

Sharing the Gains of European Integration: Are EU Institutions Vehicles of Domination?

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ABSTRACT

Are EU institutions reflective of the interests of rich, large or otherwise influential member states? Recent studies adhering to the Liberal-Intergovernmental school of thought suggest that national interests still play a significant role, allowing powerful states to heavily influence these institutions and benefit from them. However, the Neo-Functionalist camp maintains that EU integration is a practical solution that reshapes interest, downplaying the importance of distributional conflicts in the long term. Our purpose is to estimate the effect that institutional integration in the EU has had over the years on the distribution of gains among the member states. we argue that empowerment of EU institutions is associated with increasing divergence of gains among the member states. We conduct regression analysis of the relationship between centralization of governance in the EU, and the distribution of gains among the member states throughout 1991-2016. For this, we compile annual data on administrative resources at the disposal of the principal EU supranational and intergovernmental institutions (the Council, Commission, EP and ECB) and national governments in order to calculate their relative bureaucratic capabilities. We operationalize relative gains among states by various GDP, OBB and trade measures. We support our main argument, but demonstrate that divergence of gains has diminished in the wake of the euro crisis, which can be related to the greater autonomy that EU institutions acquired, reducing the scope for manipulation by powerful member states. We find no substantial evidence that EU enlargement mediated the effect of institutional centralization on the divergence of gains.

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Introduction

Are European Union (EU) institutions reflective of the interests of rich, large or otherwise influential member states, or are they mainly motivated by the desire to increase aggregate welfare, treating the interstate distributional consequences of European integration as a side effect? This long-standing theoretical debate between the Liberal-Intergovernmentalist and Neo-Functionalist schools of thought has become particularly germane in an era of Euroscepticism, rising populism and enduring financial instability.

The Neo-Functionalist camp maintains that EU institutions manage to pressure member states to stick to agreed reforms and lock-in commitments for integration. This involves more boldness as EU treaties progress: Expanding Qualified Majority Voting (QMV) into new issue areas as part of the Nice treaty (Recchi, 2015), expanding the voting powers of the European Parliament (EP) in the Lisbon treaty (Fabbrini, 2015) and increasing the potential for autonomous action of the European Commission through the Six Pack reforms and the Fiscal Compact (Niemann and Ioannou, 2015). The Commission is often referred to as the key actor in this endeavor (Schön-Quinlivan and Scipioni, 2017), acting with little domestic bias in decision-making (Deckarm, 2016).

Recent Liberal-Intergovernmentalist studies suggest that national governments still play a significant role, allowing powerful states to influence institutions and benefit from them. This may be effectively achieved through manipulating legislation in the Council of the EU (Killerman, 2016), inducing EU commission administrative personnel into adopting favorable policies (Murdoch, Connolly and Kassim, 2018), and advocating domestic interests in the management of the Eurozone crisis (Schimmelfennig, 2015). Germany's policy in this regard is especially well-

documented (Carstensen and Schmidt, 2017; Schoeller, 2017; Schneider and Slantchev, 2018). Other means to attain this goal include neutralizing the power of supranational institutions (Puetter, 2012) and of key elements in central EU treaties (Adler-Nissen, 2014).

Studies of income inequality among households or regions often blame at least some of it on the daily operation of EU institutions, but few if any study the distribution of gains among the member states. Our purpose is to estimate the effect that institutional integration in the EU has had over the years on the distribution of gains among the member states. We review recent contributions to this debate in the second section. In accordance with the Liberal-Intergovernmental approach we argue that empowerment of EU institutions is associated with increasing divergence of gains among the member states. We also demonstrate that divergence of gains has diminished in the wake of the euro crisis, which can be related to the greater autonomy that EU institutions acquired, reducing the scope for manipulation by powerful member states. We find no substantial evidence that EU enlargement mediated the effect of institutional centralization on the divergence of gains.

The third section lays out our research design. We conduct regression analysis of the relationship between institutional centralization in the EU, and the distribution of gains among the member states throughout 1991-2016. For this, we use measures of the empowerment of the principal EU supranational and intergovernmental institutions (the Commission, Council, EP and ECB) relative to national governments. We use 12 different measures of gains, in terms of GDP, Operating Budgetary Balances (OBB) and trade. Our dyadic-annual dataset includes more than 5,000 dyad-annual observations.

The fourth section reports results. We find that empowering EU institutions is especially associated with acceleration of relative gains (increase in rates of change). For example, an increase of one

standard deviation in institutional empowerment is associated with a rise in divergence of as much as 24 percent in GDP growth rates, 60 percent in OBB per GDP, and 23 percent in changes to current account balances. The fifth section provides conclusions.

Many studies provide evidence on the validity of Neo-Functionalist or Liberal-Intergovernmentalist arguments. Such evidence is often anecdotal or based on a particular policies or institutions. Few if any studies in this literature measure the distributional consequences of integration. Some existing sociological contributions study income inequality among individuals or regions, but insufficient attention has been given to measuring the interstate distributional outcomes of the bargains that drive European integration. Our study is innovative by comprehensively studying how empowering EU institutions affects the distribution of gains among EU member states. While our results in no way should be seen as definitive, we hope they will stimulate further empirical research based on large datasets, which would be better able to substantiate some of the theoretical claims made in the debate between Neo-Functionalists and Liberal-Intergovernmental scholars.

Sharing the gains of European integration

Adherents of the Neo-Functionalist and Liberal-Intergovernmental schools of thought have long debated the causes and effects of the European integration process. The Neo-Functionalist approach traditionally explains integration as a problem-solving mechanism. States that want to prosper and improve the welfare of their citizens must act collectively to fix problems that cannot be solved at the national level. And solving problems in one area inevitably creates opportunities

for problem-solving in other areas (spillover). Common institutions can potentially act on behalf of the member states for the benefit of the collective good.

Indeed, Neo-Functionalists typically view supranational actors, institutions, and social and political élites as the leading catalysts of European integration – autonomous from and transcending the core-national interests of EU Member States (Hooghe and Marks, 2009, 4). The Commission in particular has been an entrepreneur and leader of the integration process (Schön-Quinlivan and Scipioni, 2017; Schimmelfennig, 2014, 332). Together with other supranational institutions it monitors member states' policies and pressures them to honor their commitments, including through legal enforcement (Niemann and Ioannou, 2015; Epstein and Rhodes, 2016).

In recent years, there is a growing realization that majoritarian intergovernmental institutions, such as those in the EU, pool sovereignty and transcend non-majoritarian intergovernmental politics too (Hooghe and Marks, 2015). Furthermore, the politics of what Fabbrini (2016) calls Intergovernmental Union, and others refer to as the Community Method – a permanent combination of supranational and intergovernmental institutions – can highlight common interests in the course of regional integration and come back to shape state preferences. In such a setting, transfer of authority to international organizations is not purely motivated by exogenously-formed national preferences.

According to the Neo-Functional account, both supranational and majoritarian intergovernmental institutions create endogenous interdependencies, path-dependencies and various types of spillover effects: Functional spillover, where cooperation in one issue area motivates integration in other issue areas for greater efficiency; Political spillover, in which élites and national interest groups develop cross-border solidarity and common interests; and Cultivated spillover, where

supranational actors – most prominently the Commission – champion the process of integration to reluctant member states (Niemann, 1998).

Neo-Functionalists highlight how European integration has deepened greatly and accelerated especially ever since the Single European Act of 1987 (Schmitter, 2005). Integration has spilled-over into new issue areas, such as the single currency, foreign and security policy, justice and home affairs, immigration, labor, social protection, government procurement, services, energy and the environment. The powers of supranational institutions, such as the Commission and the EP have expanded, even if in some of these areas majoritarian intergovernmental institutions dominated. Indeed, integration also progressed through majoritarian intergovernmental institutions, mostly the Council, where QMV was gradually extended to an increasing number of issue areas.

The 1992 Maastricht Treaty marked a major step forward in European integration, supposedly transcending nationality by introducing a common European citizenship and laying the foundation for a single currency and common foreign and security, and justice policies (Börzel, 2005). The EP became much more influential and the Committee of regions was established. Member states' cooperation within the newly formed EU became much more political than in its forerunner, the European Community (Fabbrini, 2015: 23).

The EP's legislative powers were further enhanced in the 1997 Amsterdam Treaty (Hix, 2002; Farrell and Heritier, 2003; Rittberger and Schimmelfennig, 2006). The Amsterdam treaty also extended the Community Method to issue-areas such as employment, social regulation, human rights and the environment (Hooghe and Marks, 2009, 16). Free movement of people across borders, already agreed in the 1980s' Schengen agreements, was cemented into EU law. In the

years that followed the Amsterdam Treaty, this freedom was supported by the activism and interpretation of the Court of Justice of the European Union (Recchi, 2015, 31-36).

The Nice Treaty strengthened the EU judicial system, included protection of fundamental rights, further extended the authority of the EP to new issue areas and enhanced the role of the President of the Commission. It also further expanded the scope of the Community Method by extending QMV in the Council to new issue areas, including free movement of people (Recchi, 2015, 28).

The Lisbon Treaty strove to enhance democracy in the functioning of EU institutions, and improve protection of fundamental rights; it gave the EU full legal personality, allowing it to sign international treaties and join international organizations. The Lisbon treaty further enhanced the role of the EP, by giving it the power to elect the President of the Commission (Fabbrini 2015, 35-36). The jurisdiction of the Court was extended to all EU activities except security. It established an EU diplomatic corps – the European External Action Service (EEAS), led by a High Representative who is also the Vice President of the Commission. The EEAS assumed functions that until its creation were only held by member states and allows a more unified European diplomacy (Adler-Nissen, 2014). Lisbon also achieved breakthroughs in integrating long-disputed issue areas such as trade in services, protecting intellectual property and investments (Niemann, 2013).

The 2011 Six Pack legislative reforms and the 2012 Fiscal Compact instated fiscal constraints on Eurozone members and imposed national budget balancing. By a Neo-Functionalist account, this, and the nascent European Banking Union, significantly extended again the powers of supranational institutions, most prominently the Commission, increasing its potential for autonomous action in new macroeconomic surveillance procedures and in bank resolution (Niemann and Ioannou, 2015;

Fabbrini, 2013). Many Neo-Functionalists believe that no policy aspect is off-limits to the integration process (Pollack, 2000), and some hope that this would eventually lead to a federal political system.

However, for the member states, integration can also have significant political costs. First, integration inevitably involves some loss of state autonomy as authority is transferred to the center. Second, centralization has costs due to heterogeneity of national preferences and information asymmetry (Wyplosz, 2015). Third, integration may have distributional consequences, even if unintended, both among the member states and within them. Fourth, long chains of administrative command may seem obscure and remote from the citizens, who may not trust or identify with central institutions. Such alienation may feed back to haunt the legitimacy of national political systems, putting democracy at risk. Finally, if central institutions are autonomous from the member states, the latter will inevitably suffer agency loss, in the form of institutional slack or the mechanisms of control employed to limit slack. The wider is the policy scope of these institutions' remit, the costlier is the potential agency loss.

For example, Deckarm (2016) showed that staff in Commissioners' personal cabinets, traditionally from their home states, became more diversified during 1995-2014, and that Commissioners' decisions regarding other member states were unbiased. Trondal, Murdoch and Geys (2015), conducted in 2011 a web-based survey among 1098 active Seconded National Experts (SNEs) to

the Commission, and found that they became integrated and committed to the organization and tended to act autonomously from their national governments.¹

It is thus not surprising that states have often been reluctant to integrate, i.e. to transfer authority to central institutions. Jean Monnet, the forefather of European integration has conceded that the logic of the benefits of integration may not suffice in promoting it. Rather, in the face of domestic opposition to integration, only a serious problem can force national decision makers to transfer more authority to central institutions. Hence the integration process is inherently crisis-prone, progressing in fits and starts, rarely forestalling problems.

Neo-Functionalism has relatively little to say about how the gains of integration are shared. It is a theory focused on the club's aggregate welfare. Political spillover is supposed to make actors' preferences endogenous to the process, and this should gradually obviate narrow interests. However, many people are in practice not sufficiently affected by such spillover, and for them integration remains a choice, not destiny. National decision makers, who must win popular and vested interests' support to be in office, may be forgiven for pursuing a selfish cost-benefit analysis.

Indeed, other scholars doubt that the institutional evolution of the EU is driven by a quest for efficient aggregate results. In a Liberal-Intergovernmental analysis, European integration merely amounts to "a series of rational choices by national leaders" (Moravcsik, 1993; 1998, 18), with institutions and structures that are derived from domestic preferences and shaped by national

¹ SNEs (about 1,000, or 10 percent of Commission *administrative* workers) are employees of member state governments, working temporarily for the various EU institutions.

interest groups (Schimmelfennig 2015, 178). Liberal-Intergovernmental analyses consider supranational EU actors as agents of national governments – working on concrete problems that require member states to pool power, not sovereignty (Moravcsik and Schimmelfennig, 2009). The authority of institutions is restricted by the terms of delegation, spelled-out in a formal mandate, which member states can rescind. Such centralization of authority can be efficient in internalizing externalities and in reaping economies of scale. Majone (2014, 16-8) suggests that efficient assignment of tasks between different levels of governance need not include all member states, and advocates a state-centered *à la carte* integration method. There is no automatic spillover, functional or otherwise.

Moravcsik (1998) suggested that ever since the 1955 Messina conference all rounds of European integration have followed the same pattern – first formation of domestic preference, then interstate bargaining and eventually institutionalization. Thus, Moravcsik and Nicolaïdis (1999) considered the various EU treaties to have little added value over national interests (De Wilde and Zürn, 2012). If discussions over the Amsterdam treaty were surprisingly harmonious, this was due to a common left-wing bias among negotiators (Moravcsik and Nicolaïdis, 1999). Even Fabbrini (2015, 27) notes the rising power of member states over supranational institutions. While they delegate authority to supranational institutions, they later find ways to neutralize such powers (Puetter, 2012).

Recent empirical evidence confirms that national ties and biases play a significant role in EU institutions. The large member states carry more influence in the institutions than the small ones. Killerman (2016) examined the voting patterns in the Council of the EU on contested legislation regarding all policy issue areas during 1999-2014, demonstrating that member states tend to

abstain from voting against proposals raised by Commissioners that originate from their own countries. On a similar note, Murdoch, Trondal and Geys (2016) and Murdoch, Connolly and Kassim (2018) showed that various policy preferences and decisions by EU administrative personnel are affected by public opinion in their countries of origin². Schneider (2017) attributes this to a general increase in the domestic saliency of regional integration agreements (RIAs), particularly evident in the case of European integration, which has undergone a process of politicization, slowly trickling into domestic matters and national elections. SNEs in the Commission are especially affected by national public opinion on matters relating to EU-level policymaking. Considerations of public opinion and domestic approval rating also drive governments to take advantage of the Council to signal commitment to domestic interests during election season, by adopting popular positions in various issue areas (Schneider, 2018).

Throughout the integration process, the member states were successful in guarding their interests. Even some Neo-Functionalists concur that the Maastricht Treaty, departed from the Community Method, subjecting policy-making to a national prerogative (Jabko, 2015: 73), especially in the governance of Economic and Monetary Union (EMU) (Puetter, 2012: 167). Some argue that the Treaty has not done much to strengthen the EP, because the co-decision procedure, which it enshrined, ultimately allowed the Council to dominate the EP in legislation (Tsebelis and Garrett, 1997; Hix, 2002). This was perhaps out of deference to domestic interests, which the Council better represented than the EP.

² Based on the 2008 European Commission in Question (EUCIQ) project (Kassim *et al.*, 2013).

Liberal-Intergovernmental scholars argue that the Amsterdam treaty also reflected the key policy preferences of large EU members, including in matters related to foreign policy and national security. Moravcsik and Nicolaïdis (1999) noted that the large member states sought to overcome possible vetoes in situations requiring immediate response and (in the case of Germany) promoted a more binding co-operation mechanism. Supranational bodies may have had very little influence on negotiations in the conference leading up to the Amsterdam treaty, according to an examination of member state and supranational actors' preferences, issue by issue (Slapin, 2006).

In the 2000 conference that led to the Nice Treaty, France was able to cap the number of Commissioners, maintain the voting power advantage of large member states in the Council and prevent the extension of the QMV method to sensitive issue-areas (Meunier and Nicolaïdis, 2001, 7; Tallberg, 2004, 1018). The EU presidency is often used as an effective tool for promoting national interests and influencing broad EU policy, such as Agenda 2000 (German Presidency) and the 2000 conference (French presidency) (Tallberg, 2004). Analysis of national preferences in 70 European legal texts in the early 2000s shows how the United Kingdom too secured its national preferences in legislative policymaking (Selck and Kaeding, 2004). This is generally true even if smaller EU member states can sometimes leverage their influence in specific circumstances. For example, Panke (2011) examined the work of the Committee of Permanent Representatives (CREPER) during 2009, and found that expertise and previous experience in EU deliberation compensated Estonia, Denmark and Luxemburg for their size, financial capacity and staffing limitations. The establishment of the EEAS is often cited as one of the key achievements of the Lisbon treaty, but the member states made sure it did not challenge their national diplomatic services by constraining its personnel (Adler-Nissen, 2014).

Among the most cited examples of national interests driving EU policies is the management of the Eurozone crisis. Schimmelfennig (2015, 185) maintains that the defining measures taken by EMU institutions were reflective of the preferences of Germany and other solvent countries. The Commission failed to carry out a supranational agenda, and adopted classic intergovernmental policies, such as fiscal discipline (Warren *et al.*, 2016). Carstensen and Schmidt (2017, 3) support this notion, observing that Germany's ability to exercise various forms of power was especially present at the height of the crisis (2010-2012) – while supranational actors (e.g. ECB) had a more central role in calmer times. Supranational institutions, such as the “Troika” (the Commission, IMF and ECB), adopted policies in line with the interests of the creditor governments (Henning, 2017). Together with France or alone, Germany kept advancing its interests (Schoeller, 2018), largely bypassing the Commission (Schoeller, 2017), preserving its veto power in Europe's intergovernmental institutions (Schimmelfennig, 2015) and even gradually imposing decisions on other member states. At times, Germany resorted to brinkmanship, such as postponing the 2010 Greek bailout plan until the survival of the entire Eurozone was at stake (Schneider and Slantchev, 2018).

If European integration is based on bargaining among national governments, we can expect EU policies to reflect the interests of the more powerful member states. According to the Liberal-Intergovernmental approach, the bargaining power of member states may vary with the particular issue and context. However, over the long term we can expect that large, open and/or rich member states, those with greater access to EU resources and those with more competitive industries (which reduce dependency on foreign credit) will be more successful in shaping the EU, and thus in reaping most of the gains from it. In short, according to the Liberal-Intergovernmental approach, we can expect the EU to be a regressive club, in which those already successful are repeatedly

rewarded in bargains, increasing the divergence of gains among the member states. From an institutional perspective, the more authority is transferred to intergovernmental or supranational institutions, the stronger this dynamic should be.

This argument may be reminiscent of claims that European integration, and globalization more broadly, increase income inequality among individuals (Dreher and Gaston, 2008; Mahler, 2004; Rodríguez-Pose, 2012; Williamson, 2005), because rising capital mobility and international trade depress wages, and regulatory and tax competition erode the welfare state. The evidence on globalization is inconclusive (Scheve and Slaughter, 2004, 662), perhaps because global wage equalization should actually favor poor countries. When populous countries are given more weight, results show global income convergence (Beckfield, 2009).

Some regard European integration as merely a particular case of globalization, but Beckfield (2006; 2009) argues that European integration encourages income inequality even more than globalization, because it connects more similar regions, in a more institutional way, and to a deeper extent. Both economic and political processes of integration are more intensive within the EU than outside it. Scharpf (2010) suggests that European integration may be weakening the welfare state model. Busemeyer and Tober (2015) agree, and trace this to austerity-oriented EMU, and the asymmetry between ‘negative integration’ (market liberalization) and ‘positive integration’ (social regulations that correct market failures), partly driven by court rulings (Höpner and Schäfer, 2012; Pollack, 2005). Furthermore, political integration in general encourages governments’ complicity in this process by allowing them to blame EU institutions. Gensche, Kemmerling and Seils (2011) show that tax competition is stronger in the EU than in the rest of the world. However, Bornschier,

Herkenrath and Ziltener (2004) found that interstate transfers within the EU benefitted the poorer member states and encouraged economic convergence.

Almost all of these studies measure income inequality within countries, mostly based on national Gini coefficients of inequality among individuals, or spatial inequality, such as between rural and urban regions. Beckfield (2006; 2009) is an exception, finding that integration not only increases within-country inequality, but also decreases between-country inequality, as measured by GDP per capita. This paper takes an interstate approach, rather than a sociological one, and studies how the benefits of European integration are shared among the member states. We are not interested in how European integration exacerbates (or not) the inequality that stems from market activity and the failure of the welfare state. Rather, we are interested in how EU institutions affect the results of interstate bargains, and how the resulting gains are distributed among member states.

Research design

As stated in the introduction, our purpose is to estimate the effect that institutional centralization in the EU (independent variable) has had over the years on the distribution of gains among the member states (dependent variable). Institutional centralization can and does have important distributional consequences, even as they provide aggregate benefits to the club, and even if integration is not solely driven by a quest for relative gains. As explained in the previous section, according to the Liberal-Intergovernmental approach, we expect that transferring more authority to EU institutions (centralization) is associated with a greater divergence of gains among the member states.

We define institutional centralization as the empowerment of institutions that have a mandate to promote international collective action at the expense of national autonomy. This empowerment is thus necessarily relative to the authority of member states. Thus, we hypothesize that:

H1: Greater institutional centralization in the EU is associated with increasing divergence of gains among the member states.

Note that the Liberal-Intergovernmental logic expects this relationship to hold regardless of the causal direction: Centralization may increase the divergence of gains among the member states, and the gains achieved from European integration may enable the successful member states to shape institutions to their liking and encourage them to empower EU institutions. The ability of member states to bargain successfully should be particularly proportional to their voting power in the Council.

H2: Greater institutional centralization in the EU is associated with increasing divergence of gains among the member states, especially when voting power diverges.

The enlargement of the EU in 2004, to include an additional ten member states, has increased the club's political and economic heterogeneity. This may have altered the dynamics of relative gains, for example if poor countries are generally expected to grow faster, in what is sometimes referred to as the β -convergence (Sala-i-Martin, 1996). This dynamic may lead to lower divergence of gains over time. In addition, it is possible that this major enlargement has diluted the ability of some of the more powerful old member states to sway EU bargains:

H3: *Pre-2003, greater institutional centralization in the EU was associated with even greater divergence of gains among the member states than later.*

The euro crisis had direct effects only on a subset of EU member states – those participating in the euro area. However, the euro area was enlarged to 19 of the EU’s 28 member states by 2016, and the institutional reforms that it spawned affected the entire EU. While some scholars argue that Germany and other member states were ever more firmly in control of the institutions in the crisis period (Bulmer, 2014; Henning, 2017; Schimmelfennig, 2015), other suggest that the institutions gained more autonomy in the policymaking process (Epstein and Rhodes, 2016b; Gandrud and Hallerberg, 2016; Henning, 2016; Mabbett and Schelkle, 2016; Nielsen and Smeets, 2017).

H4: *Post-2009, greater institutional centralization in the EU is associated with decreasing divergence of gains among the member states.*

We use a dyadic dataset that includes only EU member states. A dyadic dataset is helpful in testing hypotheses about divergence of gains among the member states (impossible with monadic data) that relate to national features (impossible with aggregate EU data). Our data period starts in 1991, at the signing of the Maastricht Treaty, and ends in 2016. In earlier periods, the EU had fewer member states, so extending the data period would not add many observations, and its institutional integration was slower, so not much variation is expected in our measures of institutional centralization (see below). Our variables of interest are available only in annual frequency. In 1991 there were 66 dyads among 12 EU member states. Successive enlargements have increased the number of dyads to 105 among 15 member states in 1995, 300 dyads among 25 member states in 2004, 351 dyads among 27 member states in 2007, and 378 dyads among 28 member states in 2013. As a result, there are potentially 5,727 observations.

The gains from European integration could be operationalized in many ways. We chose to focus on economic gains, as they can be more easily measured than other gains, and more directly related to the single market, which is the EU's main integration achievement. We use 12 alternative measures of relative economic gains, each calculated as the dyadic absolute difference in national values and log-transformed (see Appendix 1 for descriptive statistics). First, we use four nominal GDP-based measures: GDP per dyadic GDP, GDP annual growth rate, GDP per capita, and its growth rate.³ GDP is the basis for funding member states' governments and reflects the potential scope of resources that they can tap. Since price inflation is low in the EU, and since EU institutions have an anti-inflationary bias in our data period, we do not expect nominal values to bias our results. If any, slow price inflation may reflect the gradual rise in productivity, which is certainly a gain. Figure 1 is a plot of observations (each dot representing a single observation), demonstrating how dyadic differences in these growth rates were generally smaller during the euro crisis period than earlier.

Next, we use four measures based on OBB: OBB per national GDP, OBB per capita, and annual changes in them. For each member state, the OBB is its allocation of the EU's operating expenditure (i.e. excluding administration), minus its adjusted national contribution to the EU

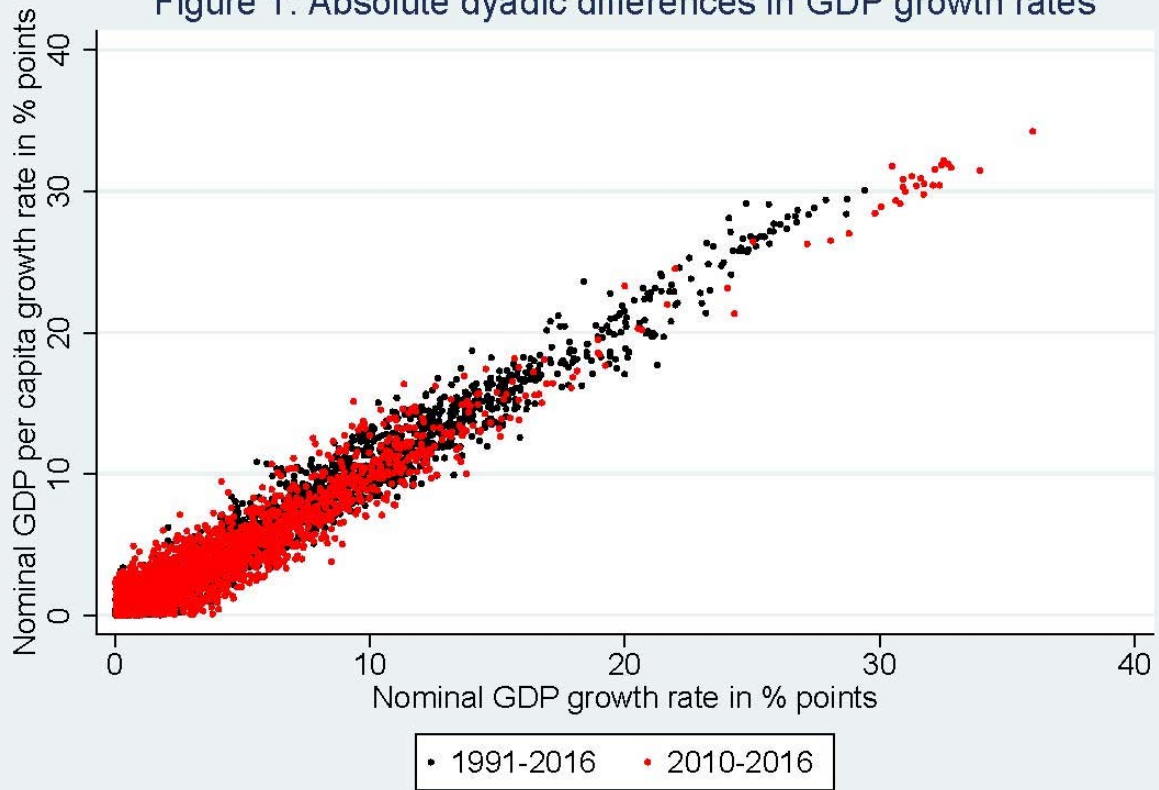
³ Population, GDP and euro (or ECU pre-1999) exchange rate data taken from Eurostat. GDP data for 1991-94 available only for Denmark, France, Germany and the UK. This is somewhat similar to Bornschier, Herkenrath and Ziltener's (2004) measure of β -convergence: falling dyadic differences indicate a negative relationship between levels of GDP and its rate of change.

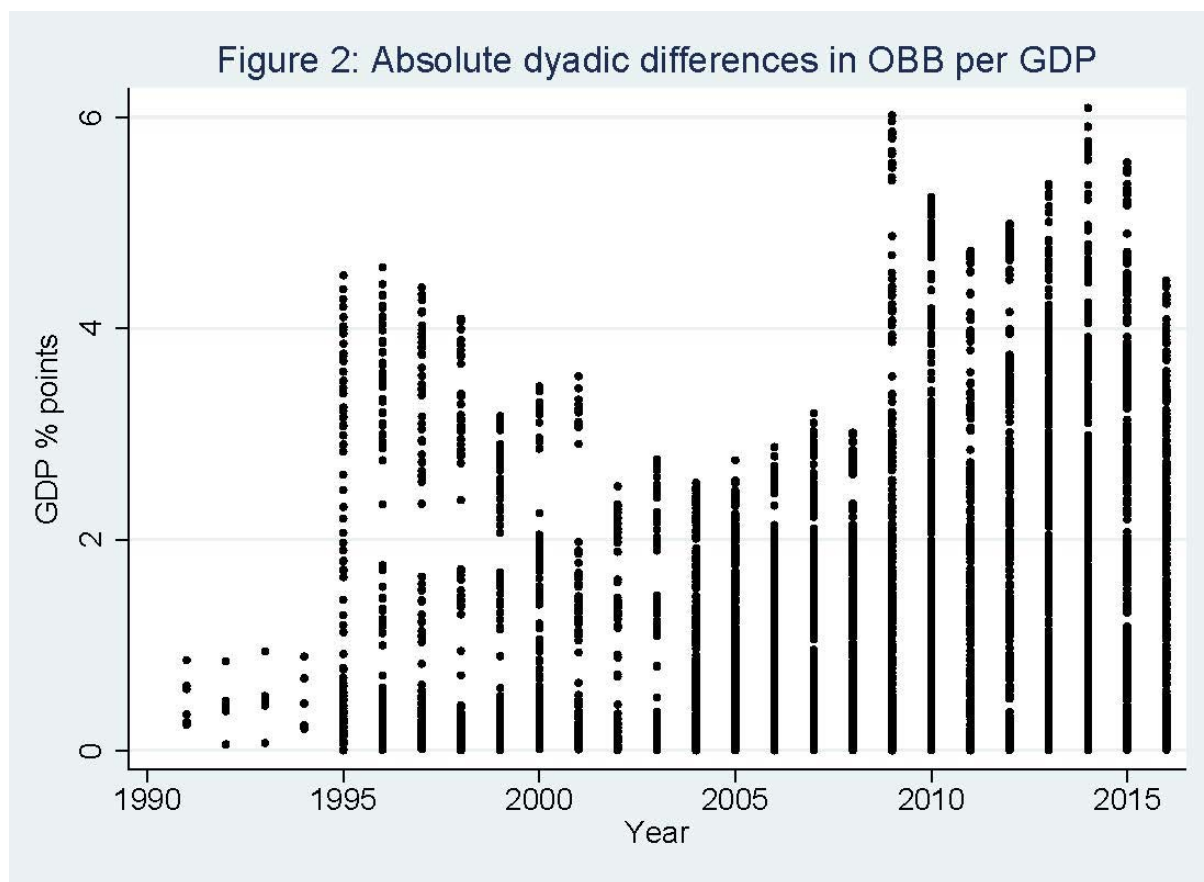
budget.⁴ The OBB is non-exhaustive of the costs and benefits associated with membership in the EU, but it is a very transparent measure of net gains, and has become the focus of intense budgetary conflicts among the member states. Figure 2 plots observations by year, and demonstrates how dyadic differences in OBB per GDP have been decreasing before the 2004 enlargement of the EU, but increasing ever since, spiking in 2009, and remaining high and volatile thereafter.⁵

⁴ The national contribution is the own resources payments minus customs duties, agricultural duties and sugar levies, which result directly from the common policies and are considered pure EU revenue. Member states' national contributions are adjusted such that they add up annually to total EU operating allocated expenditure, and operating budgetary balances sum up annually to zero (European Commission, 2008, 107). However, our OBB-based measures do not add up to zero. OBB data since 2000 available at: http://ec.europa.eu/budget/figures/interactive/index_en.cfm. Earlier data taken from European Commission (2008).

⁵ The seemingly low variation in the early 1990s is affected by missing GDP data until 1994.

Figure 1: Absolute dyadic differences in GDP growth rates

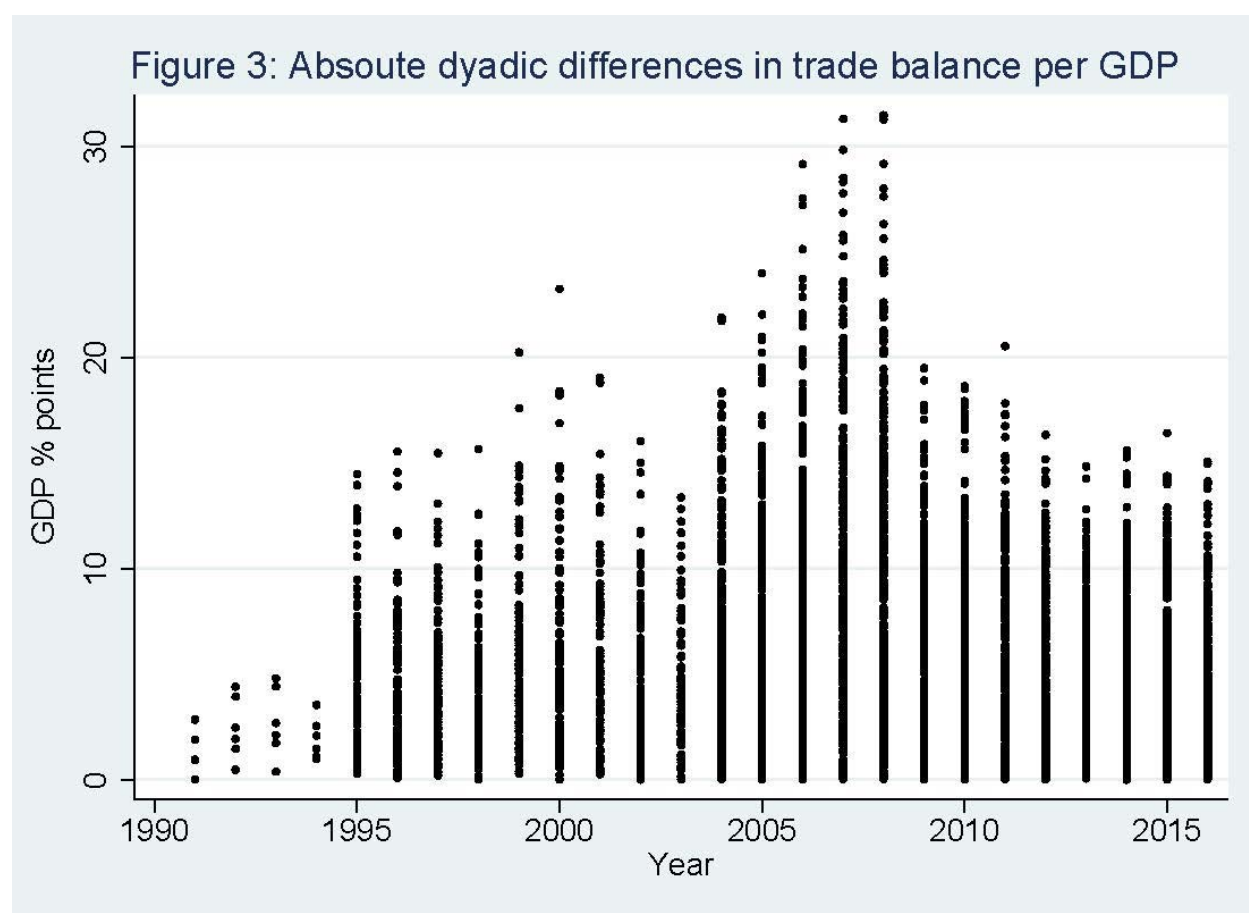




Finally, we use four trade-based measures of relative gains: trade balance (more precisely, the full current account, not just with EU member states) per GDP, total trade turnover per GDP, and annual changes in them.⁶ The trade balance is a plausible measure of relative gains from multiple perspectives. From a mercantilist perspective, the state attempts to achieve high trade surplus. For liberal-economists, the trade balance reflects relative industrial competitiveness. From a more Marxist-oriented perspective, it is a mirror reflection of the country's growing dependence on

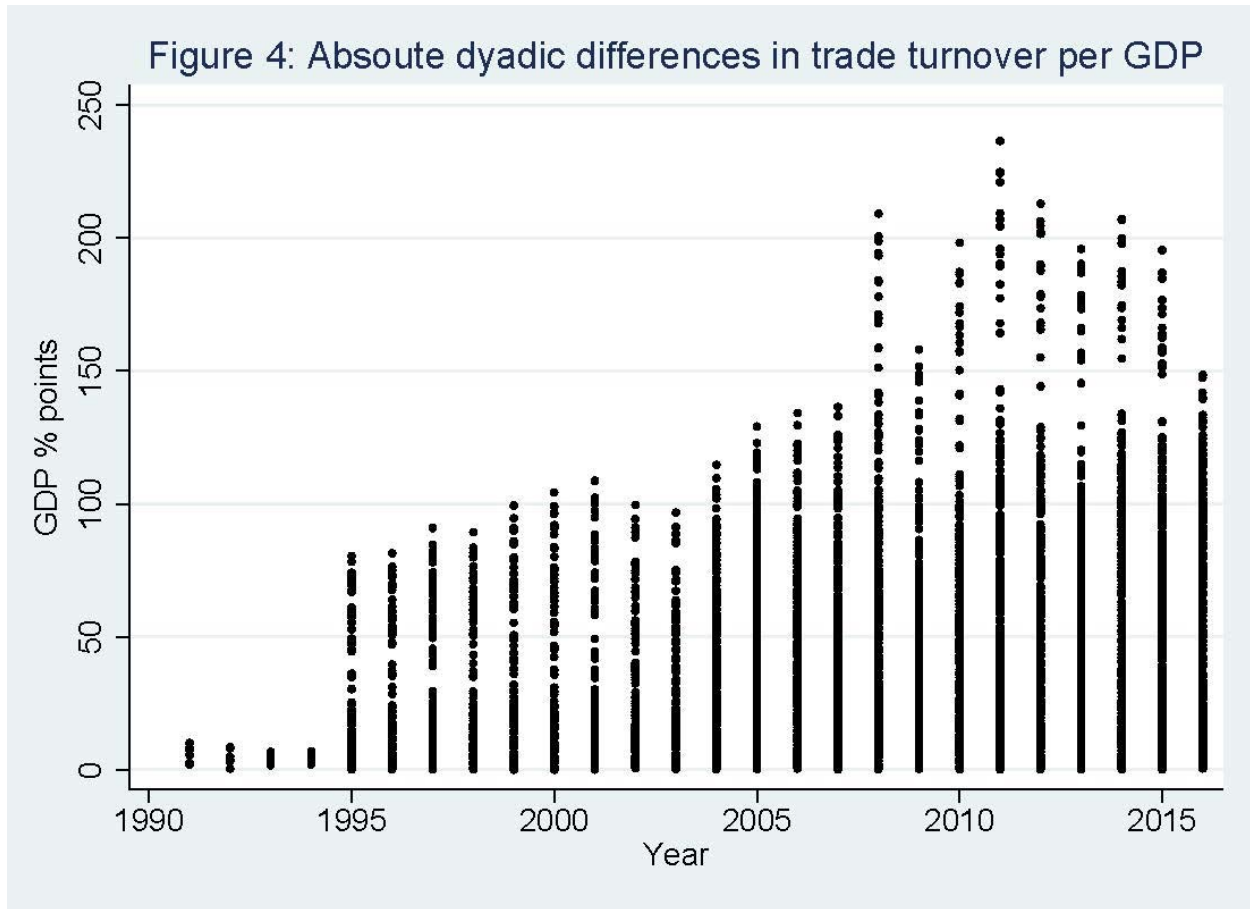
⁶ Current account data are taken from the International Monetary Fund, Balance of Payments Statistics Yearbook and data files. Trade turnover data are taken from the IMF Direction of Trade Database.

foreign capital. Trade turnover per GDP is a common measure of economic openness, but for our purposes it reflects gains because more trade is associated with higher micro-economic efficiency and prosperity. Figure 3 demonstrates how dyadic differences among EU member states in their trade balances per GDP have been increasing until the global financial crisis in 2008, but decreasing ever since. Figure 4 demonstrates a more or less consistent trend of increasing dyadic differences in openness levels.



We run log-transformed regression analysis with robust standard errors clustered on panels, a lagged dependent variable to control for serial correlation, a battery of GDP control variables (see below) and a dummies for the 1991-2003 and 2010-16 period. We logarithmically transformed all non-dummy variables to allow for negative values, as a zero lower bound is inconsistent with the

assumption of normal distribution.⁷ Thus, regression coefficients represent elasticities – the percent change in the dependent variable for every one percent increase in the independent variable.



We operationalize the empowerment of EU institutions based on their resources, i.e. the size of their staff and the cost of their staff compensation, which is the bulk of their administrative budgets (Michaelowa and Michaelowa, 2017; Heldt and Schmidke, 2017). Figure 5 demonstrates the trends of increasing employment in EU institutions. However, in contrast to similar measures used in the

⁷ The dyadic absolute difference in GDP per dyadic GDP is additionally transformed to remove its upper bound of 2, before the logarithmic transformation, using the formula: $x/(2-x)$.

literature, which mostly compare among international organizations, we focus on the balance between the institutions and the member states, and allow for the possibility that the effects of institutional centralization vary across the member states. Specifically, we measure the ratio between the total number of staffers (or alternatively, total staff compensation) in the major EU institutions (Commission, Council, Parliament and ECB), and the dyadic average of the number of staffers (or compensation) in member states' governments.⁸ The number of staffers (or compensation) in the institutions is also divided by the number of member states in order to discount the effect of enlargements. We label this variable as *INSTITUTIONS* (representing

⁸ Staff numbers are based on EU and ECB annual financial reports. We considered all personnel directly employed by the institutions, excluding contracted personnel. Numbers of staffers in member states' governments taken from ILOSTAT database and include all levels of government. Data on staff compensation in EU institutions are based on EU and ECB annual financial reports. We considered all labour costs, including salaries, social benefits and pensions disbursements. ECB data retrieved from <https://www.ecb.europa.eu/pub/annual/html/index.en.html>; Data on other EU institutions retrieved from <https://publications.europa.eu/en/home> and <https://eur-lex.europa.eu/homepage.html?locale=en>. Member states' data are based on IMF Government Finance Statistics (GFS) database. They include salaries, social benefits and pensions disbursements of staffers in all levels of government.

centralization by either staff size or cost) and log-transform it. A positive coefficient for this measure of institutional empowerment would support H1.

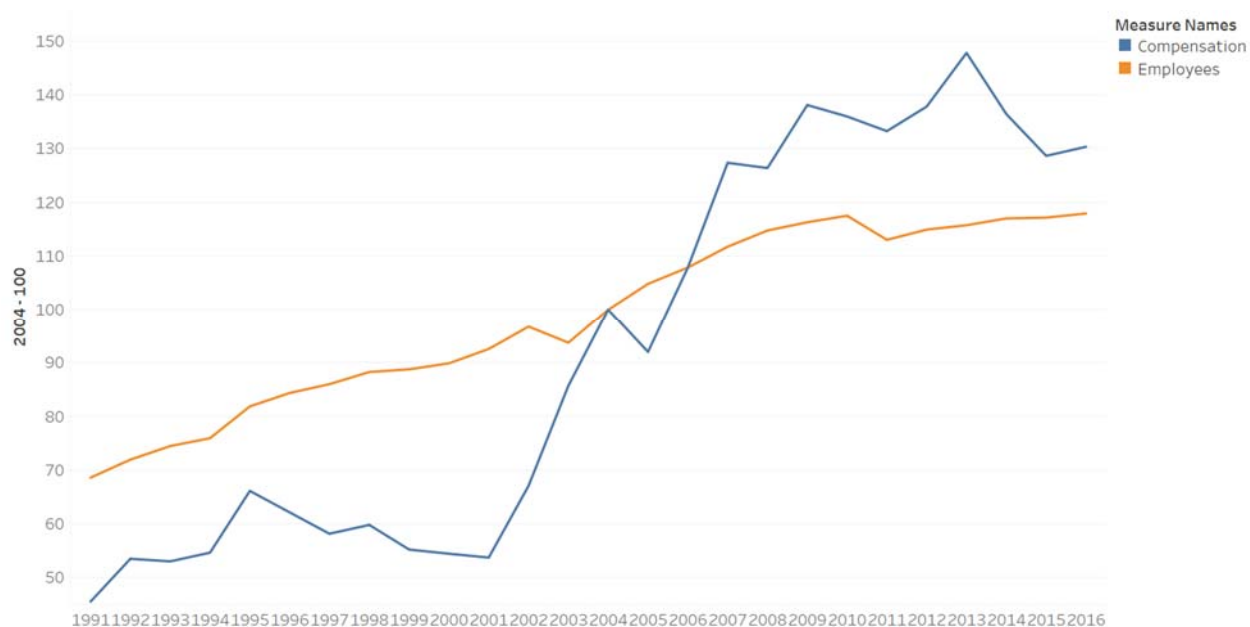


Figure 5 – EU staff size and costs

The logic behind our measure is that any office needs staff and budgets to pursue its mandate. Under-staffed or under-budgeted organizations can achieve less than may be prescribed in legislation. More administrative resources mean more bureaucratic capacity and thus potentially a more central role for the institutions. Indeed, staff size and costs rise with the number of policy responsibilities of an international organization (e.g. agenda-setting and sanctioning competences), and thus reflects it (Bauer and Ege, 2016).⁹

We prefer measuring staff and administrative budgets over other existing delegation or empowerment measures, as they are simple, continuous, and do not involve judgmental

⁹ Staff size is determined by a variety of other factors, some of which vary only across international organizations (but are fixed for a given organization). Other factors may also vary over time,

categorizations (Brown, 2010; Heldt and Schmidke, 2017). Many of these *de jure* categorizations are too general to capture the evolution of tasks and authority of EU institutions.

Our index does not reflect how effectively staff are assigned to tasks, but we have no reason to believe that slack or inefficiency in EU institutions is worse, or better than what is common in national bureaucracies. Nor does our index capture the relative importance of particular inputs from institutions and governments in European policymaking. Indeed, EU staff is puny compared with national staff. For these reasons, what matters are the differences in this measure, not its levels.

In order to test H2, we measure the voting power of member states in the Council of the EU. Council voting rules have changed over the years, and combined overlapping requirements for majorities by voting weights, population, and number of member states. In addition, the voting power of existing member states was repeatedly diluted by EU enlargements. Given this complexity of rules, it is simpler to calculate the power of member states to block decisions, selecting the criteria under which they wield the greatest such power, than to calculate their power to pass decisions, based on their share of votes (Panke, 2015; Schure and Verdun, 2008). After all, member states can trade their veto power regarding a particular Council decision, to gain the support of member states on other Council decisions, or indeed in other EU institutions and policies. Specifically, we measure a member states' veto power as the percent of the votes required to veto single market related Council decisions, under the most powerful criterion, as of the end

such as the number of member states (for which we control) and their heterogeneity in per capita income (Vaubel, Dreher and Soylu, 2007). The latter factor is more important in global organizations with very rich and very poor memberships, than in the EU.

of each year (See Appendix 2). *VETO* is the dyadic absolute difference in this veto power. We log-transform and interact it with log-transformed *INSTITUTIONS*. A positive coefficient for this interaction would support H2.

In order to test H3 and H4, we interact *INSTITUTIONS* with the relevant period dummies. Positive and negative coefficients for these interactions would respectively support these hypotheses.

We specify a battery of control variables for idiosyncratic effects on the dependent variables, all as log-transformed absolute bilateral differences. For simplicity we use an identical set of controls, all of which are related to productivity, competitiveness and size of the national economies, and broadly exogenous to GDP, OBB and trade. Data on *Age Dependency* (the ratio of people under 15 or over 65 to total population), *Female Labor* (the rate of women participation in the workforce) and *Labor Education* (the rate of citizens with tertiary education), are based on the World Bank's WDI database. Data on *Population* and the rate of *Urban Population*, are from Eurostat.¹⁰ The value of the national *Capital Stock* is taken from the IMF Investment and Capital Stock Dataset.

Results

We begin with testing H1 on the four GDP-related measures of relative gains, in Table 1. We report results based on *INSTITUTIONS* measured in staff costs, rather than its version based on staff size. The latter returned similar results (in terms of direction and statistical significance) but has more missing observations. The coefficient of *INSTITUTIONS* in Table 1 is positive and

¹⁰ *VETO*, and the dyadic absolute differences in *Female Labor*, *Labor Education* and *Urban Population* were additionally transformed to remove their upper bounds.

statistically significant in all but Regression 3, supporting H1. A one percent increase in the ratio of EU staff costs to member states' staff costs is associated with a rise of 0.038 percent in dyadic GDP differences, 0.154 percent in dyadic differences in GDP growth rates, and 0.140 percent in dyadic differences in GDP per capita growth rates. These may not seem much, but it can accumulate to more substantial effects. Since the standard deviation is 158 percent of the average value of *INSTITUTIONS* (in staff costs), an increase of one standard deviation from the average value translates into increases of 6, 24 and 22 percent respectively in the dyadic differences of the above variables. As for the control variable, Dyadic differences in GDP increase as expected in Dyadic differences in population, capital stock, and female participation in the workforce. Dyadic differences in GDP growth rates unexpectedly increase in dyadic differences in age dependency, but this may yet reflect an association of high age dependency with slow GDP growth, that the absolute values of the dyadic differences mask. Dyadic differences in GDP per capita are associated with high dyadic differences in rates of urbanization.

In Table 2, we test H1 on the four OBB-related measures of relative gains. The positive and significant coefficients of *INSTITUTIONS* support H1 in all four regressions. As with GDP-related gains, the rates of change in these variables are naturally more sensitive to institutional centralization than their levels are. The change in OBB per GDP is particularly sensitive – a rise of one standard deviation in *INSTITUTIONS* is associated with an increase of 60 percent in the dyadic difference. Interestingly, all of the dyadic differences in OBB measures increase with dyadic differences in age dependency, but it is hard to tell whether this means that the EU budget benefits or disadvantages aging societies (which is what age dependency mostly reflects, given low birth rates in Europe).

Table 1 – Effects of institutional centralization on divergence of GDP gains among EU member states

Dependent variable: →	(1)	(2)	(3)	(4)
	Nominal GDP per dyadic GDP	Nominal GDP growth rate	Nominal GDP per capita	Nominal GDP per capita growth rate
<i>INSTITUTIONS</i>	0.038*** (0.013)	0.154*** (0.027)	-0.008 (0.006)	0.140*** (0.027)
<i>Age Dependency</i>	0.006 (0.004)	0.046** (0.018)	-0.001 (0.004)	0.036** (0.017)
<i>Capital Stock</i>	0.050*** (0.015)	0.023 (0.019)	-0.002 (0.004)	0.026 (0.020)
<i>Female Labor</i>	0.017*** (0.006)	0.047*** (0.016)	-0.000 (0.004)	0.037** (0.015)
<i>Population</i>	0.025*** (0.007)	0.044** (0.019)	-0.001 (0.004)	0.037** (0.018)
<i>Urban Population</i>	0.001 (0.005)	-0.032* (0.017)	0.008** (0.003)	-0.035* (0.018)
<i>Labor Education</i>	-0.004 (0.004)	-0.001 (0.017)	0.003 (0.005)	-0.005 (0.017)
<i>1991-2003</i>	-0.043*** (0.014)	-0.272*** (0.055)	0.001 (0.015)	-0.343*** (0.057)
<i>2010-2016</i>	0.009*** (0.005)	-0.288*** (0.039)	0.024** (0.011)	-0.284*** (0.036)
Obs.	4,894	4,811	4,894	4,810
R-squared	0.98	0.15	0.90	0.16

Notes: Coefficient estimates from linear regressions, standard errors clustered on panels in parentheses. * $.05 < p \leq .10$. ** $.01 < p \leq .05$. *** $p \leq .01$. Intercept and lagged dependent variable not reported to save space. *INSTITUTIONS* measured by staff cost. All variables except the period dummies are logarithmically transformed.

Table 2 – Effects of institutional centralization on divergence of net contributions among EU member states

Dependent variable: →	(5) OBB per GDP	(6) Change in OBB per GDP	(7) OBB per capita	(8) Change in per capita OBB
<i>INSTITUTIONS</i>	0.115*** (0.019)	0.378*** (0.032)	0.058** (0.025)	0.273*** (0.028)
<i>Age Dependency</i>	0.045*** (0.014)	0.060*** (0.022)	0.059*** (0.015)	0.040** (0.018)
<i>Capital Stock</i>	0.023 (0.015)	0.060** (0.025)	0.013 (0.019)	0.038* (0.022)
<i>Female Labor</i>	0.002 (0.012)	0.009 (0.022)	0.014 (0.013)	0.019 (0.018)
<i>Population</i>	0.014 (0.014)	0.064** (0.025)	0.000 (0.016)	0.054*** (0.020)
<i>Urban Population</i>	0.016 (0.012)	-0.003 (0.022)	0.034** (0.015)	0.018* (0.017)
<i>Labor Education</i>	0.010 (0.011)	0.039* (0.021)	0.008 (0.012)	-0.015 (0.017)
<i>1991-2003</i>	-0.118*** (0.032)	-0.251*** (0.056)	-0.020 (0.039)	-0.162*** (0.049)
<i>2010-2016</i>	0.070*** (0.022)	0.346*** (0.042)	0.119*** (0.020)	0.294*** (0.040)
Obs.	4,641	4,304	4,737	4,434
R-squared	0.67	0.19	0.50	0.08

Notes: See notes to Table 1.

Finally, in Table 3, we test H1 on the four trade-related measures of relative gains. Positive and significant coefficients of *INSTITUTIONS* support H1 in all but Regression 9. Again, the rates of change in these variables are more sensitive to institutional centralization than their levels are. A rise of one standard deviation in *INSTITUTIONS* is associated with an increase of 23 percent in the dyadic difference in changes to current account balances. The general picture that emerges from these 12 regressions, is that high ratios of EU staff to member states' staff are associated with increasing divergence of gains among the member states. This may be true longitudinally (increasing EU staff over time, relative to the size of MS bureaucracies) as well as latitudinally

(comparing different dyads in any given year). From a latitudinal perspective, the results here indicate that gains diverge especially between pairs of states with small bureaucracies, less between pairs of states with large bureaucracies.

Table 3 – Effects of institutional centralization on divergence of trade gains among EU member states

Dependent variable: →	(9)	(10)	(11)	(12)
	Trade balance per GDP	Change in trade balance per GDP	Trade turnover per GDP	Change in trade turnover per GDP
<i>INSTITUTIONS</i>	-0.032 (0.019)	0.273*** (0.024)	0.033** (0.015)	0.323*** (0.032)
<i>Age Dependency</i>	0.008 (0.014)	0.025 (0.018)	0.005 (0.007)	0.015 (0.022)
<i>Capital Stock</i>	-0.026* (0.015)	0.075*** (0.021)	0.024** (0.011)	0.141*** (0.025)
<i>Female Labor</i>	0.003 (0.011)	0.060*** (0.015)	0.026*** (0.008)	0.073*** (0.023)
<i>Population</i>	0.003 (0.012)	0.003 (0.017)	0.000 (0.008)	0.023 (0.024)
<i>Urban Population</i>	0.032*** (0.011)	0.006 (0.014)	0.018** (0.008)	0.063*** (0.021)
<i>Labor Education</i>	0.008 (0.013)	0.012 (0.016)	0.006 (0.007)	-0.015 (0.019)
<i>1991-2003</i>	-0.134*** (0.036)	-0.499*** (0.052)	-0.058*** (0.022)	-0.537*** (0.056)
<i>2010-2016</i>	-0.258*** (0.028)	-0.248*** (0.034)	0.060*** (0.014)	0.082** (0.034)
Obs.	4,894	4,810	4,868	4,797
R-squared	0.40	0.07	0.79	0.14

Notes: See notes to Table 1.

In Table 4, we test H2 by interacting *INSTITUTIONS* with *VETO*. The table reports regression results for only four of the 12 dependent variables. Regression analysis for the other eight dependent variables returned insignificant interaction coefficients. To save space, the table does not report the estimated coefficients of the control variables and period dummies, which are identical or near-identical to those reported above, in regressions with similar dependent variables.

H2 is supported only in Regressions 14-15, according to which differences in veto power exacerbate the institutions' tendency to be associated with divergence of relative changes in OBB among the member states. In Regressions 13 and 16, the interaction's coefficient is negative, suggesting that differences in veto power mitigate the institutions' tendency to be associated with divergence of GDP and the current account among the member states.

Table 4 – Effects of institutional centralization on divergence of gains among EU member states, by veto power

Dependent variable: →	(13) Nominal GDP per dyadic GDP	(14) Change in OBB per GDP	(15) Change in per capita OBB	(16) Trade balance per GDP
<i>INSTITUTIONS</i>	0.024** (0.011)	0.463*** (0.046)	0.334*** (0.040)	-0.075*** (0.027)
<i>VETO</i>	0.007** (0.003)	-0.059** (0.024)	-0.052** (0.021)	0.031** (0.013)
<i>INSTITUTIONS</i> × <i>VETO</i>	-0.003*** (0.001)	0.019*** (0.007)	0.013** (0.006)	-0.010*** (0.004)
Obs.	4,894	4,304	4,434	4,894
R-squared	0.98	0.20	0.08	0.40

Notes: See notes to Table 1. Control variables and period dummies not reported to save space.

To better understand how voting power interacts with the empowerment of institutions in the EU, we follow on Table 4 with marginal effects analysis of three of the regressions, starting with Nominal GDP per dyadic GDP in Figure 6. Here we analyze the combined effect of *VETO* on dyadic differences in GDP, considering the combination of its coefficient and the coefficient of its interaction with *INSTITUTIONS*. The vertical axis measures the potential percent change in the absolute dyadic difference in GDP when for every one percent increase in institutional empowerment. The horizontal axis shows different levels of *INSTITUTIONS* (transformed back to their original scale for tangibility). The solid line shows how the effect of *VETO* falls with *INSTITUTIONS*, according to Regression 13. Thus, the slope of the curve reflects the estimated

coefficient of the interaction between *VETO* and *INSTITUTIONS*. The dashed lines show the 95 percent confidence intervals. Figure 6 shows that for values of *INSTITUTIONS* lower than 0.16 (where the lower dashed line crosses the horizontal axis) the potential effect of *VETO* is positive. Of the 5,553 observations for which *INSTITUTIONS* data are available, 902 observations fall in this range. At that point, where the lower bound meets the zero line, a one percent increase in dyadic difference in veto power is associated with 0.55 percent rise in dyadic differences in GDP. At the minimum value of *INSTITUTIONS*, it is 0.85 percent. For values of *INSTITUTIONS* between 0.16 and 8.46 (where the upper dashed line crosses the horizontal axis) the effect of *VETO* is statistically insignificant. This relates to 4,585 observations.¹¹ Only for the remaining 66 observations, is the potential effect of bilateral differences in veto power actually negative.

The upshot is that for 902 observations, bilateral differences in veto power are positively and significantly associated with the distribution of gains in the EU, but institutional empowerment diminishes this effect (on average *VETO* has no significant effect). Again, this result can be interpreted longitudinally as well as latitudinally. Bilateral differences in veto power affect pairs of states with large bureaucracies, more than pairs of states with small bureaucracies. This may suggest that small member states are less active or less successful in using their voting power in the Council to redistribute the gains of European integration.

¹¹ Note that within this range, the interaction between *VETO* and *INSTITUTIONS* remains statistically significant, only the combined effect of *VETO* on the dependent variable loses its significance. For presentational reasons, Figure 6 covers only the more interesting part of the distribution of *INSTITUTIONS*, leaving out 920 observations of the upper tail.

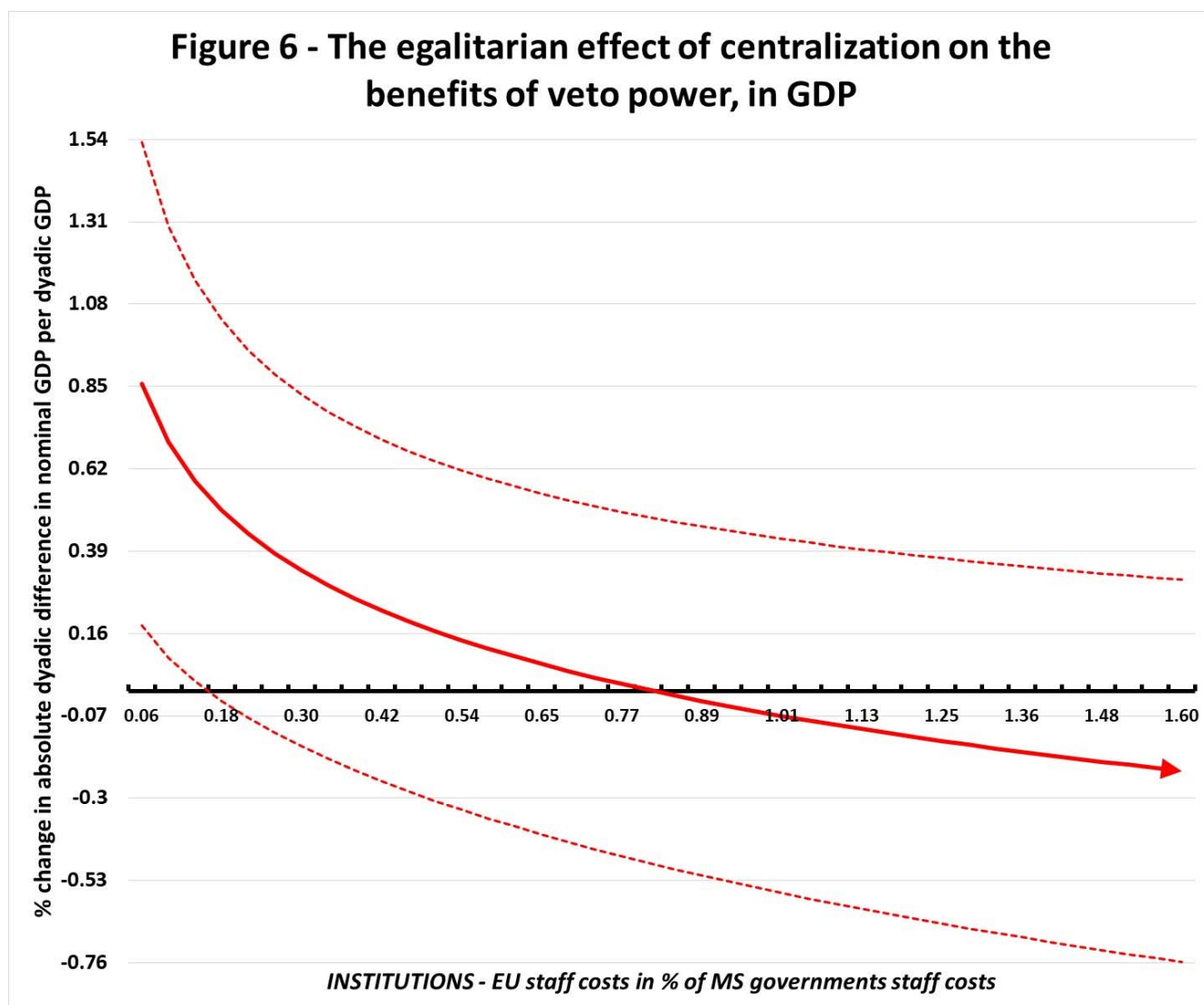


Figure 7 provides a similar analysis, now on changes in OBB per GDP, according to Regression 14. For values of *INSTITUTIONS* lower than 0.30, the potential effect of *VETO* is negative. 1,987 observations fall in this range. At that point, a one percent increase in dyadic difference in veto power is associated with 3.80 percent fall in dyadic differences in OBB per GDP. At the minimum value of *INSTITUTIONS*, it is 6.74 percent. For all values of *COUNCIL* above 0.30, the effect of *VETO* is statistically insignificant (so again on average *VETO* has no significant effect). Institutional centralization thus has a divergent effect on the benefits of veto power: under low

levels of institutional empowerment veto power is used to close gaps between the member states, but under high levels this effect disappears.

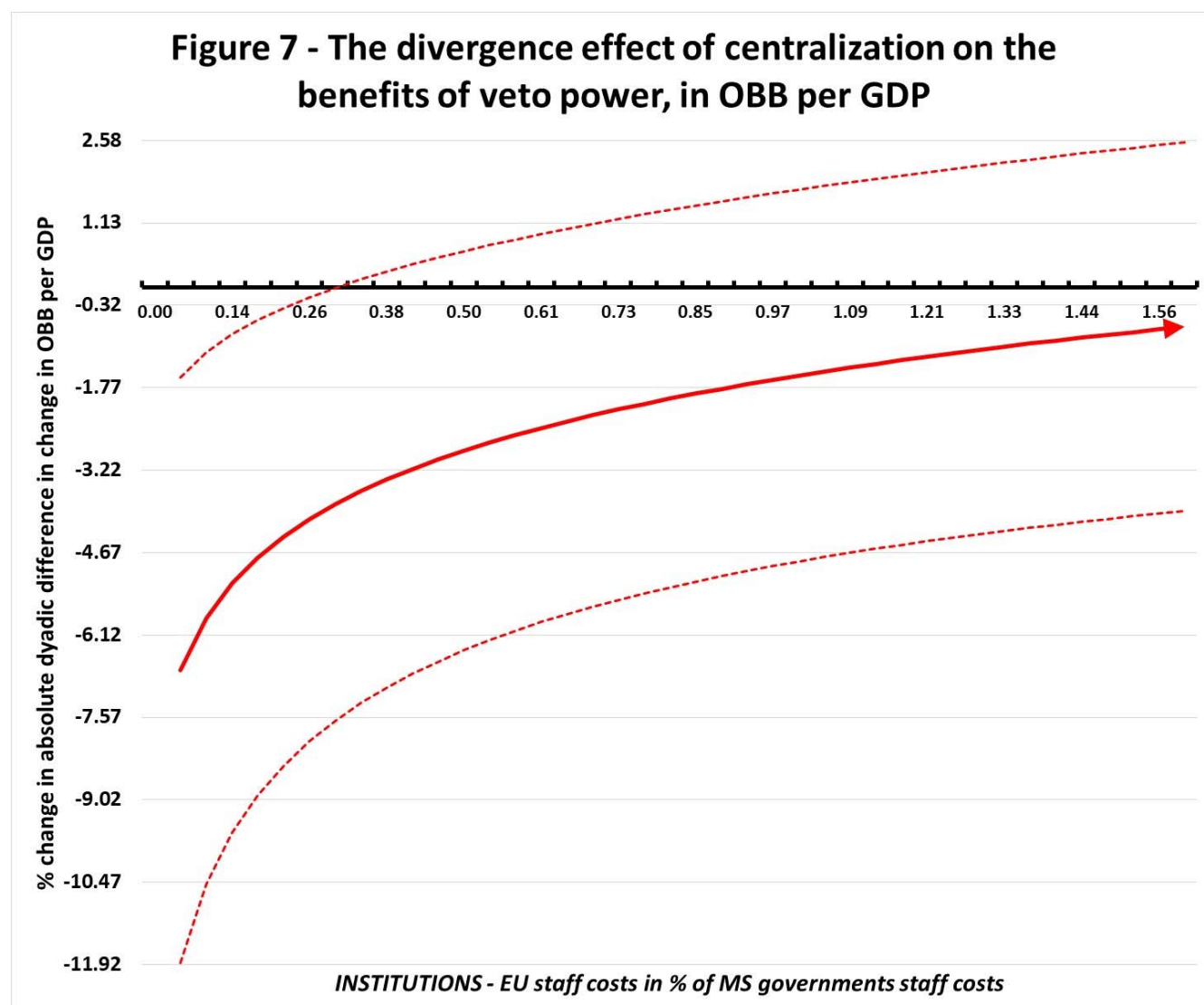
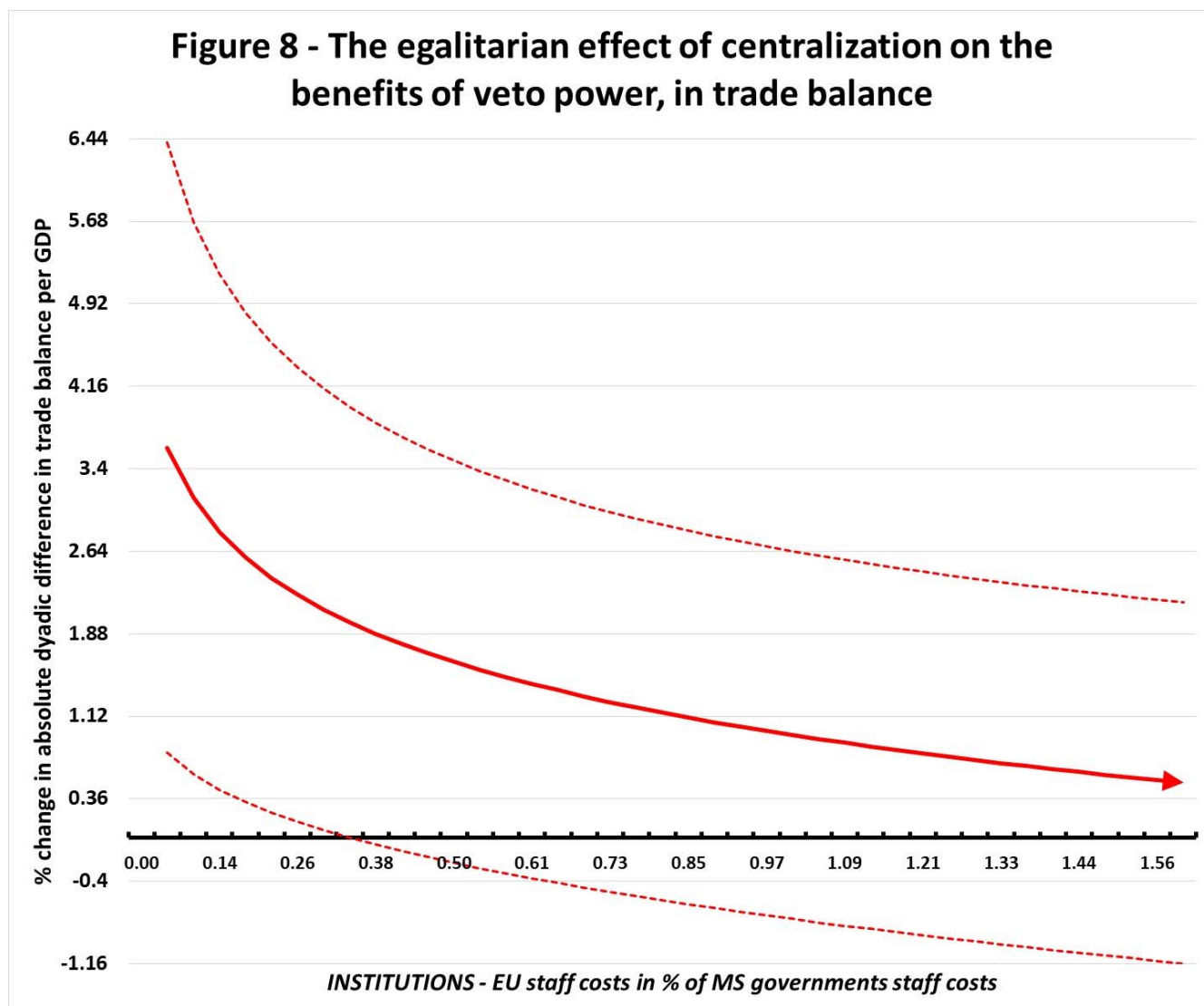


Figure 8 repeats the marginal effects analysis for trade balance per GDP, according to Regression 16. For values of *INSTITUTIONS* lower than 0.34, the potential effect of *VETO* is positive. 2,078 observations fall in this range. At that point, a one percent increase in dyadic difference in veto power is associated with 1.98 percent increase in dyadic differences in trade balance per GDP. At

the minimum value of *INSTITUTIONS*, it is 3.59 percent. For all values of *COUNCIL* above 0.34, the effect of *VETO* is statistically insignificant.



To conclude this discussion, veto power has on average no effect on the divergence of gains among EU member states. However, under low levels of institutional empowerment veto power has an egalitarian effect on changes in OBB. Institutional empowerment has a divergent effect in the sense that it eliminates the egalitarian veto effect. In contrast, under low levels of institutional

empowerment veto power has divergent effects on GDP and the current account, which are eliminated by institutional empowerment.

In Tables 5-7, we test H3 and H4 by interacting *INSTITUTIONS* with the period dummies. To save space, these tables again do not report the estimated coefficients of the control variables. H3 is mostly not supported, with the exception of OBB per capita, Trade balance per GDP and change in trade turnover per GDP (Regressions 23, 25 and 28). Overall, it seems that the 2004 enlargement of the EU did not have a significant effect on the tendency of institutional centralization to exacerbate divergence of gains among the member states. The results of the tests for H4 are more mixed, but the evidence suggests that since 2010 institutional empowerment has indeed reduced the divergence of OBB and GDP-related gains, as well as the divergence of current accounts.

Table 5 – Effects of institutional centralization on divergence of GDP gains among EU member states, by periods

Dependent variable: →	(17) Nominal GDP per dyadic GDP	(18) Nominal GDP growth rate	(19) Nominal GDP per capita	(20) Nominal GDP per capita growth rate
<i>INSTITUTIONS</i>	0.043*** (0.012)	0.187*** (0.031)	0.001 (0.006)	0.201*** (0.032)
<i>INSTITUTIONS</i> ×1991-2003	-0.034 (0.023)	-0.065 (0.067)	0.023 (0.017)	-0.118 (0.072)
<i>INSTITUTIONS</i> ×2010-2016	-0.009 (0.010)	-0.061** (0.029)	-0.021** (0.010)	-0.111*** (0.027)
<i>1991-2003</i>	0.005 (0.025)	-0.169 (0.105)	-0.031 (0.033)	-0.158 (0.112)
<i>2010-2016</i>	0.041*** (0.015)	-0.178*** (0.067)	0.062*** (0.023)	-0.085 (0.062)
Obs.	4,894	4,811	4,894	4,810
R-squared	0.98	0.15	0.90	0.16

Notes: See notes to Table 1. Control variables not reported to save space.

Table 6 – Effects of institutional centralization on divergence of net contributions among EU member states, by periods

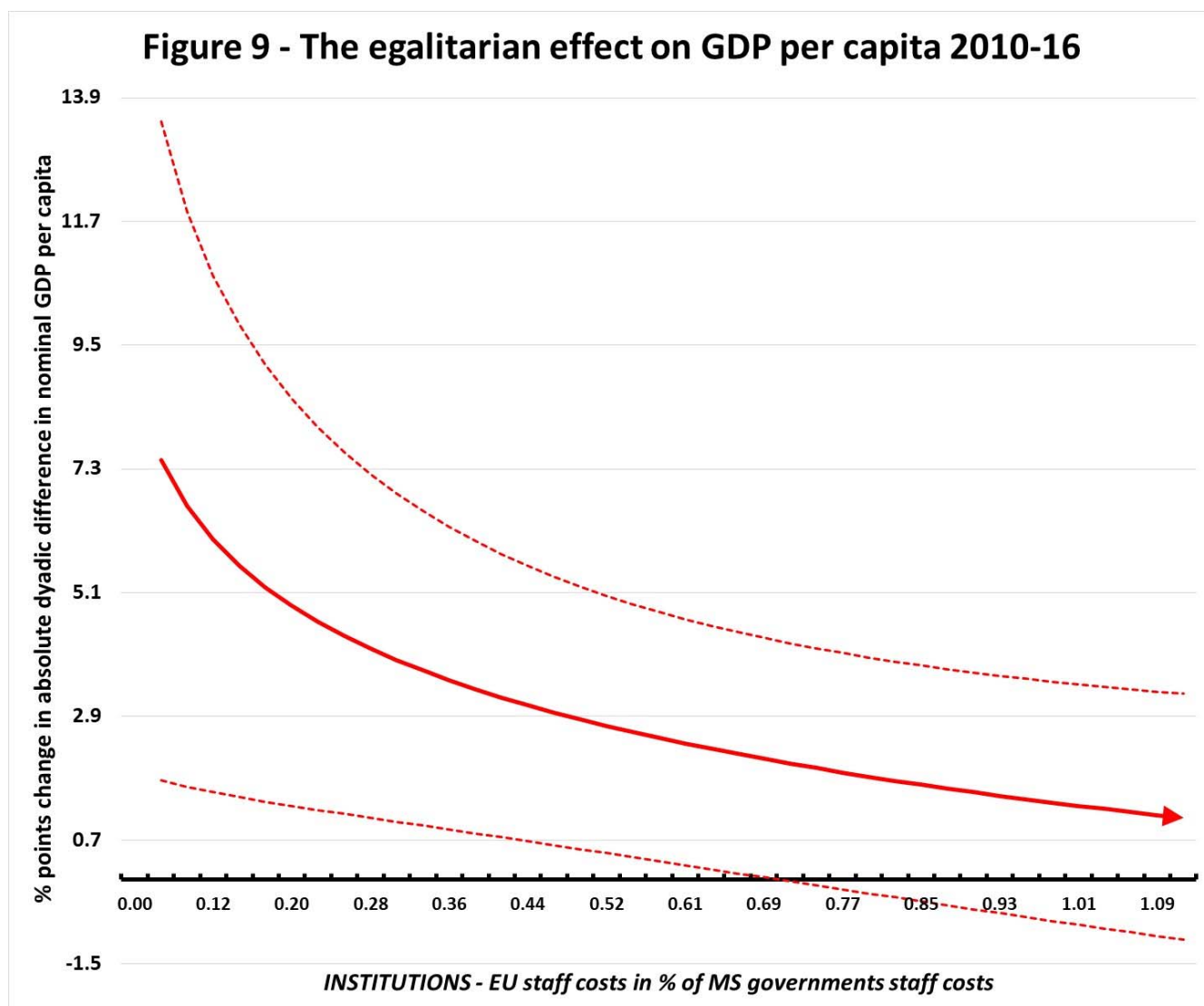
Dependent variable: →	(21) OBB per GDP	(22) Change in OBB per GDP	(23) OBB per capita	(24) Change in per capita OBB
<i>INSTITUTIONS</i>	0.135*** (0.021)	0.390*** (0.038)	0.077*** (0.026)	0.286*** (0.034)
<i>INSTITUTIONS</i> ×1991-2003	0.024 (0.037)	-0.130* (0.068)	0.082** (0.041)	-0.043 (0.053)
<i>INSTITUTIONS</i> ×2010-2016	-0.042*** (0.015)	-0.008 (0.030)	-0.049*** (0.016)	-0.017 (0.032)
<i>1991-2003</i>	-0.148** (0.063)	-0.065 (0.109)	-0.136* (0.072)	-0.098 (0.093)
<i>2010-2016</i>	0.143*** (0.035)	-0.358*** (0.062)	0.206*** (0.035)	0.322*** (0.062)
Obs.	4,641	4,304	4,737	4,434
R-squared	0.67	0.19	0.50	0.08

Notes: See notes to Table 5.

Table 7 – Effects of institutional centralization on divergence of trade gains among EU member states, by periods

Dependent variable: →	(25) Trade balance per GDP	(26) Change in trade balance per GDP	(27) Trade turnover per GDP	(28) Change in trade turnover per GDP
<i>INSTITUTIONS</i>	-0.005 (0.023)	0.320*** (0.027)	0.025* (0.015)	0.316*** (0.032)
<i>INSTITUTIONS</i> ×1991-2003	0.077** (0.039)	0.027 (0.052)	0.018 (0.027)	0.290*** (0.068)
<i>INSTITUTIONS</i> ×2010-2016	-0.062*** (0.022)	-0.099*** (0.028)	0.014 (0.011)	-0.007 (0.028)
<i>1991-2003</i>	-0.238*** (0.072)	-0.522*** (0.100)	-0.085** (0.041)	-0.947*** (0.120)
<i>2010-2016</i>	-0.148*** (0.048)	-0.071 (0.063)	0.036* (0.022)	-0.067 (0.055)
Obs.	4,894	4,810	4,868	4,797
R-squared	0.41	0.08	0.79	0.14

Notes: See notes to Table 5.



To demonstrate how the period dummies interacts with the empowerment of the institutions, we select four cases for a marginal effects analysis. For simplicity we prefer the level dependent variables over the change dependent variables, and of course, those with a significant interaction. Figure 9 analyzes the combined effect of 2010-2016 on dyadic differences in nominal GDP per capita, according to Regression 19. For the 1,386 observations with a value of *INSTITUTIONS* lower than 0.70 the potential effect of 2010-2016 is positive. At that point, dyadic differences in GDP per capita tended to be 2.10 percent higher during 2010-2016 than in 2004-2009 (the base

period). At the minimum value of *INSTITUTIONS*, they were potentially 7.46 percent higher. For values of *INSTITUTIONS* above 0.70, there was no difference between these two periods. In other words, divergence in GDP per capita was larger in 2010-2016 only if institutional centralization was low enough, which was likelier for pairs of member states with large bureaucracies.

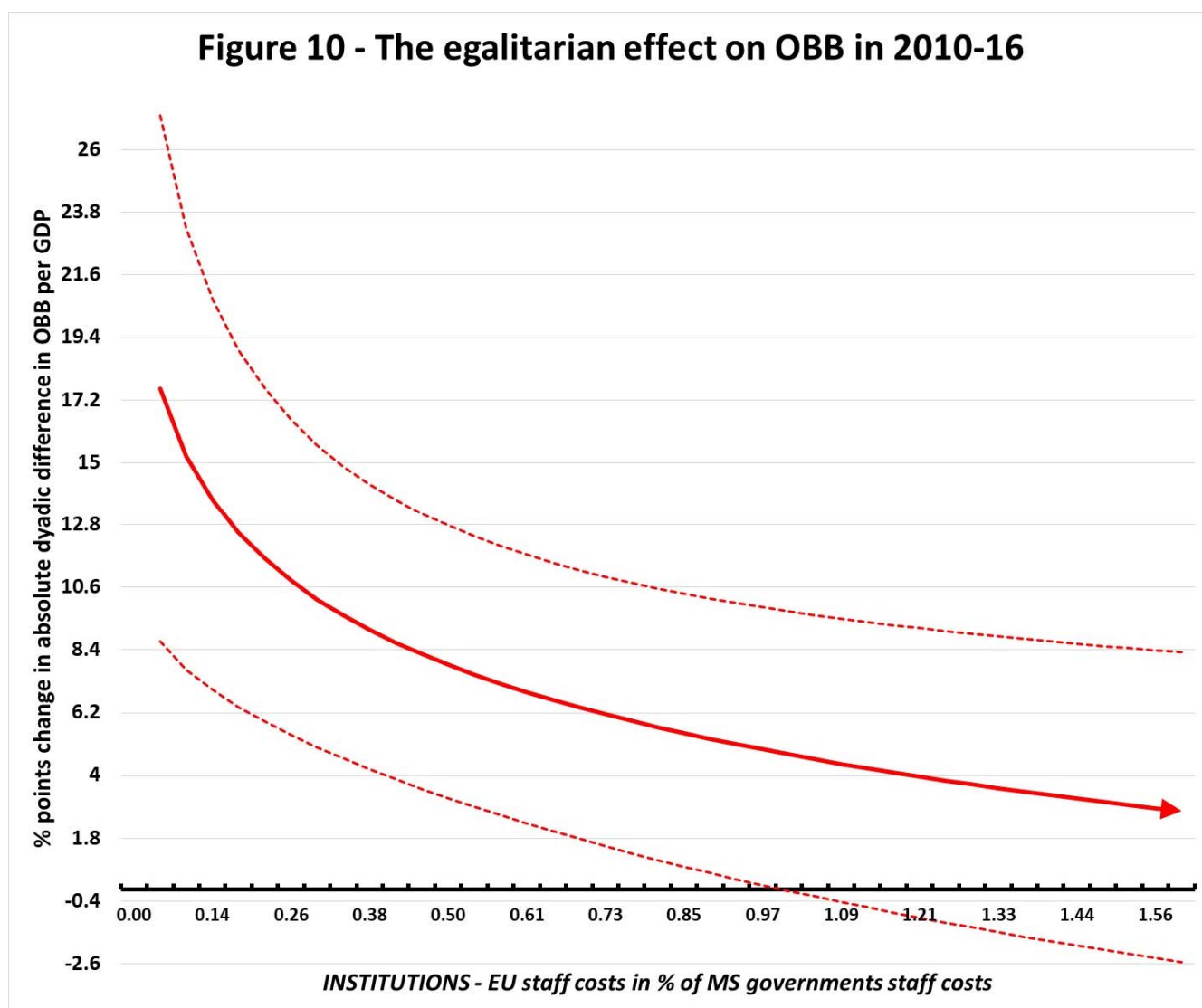


Figure 10, based on Regression 21, shows that for the 1,707 observations with a value of *INSTITUTIONS* lower than 1.00 the potential effect of 2010-2016 is again positive. At the point, dyadic differences in OBB per GDP were potentially 4.78 percent higher during 2010-2016 than

in 2004-2009. At the minimum value of *INSTITUTIONS*, they tended to be 17.6 percent higher. For values of *INSTITUTIONS* above 1.00, there was no difference between these two periods. These results are similar to those presented in the previous figure, only with a greater magnitude. Figure 11, based on Regression 25, shows a clear tendency for lower differences in current account balances during 2010-2016 throughout the entire range of values of *INSTITUTIONS*. At the average value of *INSTITUTIONS*, dyadic differences in current accounts were potentially 25.9 percent lower during 2010-2016 than in 2004-2009.

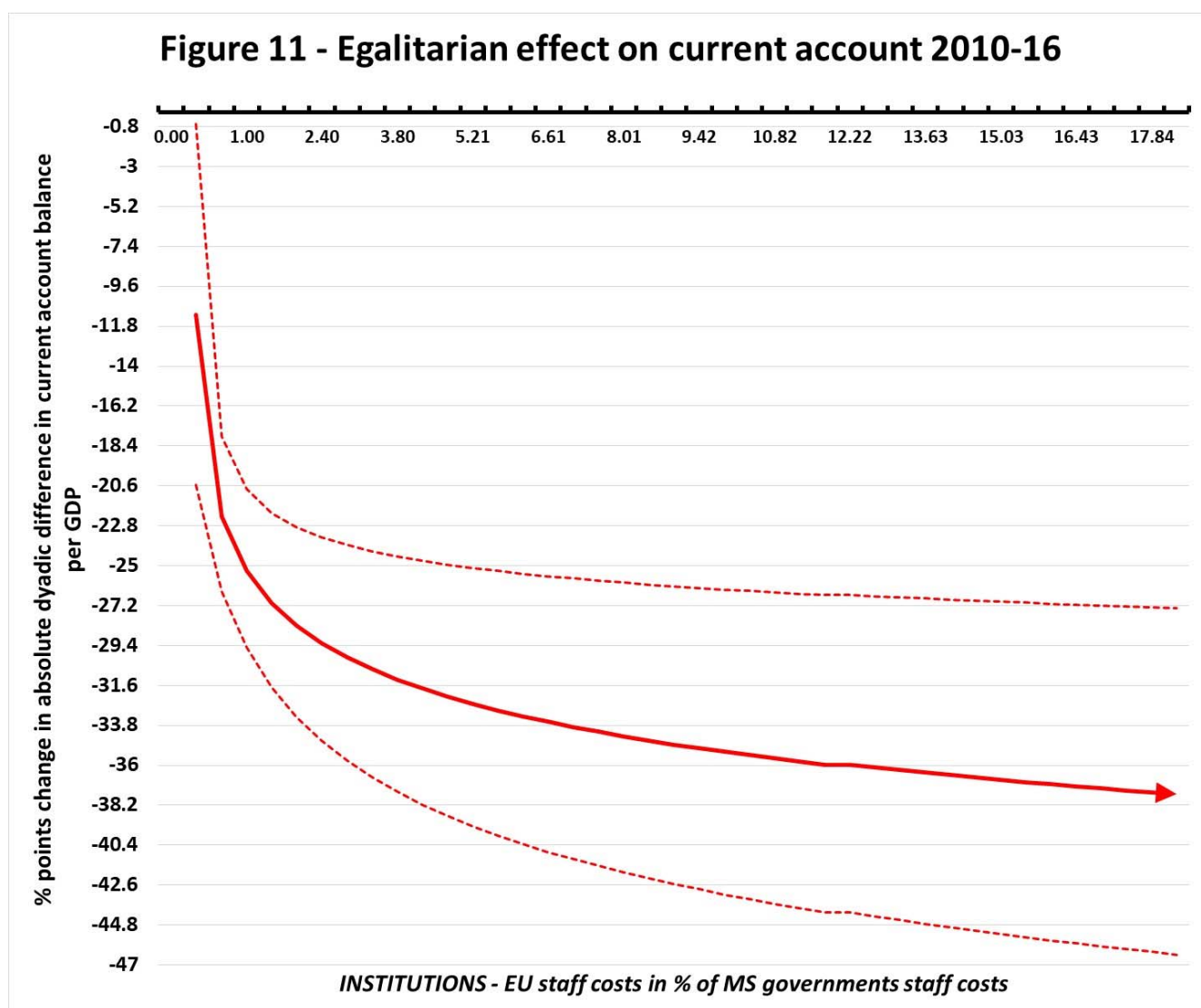
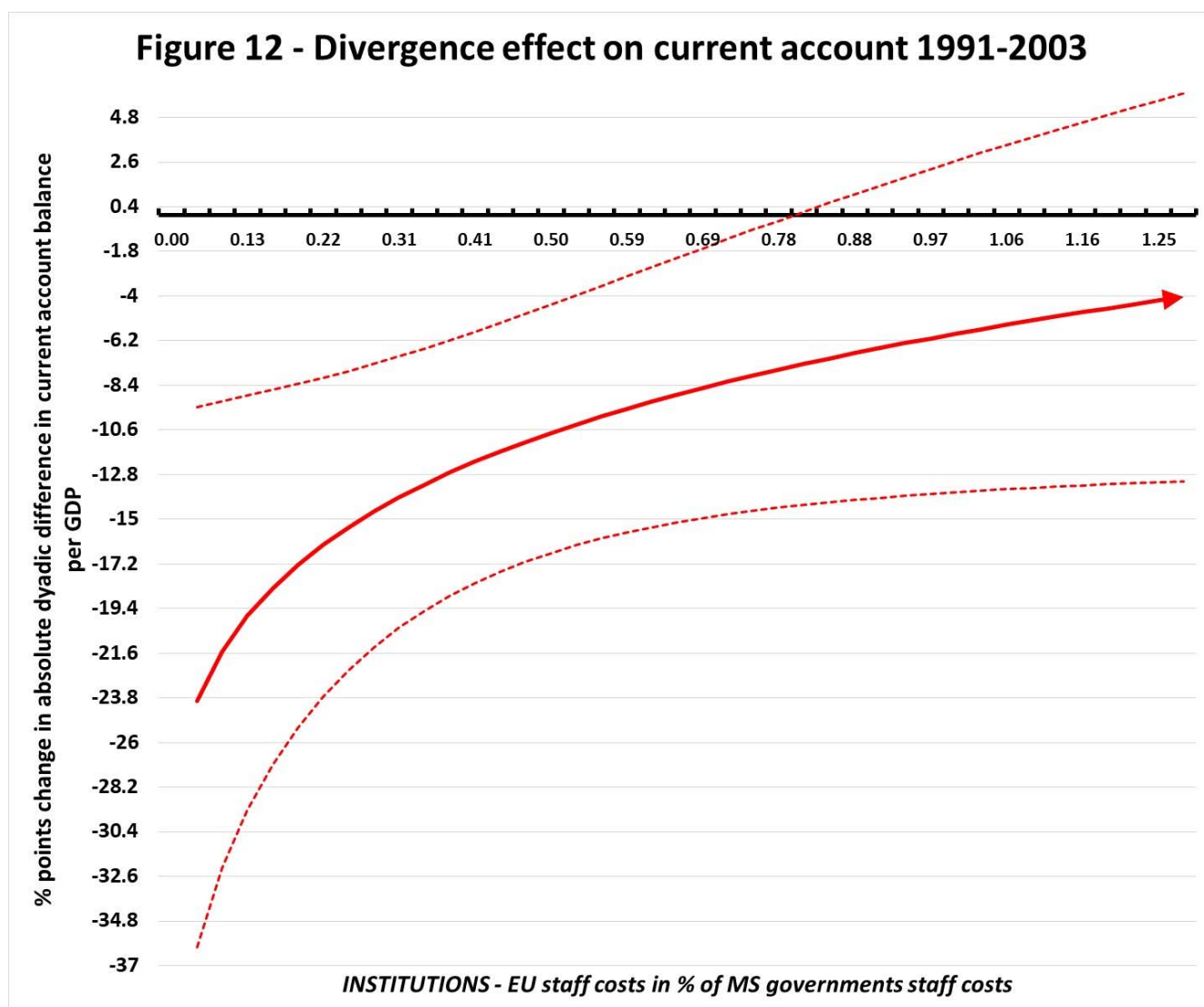


Figure 12, based on Regression 25 too, shows that for the 814 observations with a value of *INSTITUTIONS* lower than 0.80 the potential effect of 1991-2003 on dyadic differences in current accounts is negative. At the point, such differences were potentially 7.45 percent lower during 1991-2003 than in 2004-2009. At the minimum value of *INSTITUTIONS*, they tended to be 23.9 percent lower. For values of *INSTITUTIONS* above 0.80, there was no difference between these two periods.



Conclusions

The Neo-Functionalist and the Liberal-Intergovernmental schools of thought, have historically debated the causes and consequences of European integration. In particular, these schools differ over the claim that EU institutions serve a specific group of member states, at the expense of others. Neo-functionalists see integration as a practical necessity that reshapes interests. Liberal-Intergovernmentalists see integration as a consequence of interstate bargains to the benefit of the powerful, and by implication expect the gains of European integration to be skewed in favor of the powerful. Some of the existing literature attempts to empirically validate the contrasting claims. A related literature studies the effects of European integration on income inequality among households. Unfortunately, few studies if any, attempt a broad empirical analyses of the divergence in interstate gains from integration over a significant period and large set of states.

We examine the relationship between institutional centralization and supra-nationalization in the EU, and the divergence of gains among the member states throughout 1991-2016, measuring the empowerment of the Council, Commission, EP and ECB. In accordance with the Liberal-Intergovernmental approach we hypothesize that greater institutional centralization and supra-nationalization in the EU are associated with increasing divergence of gains among the member states, especially in proportion to the member states' voting power in the Council. We also hypothesize that EU enlargement resulted in diminishing divergence of gains because it made the club more heterogeneous, and that greater autonomy to the EU's institutions in the wake of the euro crisis had similar effect, because it generally reduced the scope for manipulation by powerful member states.

Our research design is based on a dyadic dataset of EU member states, including more than 5,000 dyad-annual observations. We use 12 different measures of relative gains from integration, in terms of GDP, OBB (net transfers from EU budget), and trade. We operationalize institutional centralization by comparing resources at the disposal of the main EU institutions with resources of national governments. We find that greater institutional centralization in the EU is indeed associated with increasing divergence of gains among the member states, in almost all of our measures. Institutional centralization is especially associated with acceleration of relative gains (increase in rates of change). For example, an increase of one standard deviation in institutional empowerment is associated with a rise in divergence of as much as 24 percent in GDP growth rates, 60 percent in OBB per GDP, and 23 percent in changes to current account balances.

However, we found little evidence that divergence in member states' voting power affected the way institutional centralization is associated with increasing divergence of gains. We could only assert this with regard to gains in OBB: For about a third of the observations with low levels of institutional centralization, a one percent increase in dyadic difference in veto power is associated with between four and six percent fall in dyadic differences in OBB per GDP. As institutional centralization increases, this egalitarian effect disappears. We further find that the 2004 enlargement of the EU did not have a significant effect on the tendency of institutional centralization to exacerbate divergence of gains among the member states. However, the evidence suggests that since 2010 institutional empowerment has reduced the divergence of OBB and GDP-related gains, as well as the divergence of current accounts.

Our study is innovative by comprehensively studying how empowering EU institutions affects the distribution of gains among EU member states, over an extensive, perhaps exhaustive scope of

countries and years. While existing contributions mostly study inequality among individuals or regions, insufficient attention has been given to measuring the interstate distributional outcomes of the bargains that drive European integration. Our results are more compatible with the Liberal-Intergovernmental approach, but they are not necessarily incompatible with Neo-Functionalist arguments. As our review section shows, studies of income inequality pin some of it on the daily work of supranational institutions, and Neo-functionalists make no claims about integration's redistributive effects. However, our measure of divergence of interstate gains should not be confused with the debate on income inequality.

We hope that our methods will inspire further research into issues that stem from our study but are beyond its scope: does the approach favoring the promotion of national interests over communal integration apply to other multilateral institutions? Do functional and other forms of spillover – which entail further regional and communal centralization of institutions – actually protect weak countries from powerful ones? And most prominent in current political debates – does European integration serve the élite at the expense of the rest of society?

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Appendix 1 – Descriptive statistics

Table A1: Descriptive statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max	Unit
Nominal GDP per dyadic GDP	5,487	1.21	0.59	0.002	1.991	Percent points
Nominal GDP growth rate	5,394	4.97	5.07	0.001	36.01	Percent points
Nominal GDP per capita	5,487	16,152	14,800	18	86,262	€
Nom. GDP per capita growth rate	5,391	5.08	5.25	.00004	34.24	Percent points
OBB per GDP	5,487	1.43	1.31	0.0003	6.092	Percent points
Change in OBB per GDP	5,136	0.50	0.60	0.0001	5.372	Percent points
OBB per capita	5,727	222	180	0.01	951	Nominal €
Change in OBB per capita	5,376	81.7	85.5	0.006	730.2	Percent points
Trade balance per GDP	5,487	5.93	4.78	0.002	31.47	Percent points
Change in Trade balance per GDP	5,391	2.40	2.62	.00002	25.83	Percent points
Trade turnover per GDP	5,459	46.3	38.5	0.007	236.5	Percent points
Change in Trade turnover per GDP	5,363	7.59	8.99	0.001	77.26	Percent points
<i>INSTITUTIONS</i> (by staff cost)	5,553	1.15	1.82	0.06	18.3	Percent points
<i>INSTITUTIONS</i> (by staff size)	4,880	0.22	0.31	0.02	3.70	Percent points
<i>VETO</i>	5,727	11.3	10.7	0.00	40.09	Percent points
<i>Age Dependency</i>	5,727	4.66	3.41	0.001	17.72	Percent points
<i>Capital Stock</i>	5,349	2,112	2,238	0.03	7,451	Billions of 2011 PPP \$
<i>Female Labor</i>	5,727	3.33	2.97	0.0003	19.62	Percent points
<i>Population</i>	5,727	2.4e7	2.4e7	606	8.2e7	people
<i>Urban Population</i>	5,727	14.05	9.91	0.005	48.27	Percent points
<i>Labor Education</i>	5,493	4.60	3.41	0.005	30.83	Percent points
<i>1991-2003</i>	5,727	0.21	0.41	0	1	Dummy
<i>2010-2016</i>	5,727	0.45	0.50	0	1	Dummy

Note: All variables except *INSTITUTIONS* and the dummies are calculated as absolute dyadic differences. All except the dummies are log-transformed in the regressions.

Appendix 2 – Veto power

Table A2a: Veto power in the Council of the EU (1991-2003)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
France	43.48	43.48	43.48	43.48	38.46	38.46	38.46	38.46	38.46	38.46	38.46	38.46	38.46
Germany	43.48	43.48	43.48	43.48	38.46	38.46	38.46	38.46	38.46	38.46	38.46	38.46	38.46
Italy	43.48	43.48	43.48	43.48	38.46	38.46	38.46	38.46	38.46	38.46	38.46	38.46	38.46
UK	43.48	43.48	43.48	43.48	38.46	38.46	38.46	38.46	38.46	38.46	38.46	38.46	38.46
Spain	34.78	34.78	34.78	34.78	30.77	30.77	30.77	30.77	30.77	30.77	30.77	30.77	30.77
Belgium	21.74	21.74	21.74	21.74	19.23	19.23	19.23	19.23	19.23	19.23	19.23	19.23	19.23
Greece	21.74	21.74	21.74	21.74	19.23	19.23	19.23	19.23	19.23	19.23	19.23	19.23	19.23
Netherlands	21.74	21.74	21.74	21.74	19.23	19.23	19.23	19.23	19.23	19.23	19.23	19.23	19.23
Portugal	21.74	21.74	21.74	21.74	19.23	19.23	19.23	19.23	19.23	19.23	19.23	19.23	19.23
Austria					15.38	15.38	15.38	15.38	15.38	15.38	15.38	15.38	15.38
Sweden					15.38	15.38	15.38	15.38	15.38	15.38	15.38	15.38	15.38
Denmark	13.04	13.04	13.04	13.04	11.54	11.54	11.54	11.54	11.54	11.54	11.54	11.54	11.54
Finland					11.54	11.54	11.54	11.54	11.54	11.54	11.54	11.54	11.54
Ireland	13.04	13.04	13.04	13.04	11.54	11.54	11.54	11.54	11.54	11.54	11.54	11.54	11.54
Luxembourg	8.7	8.7	8.7	8.7	7.69	7.69	7.69	7.69	7.69	7.69	7.69	7.69	7.69

Notes: Member states sorted first by their veto power as of the end of the year (in percent points), then alphabetically. Veto power is the share a member state has in the minimum of votes required to block a Council decision in matters relating to the single market, under the most powerful criterion.

Table A2b: Veto power in the Council of the EU (2004-2016)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Germany	47.78	47.78	47.78	44.86	44.86	44.86	44.86	44.86	44.86	44.46	44.46	44.46	44.46
France	34.52	34.52	34.52	32.41	32.41	32.41	32.41	32.41	32.41	32.13	32.13	32.13	32.13
UK	34.34	34.34	34.34	32.24	32.24	32.24	32.24	32.24	32.24	31.96	31.96	31.96	31.96
Italy	33.18	33.18	33.18	31.87	31.87	31.87	31.87	31.87	31.87	31.18	31.18	31.18	31.18
Poland	30.00	30.00	30.00	29.67	29.67	29.67	29.67	29.67	29.67	29.03	29.03	29.03	29.03
Spain	30.00	30.00	30.00	29.67	29.67	29.67	29.67	29.67	29.67	29.03	29.03	29.03	29.03
Romania				15.38	15.38	15.38	15.38	15.38	15.38	15.05	15.05	15.05	15.05
Netherlands	14.44	14.44	14.44	14.29	14.29	14.29	14.29	14.29	14.29	13.98	13.98	13.98	13.98
Belgium	13.33	13.33	13.33	13.19	13.19	13.19	13.19	13.19	13.19	12.90	12.90	12.90	12.90
Czech	13.33	13.33	13.33	13.19	13.19	13.19	13.19	13.19	13.19	12.90	12.90	12.90	12.90
Greece	13.33	13.33	13.33	13.19	13.19	13.19	13.19	13.19	13.19	12.90	12.90	12.90	12.90
Hungary	13.33	13.33	13.33	13.19	13.19	13.19	13.19	13.19	13.19	12.90	12.90	12.90	12.90
Portugal	13.33	13.33	13.33	13.19	13.19	13.19	13.19	13.19	13.19	12.90	12.90	12.90	12.90
Austria	11.11	11.11	11.11	10.99	10.99	10.99	10.99	10.99	10.99	10.75	10.75	10.75	10.75
Sweden	11.11	11.11	11.11	10.99	10.99	10.99	10.99	10.99	10.99	10.75	10.75	10.75	10.75
Bulgaria				10.99	10.99	10.99	10.99	10.99	10.99	10.75	10.75	10.75	10.75
Croatia										7.53	7.53	7.53	7.53
Denmark	7.78	7.78	7.78	7.69	7.69	7.69	7.69	7.69	7.69	7.53	7.53	7.53	7.53
Finland	7.78	7.78	7.78	7.69	7.69	7.69	7.69	7.69	7.69	7.53	7.53	7.53	7.53
Ireland	7.78	7.78	7.78	7.69	7.69	7.69	7.69	7.69	7.69	7.53	7.53	7.53	7.53
Lithuania	7.78	7.78	7.78	7.14	7.14	7.14	7.14	7.14	7.14	7.53	7.53	7.53	7.53
Slovakia	7.78	7.78	7.78	7.69	7.69	7.69	7.69	7.69	7.69	7.53	7.53	7.53	7.53
Cyprus	7.69	7.69	7.69	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14
Estonia	7.69	7.69	7.69	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14
Latvia	7.69	7.69	7.69	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14
Luxembourg	7.69	7.69	7.69	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14
Malta	7.69	7.69	7.69	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14
Slovenia	7.69	7.69	7.69	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14

Notes: See notes to previous table. As of the end of 2004, the Triple Majority rules of the Treaty of Nice applied. As 1 November 2014, the Double Majority rules of the Lisbon Treaty entered force. However, until 31 March 2017, member states could still request to use the previous rules of Triple Majority, based on the Treaty of Nice. We assume that member states benefiting from the old rules (such as Poland, which demanded this transition) would have demanded them. Thus, we disregard the Lisbon rules. Cell shades indicate the most powerful criterion for each member state: Voting weights (blue), Population (green), or simple majority (yellow).