Backsliding in a Landslide

How EU's Fiscal Distributions Empower Corrupt Governments*

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Paper Presented at the 2019 ASN World Convention, Columbia University 2-4 May 2019

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Abstract

How do fiscal funds allocated by the European Union (EU) to member states shape the electoral outcomes of corrupt incumbent parties? Current works assessing the link between EU transfers and political corruption focus primarily on the *impact* of EU funds on recipient states' patterns of political corruption and do not engage with the question of how EU funds *interact* with political corruption to shape party dynamics in recipient states. In this paper, I take into account the degree of executive corruption across recipient states to analyze the impact of EU fiscal allocations on domestic politics and governing parties' electoral outcomes. I propose a novel theory of *corruption compensation* whereby fiscal allocations to corrupt recipient states deliver political latitude that incumbents utilize to advance their electoral outcomes and governing authority. Examining data on EU fiscal allocations over the period 2000-2015, I find that fiscal transfers to EU member states are correlated with higher electoral margins for incumbents in corrupt countries. I interpret this as suggestive of misallocation of EU transfers by corrupt parties to buffer their political latitude over the opposition.

Keywords: Corruption · EU · European Fiscal Transfers · Distributive Politics

*I thank the University of Michigan's Horace H. Rackham Graduate School for funding this project.

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1 Introduction

The European Union spends nearly 94 percent of its yearly budget on fiscal allocations to member states. The funds—which in the case of the less-developed EU countries comprise as much as 80 percent of their public investment (European Commission)—aim to boost economic growth, promote regional and social development, and narrow the wealth gap among the Union's developed and developing post-socialist states. The underlying expectation is that by stimulating socioeconomic outcomes, these fiscal allocations will advance recipient states' institutional effectiveness, reinforce EU values, and ultimately enhance democratic performance across the region.

In practice, however, policy-makers and constituents have increasingly linked the EU's fiscal transfers to political corruption and institutional malperformance in target states—practices that, contrary to the funds' intent, undermine democratic effectiveness and jeopardize the EU's democratic consolidation. For instance, in 2008, the European Commission investigated and responded to high-level corruption and improper administration of European funds in Bulgaria and Romania by freezing nearly 500 million Euros in farming and structural aid to Bulgaria and 28 million in agricultural aid to Romania.[1] Similarly, in 2012, the European Commission withheld an additional 3.5 billion Euros from Romania's funding in response to a series of irregularities in managing the human resources development sector. [2] The misuse of fiscal transfers extends to the EU's most developed members as well. In July 2008, Brussels announced it would recall 400 million Euros from Italy, the UK, and Greece for violations of Common Agricultural Policy (CAP) rules. France, Germany, and the Netherlands were also implicated in the recall.[3]

Citizens and policy-makers in recipient countries have also expressed frustration at the unintended consequences of EU fiscal allocations. While voters in the EU's East

[1] Global Studies Initiative, 1 September 2008. https://www.iisd.org/gsi/news-events/european-commission-freezes-subsidies-romania-and-bulgaria-over-charges-corruption

[2] *The Economist*, 5 June 2012. https://www.economist.com/eastern-approaches/2012/06/05/a-funding-obsession

[3] Global Studies Initiative, fn 1.

and Central European member states, including Bulgaria, Poland, and Romania, have participated in organized protests against political corruption, domestic policy-makers and opposition forces have pointed to the EU transfers as an underlying mechanism that unwittingly supports political corruption in their countries. In a recent interview with the author, for instance, a Bulgarian policy-maker noted the following:

> *The EU funds have actually worsened the situation. Corruption became much more tempting for political elites when the resources became available. The money rendered them power. It also led to this new norm shared widely by political leaders today and that is—corruption is acceptable and it is even justified when the government is helping its people, even partially. What we are dealing with now is that over time the people's share got smaller and politicians' larger. And that applies not only to the money, but also to each group's respective power.*[4]

These events raise the important question of how funds allocated by the EU to member states exhibiting varying degrees of political corruption shape domestic politics and incumbent parties' governing outcomes. Despite concerns about the linkage between rising political corruption and inefficient use of EU transfers by member states' authorities, the impact of EU funds on political corruption has received surprisingly minimal empirical attention (Fazekas et al. 2013a). Even less empirical consideration has been given to the question of how allocations to corrupt EU states affect domestic party politics and the political longevity of recipient states' governing parties. While the development aid literature has devoted systematic due diligence and extended critical findings in regards to the effect of foreign and development aid on the quality of developing states' institutions, caution is needed when seeking to generalize these findings to EU member states—especially, as Fazekas et al. (2013a) point out, given the variation in context and funding magnitudes between the world's developing countries and EU member states.

[4]Interview conducted in July 2018.

Systematic assessment of the impact of EU's allocating policies on political corruption and domestic party politics in recipient countries is relevant for both democratic theory and distributive policy purposes. By examining whether and how EU fiscal funds are utilized by member states for personal and political rather than economic purposes, these findings advance our understanding of the efficiency of the EU's fiscal and distributive policies. Hence, understanding this relationship helps explain variation in the degree of effectiveness that EU fiscal policies have garnered in promoting EU democratic values and economic coherence across the organization's geopolitical space.

In this paper, I analyze whether fiscal transfers allocated by the European Union to member states deliver an electoral advantage to recipient countries' governing parties, conditional on the degree of executive corruption across recipient states. I argue that greater allocations to the EU's corrupt member states increase the likelihood of misallocation by recipient states' governing parties. Given their engagement in political corruption, incumbents are more likely to expect electoral backlash, particularly in the presence of robust opposition (Grzymala-Busse 2007). Under these conditions, governing parties have incentives to engage in *corruption compensation* strategies by diverting EU fiscal flows toward strengthening their political networks and implementing programs and policies that appease their electoral bases (Shehaj 2019). Consequently, rather than promoting balanced economic development within the EU, greater funds to corrupt EU states boost corrupt governing parties' competitive advantage over the opposition.

Examining data on fiscal funds allocated by the European Union to member states between 2000 and 2015, I empirically test my theory that incumbents in states with higher executive corruption display a larger electoral boost from external fiscal funds than their counterparts in less corrupt states. The results support my theoretical expectations, suggesting that corrupt governments divert EU fiscal funds toward practices and policies that increase their electoral payoffs. To my knowledge this study is the first to take into account target states' political corruption to document how EU transfers impact internal electoral

politics in recipient countries.

2 Theoretical Perspectives

In the development literature, much research examines foreign aid and its link to target countries' corruption, institutions, and governance in Africa, Asia, or Latin America. Despite the different contexts, the dynamics that characterize the aid allocation process and the findings extended by the aid literature offer insight into mechanisms whereby EU fiscal transfers may impact not only patterns of political corruption, but also the domestic politics of recipient states. One hypothesis is that recipient states' institutional performance and governance effectiveness shift in ways that optimize continuous flows of aid from donor states. The literature's findings in terms of the direction of this shift, however, are mixed. While some works find no empirical support for the impact of aid on democracy (Knack 2004), others find that aid inflows can serve as resource rents (Deaton 2013; De Mesquita et al. 2005; Djankov et al. 2008; Morrison 2007; Rajan and Subramanian 2007) that deteriorate the quality of target countries' domestic institutions, rights, and democratic governance (Alesina and Dollar 2000; Busse and Gröning 2009; de Mesquita and Smith 2013; Dreher et al. 2013; 2014).[5]

Other empirical works, however, refute the "curse" effect of foreign aid on governance (Altincekic and Bearce 2014). Pointing to the conditions attached to aid allocations by donor states, scholars argue that aid expenditures are conditional and therefore comparatively more constrained than expenditures financed by domestic revenues (Krasner and Weinstein 2014; Wright and Winters 2010). Under these conditions, the use of aid and fiscal allocations as non-taxable resources available for extraction by recipient states'

[5]The hypothesized mechanism here is that aid, similar to natural resources, offers a substitute for the domestic revenue collection typically associated with enhanced institutional performance (Moore 2004). By decreasing target states' dependence on internal revenues, aid diminishes political accountability, increases political corruption (Bräutigam and Knack 2004), weakens incentives for collective action (Booth 2011), and ultimately devitalizes target states' domestic institutions (Moss et al. 2006).

elites is limited and therefore the elites' ability to engage in political corruption declines (Tavares 2003). Hence, donors' intent (Bermeo 2009), restrictions, and ability to withhold aid if conditions are not met (Epstein and Sedelmeier 2013) help maintain regime stability (Morrison 2009) and promote democratic institutions (Bermeo 2016; Scott and Steele 2011) by aligning the interests of domestic elites with those of donor entities (Faye and Niehaus 2012).

This general lack of consensus on a relationship between transfers, political corruption, and democratic outcomes is echoed in the Europeanization literature. Existing works focus primarily on the EU's role in establishing practices and procedures (Meyer-Sahling 2011) that helped revamp the economic and institutional structures of the region's less developed states (Epstein and Sedelmeier 2013), particularly in the post-Cold War period (Bermeo 2016; Dunning 2004; Fearon et al. 2009). One branch of the literature finds that under effective conditionality, monitoring mechanisms, and credible threats of fund withdrawal by the EU (Epstein and Sedelmeier 2013), the EU's fiscal allocations shape the utility and policy choices of domestic elites in ways that promote institutional efficiency, human rights, democratic norms, and economic growth across the region (Carnegie and Marinov 2017; Mohl and Hagen 2010). Extrapolating from the aid literature, this effect is likely to increase in the presence of effective rule of law policies and macroeconomic measures, including the level of trade openness, inflation, and trade regulations that also reinforce recipient countries' economic development (Atkinson and Hamilton 2003; Asongu and Jellal 2013; Quazi et al. 2015; Burnside and Dollar 2000). Hence, when faced with credible threats of fund withdrawal from the EU, recipient countries' elites are constrained in their ability to utilize EU funds for personal and political gain.

Only recently have scholars started to examine the impact of EU funds on governance and patterns of political corruption in target states, particularly those of the ECE region (Fazekas et al. 2013a). Focusing on the type of investment sponsored by the funds and the degree of public discretion over said investment, scholars find that when EU allocations

are invested in projects over which domestic actors and the public have high discretionary power, the likelihood of political corruption and ineffective governance in recipient states increases (Asongu and Jellal 2013; Dimulescu et al. 2013; Fazekas and Tóth 2017). As the aid literature points out in other regions of the world, these tendencies are stronger in recipient states with a history of poor governance (Moss et al. 2006) and ineffective institutions that further exacerbate misallocation of external funds (Mehlum et al. 2006; Thérien and Noel 2000; Van der Ploeg 2011). Under these conditions, rather than promoting regional growth and economic convergence within the region, the EU funds provide a resource pool utilized by actors and political elites to extract rents and promote their personal and political interests (Ahmed 2012; Mungiu-Pippidi 2013). As a consequence, misallocating tendencies threaten the EU's economic and democratic norms by impinging on the recipient states' political culture and, as observed in the developing, post-socialist states of Hungary and Romania, reaching the highest strata of political leadership (Fazekas et al. 2013b; Dimulescu et al. 2013).

While current findings advance our understanding of the relationship between EU funds and corruption, the range of analysis is limited to the impact of fiscal transfers on *corruption* and does not engage with the question of how the EU funds *interact* with recipient states' corruption tendencies to shape party dynamics and the political survival of incumbent parties. Specifically, how does fund allocation to EU member states—taking into account the countries' degree of executive corruption—affect the democratic outcomes of executives and political parties with allocating discretion? And also, how do these dynamics differ across the EU's political space? The aid literature, for instance, finds that access to aid flows increases political competition and consolidates electoral support for newly elected leaders (Licht 2010). However, these findings offer insight into the longevity of individual politicians rather than parties, and their empirical scope covers developing countries with distinct economic and political structures from the EU states. The Europeanization literature, for its part, assesses the funds' impact on patterns of

political corruption in a subset of EU countries while leaving open the question of how the EU funds affect corrupt countries' internal politics. [6]

My paper builds upon these works to address this exact point and contribute a systematic understanding of this phenomenon. I offer and empirically test a novel theory of *corruption compensation* that underlines the combined, explanatory effect of EU funds and the degree of executive corruption in recipient states and find that incumbent parties in highly corrupt states enjoy a larger electoral boost from EU fiscal inflows than those of less corrupt states. I present my theoretical rationale and hypotheses in the following section.

3 EU's Fiscal Transfers & Governing Parties' Competitive Advantage

Governing parties and political elites are driven by rational incentives to maintain political power and maximize the rewards associated with public office. These tendencies are especially strong in parties with corrupt dispositions, as their ability to continue accumulating desired payoffs requires maintaining political power. For instance, preserving power allows governing parties to use their privilege and resources to engage in clientelistic, principal-agent interactions with the electorate (Kitschelt and Wilkinson 2007; Hicken 2011; Muno 2010). It also allows them to implement distributive policies that compensate voters for parties' corruptive tendencies (Shehaj 2019) and appease particular electoral groups in ways that enhance corrupt incumbents' electoral returns (Anduiza et al. 2013; Banerjee and Pande 2007; Cox and McCubbins 1986; Golden and Min 2013; Lederman et al. 2005).

That said, corrupt incumbents' ability to achieve their optimal outcomes diminishes when robust and organized opposition parties induce higher electoral accountability by

[6] For instance, (Fazekas et al. 2013a) examine this relationship in the context of the Czech Republic, Hungary, and Slovakia, while (Dimulescu et al. 2013) do so in the case of Romania. A recent study by (Fazekas and Tóth 2017) takes an EU-wide empirical approach; however, the authors focus on the effect of EU funds on corruption, rather than the funds' impact on incumbent parties' governing outcomes.

providing voters with viable political alternatives (Barro 1973; Ferejohn 1986; Grzymala-Busse 2007; Tavits 2007). Under these conditions, incumbent parties have incentives to invest in ensuring the loyalty of their close network and electoral base as a mechanism for consolidating power and securing their competitive viability over opposition forces (De Mesquita et al. 2005). In doing so corrupt incumbents can, for instance, rely on their supporting networks to recruit "brokers" who monitor the electorate's behavior and ensure parties' continuous electoral support (Stokes et al. 2013). This form of corruption compensation is key to incumbents' longevity, particularly when parties' past practices of corruption and favoritism inform expectations of future benefits among their networks and politically aligned regions, as well as voters expecting trade-offs for parties' political misconduct (Shehaj 2019). Hence, governing parties' incentives to use EU fiscal flows to gain a competitive advantage over opposition forces increase even further when they are corrupt.

However, governing parties' coalitions, which are stronger when parties initially take office, weaken over time (Licht 2010). These diminishing loyalties threaten incumbents' electoral survival, particularly when their history of corruption may be used by opposition forces and the media to increase voter information and undermine incumbents' electoral returns. Under these conditions, corrupt incumbents' incentives to maintain their position increase even further: institutional power grants them greater access, fewer controls, and greater distributive authority over the state's budgetary resources, comprised significantly of EU fiscal inflows. In the absence of effective governance, rule of law, and monitoring mechanisms (Asongu and Jellal 2013; Keohane 1998; Wright and Winters 2010), corrupt incumbents' ability to achieve these objectives and consolidate their position becomes a probable outcome.

I argue that under these conditions incumbents' ability to engage in corruption compensation with members of their personal and political network increases. These conditions foster a political climate where corrupt incumbents face limited constraints on their ability

to misallocate EU funds for purposes of rewarding their own networks, win the support of potential coalition partners, and implement policies that appease particular factions of the electorate. There is a potential risk to the misuse of EU fiscal flows by corrupt and illiberal governments: The EU can choose to withdraw the funds as a punishment mechanism. However, the process of downsizing member states' fiscal flows calls for adjustments to the EU budget— a procedure that must be agreed upon by all national leaders unanimously. Thus, attempts to withdraw a particular illiberal state's funds require the approval of other, potentially illiberal governments who themselves stand to lose access to EU funds by setting a precedent. For instance, EU attempts to withdraw funds from Hungary require the unlikely approval of Poland—another corrupt and illiberal EU member uninterested in risking its own future fiscal flows due to domestic corruption and illiberal politics. Under these conditions, the EU's threats to discontinue or altogether stop the fiscal flows are deemed non-consequential and non-credible by the recipient member states. This could explain why despite the European Commission's 2021-2027 budget proposal to cut funds to the Eastern European countries, Hungary's Prime Minister, Viktor Orban, and Poland's Jaroslaw Kaczynski remained confident that their countries would remain the largest recipients of EU funds. [7] Thus, leaders' utility costs for engaging in corruption are low given the revenue streams of EU funds. This in return diminishes their incentives to curb corruptive practices and increases their governing latitude over opposition forces. Given these dynamics, I expect EU fiscal transfers to boost the electoral shares of corrupt incumbent parties over the opposition in EU states.

Additionally, I expect the intensity of this effect to vary across the EU's developed and developing states. Fiscal transfers, much like aid, serve as a sizable, non-taxable resource that incumbents as well as opposition and other factions compete over (Svensson 1999; Tornell and Lane 1999). This is especially the case in the EU's post-socialist states. While the EU's better-performing economies accumulate the bulk of their financial revenue

[7] *Bloomberg*, 3 May 2018. https://www.bloomberg.com/opinion/articles/2018-05-03/ eu-budget-plan-compels-members-to-respect-values-or-lose-funds

from trade and other domestic economic initiatives, the main source of income for the less developed, post-socialist economies is European funding, which finances up to 80 percent of their public investment (European Commission). Hence, the EU's fiscal transfers comprise the largest resource pool from which the governing parties of post-socialist states can draw to engage in rewarding strategies that yield a competitive advantage over the opposition.

In accordance with the above discussion, I offer the following hypotheses:

H1: *Increases in the corruption tendencies of recipient states' governing parties have a negative effect on parties' governing shares.*

H2: *The electoral margins of governing parties in high corruption states increase when the amounts of the EU's fiscal allocations also increases.*

An important point to make in regards to Hypothesis 2 is the issue of reverse causality. As argued in the aid literature, the direction of causality is an important concern when assessing the relationship between aid and development. For instance, does aid cause poverty, or is it the case that underdeveloped countries receive more aid to address poverty? When assessing the direction of causality between EU funds and corrupt states' incumbent parties, however, this is less of a concern. It is difficult to imagine that the EU would allocate greater resources to corrupt incumbents for purposes of combating corruption. This reasoning is evident in the Commission's threats to freeze funds to Romania, Czech Republic, Hungary, and other EU states plagued by political corruption.

Prior to testing these expectations, I discuss the EU's budget composition and briefly illustrate these dynamics in the case of Poland.

3.1 The EU's Budget Composition & Fiscal Funds Distribution

The distribution of funds among member states is a central feature of the EU budget. The purpose of the fiscal distribution, understood here as the mechanism via which fiscal funds are transferred from the EU budget to member states, is to narrow the wealth gap between the EU's developed and developing states. The funds are drawn from a common pool of resources to which all member states contribute a share proportionate to their gross national income (GNI). These contributions make up the largest portion of the EU budget and are used to balance the organization's revenues and expenditures (European Commission 2013). Additional revenues contributing to the EU budget are customs duties on imports from outside the EU and sugar levies, as well as a standard percentage based on the harmonized value added tax (VAT) payments of each member state (European Commission). Other sources of revenue falling under the EU's "Own Resources" category include taxes on EU salaries, fines imposed on companies that breach competition laws, and contributions to particular EU programs made by non-EU countries (European Commission).

Approximately 94 percent of the EU budget is distributed among its member states. These expenditures are payments allocated to national governments during a fiscal year. They are drawn from year *t*'s appropriations or from year (*t -1*)'s carryovers of unconsumed funds. The amount allocated to each member state corresponds with its national GNI and is distributed according to the EU's criteria that "all possible expenditure[8] must be allocated" (European Commission). The fiscal flows are designed to fund country-specific projects and implement various EU-initiated policies in recipient states (European Commission). While the amount of funds allocated to national governments varies, they constitute a significant portion of income for all member states and contribute to the improvement of several domestic policy areas, the two main ones being "sustainable growth and natural

[8]Exceptions to this criteria include expenditure related to external actions, the pre-accession strategy, guarantees, reserves, and unmarked revenue.

resources," and "economic, social, and territorial cohesion." Table 1 presents the allocation of the EU's expenditure (141,586 million Euros) during fiscal year 2015. It indicates the main policy areas and projects funded in the EU, the amount allocated to each category, and the proportion of the total budget they constitute.

Table 1: EU Budget 2015 - Fiscal Distribution
(in million EUR)

Policy Area	Amount	Proportion of EU budget
Competitiveness for Growth and Jobs	15581	11%
Economic, Social & Territorial Cohesion	50961	35.99%
Sustainable Growth: Natural Resources	56634	40%
Security & Citizenship	1958	1.38%
Global Europe	7648	5.4%
Administration	8551	6.04%
Compensations	252	0.18%
Special Instruments	0	0%

The process of fiscal distribution among EU countries serves either as a liability or an opportunity, given a member state's degree of economic development and population size. For the better-performing economies of Austria, the Netherlands, Germany, Sweden, etc., the responsibility of contributing to the EU budget is disproportionately heavier than for less developed EU countries. Given their relative wealth—measured by national gross national income—the EU's developed members are institutionally obliged to make greater contributions to the EU budget than their developing, post-socialist counterparts. This pattern is reversed when considering the distribution of benefits and fiscal flows among member countries. Given the EU's fiscal prioritization of policies geared toward "economic, social, and territorial cohesion" and "competitiveness for jobs and growth," the region's less developed economies receive greater allocations[9] while contributing comparatively smaller shares to the EU's total revenue. [10] To provide an example of the

[9]European funding in the EU's poorer countries finances up to 80 percent of their public investment.

[10]Other portions of the EU's fiscal funds are allocated to non-EU-member states for promoting the integration purposes of the EU and its powerful members (Carrubba 1997; Schneider 2018). Additional funds are used by the same actors as bargaining chips for controlling migration patterns within the EU (Angin et al.

imbalance in transfers among EU states: In 2015, Estonia, Poland, and Romania—three of the EU's post-socialist, developing economies—were allocated, respectively, the amounts of 13,695 million, 13,357 million, and 6,538 million Euros. This funding includes "Cohesion Policy" funds allocated to the EU's underdeveloped regions and member states in order to generate growth and employment in these areas (European Union). In turn, the EU allocated the better-performing economies of Austria, Sweden, and the Netherlands the respective amounts of 1,787 million, 1,467 million, and 2,359 million Euros of its budget (European Commission 2013). The fiscal disbursements to national governments have increased further in recent years as the share of the EU's budget allocated to policies that promote economic development and narrow the wealth gap between members has increased by approximately 20 billion Euros since 2014 (European Commission 2013).

While the disbursements to member states have accrued over time, the funds' effectiveness in reaching the desired economic, social, and institutional objectives in recipient states has varied considerably across the region. In some countries, notably Romania and Bulgaria, fiscal flows have been associated with a surge in political corruption (Fazekas and Tóth 2017). In such cases fiscal flows have been strategically diverted by governing parties and political elites to reward their personal and political networks, favor strongholds of electoral support, and forestall electoral accountability. Yet in other states, such as Poland and Hungary, the EU's fiscal distributions have contributed to implementing programs and policy measures that have boosted their transitions into well-performing market economies. However, both Poland and Hungary's increasingly authoritarian political developments may point to weaknesses in the efficacy of fiscal flows to promote not only democratic robustness in recipient states, but also political cohesion within the EU. Despite established monitoring mechanisms [11] at both the EU and national levels, success

2019).

[11] The European Anti-Fraud Office (OLAF) investigates "fraud against the EU budget, corruption and serious misconduct within the European institutions" (OLAF (European Anti-Fraud Office)). The OLAF works closely with the "Anti-Fraud Coordination Service" of each member state and attaches repercussions to intentional misallocation of funds. It places accountable parties either in the "Early Detection and Exclusion System" (EDES) or the "Exclusion" category which prohibits them from future fiscal flows from the EU. An

in curbing the misallocation of fiscal funds in recipient states has been limited.[12]

3.2 Poland: An Illustrative Case

The relationship between fiscal flows, corruption, and electoral returns for domestic governing parties is evident in the case of Poland. Having joined the European Union in 2004, Poland—a country increasingly marked by cases of political corruption[13]—has been the recipient of large shares of EU funds, with this total peaking in 2014 at nearly 17.5 billion. From the time of its accession to the EU through 2015, Poland was governed by the Civic Platform (PO), led by Donald Tusk, in coalition with the Polish People's Party. The PO and the People's Party combined for 47.5 percent of the vote and 235 seats in the Sejm, the Polish lower chamber, an absolute majority, in the 2011 parliamentary elections. Aided by a first-past-the-post electoral system, the increasingly authoritarian Law and Justice (PiS) party were also able to secure a 235-seat majority after the 2015 elections, despite having only won 37.6% of the vote.

PiS has made strategic use of EU transfers to reward its political network and constituent base. Two particular measures used by PiS have been appointing party supporters to key allocating posts and implementing domestic policies aimed at garnering the electoral support of targeted constituencies. To illustrate, in 2016, former PiS Prime Minister Beata Szydlo appointed Marek Chrzanowski—who in November 2018 resigned over cor-

additional EU-monitoring institution is the European Court of Auditors (ECA). The ECA reviews the parties responsible for managing European funds and conducts routine "Compliance Audits" on the European institutions to prevent and reduce fraud within them. The ECA's findings are reported to the OLAF.

[12]A primary reason for this is the lack of enforcement mechanisms at the EU level. While the OLAF has the power to identify and ban misallocating parties from receiving future funds, the authority to hold these parties legally accountable rests with the national governments. This lack of supranational enforcement mechanisms makes it feasible for individuals and parties in recipient states to continue misusing the funds for personal and political purposes with little to no legal ramifications (Fazekas et al. 2013a). To illustrate, between 2010 and 2017, the OLAF conducted over 1,800 investigations into the misuse of EU funds and issued over 2,300 recommendations for disciplinary actions to be taken. Nonetheless, deliberate mismanagement of the EU's fiscal flows persisted in recipient countries, particularly in the newer democracies, despite efforts to combat practices of bid rigging and kickbacks by the EU (Ferwerda and Deleanu 2013).

[13]Poland's 2003, 2007, and 2015 governments have routinely engaged in bribery and corruption scandals.

ruption allegations[14]—to the position of Poland's Financial Supervision Authority (KNF), a position that granted Chrzanowski access and authority over Poland's fiscal resources, comprised heavily of EU transfers.

Additionally, PiS has utilized EU funds to implement domestic policies aimed at garnering the electoral support of the parties' constituent base. PiS derived much of its success from its 500+ Initiative, which provides Polish parents with a tax-free benefit of PLN 500 (about 120 Euros) per month for their second and any further children until the age of 18. This accounts for 12% of the Polish average wage and costs the Polish government about 4 Billion Euros per year. Families below a further income level also receive financial support for their first child. While targeted at strengthening birth rates and family values, the policy led to a significant electoral boost for PiS, which gains most of its support from Poland's poorer, rural population, who benefit disproportionately from this policy (Marcinkiewicz and Stegmaier 2016). Economically insecure voters were more likely to support PiS than their economically secure counterparts, with this policy being one of the main drivers of their electoral success (Piotrowska 2016). PiS was able to pursue this policy due to the relatively large amount of funds Poland receives annually from the European Union. These funds allow the Polish government to reduce spending in projects such as infrastructure investments, which the EU often helps fund, and redirect it toward welfare programs such as the 500+ Initiative.

With access to a large amount of EU funds and a political climate that lacked strong leadership after Tusk became the President of the European Council, PiS were able to win an absolute majority by using the EU's fiscal transfers to engage in activities that targeted their voting base.

[14]Chrzanowski was reported to have solicited a bribe in the amount of 40 million zloty (9.3 million Euros) in return for lenient treatment to a national bank with a history of large numbers of non-performing loans.

4 Research Design

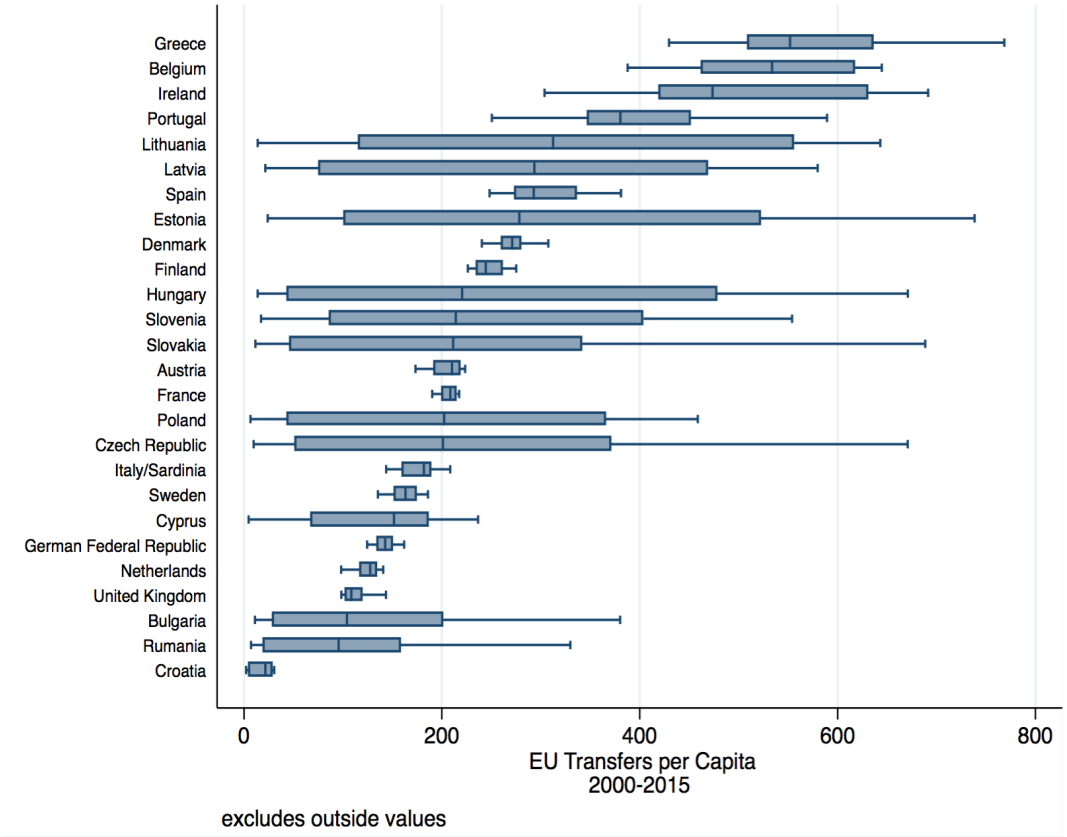
4.1 Sample Selection and Data Sources

To assess how EU disbursements shape domestic party politics and the competitive advantage of recipient countries' governing parties, I concentrate my analysis on twenty-six member states over the period 2000-2015[15]. These countries share common institutional structures while displaying distinct development trajectories. Their commonalities include EU-defined institutional and regulatory frameworks and participation in the EU's legislative and executive bodies via elected representatives. Yet they differ in terms of economic performance, democratic robustness, and historical legacies—with several post-communist members, including Hungary, Poland, Romania, etc., lagging behind in economic growth and effective governance.

Importantly, these countries differ along two main theoretical dimensions argued here to shape incumbent parties' political gains— the amount of fiscal flows and degree of executive corruption. First, given their respective GNI and population sizes, the amount of EU funds per capita distributed to member states differs significantly across the region and over time (Figure 1). For instance, in 2015, Sweden received 150 Euros per capita in EU disbursements while Poland and Bulgaria received, respectively, 352 and 689 Euros per capita. (Figure 2).

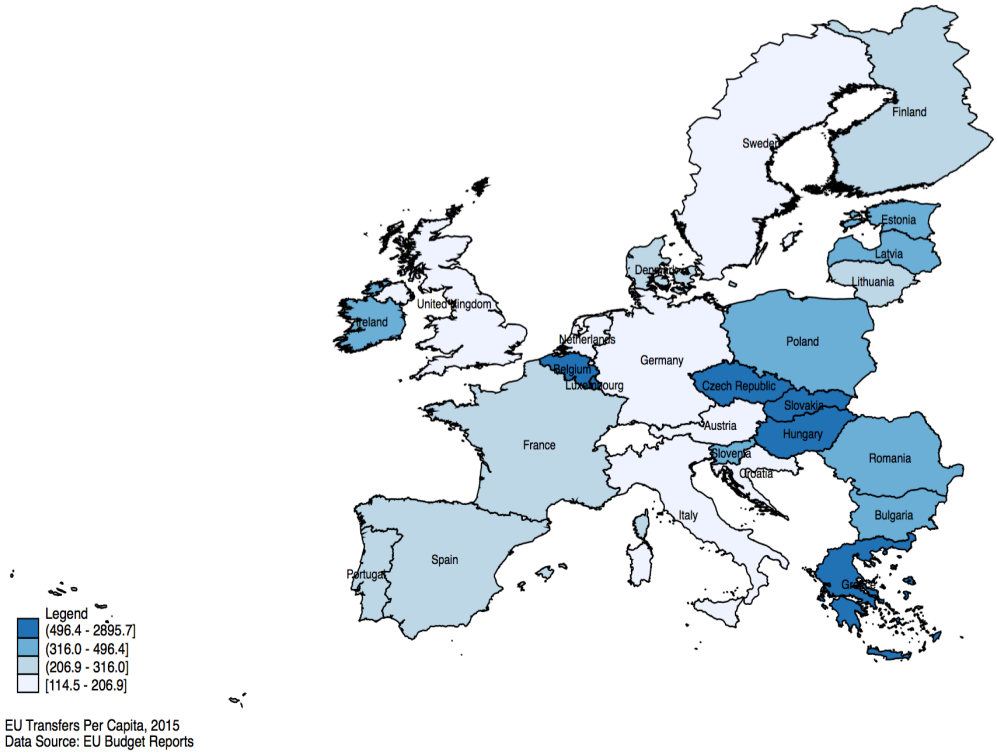
[15]To accommodate data availability, Cyprus and Malta are excluded from the analysis.

Figure 1: EU Transfers Per Capita
2000-2015



Note: The box plot displays the distribution of EU fiscal transfers across member states during 2000-2015. The graph indicates the range, median, and means of the ratio of the total amount of EU funds received by recipient country i in year t to country i's population over year t.

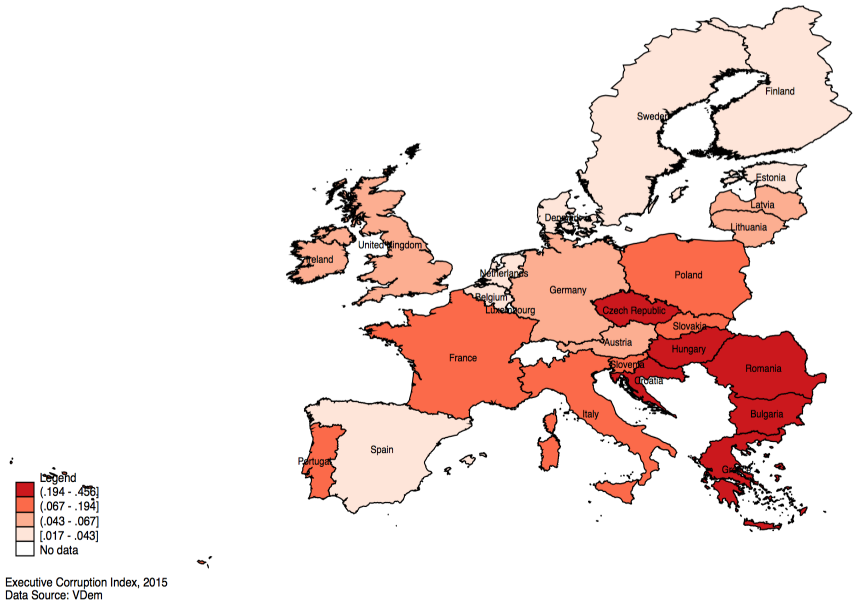
Figure 2: A Graphical Representation of EU Transfers per Capita.
EU Member States, 2015



Note: The graph represents the amount of EU transfers allocated to each recipient country relative to each country's population in 2015. Darker areas indicate greater EU transfers per capita allocated to the recipient country.

Additionally, the countries under consideration demonstrate distinct patterns of political and executive corruption. Despite established monitoring mechanisms and uniform expectations of corruption controls and fiscal transparency by the EU, political and executive corruption is particularly high among the EU's post-socialist members and reaches the highest executive ranks (Fazekas and Tóth 2017). As captured in Figure 3 the post-socialist members display comparatively higher levels of executive corruption than their Western counterparts.

Figure 3: A Graphical Representation of the Executive Corruption Index.
EU Member States, 2015



Note: The graph represents each EU member state's Executive Corruption Index in the year 2015.

The empirical analysis utilizes a combination of original and preexisting data. To collect indicators on one of the study's main explanatory variables—the amount of EU disbursements to recipient states—I rely on the European Commission's Budget Reports for years 2000-2015. Additional data on the explanatory and main control variables included in the analysis are obtained from several datasets, including the Database of Political Institutions (Cruz et al. 2016), Polity IV Democracy (Marshall and Gurr 2015), Varieties of Democracy Dataset (VDEM) (Coppedge et al. 2017), World Development Indicators from the World Bank (WDI) (World Bank 2017), World Governance Indicators (WGI) (Kaufmann et al. 2011), and Boix, Miller, and Rosato Democracy Data (Boix et al. 2013).

4.2 Dependent Variable

My main expectation is that higher fiscal inflows to politically corrupt EU countries deliver a political advantage to incumbent parties over opposition forces. To capture this effect, the empirical analysis focuses on the seat share of recipient states' governing parties as

the main outcome of interest. This variable captures the fraction of seats held by all government parties in country i during year t. The measure is calculated by dividing the total number of government seats by the total number of government plus opposition plus non-aligned seats (Cruz et al. 2016). The dependent variable remains constant in the years between parliamentary elections. Therefore, to take advantage of the variation in the outcome variable, I concentrate the analysis only on years during which parliamentary elections were held.

4.3 Explanatory Variables

In accordance with my theoretical expectations, this study's main explanatory variable is the interacted effect of the total shares of fiscal flows distributed by the EU to national governments $\times$ the degree of executive corruption in recipient countries. I collect the data on the total amount of fiscal transfers allocated to EU member states from the European Commission's Budget Reports for the years 2000-2015. The transfers are distributed across several categories, including agriculture, structural, development, etc. My theory, however, is primarily focused on 1) the quantity of funds received by recipient states; and 2) access to the funds by governing parties. Thus, my interest lies less with the transfers' intended policy objective and more with the total shares of fiscal flows available to the governing parties of recipient states. For this reason, I aggregate my measure of fiscal transfers across the various divisions of EU expenditure.

Consistent with the larger aid literature, I then calculate two different measures that capture, respectively, the short-term value of EU fiscal flows and the size of transfers received by member states: 1) fiscal transfers per capita, and 2) fiscal transfers by government expenditure. In regards to the first: a contested feature of the EU's redistribution mechanism as well as its decision-making system is the size of member states' populations. Member states with smaller populations are favoured by the EU's institutional structure (Mattila 2006). They are routinely over-represented in EU legislative bodies, including the

Council of Ministers, and use their powers within the organization to influence EU budget decisions and increase their fiscal inflows. I account for this empirically by constructing the share of fiscal flows per capita variable. The variable is calculated by dividing the total amount of expenditures that EU allocates to state i in year t by the population of state i during year t, where, as indicated earlier, the amount of transfers allocated to state i over year t is the aggregate sum of all different categories of EU expenditure directed to country i in year t. Normalizing disbursement size by population accounts for the likelihood that smaller states that are over-represented in the European Council receive greater allocations by the EU (Mattila 2006; Rodden 2002). Also, I measure the size and relative value of EU fiscal flows to each recipient country's economy by taking the ratio of the funds allocated to state i in year t to the total government consumption of state i during year t. The distribution of this variable across the EU states during the period 2000-2015 is presented in Figure 1.

The second component of the main explanatory variable is the Executive Corruption Index (ECI) of country i at year t. I obtain this variable from the Varieties of Democracy Dataset (Coppedge et al. 2017). The index is formed by taking the average of the point estimates from a Bayesian factor analysis model of the indicators for executive bribery[16] and executive embezzlement[17]. These indicators provide a good estimate of the corruption practices of governing parties and elected executives. They are derived from responses to the question "How routinely do members of the executive or their agents grant favors in exchange for bribes, kickbacks, or other material inducements, and how often do they steal, embezzle, or misappropriate public funds or other state resources for personal or family use?" The data is in interval format and its direction runs from less to more corrupt.

[16](v2exbribe)
[17](v2exembez)

4.4 Control Variables

The control variables included in the analysis account for factors plausibly associated with the study's main explanatory and dependent variables—that is, the share of EU funds, the degree of executive corruption and the seat shares of receiving states' incumbent parties. Previous research argues that countries with shared democratic norms and institutions are less likely to misallocate aid and external funds for political purposes. To account for these effects, I control for the degree of variation in recipient states' political institutions. I obtain the data from the Polity IV dataset (Marshall and Gurr 2015). The continuous (versus binary) nature of the Polity IV combined score allows me to effectively capture any changes caused by the inflow of fiscal transfers.[18]

Equally important is the degree of effective governance in recipient states. Higher fiscal inflows to inefficient governments provoke higher corruption risks and fewer limits on incumbents' opportunity to misuse fiscal flows for electoral gains. I account for this tendency by controlling for government effectiveness in recipient states. The data for this variable is obtained from the World Bank Worldwide Development Indicators (WDI).

Moreover, the politics of fiscal allocations and party outcomes differ among recipient countries based on their past experiences with democratic governing. Previous literature suggests that history and previous institutions have long-lasting effects (Nunn 2009; Spolaore and Wacziarg 2013) on a society's values, cultural norms, and social behavior (Putnam 1993; Alesina and Fuchs-Schündeln 2007; Tabellini 2010). These forces impact the domestic politics and current formal institutions (North 1990; La Porta et al. 1998; Acemoglu et al. 2001) in transitioning states (Becker et al. 2016; Simpser et al. 2018). I account for these effects by controlling for the duration of democracy and whether recipient countries have undergone a democratic transition in the post-1990s period. The data for democracy duration comes from the Data Set of Political Regimes (Boix et al. 2013). I code

[18]Polity scores combine several measures key to the analysis, among them constraints on the executive, competitiveness and regulation of participation, as well as openness and competitiveness of executive recruitment.

the variable for democratic transition by assigning it a value of 1 if country *i* underwent a democratic transition in the post-1990s period and 0 otherwise.

The empirical analysis also includes controls for political stability and the rule of law—factors found by previous works to influence the relationship between aid flows, corruption, and party politics. Political stability facilitates the strength of the judiciary, which in turn promotes the rule of law. Under these conditions, the opportunity of domestic elites to misallocate aid and other external funds for personal and political purposes is constrained by legal bounds (Staats and Biglaiser 2012). I account for these dynamics by controlling for recipient countries' political stability and the rule of law. The data for the political stability are derived from the State Fragility Index (SFI) while the rule of law variable comes from World Bank Worldwide Development Indicators (WGI).

Additional controls included in the analysis account for the robustness of civil societies and equal distribution of resources in recipient states. Similar to aid, EU allocations influence the political environment and civil societies in ways that promote dialogue among polarized actors, change their incentive structures (Santiso 2001), and affect citizens' political behavior and vote choices (Carothers and Barndt 1999). This political atmosphere may also shape demands for equal distribution of resources by active citizens informed about states' fiscal inflows. Thus, robust civil societies relate to the efficiency of allocations as well as incumbents' outcomes. I account for these effects by controlling for robust civil societies and equal distribution of resources. The data for these variables is derived from the Varieties of Democracy (V-Dem) data set.

Finally, I include in the analysis a control for the year during which legislative elections are held. This is a binary variable that takes on the value of "1" in legislative election years and "0" in the years between elections. The GDP (logged) of each target country *i* in year *t* is also included to account for the macroeconomic performance of recipient states. Table 1 presents the descriptive statistics for all control Variables.

4.5 Empirical Strategy

To regress the dependent variable, seat shares of recipient states' governing parties, *Seat Share*$_{it}$, on my main explanatory variables, *Share EU Transfers*$_{it}$, *Executive Corruption Index (ECI)*$_{it}$, and their combined effect [*Share EU Transfers*$_{it}$ $\times$ *ECI*$_{it}$], I use a pooled cross-sectional time-series ordinary least squares (OLS) analysis with country clustered standard errors. Formally,

$$\begin{aligned}\text{Seat Share}_{it} = \beta_0 + \beta_1 \text{Share (EU Funds)}_{it} + \beta_2 \text{Executive Corruption Index (ECI)}_{it} \\ + \beta_3 [\text{Share (EU Funds)} \times \text{(ECI)}]_{it} + \beta_4 \text{Polity}_{it} + \beta_5 \ln(\text{GDP})_{it} \\ + \sum_{k=6}^{n} \left(\beta_k \text{Control Variable}_{(k-4),it} \right) + \alpha_i + \mu_t + \epsilon_{it},\end{aligned}$$

where α_i and μ_t denote respectively, country and year dummies and ϵ_{it} denotes the country-year error term.

Given that incumbent parties' vote shares remain constant in the years between elections, I only regress the portion of the sample during which legislative elections were held. This permits me to effectively capture variation in the dependent variable, governing parties' *Seat Share*$_{it}$. I also include in the analysis country and year fixed effects. Country fixed effects capture country-specific, time-invariant variables that associate with the dependent variable, while year fixed effects capture global factors that may affect incumbents' seat shares in recipient state i during year t. I report the empirical results in the following section.

5 Empirical Results

Table 2 presents regression estimates of the determinants of seat shares for incumbent parties in EU member states during the period 2000-2015. The measure for EU transfers

in models 1-4 is amount of fiscal transfers per capita. The main parameter of interest in all presented models is β_3, which captures the combined effect of [*Share EU Transfers*$_{it}$ $\times$ *ECI*$_{it}$] on the dependent variable, governing parties' *Seat Shares*$_{it}$. A positive β_3 estimate corroborates the theoretical expectation that increases in fiscal flows to member states with high degrees of executive corruption are associated with increases in electoral margins for recipient states' governing parties.

Model 1 estimates a simple version of the relationship between EU funds, executive corruption, and incumbents' seat shares. The coefficient on the executive corruption variable is highly significant (p = 0.001) and in the predicted negative direction. This suggests an inverse effect of executive corruption on governing parties' seat shares, which corroborates Hypothesis 1. However, the direction of this effect shifts to positive—while maintaining its statistical significance—when recipient states' ECI index is interacted with the amount of EU funds per capita received by member states. These findings also hold when additional governance and macroeconomic controls are added to the analysis. Models 2, 3, and 4 control for recipient states' GDP (logged), Polity IV score, government effectiveness, rule of law, and other indicators plausibly associated with the dependent and explanatory variables. Throughout all models, the β_3 coefficient maintains its statistical significance and predicted positive direction. These findings lend support to the expectation that higher fiscal flows to recipient states with high degrees of executive corruption have a positive effect on incumbent parties' competitive advantage (Hypothesis 2).

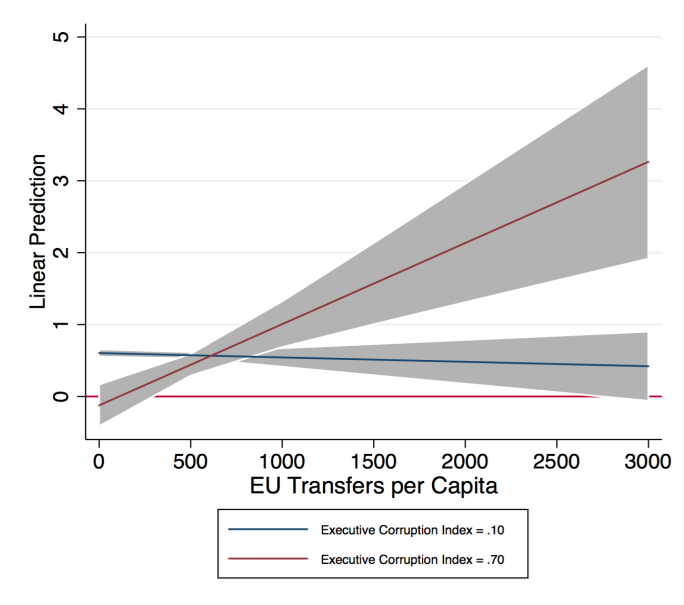
Table 2: Determinants of Governing Parties' Seat Share

	(1)	(2)	(3)	(4)
EU Transfers per Capita$_{it}$	-0.000^{+}	-0.000^{+}	-0.000^{+}	-0.000*
	(0.000)	(0.000)	(0.000)	(0.000)
ECI$_{it}$	-1.141***	-1.213***	-1.152***	-1.363***
	(0.247)	(0.273)	(0.254)	(0.324)
EU Transfers per Capita$_{it}$ $\times$ ECI$_{it}$	0.002***	0.002**	0.002***	0.002***
	(0.000)	(0.001)	(0.000)	(0.001)
Polity IV$_{it}$		-0.038	-0.037	-0.043
		(0.025)	(0.026)	(0.028)
ln(GDP)$_{it}$		-0.306*	-0.201	-0.264
		(0.138)	(0.119)	(0.155)
Political Stability$_{it}$		-0.003	0.008	-0.019
		(0.049)	(0.051)	(0.054)
Civil Society Index$_{it}$		0.342	0.351	0.288
		(0.235)	(0.255)	(0.241)
Rule of Law$_{it}$		0.126		0.119
		(0.084)		(0.085)
Government Effectiveness$_{it}$		0.010	0.032	0.017
		(0.041)	(0.047)	(0.042)
Equal Resource Distribution$_{it}$		0.192	0.483	0.040
		(1.011)	(1.049)	(1.002)
Democracy Duration$_{it}$			0.004	
			(0.004)	
Democracy Transition$_{it}$				-0.110
				(0.071)
Constant	0.760***	8.432*	5.370^{+}	7.629*
	(0.051)	(3.254)	(2.775)	(3.581)
Observations	110	104	104	104
Countries	26	26	26	26
Country Fixed Effects	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓
R^2	0.365	0.447	0.425	0.460

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of Governing Parties' Seat Shares in year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include country and year fixed effects.

Figure 4 focuses on Model 2 to illustrate this relationship. As shown, the marginal effect of higher fiscal flows to corrupt member states has a positive effect on the seat shares of target states' governing parties.

Figure 4: Average Marginal Effects of EU Funds (Model 2)



Note: The grey areas indicate 95% confidence intervals.

The positive effect of the interacted term on the dependent variable persists when I use the share of EU transfers to government expenditure as an alternative measure to capture the value of EU fiscal flows to recipient states. The results, presented in models 5-8 in Table 3, show that the coefficient β_3 on the interacted term maintains its statistical significance and positive direction.[19] As shown, while the size of the β_3 coefficient varies slightly across the models, the results remain relatively consistent and highly significant when controlling for other factors expected to be associated with the dependent and explanatory variables. In addition to the interaction term, the rule of law variable also has a positive and significant effect on incumbent parties' seat shares. This effect supports the literature's previous findings of a positive association between the rule of law, aid, and domestic politics.

[19]In the interest of consistency, the specification of these models includes all variables accounted for in models 15.

Table 3: Determinants of Governing Parties' Seat Share

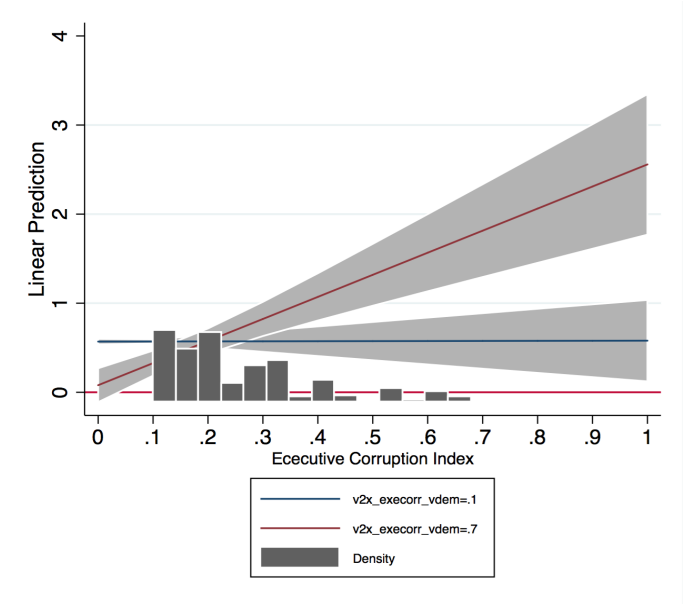
	(5)	(6)	(7)	(8)
EU Transfers$_{it}$	-0.298	-0.401	-0.286	-0.401
	(0.332)	(0.294)	(0.354)	(0.294)
ECI$_{it}$	-0.798***	-0.816***	-0.761***	-0.816***
	(0.188)	(0.163)	(0.153)	(0.163)
EU Transfers$_{it}$ $\times$ ECI$_{it}$	2.915**	4.114***	3.396**	4.114***
	(0.911)	(0.856)	(0.984)	(0.856)
Polity IV$_{it}$		-0.045	-0.042	-0.045
		(0.032)	(0.031)	(0.032)
ln(GDP)$_{it}$		-0.370*	-0.249*	-0.370*
		(0.139)	(0.116)	(0.139)
Political Stability$_{it}$		-0.014	0.005	-0.014
		(0.043)	(0.043)	(0.043)
Civil Society Index$_{it}$		0.153	0.183	0.153
		(0.228)	(0.236)	(0.228)
Rule of Law$_{it}$		0.153*		0.153*
		(0.073)		(0.073)
Government Effectiveness$_{it}$		0.013	0.030	0.013
		(0.046)	(0.049)	(0.046)
Equal Resource Distribution$_{it}$		0.669	0.981	0.669
		(0.930)	(0.973)	(0.930)
Democracy Duration$_{it}$			0.004	0.006
			(0.004)	(0.004)
Constant	0.705***	9.781**	6.249*	9.559**
	(0.040)	(3.269)	(2.567)	(3.195)
Observations	110	104	104	104
Countries	26	26	26	26
Country Fixed Effects	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓
R^2	0.340	0.450	0.419	0.450

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of Governing Parties' Seat Shares in year *t*. EU Transfers represents the amount of EU transfers to country *i* in year *t* divided by country *i*'s general government final consumption expenditure during year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively. All models include fixed effects for year and recipient country.

The positive, marginal effect that higher fiscal flows have on the seat shares of corrupt recipients' governing parties is further supported by the graph presented in Figure 5. The graph focuses on Model 6 to illustrate the marginal effect of EU transfers on incumbents' seat shares across different levels of executive corruption. As shown, the marginal effect of EU transfers on incumbents' seat shares increases in recipient states with high levels of

executive corruption *(ECI = .7)* while remaining relatively stable in low-corruption recipient states *(ECI = .1)*. Thus, the positive affect of higher fiscal flows on incumbent parties' competitive advantage appears to be a concern only when recipient states' governing parties display high tendencies of executive and political corruption.

Figure 5: Average Marginal Effects of EU Funds (Model 6)



Note: The light grey areas indicate 95% confidence intervals. EU Transfers measured relative to recipient states' government expenditure.

6 Robustness Checks

I place my theoretical expectations under further scrutiny as follows. To test whether higher fiscal flows to corrupt EU states help consolidate governing parties' political advantage relative to opposition forces, I measure the effect of the interacted term on the change in seat shares between government and opposition parties. I present these results in Tables 4 and 5. The common dependent variable in both tables is,

$$\Delta[(\text{Government Seats})_{it} - (\text{Opposition Seats})_{it}]$$

The main explanatory variable for Models 9 and 10 presented in Table 4 is the interacted

term presented in equation (1). For Models 11 and 12 the explanatory variable takes the form expressed in equation (2).

$$[(\text{EU Transfers})_{it}/(\text{Population})_{it}] \times (\text{ECI})_{it} \tag{1}$$

$$[(\text{EU Transfers})_{it}/(\text{Gov Spending})_{it}] \times (\text{ECI})_{it} \tag{2}$$

Table 4: Determinants of Δ(Seats)
Between Governing & Opposition Parties

	(9)	(10)
EU Transfers per Capita$_{it}$	-0.065	-0.053
	(0.065)	(0.081)
ECI$_{it}$	-256.525*	-223.528^{+}
	(123.019)	(121.823)
EU Transfers per Capita$_{it}$ × ECI$_{it}$	0.594*	0.642*
	(0.253)	(0.286)
Polity IV$_{it}$		0.170
		(11.147)
ln(GDP)$_{it}$		-197.133^{+}
		(103.956)
Political Stability$_{it}$		25.418
		(28.990)
Rule of Law $_{it}$		27.494
		(42.988)
Government Effectiveness$_{it}$		-3.004
		(21.306)
Equal Resource Distribution$_{it}$		394.528
		(445.797)
Observations	112	106
Countries	26	26
Country Fixed Effects	✓	✓
Year Fixed Effects	✓	✓
R^2	0.301	0.392

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of Changes in Seats between governing and opposition parties in year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

As shown in Tables 4 and 5 the effect of the interacted term on the difference in

seat shares between governing and opposition parties maintains the predicted positive direction and it is significant at the 5% and 1% levels, respectively.

Table 5: Determinants of Δ(Seats)
Between Governing & Opposition Parties

	(11)	(12)
EU Transfers$_{it}$	-154.896	-130.620
	(134.413)	(138.576)
ECI$_{it}$	-228.729*	-185.171*
	(89.393)	(77.118)
EU Transfers$_{it}$ × ECI$_{it}$	1562.370**	1960.490**
	(489.794)	(540.456)
Polity IV$_{it}$		-9.126
		(10.157)
ln(GDP)$_{it}$		-244.792*
		(90.689)
Political Stability$_{it}$		16.672
		(25.762)
Rule of Law$_{it}$		55.274
		(40.528)
Government Effectiveness$_{it}$		6.399
		(23.318)
Equal Resource Distribution$_{it}$		452.524
		(389.546)
Constant	63.193**	5971.473*
	(18.958)	(2480.537)
Observations	112	106
Countries	26	26
Country Fixed Effects	✓	✓
Year Fixed Effects	✓	✓
R^2	0.326	0.461

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of Changes in Seats between governing and opposition parties in year *t*. EU Transfers represents the amount of EU transfers to country *i* in year *t* divided by country *i*'s general government final consumption expenditure during year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

To further assess the findings' robustness, I also estimate the effect of the interacted term on the incumbent parties' *number of seats*. I estimate this relationship by taking into account both different measures of Funds' allocations—that is, *EU funds per capita* (Results

presented in Table 6) and *EU funds relative to government spending* (Results presented in Table 7). As in earlier tests, the interactive term maintains its predicted direction and statistical significance (at the 5% level).

Table 6: Determinants of Governing Parties' Seats

	(13)	(14)	(15)	(16)
EU Transfers per Capita$_{it}$	-0.015	0.007	0.009	-0.007
	(0.033)	(0.036)	(0.036)	(0.038)
ECI$_{it}$	-117.253*	-109.234^{+}	-107.604^{+}	-104.526^{+}
	(55.933)	(56.524)	(56.747)	(60.017)
EU Transfers per Capita$_{it}$ $\times$ ECI$_{it}$	0.260*	0.259*	0.252*	0.261*
	(0.117)	(0.116)	(0.117)	(0.123)
Polity IV$_{it}$		6.762	7.046	0.101
		(8.974)	(9.011)	(9.514)
ln(GDP)$_{it}$		-58.451	-73.295^{+}	-68.521
		(36.979)	(41.933)	(51.385)
Equal Resource Distribution$_{it}$			219.124	285.373
			(288.550)	(293.736)
Political Stability$_{it}$				7.985
				(17.695)
Government Effectiveness$_{it}$				-5.459
				(19.996)
Democracy Transition$_{it}$				-4.525
				(31.965)
Observations	112	112	112	106
Countries	26	26	26	26
Country Fixed Effects	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓
R^2	0.268	0.297	0.303	0.323

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of governing parties' number of seats in year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

Table 7: Determinants of Governing Parties' Seats

	(17)	(18)
EU Transfers$_{it}$	-33.308	-4.734
	(75.294)	(91.733)
ECI$_{it}$	-101.900^{+}	-83.572
	(52.953)	(56.095)
EU Transfers$_{it}$ $\times$ ECI$_{it}$	660.046*	718.562*
	(269.097)	(293.819)
Polity IV$_{it}$		-4.030
		(9.292)
ln(GDP)$_{it}$		-80.485
		(51.198)
Political Stability$_{it}$		7.915
		(17.912)
Government Effectiveness$_{it}$		-1.710
		(20.596)
Equal Resource Distribution$_{it}$		329.064
		(284.343)
Democracy Transition$_{it}$		-1.781
		(30.936)
Observations	112	106
Countries	26	26
Country Fixed Effects	✓	✓
Year Fixed Effects	✓	✓
R^2	0.279	0.357

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of determinants of governing parties' number of seats in year *t*. EU Transfers represents the amount of EU transfers to country *i* in year *t* divided by country *i*'s general government final consumption expenditure during year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

Finally, I assess whether fiscal transfers have a greater influence on governing parties' political payoffs in transitioning versus established democracies. This test is driven, as seen in Figures 2 & 3, by patterns of variation in EU allocations and degree of executive corruption within the EU's political space. Therefore, to test whether the effect of the interacted term on the seat shares of recipient states' governing parties varies across member states with distinct democratic experiences, I separate the countries into two groups: transitioning and non-transitioning democracies. Transitioning democracies

include all post-socialist member states of the EU.[20] The non-transitioning cluster includes all member states that have not undergone a change in political regime in the post-1990s period. This variable is coded 1 for the post-socialist states and 0 for the non-transitioning EU member states. The results, presented in Table 8, show that the coefficients on the interacted term preserve their expected positive direction and statistical significance in the cases of both transitioning and non-transitioning states. In the case of the Western, non-transitioning democracies, the degree of significance declines slightly, although it still persists at the 1% level. These findings suggest that despite a recipient country's democratic experience, higher fiscal inflows have a positive impact on incumbents' vote shares, as long as the governing parties of recipient states demonstrate higher levels of executive and political corruption.

[20]The countries include Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

Table 8: Determinants of Majority's Seat Share
by Transitioning Criteria

	(Transitioning)	(Non-Transitioning)
EU Transfers per Capita$_{it}$	-0.000^{+}	-0.000
	(0.000)	(0.000)
ECI$_{it}$	-1.196***	-1.283***
	(0.228)	(0.283)
EU Transfers per Capita$_{it}$ $\times$ ECI$_{it}$	0.002**	0.002*
	(0.000)	(0.001)
Polity IV$_{it}$	-0.108**	0.030
	(0.028)	(0.049)
ln(GDP)$_{it}$	-0.342*	-0.071
	(0.139)	(0.222)
Political Stability$_{it}$	-0.021	0.093
	(0.068)	(0.078)
Party Age $_{it}$	0.003^{+}	-0.001
	(0.001)	(0.001)
Civil Society Index$_{it}$	0.317	-0.506
	(0.317)	(0.664)
Equal Resource Distribution$_{it}$	3.580**	-2.676^{+}
	(0.892)	(1.417)
Observations	46	58
Countries	11	15
Country Fixed Effects	✓	✓
Year Fixed Effects	✓	✓
R^2	0.797	0.537

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of seat shares during year *t* in the EU's transitioning and non-transitioning member states. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

7 Conclusions

One of the EU's primary objectives is to narrow the wealth gap between its member states and promote economic development across the region. Fiscal transfers made through the EU's fiscal budget serve as a key mechanism for achieving these outcomes. Designed to promote economic and policy initiatives that boost recipient states' economic performance, the funds' long-term objective is to promote recipient states' institutional effectiveness and advance the EU's democratic values across the region. These expectations are, however,

consistently challenged. Distinct patterns of economic growth among EU states point to continued economic disparities between the EU's developed and developing states, including Bulgaria, Romania, and other post-socialist members. In parallel with these developments, the rise of political corruption and authoritarian tendencies of governing parties in several EU states, particularly Hungary and Poland, further challenge the success of EU fiscal allocations in enhancing institutional performance and reinforcing democratic norms. The limited impact of EU funding and conditionality on forging long-term democratization (Mungiu-Pippidi 2014; Richter and Wunsch 2019) has also been observed in non-EU-member recipient countries. For instance, in the Western Balkans and former Soviet republics the capture of state institutions (Grzymala-Busse 2008), parliaments, and political parties by corrupt and clientelist networks (Innes 2014; Richter 2017) has allowed governing elites to use their position to cut the power resources of their political opponents (Börzel and Pamuk 2012).

These developments raise important questions about the ways in which EU fiscal allocations impact the domestic politics of recipient states. This paper has sought to advance our understanding of this impact. In examining the link between EU transfers, political corruption, and the electoral outcomes of recipient states' incumbent parties, this paper has examined, both theoretically and empirically, whether fiscal funds allocated by the EU to its member states deliver an electoral advantage to corrupt incumbent parties. Whereas previous works have examined the effect of EU funds on political corruption in recipient states, my approach examines the impact of funds on incumbent parties' political and electoral outcomes, taking into account the degree of executive corruption in recipient states. By analyzing new data on EU fiscal allocations over the period 2000-2015, I have tested and confirmed my novel theory that fiscal flows to corrupt EU states deliver political latitude and an electoral advantage to recipient states' governing parties.

These findings are relevant for purposes of both democratic theory and distributive policy. The aid literature finds that corrupt governments with underperforming institutions

are equally likely to receive the same amounts of aid as their less corrupt counterparts (Alesina and Weder 2002). Understanding whether funds allocated to the EU's highly corrupt member states serve to promote or jeopardize the EU's economic interests and democratic values is essential to the formulation of EU-level anticorruption policies.

The implication appears to be that recalibrating the EU's allocation calculus to corrupt member states could undercut the political momentum of corrupt governing parties. Limiting the funds to corrupt member states would constrain governing parties' ability to replenish their coffers and utilize the EU transfers as a resource pool for advancing personal, political, and policy objectives that garner voters' electoral support. Building on these findings, further research should aim to test the link between EU funds and political corruption to governing parties' political behavior, including authoritarian and populist tendencies. Examining the range of these influences will enhance our understanding of continued disparities in patterns of economic and democratic developments across EU member states. By providing insight into the source of challenges faced by the EU and its member states, these findings would serve as a foundation for policy remedies to control their proliferation.

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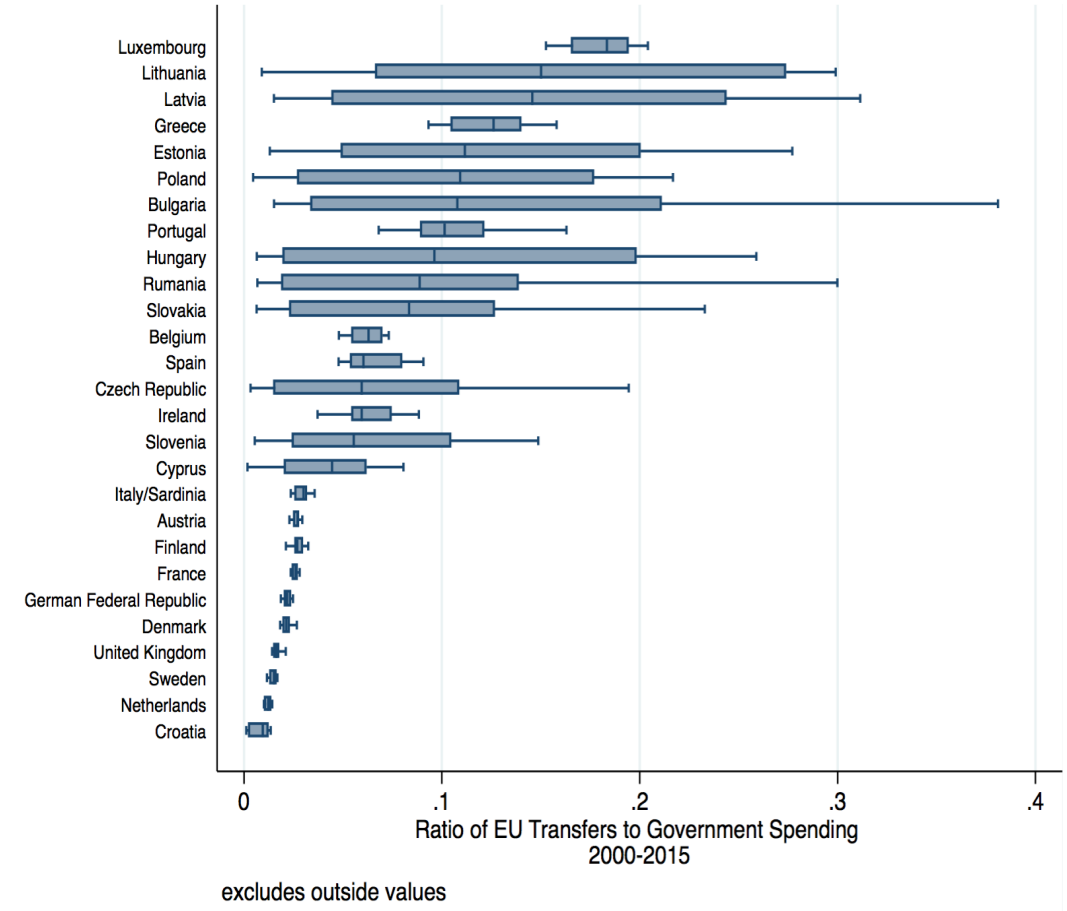
Appendix

Summary Statistics

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Government Parties' Seat Share$_{it}$	0.558	0.077	0.321	0.799	430
Total EU Transfers$_{it}$ (in millions Euros)	3850.944	4345.494	4.37	17436.082	432
ln(Total EU Transfers$_{it}$)	7.376	1.626	1.475	9.766	432
EU Transfers Per Capita$_{it}$	337.985	489.877	2.086	3080.864	432
EU Transfers$_{it}$/ Government Spending$_{it}$	0.189	0.183	0.003	0.788	432
Executive Corruption Index (ECI)$_{it}$	0.153	0.148	0.011	0.679	416
Government Consumption Expenditure$_{it}$	0.073	0.073	0.001	0.381	432
Share (EU Funds/Government Consumption)$_{it}$	196.002	224.776	0.294	960.977	432
Number of Government Seats$_{it}$	148.808	105.445	0	504	432
Number of Opposition Seats$_{it}$	116.19	79.718	0	346	432
Δ Party Seats (Government - Opposition)$_{it}$	32.618	55.115	-86	377	432
Polity IV$_{it}$	9.634	0.628	8	10	432
Political Stability$_{it}$	0.752	0.416	-0.482	1.663	405
Civil Society Index$_{it}$	0.914	0.048	0.638	0.976	416
Rule of Law$_{it}$	1.091	0.636	-0.269	2.12	405
Government Effectiveness$_{it}$	1.156	0.632	-0.435	2.359	405
Equal Distribution of Resources$_{it}$	0.923	0.053	0.755	0.982	416
Legislative Election$_{it}$	0.266	0.442	0	1	432
Democratic Transition$_{it}$	.41	.49	0	1	432
ln(GDP)$_{it}$	26.103	1.511	23.371	28.938	432
ln(Population)$_{it}$	15.98	1.302	12.986	18.229	432

Figure 1: Ratio of EU Transfers to Government Spending
2000 - 2015



Note: The box plot displays the distribution of EU fiscal transfers across member states during 20002015. The graph indicates the range, median, and means of the ratio of the total amount of EU Funds received by recipient country *i* in year *t* to country *i's* government spending over year *t*.