	(0.029)
Constant	–6.044**	–6.060**	–6.092	–6.212**	–6.050**
	(1.322)	(1.350)	(–6.092)	(1.307)	(1.327)
Country Fixed Effects	yes	yes	yes	yes	yes
Observations	401	401	401	401	401
R2	0.871	0.872	0.871	0.871	0.871
Wald $\chi 2$	5.47e+05**	7.71e+08**	1.37e+06**	7.062e+08	1.39e+06

Prais-Winsten regressions with country fixed effects; panel-corrected standard errors in parentheses; two-tailed test: **p.05, *p<0.1

line with the theoretical argument, the preelection effect is stronger when the elections are closer to the annual budget negotiations and payments. As expected, electoral cycles are not possible during presidential elections (model 2) and there exists no run-up to the election (model 3). Finally, there is no significant decline in budget shares in postelection years.

Third, I analyze whether the findings are robust to using an alternative dependent variable and controlling for additional factors. *Total Net Receipts* is measured as the natural logarithm of a country's budget receipts minus the natural logarithm of a country's budget contributions in millions of constant (2006) euros. In addition, I estimate models with additional control variables. I include a dummy variable that takes into account the years in which the *Financial Frameworks* were negotiated.[47] Electoral cycles in the EU may depend on the likelihood that EU members agree to intertemporal reciprocity. As discussed above, some EU members might not have an incentive to help out an EU member that is in distress. For example, it could be that the EU member would rather see the opposition party in government because it is ideologically closer aligned with it. Consequently, one would expect that EU members are less likely to receive higher budget shares in the preelection year if they are ideologically more distant to the average ideology in the Council. To test this, I measure the partisanship of each EU member using data provided by Andreas Warntjen, Simon Hix, and Christophe Crombez.[48] The variable *Partisan Difference* measures the distance of an EU member's partisan ideology to the Council's average partisan ideology. If an EU member's ideology is in line with the Council's average partisan ideology, the variable takes the value 0. Negative values indicate that an EU member is to the right of the Council and positive values indicate that an EU member is to the left of the Council. To test for the conditional effect, I interact *Preelection Year* with *Partisan Difference*.

Table 6 presents the results. Whereas EU members can increase their budget shares during phases of *Financial Framework* negotiations, the preelection effect is not a result of these periods (model 1). In addition, the preelection effect is robust to an alternative operationalization of the dependent variable (model 2). Finally, the further an EU member's ideology is from the Council's average ideology, the lower the budget shares it receives, independent of whether an election takes place (model 3).

To analyze the conditional effect, Figure 7 shows the effect of the preelection year on EU members' budget shares for different levels of *Partisan Differences*. The graph illustrates some very interesting dynamics. If an EU member's ideology is very closely aligned with the Council's average ideology (0.21, which is the median in the sample), then it can expect an increase in its budget shares during a preelection

[47] Data from Aksoy 2010.
[48] Warntjen, Hix, and Crombez 2008.

TABLE 6
DEPENDENT AND INDEPENDENT VARIABLES

Dependent Variable	*Model 1* *Total Shares*	*Model 2* *Net Receipts (ln)*	*Model 3* *Total Shares*
Preelection Year (dummy)	0.105*	0.027*	0.235**
	(0.063)	(0.014)	(0.121)
Financial Framework	0.144*		
	(0.082)		
Partisan Difference			–0.133*
			(0.071)
Preelection * Partisan Difference			–0.139
			(0.090)
Election Year	0.037	0.010	0.105
	(0.067)	(0.014)	(0.122)
Employment Agriculture (ln)	0.632**	0.280**	0.893**
	(0.308)	(0.070)	(0.407)
Per Capita GDP (EU=100)	0.026**	0.001**	0.009
	(0.006)	(0.001)	(0.007)
Unemployment Rate	0.058*	0.004	0.019
	(0.030)	(0.004)	(0.045)
Voting Power Council (%)	0.632**	0.007	0.763**
	(0.063)	(0.014)	(0.103)
Domestic EU Support (%)	–0.009**	–0.004**	–0.011*
	(0.004)	(0.001)	(0.006)
New Member State (dummy)	–1.335**	–0.154**	–1.540**
	(0.283)	(0.041)	(0.386)
Number of EU Members	–0.036	–0.008	0.026
	(0.029)	(0.006)	(0.049)
Constant	–6.090**	–1.599**	–6.901**
	(1.338)	(0.337)	(2.229)
Country Fixed Effects	yes	yes	yes
Observations	401	400	361
R2	0.871	0.691	0.901
Wald $\chi 2$	4.14e05**	2.14e+07**	3.76e05**

Prais–Winsten regressions with country fixed effects; panel-corrected standard errors in parentheses; two–tailed test: **p.05, *p<0.1

year. The further an EU member moves to the left of the Council, the less likely it will receive higher budget shares during a preelection period (indicated by the insignificant effects for sample values above 0.78). This finding provides some support for the argument that EU members are less willing to induce electoral cycles if the government facing an election has very different partisan views. However, the result does not seem to hold for EU members that are to the right of the Coun-

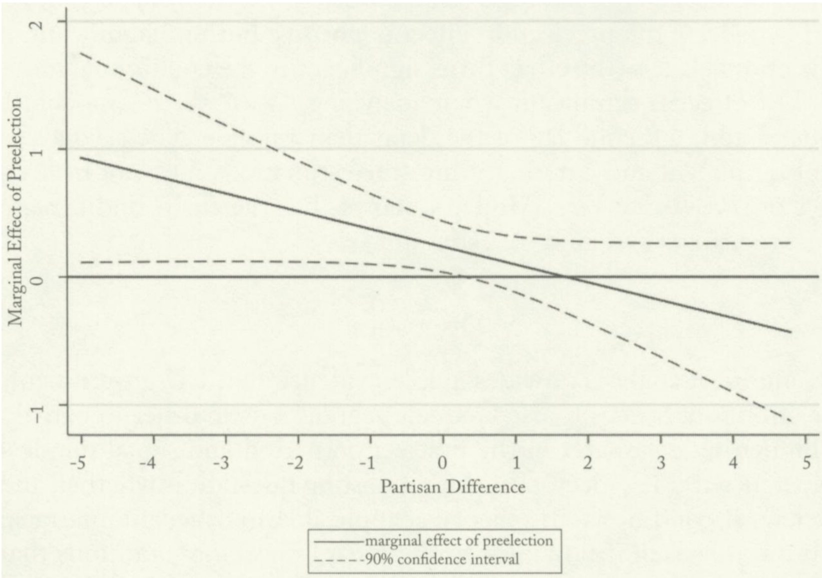


FIGURE 7
EFFECT OF PREELECTION ON BUDGET SHARES AS *PARTISAN DIFFERENCES* CHANGES

cil.[49] The finding is in line with my theory that attributes the preelection increase in budget share to either reciprocity or hard bargaining tactics. It could be that the Council has been generally to the right of center, which could increase the willingness to cooperate with far-right governments. Alternatively, it could be that right governments use different (more effective) bargaining tactics than left governments. Future research could use this initial insight to explore this question.

Fourth, I analyze whether the main findings are robust to alternative model specifications. Whereas the main model deals with panel dynamics by including country fixed effects as well as an AR(1) process, here I use a lagged dependent variable (LDV). Since using fixed effects and an LDV most likely lead to a downward bias of the coefficient of the LDV, I also present the results of a system general methods of moments (GMM) estimator. The system GMM estimator restricts the correlation between the error term and all explanatory variables to zero and therefore deals with any possible bias from the inclusion of a LDV.

Table 7 shows that the findings are largely robust to using an LDV

[49] Note that there is no significant increase in the preelection effect if the incumbent's ideology moves further to the right of the Council.

instead of an AR(1) process as well as to using a system GMM estimator. In model 1 the preelection effect is positive but not significant at conventional levels (the effect turns significant in the conditional models). The effect is significant when analyzing EAGGF shares (model 2). Model 3 adds a second lag of the dependent variable. The second lag is not significant and entering it into the estimations does not have an effect on *Preelection Year*. Model 4 shows that the main findings are robust to using a system GMM estimator.

V. Discussion

The empirical analysis provides ample evidence that EU governments have strong incentives to use Council negotiations in order to bargain for higher budget shares in the preelection period and signal political competence to their electorate. An interesting question is whether, and under what conditions, the theory is applicable to other international institutions as well. I now turn to the most important conditions that make these cycles possible and discuss how they relate to other international institutions.

First, international redistributive bargaining has to be salient at the domestic level. If voters cannot observe negotiation outcomes they will not take the government's performance in those negotiations into account when they decide whom to vote for in the next election. For example, project-based aid from the World Bank significantly and directly impacts the population and therefore tends to be highly salient. In the Philippines, mayors immediately put up huge billboards when they receive one of the Kapit-Bisig Laban sa Kahiripan-Comprehensive Integrated Delivery of Social Service (KALAHI-CIDSS) grants—a flagship antipoverty program that is based on the principle of community-driven development—and citizens are well aware of whether their village receives a grant.[50] Along similar lines, the big trade negotiation rounds of the World Trade Organization (WTO) have been highly salient on the domestic level. Many of the problems in the WTO's Uruguay and Doha rounds arose because powerful domestic interest groups in the United States and the EU lobbied against the liberalization of the agricultural sector.[51]

Second, voters have to perceive advantageous deals as signals of the incumbent's political competence. This potentially poses a challenge

[50] Information based on the preliminary survey results and interviews conducted by the World Bank in cooperation with the University of Philippines in the Philippines in 2010.

[51] Hudec 1993; Davis 2004.

TABLE 7
MODEL SPECIFICATION

Dependent Variable	*Model 1 Total Shares*	*Model 2 EAGGF Shares*	*Model 3 Total Shares*	*Model 4 Total Shares*
LDV	0.648**	0.686**	0.628**	0.309**
	(0.020)	(0.022)	(0.035)	(0.032)
LDV 2		–0.036	0.141**	
		(0.033)	(0.030)	
Preelection Year (dummy)	0.078	0.076*	0.140**	0.136*
	(0.077)	(0.043)	(0.068)	(0.078)
Election Year (dummy)	–0.003	0.081*	0.052	0.094
	(0.081)	(0.045)	(0.076)	(0.079)
Employment Agriculture (ln)	0.337**	0.369**	0.213	0.561**
	(0.151)	(0.127)	(0.185)	(0.283)
Per Capita GDP (EU=100)	0.001	0.004**	–0.001	0.002
	(0.002)	(0.001)	(0.002)	(0.004)
Unemployment Rate	0.005	0.008	0.029	0.027
	(0.019)	(0.006)	(0.024)	(0.025)
Voting Power Council (%)	0.336**	0.199**	0.384**	0.452**
	(0.047)	(0.040)	(0.021)	(0.055)
Domestic EU Support (%)	–0.011**	–0.002	–0.010**	–0.008**
	(0.003)	(0.002)	(0.004)	(0.004)
New Member State (dummy)	–0.399*	–0.282**	–0.317	–0.502**
	(0.207)	(0.079)	(0.242)	(0.210)
Number of EU Members	0.021	–0.007	0.033**	0.029
	(0.014)	(0.012)	(0.012)	(0.023)
Constant	–2.517**	–2.764**	–2.361**	–4.287**
	(0.722)	(0.724)	(0.748)	(1.427)
Specification	FGLS	FGLS	FGLS	GMM
Country Fixed Effects	yes	yes	yes	yes
Observations	376	358	352	352
R2	0.960	0.971	0.965	
Wald $\chi2$	444489	10162	82439	8445.26

Dynamic panel regressions with country fixed effects; panel-corrected standard errors in parentheses; two-tailed test: **p<0.05, *p<0.1

for electoral politics in the IMF and the World Bank, where loans and grants are given to countries with economic difficulties and the very existence of a program could signal economic incompetence.[52] Governments can nevertheless signal political competence if they are able to receive larger loans with better conditions or if they are less likely to be punished if they interrupt reforms.[53] For example, in the World Bank

[52] Dreher and Vaubel 2004.
[53] Dreher 2003.

projects in the Philippines, villagers attributed the receipt of grants to mayoral bargaining success in negotiations. Perhaps even more to the point, they attributed the failure to secure a project grant to the poor performance of their mayors. In reality, the mayors had no influence whatsoever in the distribution of project grants.

Finally, governments have to be able to influence the distribution of benefits from the international institution. They have to be either competent or able to use unanimous voting rules. In the WTO (as in the EU), bargaining capacity stems from consensual voting rules but economically powerful states are better positioned to achieve their goals. In the World Bank and the IMF, however, recipients tend to have limited bargaining power. In this case, the theory would predict that borrowing countries are more likely to generate electoral cycles in international distributional bargaining if one of the major stakeholders has a strategic interest in that government's survival—that is, when opportunities for cooperation between donors and recipients exist.

VI. Conclusion

In this article, I analyze the effect of domestic elections on distributional bargaining in the EU. I argue that the increasing economic and political integration of policies has led to an expansion of electoral politics onto the European level. As distributional negotiations in the EU have become more salient to domestic publics, governments have begun to exploit successes in Council negotiations for electoral advantage. The empirical analysis shows that European governments aim to increase their EU budget shares to improve their reelection perspectives. One of the main findings of the paper is that political integration has not only failed to eliminate opportunistic strategies on the domestic level, but that it has created new opportunities for governments to electioneer. On a more general level, these results show that governments actively exploit international processes in hope of achieve electoral gains at home. The results also explain why some scholars find that bargaining practices in international institutions are largely based on reciprocity while others find that governments' public announcements are largely based on considerations of national interest.

While this article provides a first step toward analyzing the globalization of electoral politics, more research is needed to address some of the remaining questions. For instance, the theory alludes to conditions under which governments should find themselves either in cooperative or noncooperative situations. The case I referred to in the opening section—when the French thrust into the spotlight their opposition to delaying negotiations on the British rebate—could be an instance of a noncooperative situation. This move provoked some sharp public reactions in the UK, but, more importantly, the British government succeeded in putting a lid on the issue until after the elections. That the French were not undertaking an empty posture for strategic reasons (to help the British government when the issue was actually postponed, for example) is clear: Jacques Chirac was no fan of Tony Blair, particularly post-Iraq. By analyzing how ideological differences affect the electoral cycle, this article provides some support for the idea that the negotiation environment matters. Future research could use the preliminary results presented here to develop a theoretical model of the relationship between cooperative vs. noncooperative bargaining situations and the electoral cycle.

Another interesting question is whether electoral cycles in distributional bargaining are indeed successful in generating greater public support on the domestic level. While I assume that voters care about the deals that governments can achieve in the Council (at least when they have distributional consequences on the domestic level), another viable explanation for governments' strategies is that incumbents believe that these bargains have a positive effect or that achieving no deal would surely be a signal of incompetence. Where, as noted above, some scholars have already found evidence that these budget deals matter, future research could shed more light on the underlying causal mechanisms and provide more extensive tests on the effect of international distributional bargaining on domestic public support for governments. For example, the findings in this article allude to the importance of saliency for an electoral cycle to occur.

The significance of my findings goes beyond electoral cycles in distributional bargaining. Most importantly, they shed some light on the democratic dilemma of international governance. So far, when debating whether to increase transparency of international governance, scholars have largely focused on the trade-off between democratic accountability and the efficiency of negotiations. My findings demonstrate that efficiency can also have adverse effects. Reciprocal behavior leading to electoral cycles allows governments to pursue policies at the expense of citizens who cannot observe this behavior. The lack of transparency when bargaining on the international level therefore allows governments to neglect efficient and welfare-enhancing policies in favor of politically motivated ones.

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