# Supranational Influence in the Reform of the Eurozone


**Magnus Lundgren**
Stockholm University
magnus.lundgren@statsvet.su.se

**Jonas Tallberg**
Stockholm University
jonas.tallberg@statsvet.su.se

**Fabio Wasserfallen**
University of Salzburg
fabio.wasserfallen@sbg.ac.at



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**Abstract**

When, why and how are the European Commission, the European Central Bank, and the European Parliament influential in European Union (EU) policy-making? This paper addresses this classic question of EU studies through a systematic, empirical analysis of supranational influence in the reform of the Eurozone, 2010-2015. We develop theoretical expectations about the determinants of supranational influence, privileging the strategic setting of EU decision-making and the characteristics of member states. Empirically, we draw on unique data on 39 contested policy issues negotiated during the Eurozone crisis to measure and explain supranational influence. Methodologically, we pioneer a novel relational measure of supranational influence vis-à-vis individual member states that we analyze with cross-nested hierarchical models. The central findings of our analysis are three-fold. First, the Commission and, to a lesser extent, the European Central Bank and the European Parliament greatly influenced negotiated outcomes. Second, the institutions were particularly influential when decisions were adopted through procedures granting them a larger role in policy-making. Third, the institutions were more influential in relation to member states with greater voting power, less network capital, higher economic vulnerability, and lower issue salience.

## Introduction

The reform of the Eurozone between 2010 and 2015 represents perhaps the most profound deepening of European integration in modern times. Following the outbreak of the Eurozone crisis in late 2009, European Union (EU) policy-makers agreed to a string of reforms that significantly deepened fiscal and monetary cooperation. Notably, they created joint resources for Eurozone states in crisis (European Financial Stability Facility and European Stability Mechanism), strengthened the Stability and Growth Pact through multiple sets of reforms (Six-Pack and Two-Pack), agreed on a new treaty to force a balancing of government budgets (Fiscal Compact), and adopted measures to establish a banking union (Single Supervisory Mechanism and Single Resolution Mechanism). While it remains to be seen whether these reforms are sufficient to deal with fundamental tensions in the construction of the European Monetary Union (EMU), they illustrate how European integration often takes significant new strides in the wake of crises.

The conventional understanding presents the Eurozone reforms as the outcome of a political battle between competing groups of member states. Representing the dominant analysis among political economists, Frieden and Walter (2017: 371) describe the reforms as a fight over the burden of adjustment: "debtor and creditor countries have fought over the distribution of responsibility for the accumulated debt; countries with current account surpluses and deficits have fought over who should implement the policies necessary to reduce the current account imbalances." Interpreting the same process through a constructivist lens, Brunnenmeier et al. (2016: 1) see a war of economic ideas between countries favoring rules or discretion: "It is a struggle between northern, but above all German, and what are sometimes called southern, but above all French, theories." When issuing verdicts on the winners and losers of the reform negotiations, existing research tends to emphasize the creditor countries' success in shifting the burden of adjustment onto the debtor states (Bernhard and Leblang 2016: 907; Frieden and Walter 2017: 372; but see Lundgren et al. 2018).

This paper offers an important corrective to the conventional account. While we do not challenge the portrayal of the reform process as a struggle between creditor and debtor countries, we argue that this account misses a crucial determinant of the outcomes: the influence of the EU's supranational institutions. Based on a systematic analysis of bargaining influence on all major issues of negotiation in the reform process, we demonstrate that the European Commission and, to a lesser extent, the European Central Bank (ECB) and the European Parliament (EP) greatly impacted the outcomes. In fact, no party to the reform negotiations – state or institution – was as successful as the Commission in pulling other actors toward its own preferences. The supranational institutions were particularly influential when decisions were taken through procedures granting them more central roles in the policy-making process. Estimating the bilateral pull of the institutions on member states, their influence was greater on member states that enjoyed more voting power, held less network capital, were more economically vulnerable, and considered issues to be less politically salient.

We lay out this argument in three steps. First, we theorize the sources and conditions of supranational influence. We conceptualize bargaining influence as the extent to which an actor pulls other parties toward its own preference and away from the otherwise expected outcome (cf. Achen 2006). Building on previous research, we suggest that the EU's supranational institutions may exert such influence based on organizational resources such as information and authority. Furthermore, we identify the conditions under which the supranational institutions should exert more or less influence over political outcomes, theorizing the effects of the strategic setting (procedures and preferences) and the characteristics of member states (power resources, policy vulnerability, and issue salience).

Second, we estimate the influence of the supranational institutions in the process of Eurozone reform. Our analysis addresses three principal descriptive questions: Did the supranational institutions exert influence over negotiated outcomes? To what extent did this influence vary across the three institutions under consideration – the Commission, the ECB, and the EP? How did the influence of these institutions compare to that of the member states? The analysis draws on a new and unique dataset on the positions of all member states and the three supranational institutions on the contested issues of all Eurozone reform proposals (Wasserfallen et al. 2018).

Third, we assess the conditions under which the supranational institutions exert more or less influence by investigating cross-nested, hierarchical models. Moving beyond a conventional analysis of supranational influence vis-à-vis the collective of states, we develop a novel of relational measure that estimates the influence of the supranational institutions toward all member states on a bilateral basis. Using this measure as dependent variable, we analyze hierarchical, cross-nested models that account for variation across policies and member states. The findings of this analysis show which formal decision making procedures and preference constellations are conducive for supranational influence and on which member states supranational institutions exert their influence.

This paper ties in with a classic debate in the study of EU politics. Few questions have been discussed as vigorously in this field as the relative influence of member states and supranational institutions over the course of European integration. Simplifying slightly, this debate has unfolded in three waves, starting with classic regional integration theory in the 1950s and 1960s (Haas 1958; Hoffmann 1966), continuing with grand theories of supranational governance and liberal intergovernmentalism in the 1980s and 1990s (Moravcsik 1998; Sandholtz and Stone Sweet 1998), and maturing with middle-range theories of supranational influence from the 2000s onwards, focusing on principal-agent relations (Tallberg 2002;

Pollack 2003), legislative politics (Tsebelis and Garrett 2000; Thomson et al. 2006), policy entrepreneurship (Schmidt 2000; Copeland and James 2014), and intergovernmental coordination (Puetter 2014; Bickerton et al. 2015).

This paper suggests several implications for this debate. First, while influential research emphasizes the predominance of (new) intergovernmentalism in EU cooperation (Bickerton et al. 2015), this paper suggests that supranational influence remains an important feature of European politics, even on highly politically salient issues such as Eurozone reform. Second, while many earlier treatments result in broad generalizations about supranational influence in EU politics (Sandholtz and Stone Sweet 1998; Moravcsik 1999; Bickerton et al. 2015), this paper explains why supranational influence is a conditional phenomenon, varying with features of the strategic setting and the member states. Third, while research on this topic conventionally studies the influence of the supranational institutions vis-à-vis member states as a collective (Moravcsik 1999; Tallberg 2002; Pollack 2003), this paper pioneers a method for capturing the differentiated influence of the institutions on member states.

## Determinants of Supranational Influence

We advance an argument about the determinants of supranational influence in three steps. First, we spell out basic assumptions about the nature of EU politics and the resources of supranational institutions that may enable them to exercise influence in this context. Second, we theorize how variation in the strategic setting of EU politics – procedures and preferences – shapes the scope for supranational influence vis-à-vis member states as a collective. Third, we move beyond the conventional focus on influence toward the collective of states to theorize conditions facilitating supranational influence in relation to individual states.

Informed by a rational institutionalist understanding, we conceptualize EU decision-making as an interaction between state and supranational actors with fixed and exogenous preferences, which are revealed through the positions actors hold at the beginning of negotiations, before concessions and compromises begin. Once negotiations get underway, agreements will be reached through concessions distributed across the actors. States or supranational institutions are influential when they manage to pull other actors toward outcomes they themselves prefer. As we discuss later in more detail, we explicitly account for the expected outcome in the measurement of this pull factor, as we do not regard actors that advocate the median position as influential, but those that can move the outcome way from the expected outcome (i.e., the median position) towards their preferences.

Building on earlier research, we assume that the supranational institutions possess resources that give them a potential to influence EU decision-making. One set of resources are the *formal* prerogatives of the supranational institutions in EU policy-making. These resources will be theorized below, as they vary across EU's decision-making procedures. Other sets of resources are *informal* and pertain to the information and authority of the supranational institutions. These resources are general assets of the institutions and largely independent of their specific involvement in different legislative procedures. For instance, the ECB may exercise influence by virtue of its expertise and authority, even when it lacks formal decision-making powers, if member states look to the central bank when deciding on economic policy issues.

In terms of information, the supranational institutions possess unusual technical and political expertise (Majone 1996; Pollack 2003). The Commission, as the EU's executive, has developed in-depth policy expertise that it draws on to develop legislative proposals and compromise solutions. The ECB, as the EU's central bank, is the main repository of knowledge on monetary and financial affairs in the Eurozone. The EP, as the EU's only directly elected institution, possesses particular information on the political preferences of European voters. Likewise, in terms of authority, the supranational institutions enjoy the rare legitimacy that flows from representing the EU as whole. The institutions are not only organizationally independent from member states (and hence supranational), but also vested with mandates to promote the common European good (Majone 1996; Pollack 2003). This authority presents a political asset for the supranational institutions that no member state possesses.

We argue that the supranational institutions' ability to gain influence through these resources is conditioned both by the strategic environment in which decision-making takes place and by the characteristics of member states. To begin with, we consider how the procedures and preferences making up the strategic environment may shape the influence of the supranational institutions relative to member states as a collective.

Building on a substantial body of research, we expect the *procedures* of decision-making to condition the influence of the supranational institutions (e.g., Crombez 1996; Tsebelis and Garrett 2000; Thomson 2006). The EU adopts decisions based on procedures with extensive variation in the formal roles of the supranational institutions. When decisions are taken through the EU's Ordinary Legislative Procedure (OLP), the Commission enjoys exclusive formal agenda-setting privileges, while the EP functions as co-legislator next to the Council, which adopts its positions based on the principle of qualified majority. This procedure grants the Commission and the EP extensive formal powers in the decision-making process, putting the two institutions in a favorable position to influence outcomes (Tsebelis and Garrett 2000; Pollack 2003; Kreppel and Oztas 2017). In case of the Special Legislative Procedure (SLP), the formal powers of supranational institutions are much more limited. While the Commission still functions as formal agenda-setter, the EP and the ECB only have a right to be consulted and the final decision is taken by the Council based on the principle of unanimity. Finally, some decisions in EU politics are taken through procedures that are exclusively intergovernmental in nature. In these cases, the supranational institutions enjoy no formal privileges and their scope for influence is reduced accordingly. These considerations lead to the following general hypothesis:

*H1: The influence of the supranational institutions should be greater the more far-reaching their formal decision-making privileges.*

In addition, we expect the constellation of member state *preferences* to shape the likelihood of supranational influence. Specifically, the supranational institutions should be more influential when member states, as a collective, hold more heterogenous preferences. When member states hold more widely dispersed preferences, it is more difficult for them to arrive at an outcome that is advocated by a large, winning coalition. This situation is likely to facilitate supranational influence, regardless of the procedural setting. When the supranational institutions have a formal role in decision-making, greater preference heterogeneity makes it more likely that their "vote" counts by tipping the balance in favor of their preferred outcome. Also, when the supranational institutions do *not* have a formal role in decision-making, greater preference heterogeneity likely generates a greater demand and scope for supranational entrepreneurship (Schmidt 2000; Pollack 2003). Conversely, the influence of the supranational institutions is likely to be lower when member states hold more homogeneous preferences, since member states then should find it easier to coalesce on an outcome, experience less demand for supranational entrepreneurship, and be more difficult to move as a collective. This logic leads to the following hypothesis:

*H2: The influence of the supranational institutions should be greater the more heterogeneous the preferences of the member states.*

However, supranational influence may not only vary depending on the strategic setting of EU decision-making, but also based on conditions that vary across member states. While existing studies assess supranational influence in relation to member states as a collective (e.g., Moravcsik 1999; Tallberg 2002; Pollack 2003), there is reason to believe that states are varyingly susceptible to supranational entrepreneurship. When member states collectively adopt decisions that reflect a degree of supranational influence, the concessions that lead to this influence may not be equally distributed, but concentrated among some states. We therefore move beyond the conventional focus on states as a collective to theorize the differentiated pull of the supranational institutions on member states. The basic premise is that states are varyingly dependent on the resources and support of the supranational institutions, affecting their likelihood to accept or resist supranational influence, all else constant. More specifically, we expect three conditions of member states to matter for their receptivity to supranational influence: power resources, policy vulnerability, and issue salience.

To begin with, supranational influence is likely to be greater vis-à-vis member states with weaker *power resources*. When states possess fewer power resources, they become more dependent on the resources and support of the supranational institutions, and therefore more susceptible to their influence. Conversely, states with greater power resources should be less dependent on the policy expertise and political backing of the supranational institutions, and therefore less easily influenced. Power resources can be both formal and informal. On the formal side, member states have varying numbers of votes in the Council's differentiated voting system, affecting their capacity to shape decision outcomes in the OLP. A state with a lower number of votes has a lesser chance of turning a losing coalition into a winning one (Shapley and Shubik 1954) or a winning coalition into a losing one (Banzhaf 1965). On the informal side, member states have varying levels of network capital, understood as their attractiveness as a cooperative partner based on their authority, skill, and experience (Naurin 2007; Huhe et al. 2017). A state with less network capital should be less able to protect its interests through interstate coalitions and therefore more dependent on cooperation with the supranational institutions. These considerations lead to the following hypothesis:

*H3: The influence of the supranational institutions should be greater when states possess weaker power resources.*

In addition, we expect supranational influence to be greater in relation to states with greater *policy vulnerability*. When states are highly dependent on joint European policies, and therefore more vulnerable to negotiation failure, they are more likely to side with the supranational institutions' proposals for common rules. This logic is informed by the notion of BATNA (Best Alternative To Negotiated Agreement), suggesting that states are most likely to yield influence when facing the worst back-up alternative (Fisher and Ury 1981; Moravcsik 1998). For instance, states with small home markets are more dependent on international free-trade agreements and therefore more eager to compromise to get a deal than states with large home markets, which can afford to hold out longer in negotiations. Applied to the context of Eurozone reform, this logic suggests that states' economic vulnerability and associated dependence on European solutions matter for their receptivity to supranational proposals. For instance, states that are more indebted and therefore more dependent on European fiscal transfer policies should be particularly susceptible to supranational positions on the establishment and expansion of the EFSF and ESM. Accordingly, we hypothesize:

*H4: The influence of the supranational institutions should be greater when states experience greater policy vulnerability.*

Finally, supranational influence should be greater toward states that hold an issue to be of low *political salience*. Salience refers to the political importance or weight attributed to an issue, or more technically, "the extent to which actors experience utility loss from the occurrence of decision outcomes that differ from the decision outcomes they most favour" (Thomson and Stokman 2006: 41). When states hold an issue to be of low salience, they are less likely to devote scarce political resources and to push back against proposals from the supranational institutions. Conversely, when states consider an issue to be of great political importance, they invest political effort, signal their resolve, and are less likely to side with supranational proposals that diverge from their preferences. While it may appear as such, issue salience is not the inverse of policy vulnerability. For instance, in the reform of the Eurozone, both more indebted countries (Greece) and less indebted countries (Germany) considered the issue of European fiscal transfers highly politically salient. This logic leads to a final hypothesis:

*H5: The influence of the supranational institutions should be greater when states hold issues to be of lower salience.*

## Empirical Analysis

To investigate the influence of supranational institutions empirically, we use the *EMU Positions* dataset, which reports the positions of all EU member states as well as the Commission, ECB, and EP for 39 contested issues that were negotiated in the reform of the Eurozone from 2010 to 2015 (see Wasserfallen et al. 2018 for a detailed presentation of the dataset). This original dataset includes contested issues that were discussed in multiple reforms of the EMU from 2010 to 2015, including fiscal transfer policies of the European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM), fiscal discipline policies of the Six-Pack and Two-

Pack and financial regulations, also known as banking union, of the Single Supervisory Mechanism and Single Resolution Mechanism. Table A1 in the appendix lists all 39 policy issues with a short description and the decision-making procedure that was applied.[1]

The EMU Positions dataset has several advantages for our analysis. First, the issues cover high-stakes politics in a salient policy area, providing a hard test for supranational influence. If we observe that EU institutions have an influence under circumstances where key national interests are at stake, as they were in these contested negotiations on the future of Eurozone, we can more confidently assume they extend their influence also under more quotidian circumstances. Although we should be careful in extrapolating patterns from our data to all EU decision-making, we believe that they can be informative for EU politics in general and, if anything, underestimate supranational influence, which is typically considered to be most evident in lower level day-to-day politics (Sandholtz and Stone Sweet 1998). Second, the issues of the dataset exhibit variation on variables of theoretical interest. Importantly, the issues were determined via different decision-making procedures, allowing for the analysis of how supranational influence is dependent on specific formalized powers. Third, since these data contain observations on the preferences of each member state, they allow us to disaggregate the analysis to the bilateral level and examine influence by supranational institutions on each individual member state.

*Measuring supranational influence*

Drawing on bargaining models of political decision-making, we conceptualize bargaining influence as a function of (i) actor preferences, (ii) the outcome expected given actor

[1] We made marginal adjustments to the original EMU Positions dataset to fit the purposes of our analysis. We excluded issues where all member states shared the same position or where the dataset codes positions on issues that are (potentially) discussed in the future. We also excluded Croatia from the analysis, as the country joined the EU in 2013, midway through the time period covered in our data.

preferences, and (iii) the actually negotiated outcome. Very important is that our conceptualization of influence does not consider an actor holding median preferences to be influential. Rather, the actor has to pull the outcome away from the expected outcome to its own preference. We discuss the specific measurement in more detail below.

The EMU Positions dataset holds information on (i) actor preferences, represented on policy scales ranging from 0 to 100. These represent preferences at the outset of negotiations, prior to concessions. We assume these preferences to be sincere (Bailer 2004) and that they represent the outcome of a process of domestic preference aggregation, where national economic and political interests lead states to hold substantively different and varyingly positioned preferences (Moravcsik 1998; Târlea et al. 2018; Wasserfallen et al. 2018). It is plausible to assume that preferences are sincere, since the EU as a negotiation setting is characterized by rich information about state preferences (Moravcsik 1998: 61). Open domestic debates and frequent interaction on the same issues make a state's core interests well known to other parties and make tactical exaggerations of stated preferences difficult.

We calculate (ii) the expected outcome based on the preferences data. In a compromise bargaining model with multiple actors (Banfield 1961; Van den Bos 1991; Achen 2006), the expected outcome is the weighted median of actor preferences, with weights defined as a function of each actor's relative power. We follow the convention in the study of EU bargaining and weight preferences by member states' formal power, as reflected in their voting weight (Achen 2006).[2] We use the weighted median of member states' preferences as the reference point to calculate the influence of supranational institutions and member states. Only if they can pull the outcome away from the expected outcome, we assign a positive influence score – not if they simply happen to support the median position in the first place, as models often

[2] This calculation assumes that voting power impacts bargaining regardless of formal procedure. In our robustness checks, we present results for an alternative measure, in which we weight state preferences equally for issues determined via unanimity procedures.

predict for the Commission when scholars assume that the Commission is an honest broker, focusing on finding the compromise position among member states with no own agenda and preference.

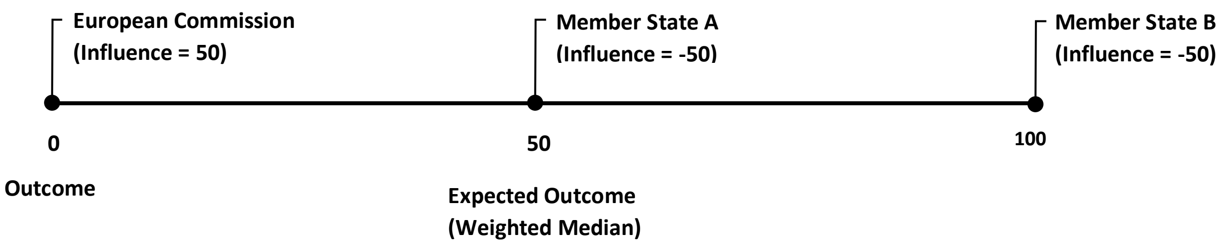
We source data on (iii) observed negotiated outcomes from the EMU Positions dataset to analyze the preferences of each actor and the expected outcome with the real outcome. The data are represented on the same 0 to 100 policy scale as member state preferences. The outcomes in most cases overlap with one of the available policy positions preferred by a group of member states at the outset of negotiations.

Bargaining influence is observed when the negotiated outcome deviates from the expected outcome. If the negotiated outcome is equivalent to the weighted median, the decision-making process reflects the formal power distribution among member states. However, in case the expected and negotiated outcomes differ, some actors must have been able to pull the negotiation outcome away from the expected outcome toward their own preferences. Accordingly, we conceptualize this pull factor as the *influence* of supranational institutions and member states on decision-making. In a nutshell, this influence measure provides an estimate of how much an actor moves the negotiation outcome toward its preferred solution when taking the broader power constellation into account. Formally, we calculate the influence of each actor *i* for each policy issue as follows:

$$Influence_i \; = \; abs(Position_i - Expected\ Outcome) - abs(Position_i - Outcome)$$

The influence of all actors is by construction of this measure 0 if the expected outcome and the actual outcome are the same. If not, the influence measure is positive for actors that could pull the outcome toward their own preferences away from the expected outcome and negative for those that yield beyond the distance to the  the weighted median. Since the expected outcome provides the reference point, only concessions over and beyond the expected outcome count toward influence. In other words, concessions that move an actor from its original preference to the expected outcome are not factored in; only concessions that take it even further, in spatial terms, toward the preference of the actor's whose influence is measured, count. Figure 1 provides a spatial illustration. For the sake of simplicity, we restrict the example to three actors. In the illustrative policy issue, the choice set of the negotiations includes three options, coded as 0, 50 and 100. The eventual outcome is option 0, which is different than the expected outcome (50).

**Figure 1**: *Spatial illustration of the influence measure with three actors.*




Member state A prefers option 50 and member states B advocates option 100. The expected outcome (i.e., the weighted median) is 50 because member state A has a higher voting share than member state B. The Commission supports option 0, which is also the outcome of the decision-making process. In this case, the Commission managed to pull the outcome away from the expected outcome toward its own preference, which is reflected in the influence score of 50 for the European Commission.[3] Member state A has a gravity score of –50. Member state B also has a gravity score of –50 because our measure only considers the space between 0 and 50 as a pull on member states B (member state B had to accept the move from 100 to 50 simply because of the power distribution among member states A and B). In short, only concessions over and beyond the expected outcome count toward influence.

[3] $Influence_{COM}: \ abs(0-50) - abs(0-0) = 50$

*Descriptive analysis of supranational influence*

Building on this conceptualization, our investigation of supranational influence unfolds in two stages, one descriptive and one explanatory. In the first, descriptive stage, we investigate whether we can observe supranational influence in the studied negotiations. In the second, explanatory stage, we rely on a more disaggregated relational measure of influence. Using cross-nested, hierarchical models that account for variation of supranational influence across policies and member states, we evaluate our theoretical expectations relating to procedures, preference constellations, and member state characteristics.

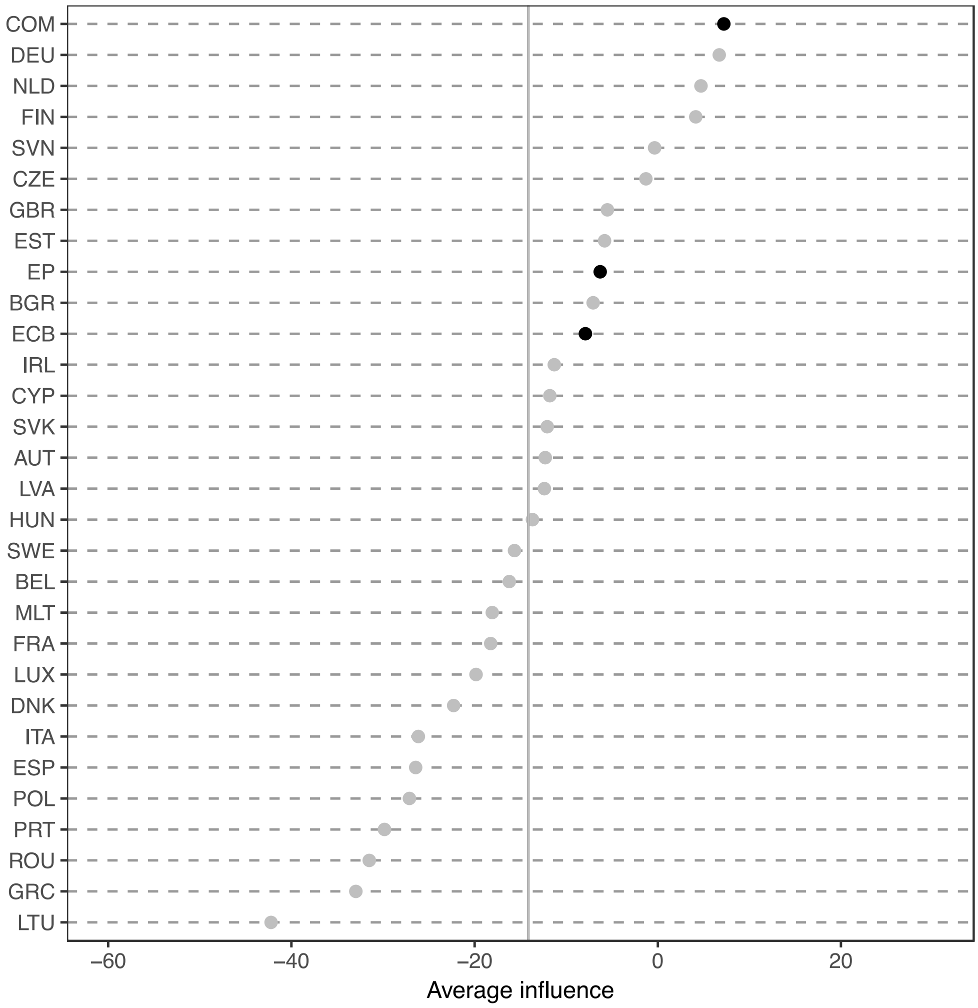
Turning first to our descriptive analysis, we first estimate the influence measure for each policy issue listed in Table 1 and for each member state as well as the Commission, ECB, and EP. Figure 2 reports the overall influence of actors as an average across all policy issues. We note that there is considerable variation across actors and that the mean influence is below zero, suggesting that the average actor had to concede more than expected based on the distribution of weighted preferences alone.[4] Positive gravity values indicate that an actor was, on average, influential in the decision-making because it could move the negotiation outcomes away from the expected outcomes toward its own preferences.

According to this measure, the Commission was the most influential actor, followed by Germany and a set of countries in favor of fiscal discipline, such as Finland and the Netherlands. The higher influence scores of these countries may reflect that creditor countries were disproportionally influential in EMU negotiations as they had a stronger negotiation position compared to debtor countries (many of which are located among the least influential countries). The EP and ECB also score higher on this influence variable than most member states. Overall,

[4] This is likely to reflect that in several issues (e.g., ESM2) one or a small group of actors managed to negotiate an outcome that is identical to their preference, despite the majority of member states (and votes) supporting a different position.

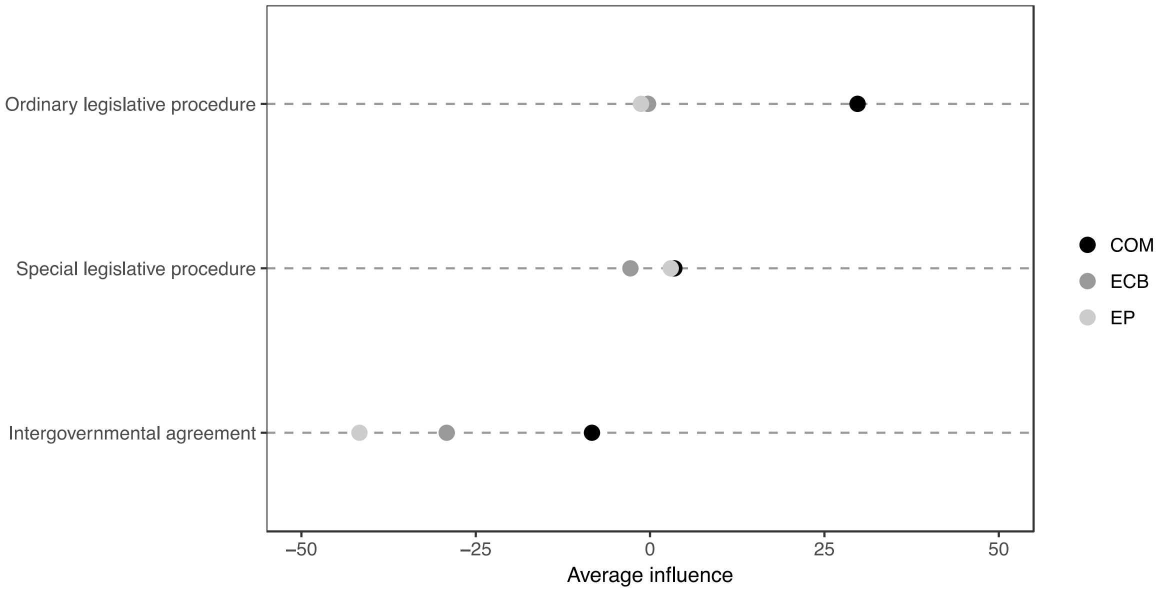
the most striking finding is that the supranational institutions were highly influential and that the European Commission is the most influential actor of all.

**Figure 2**: *Influence of supranational institutions and member states in the Eurozone reforms, estimated as average gravity over all policy issues listed in Table A1 (the vertical line shows the mean influence of all actors).*




As discussed in the theory section, we are particularly interested in the conditions that influence the scope and direction of supranational influence. As a first empirical check Figure 3 presents the average influence of our three supranational institutions across different decision-making procedures. In this descriptive comparison, we again observe that the Commission is the most influential supranational institution and that the difference and ranking of institutions varies across procedures. Importantly, and consistent with our theoretical expectation, we observe that the three institutions have a higher influence on decisions reached via procedures in which they have a larger formal role.

**Figure 3:** *Average influence of supranational institutions by decision-making procedure.*



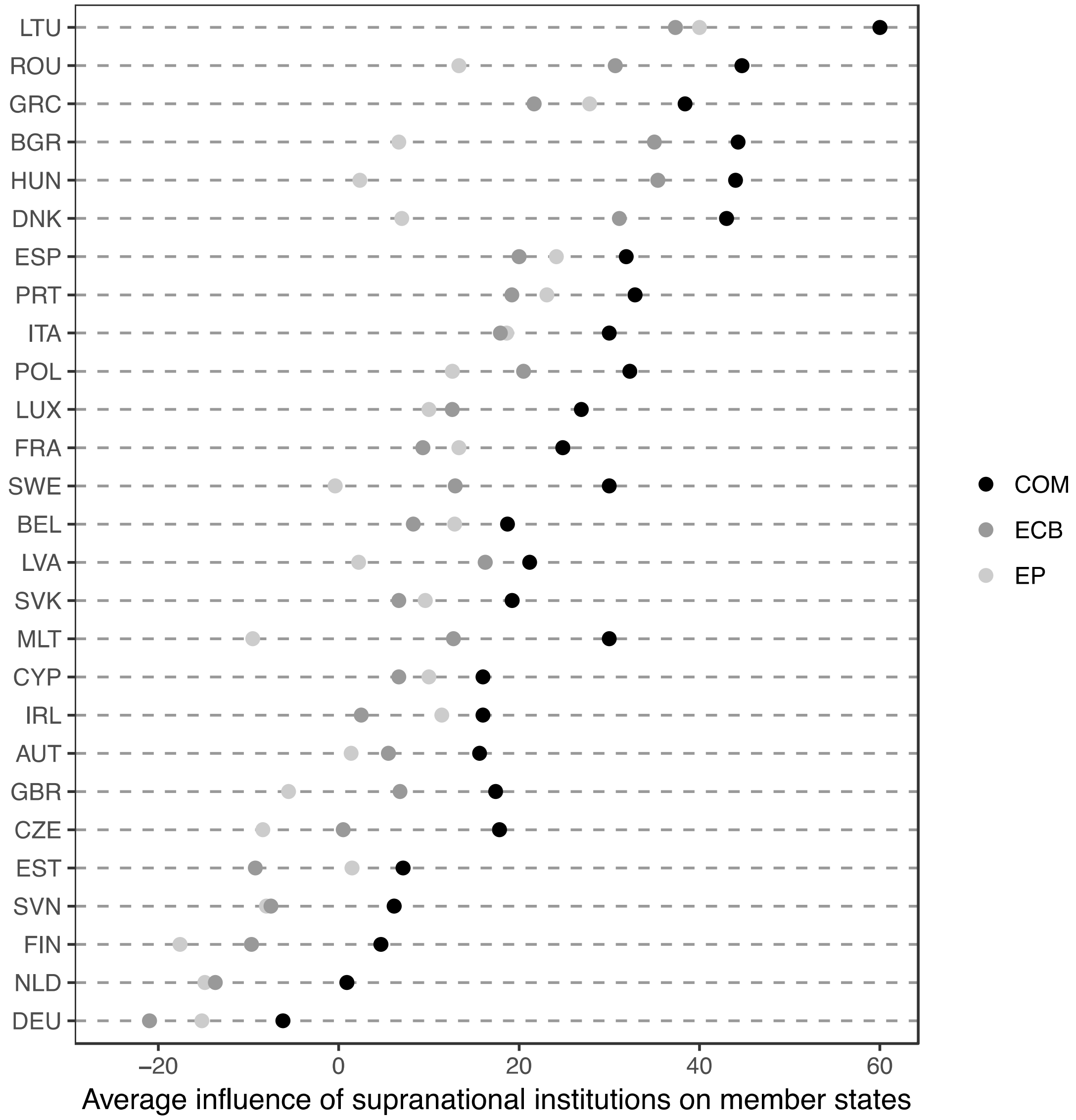

The influence estimates reported in Figures 2 and 3 tell us that supranational institutions, above all the Commission, were influential actors in the decision-making of the recent EMU reforms. These patterns are congruent with some earlier findings on supranational influence on collectives of member states (Moravcsik 1999; Pollack 2003). Moving beyond this conventional approach, we deepen our analysis by investigating supranational influence on a relational basis. This will enable us to identify the member states most susceptible to supranational institutions and, the analyses of hierarchical models in the next section will identify the general conditions of such bilateral influence.

Expanding our conceptualization of supranational influence in a relational direction, we assume that any successful pull of the negotiation outcome by the Commission closer to its own preferences means (a) that the Commission exerted influence and (b) that some member states had to give in on their positions (like member states A and B in the illustrative example of Figure 1). The relational influence variable thus estimates how much a supranational institution pulls a member state away from its position. In the case of the Commission (COM), we calculate this relational influence measure for each member state $i$ and each policy as follows:

$$Relational\ Influence_{COMi} = Influence_{COM} - Influence_{i}$$

Figure 4 reports the relational influence measures for the Commission, ECB and EP. The results are similar to the influence scores reported in Figure 2. The Commission is more influential than the ECB and EP in pulling the decision-making outcome away from member states' positions. The Commission (and the other two supranational institutions) are particularly influential in moving the outcomes away from the preferences of Central, Eastern, and Southern European countries. Again, the creditor countries, at the bottom of Figure 4, were themselves quite influential in the decision-making and thus to a lesser extent exposed to the influence of supranational institutions.

**Figure 4** *Influence of supranational institutions on member states in EU decision-making estimated in relational terms.*




*Explaining supranational influence*

The first stage of our analysis has established that supranational institutions had considerable influence over the outcome of the Eurozone reform negotiations, while also pointing to several dimensions of variation in the nature of this influence (in terms of formal decision making procedures and variation across member states). In the second stage of the empirical analysis, we seek to account for this variation on the basis of the possible explanations theorized above.

To this end, we estimate linear multilevel models with the relational influence measure, presented in Figure 3, as the dependent variable (Steenbergen and Jones 2002, Gelman and Hill 2007). This analysis allows us to systematically investigate under which conditions the Commission, ECB and EP exerted influence and on which member states. The cross-nested, linear multilevel models include varying-intercepts for member states and for policies. We estimate the model for the relational gravity of all three supranational institutions and use the sub-script $i$ for member states and $j$ for policy issues. Formally expressed, we write the following model for the analysis of the Commission's influence on member states:

$$Relational\ Influence_{COMij} = \beta_{0i} + \beta_{1j} + \boldsymbol{\beta_2 X_i} + \boldsymbol{\beta_3 X_{ij}} + \epsilon_{i,}$$

$$whereas \qquad \beta_{1j} = \gamma_0 + \boldsymbol{\gamma_1}\, \boldsymbol{X_j} + \mu_j$$

The influence of the Commission on member states $i$ is a function of both varying characteristics of policy issues and member states. Our theorized explanations are represented at different levels of the cross-nested model. The hierarchical model includes variables for procedural and preference characteristics that vary only across policy issues ($\boldsymbol{X_j}$), for member state characteristics that are stable across issues ($\boldsymbol{X_i}$) and for member state characteristics that vary across member states *and* policy issues ($\boldsymbol{X_{ij}}$). Methodologically speaking, the latter variables are the most powerful, as they vary across both levels of the hierarchical setup. The variables that only vary across member states or issues have more limited statistical power for detecting significant results given that we analyze 39 policy issues and 27 member states.

Our first expectation is that supranational influence will vary with decision-making *procedure*. We distinguish between three procedures, as these are defined above (OLP, SLP and intergovernmental agreement). We expect that supranational institutions are particularly influential when the decision-making follows the OLP, less influential in the SLP, and least influential in purely intergovernmental agreements. The model uses the purely intergovernmental decision-making as baseline category and shows the effects of the OLP and SLP.

To capture our second theoretical expectation about preference constellations, we include the issue-level variable *preference heterogeneity*, operationalized as the standard deviation of member state preferences. This measure will take on high values for issues with more dispersed preferences and lower values for issues where preferences were more concentrated. Preferences will be more dispersed when there are more policy options and member states distribute themselves more evenly across available options; and more concentrated when there are fewer options and member states preferences cluster together. We expect that supranational influence will be higher when preferences are more heterogeneous, but we recognize the possibility that observed heterogeneity, in this operationalization, emerges from both the range of options and the distribution of preferences across these options.[5]

At the level of member state characteristics, we first expect that supranational institutions exert higher influence on member states that have less formal power in the Council. The variable *vote count*, measured at the member state level, equals the voting weight of a member in the Council, according to the Nice rules for qualified majority voting. We also expect that member states with lower informal power will be more susceptible to influence by the supranational institutions. We operationalize informal power via the variable *network capital*, which measures the extent to which states are appreciated as cooperative partners (Naurin 2007). Higher values on this variable indicate more extensive networks and more informal power resources.

In addition, we analyze the effect of policy vulnerability with a variable measuring *economic exposure*. This measure is constructed in three steps. In the first step, we cluster all

[5] In our robustness checks, we employ alternative measures of preference constellations, including van der Eijk's Agreement and a classification of issues based on the distribution of preferences (bimodal or multimodal).

39 policies into three groups, namely financial regulation, fiscal discipline measures, and fiscal transfers (Lehner and Wasserfallen 2018). Second, we identify for each of these three groups the relevant economic indicator gauging the extent to which a country is economically exposed to new legislation as follows: a) countries with a large banking sector (measured as financial sector liabilities per GDP) are more exposed to financial regulations; b) fiscal transfer measures are more consequential for countries with higher debts (measured as debt per GDP); and c) recipients of fiscal transfers from the ESM and ESFS (measured with a dummy) are more dependent on the design of these transfer policies. In the third and final step, we transform the variables into four different categories from low to high exposure (1 to 4) because the underlying economic variables of these three different types of policies are measured on different scales.[6] The categories order the countries from low to highly indebted countries, small to large financial sectors, and non-recipients of financial transfers to recipients on a unified scale. The basic expectation is that countries that are economically more exposed will be more willing to side with the supranational institutions.

Finally, we expect that the influence of supranational institutions is higher, the lower the saliency of an issue for a country. For the empirical analysis, we rely on the *salience* variable provided by the EMU Positions dataset. The researchers collecting the EMU Positions data asked experts to assign the salience of each member state's preferences on each issue on a scale from 0 to 10, with higher scores indicating greater utility losses from outcomes that deviate from the favored outcome.

To account for possible confounding factors, we include three additional variables as controls. The dichotomous variable *Euro member* is 1 for states within the Euro area and the

[6] For the transformation of the numerical variables debt and financial sector liabilities per GDP into four categories, we use the 1st Quartile, Median and 3rd Quartile as cut-offs (1 = Minimum to 1st Quartile, 2 = 1st Quartile to Median, 3 = Median to 3rd Quartile, and 4 = 3rd Quartile to Maximum). The dummy variable on the recipient status of transfer payments is recoded to 1 (non-recipient countries, low exposure) and 4 (recipient countries, high exposure).

variable *EU legacy* is the years since the observed country joined the EU. We also account for the *Council Presidency*.

Table 1 presents the findings of the cross-nested hierarchical models. As expected, the positive coefficient suggest that the Commission and the EP are particularly influential in OLP and SLP decision-making, compared to purely intergovernmental negotiations. However, these effects are not statistically significant on conventional levels, which may not be surprising, given that the model can only leverage variation across 39 policy issues. The direction of the effects and the slightly stronger results for the Commission (compared to the EP and ECB) run at least not counter the findings of Figure 3, which indicate that supranational influence is particularly high in decision-making following the OLP and that this effect is strongest for the Commission.

The results of the hierarchical model also suggest that supranational influence is not sensitive to preference heterogeneity. The estimates are noisy and suggest no consistent direction of effect across the three studied institutions. This non-finding indicates that the strategic opportunities that certain preference constellations may offer for supranational influence are potentially smaller than expected.

As far as the characteristics of the member states are concerned, we find the same results across all three supranational institutions: the influence of supranational institutions is higher on member states with lower the network capital. This suggests that countries which are more valued as cooperative partners – including many large countries, such as Germany, but also smaller countries, such as Sweden – are less likely to be susceptible to the bargaining influence of EU institutions.

**Table 1**. *Linear, cross-level multilevel models explaining the relational influence of the European Commission, EP and ECB on member states.*

| | *Dependent variable:* | | |
|---|---|---|---|
| | $\text{Influence}_{\text{COM}}$ | $\text{Influence}_{\text{EP}}$ | $\text{Influence}_{\text{ECB}}$ |
| | (1) | (2) | (3) |
| OLP | 35.29 | 22.71 | -5.36 |
| | (34.84) | (37.22) | (36.67) |
| SLP | 19.35 | 20.22 | 4.95 |
| | (31.86) | (35.55) | (33.56) |
| Preference heterogeneity | -0.25 | 0.60 | -1.10 |
| | (0.84) | (0.96) | (0.89) |
| Council votes | $1.23^{***}$ | $1.51^{***}$ | $1.23^{***}$ |
| | (0.39) | (0.38) | (0.39) |
| Network capital | $-16.80^{***}$ | $-18.17^{***}$ | $-16.94^{***}$ |
| | (4.44) | (4.39) | (4.44) |
| Salience | $-2.48^{**}$ | $-3.21^{***}$ | $-2.31^{*}$ |
| | (1.23) | (1.19) | (1.23) |
| Economic exposure | $5.21^{***}$ | $3.85^{*}$ | $5.15^{**}$ |
| | (2.00) | (2.05) | (2.00) |
| Council presidency | 5.48 | -1.62 | 6.04 |
| | (12.58) | (12.03) | (12.58) |
| Euro member | $-13.89^{*}$ | -10.02 | $-14.51^{**}$ |
| | (7.21) | (6.76) | (7.21) |
| EU legacy | 0.25 | 0.22 | 0.25 |
| | (0.17) | (0.17) | (0.16) |
| Constant | 29.19 | -9.49 | 67.99 |
| | (48.43) | (53.46) | (50.98) |
| Observations | 478 | 423 | 478 |
| Issues | 39 | 39 | 39 |
| Countries | 27 | 27 | 27 |
| *Note:* | | | $^{*}p<0.1$; $^{**}p<0.05$; $^{***}p<0.01$ |

In contrast, we find that formal power, as reflected in the voting weights of member states, is associated with a higher likelihood of relational influence by supranational institutions. This intriguing finding runs counter to our theoretical expectation[7] but is intelligible in light of the descriptive patterns above: While the most influential member state, Germany, has a high voting weight in the Council (29), many of the other influential countries, such as Netherlands (13), Finland (7) or Estonia (4) do not. Conversely, several of the countries that appear to have exercised less influence, both in general and relationally, rank high on this measure of formal power, including Italy (29), Spain (27) and Poland (27).

The effects of the salience and economic exposure variables are in line with our theoretical expectations. The higher the salience of a policy issue for a country, the more firm the position of its government. In other words, high saliency increases the probability that a government successfully resist the advocacy of supranational institutions for different positions. However, countries that are economically more exposed are more willing to side with the positions of supranational institutions. This is probably because higher economic exposure means also higher dependency on EU level policy solutions, in turn resulting in less bargaining power vis-à-vis other member states and the supranational institutions. For example, in the case of fiscal discipline measures, countries with low debts have a bargaining advantage. To compensate for this, highly indebted countries may be more willing to accept supranational positions in legislation on fiscal discipline.[8]

The estimates for our control variables suggest that Council Presidency and EU legacy are not systematic predictors of variation in supranational influence on member states, while

[7] The result is likely also a function of the correlation between *network capital* and *council votes* (r=0.72). If the *council votes* variable is dropped from the analysis, the estimated coefficient for *network capital* remains largely unchanged. If *network capital* is dropped, *council votes* is statistically not significant on conventional measures.
[8] The data suggest a positive relationship between *salience* and *economic exposure* (r=0.24). In other words, more exposed countries tended to hold more intense preferences.

being a member of the Eurozone may make a country less susceptible to influence, especially from the ECB.

## Conclusion

The influence of the supranational institutions is one of the most contested issues in the study of EU politics. Are the supranational institutions runaway agents, pursuing their own political agendas at the expense of member state interests, or obedient servants, merely fulfilling functional needs for member states, which ultimately set the direction of EU cooperation? In this paper, we have revisited this classic question through a systematic, empirical analysis of supranational influence in the reform of the Eurozone. The multiple reforms agreed by member states in the period 2010 to 2015 probably constitute the most significant deepening of EU cooperation since the Maastricht Treaty. As a highly politically salient process, the reforms also present a hard case for supranational influence in EU politics.

Our principal findings are three-fold. First, all three supranational institutions exerted influence in the reform of the Eurozone, shifting negotiated outcomes toward their preferences. The analysis reveals that the Commission, in fact, was the most influential actor of all in the reform process, while the EP and the ECB shaped outcomes to a lesser extent, but still more than most member states. Second, the influence of the supranational institutions was conditioned by the procedures used to adopt reform decisions. The institutions were particularly influential when decisions were adopted through the OLP, in which the Commission enjoys formal agenda-setting privileges, the EP functions as co-legislator, and the Council takes decisions through qualified majority voting. Third, when exerting influence, the supranational institutions exerted a greater pull on some member states than others. They were more influential on member states that possessed greater voting power, held less network capital, were more economically vulnerable, and considered issues to be less politically salient.

Taken together, these findings suggest that the supranational institutions played a more important role in the reform of the Eurozone than recognized by earlier research, which has tended to focus on the struggle between creditor and debtor countries. Also, our analysis identifies the member states that supranational institutions successfully target in their attempt to exert influence (intentional or not).

The results of the paper carry three types of implications for the debate on supranational influence in EU politics. First, they show that supranational influence is not a phenomenon of the past. While the scholarly consensus appears to be that member states over the past two decades have re-asserted control over European integration through a new type of intergovernmentalism (Bickerton et al. 2015), we demonstrate that the Commission has been more influential than any other actor in the reform of the Eurozone. The level of intergovernmental control emphasized by recent research appears exaggerated, especially if we recognize the Eurozone reforms as a hard case for supranational influence.

Second, the findings show how supranational influence is a conditional phenomenon, varying with features of the strategic setting and characteristics of member states. While some other research engages in broad generalizations about the absence or presence of supranational influence (Sandholtz and Stone Sweet 1998; Moravcsik 1999; Bickerton et al. 2015), we show how a careful and systematic analysis of a large number of issues allows us to draw nuanced conclusions about supranational influence and its determinants. Our findings tie in well with other research emphasizing the conditional nature of actor influence in EU politics (Thomson et al. 2006).

Third, these results show the benefits of moving beyond a conventional focus on supranational influence toward the collective of states to consider the differentiated pull of the institutions on individual member states. Not all member states are equally susceptible to the influence of the supranational institutions, and the novel type of relational analysis developed in this paper allows us to capture and explain this variation. At a theoretical level, this innovation helps to address one of the main weaknesses of traditional rational institutionalist analysis, namely its treatment of states as like units (Knight 1992; Héritier 2007). Also, on a more practical level, the findings of our analysis are informative for supranational institutions if they want to maximize their influence (as well as for member states that may want to prevent this): the member states that are susceptible to supranational influence are the ones with high voting power, low diplomatic network capital, high policy exposure and low issue salience. Any actor that identifies these member states *ex ante* and concentrates its efforts on convincing them from a different position is in a strategic advantage.

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# Appendix

**Table A1**. *Policy issues and decision-making procedures of the EMU Positions dataset.*

| Reform | Description | Decision-making procedure |
|---|---|---|
| Banking Union | EU cap on bank bonuses: legal v. shareholder-approved | Ordinary legislative procedure |
| | Capital buffers: centralization vs. flexibility | Ordinary legislative procedure |
| | Scope of the SSM | Special legislative procedure |
| | Double majority for EBA's decisions | Ordinary legislative procedure |
| | Institutional responsibility for SSM at ECB | Special legislative procedure |
| | SSM deadlines: speed versus quality | Special legislative procedure |
| | SRM: decision-making powers | Ordinary legislative procedure |
| | SRF build-up and mutualization | Ordinary legislative procedure |
| | SRF fiscal backstop | Ordinary legislative procedure |
| EFSF | Preparedness to issue loan guarantees | Intergovernmental agreement |
| | IMF involvement | Intergovernmental agreement |
| | Enhancement of the EFSF's effective capacity | Intergovernmental agreement |
| | Allowing the EFSF to use additional instruments | Intergovernmental agreement |
| ESM | Changing EU treaties | Special legislative procedure |
| | Size of ESM | Special legislative procedure |
| | Private sector involvement | Special legislative procedure |
| | Support instruments of ESM/EFSF | Special legislative procedure |
| | Financing of the ESM | Special legislative procedure |
| | Role of supranational institutions in the ESM | Special legislative procedure |
| Fiscal Compact | Adoption of the fiscal compact | Intergovernmental agreement |
| | Fiscal compact adopted by Treaty change | Intergovernmental agreement |
| | The legal form of the debt brake | Intergovernmental agreement |
| | The role of the ECJ in fiscal compact | Intergovernmental agreement |
| | The role of the EC in fiscal compact | Intergovernmental agreement |
| | Participation of non-euro members at Euro Summit | Intergovernmental agreement |
| | The purpose of the fiscal compact | Intergovernmental agreement |
| | Tax policy coordination | Intergovernmental agreement |
| Assistance to Greece | Initial willingness to support Greece (Bailout I) | Special legislative procedure |
| | The First Greek Program: ad hoc vs. systematic | Special legislative procedure |
| | The IMF involvement in the First Greek Program | Special legislative procedure |
| | Debt relief in the Second Greek Package | Special legislative procedure |
| Six-Pack | Suspension of voting rights for SGP non-compliance | Special legislative procedure |
| | Withholding EU Funds to deficit countries | Special legislative procedure |
| | Blocking of SGP sanctions by reversed qualified majority | Ordinary legislative procedure |
| | Six-pack rules on 'good' and 'bad' debts | Special legislative procedure |
| | Asymmetry of macroeconomic imbalances | Ordinary legislative procedure |
| Two-Pack | Redemption fund in two-pack | Ordinary legislative procedure |
| | Pre-approving Budgets by the Commission | Ordinary legislative procedure |
| | Independent macro-economic forecasts | Ordinary legislative procedure |