

Achieving Economic Growth in the EU Through Lobbyism

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Abstract

At Lisbon in 2000, the European Union (EU) set itself a new strategic goal, namely to become the world's leading economy and to enhance social cohesion across the union, all within a decade. It is argued in this article that one fundamental barrier to the fulfilment of this dream is the fact that power is centralised in the Commission rather than the Parliament. The basic idea upon which our theoretical model is predicated is that a political system that centralises power lowers the cost of rent-seeking and therefore leads to a more economically harmful redistribution, as reflected in the annual EU budget. Here, the two main redistribution policies, (1) Common Agricultural Policy (CAP) and (2) the Structural Funds, consume more than four fifths of the total annual EU budget. Thus, if the EU is to achieve its strategic goal, a strong cure is needed to reduce redistribution and encourage more free trade. The simple cure for this 'EU disease' would be to strengthen the decision-making power of the Parliament at the expense of the Commission. In this way, power would be spread out between the democratically elected members of the Parliament rather than being concentrated with a few bureaucrats. Such constitutional change and decentralisation of power would increase the costs of lobbying in particular and thereby reduce distortions of policy outcomes, clearing the road for free-trade policies and economic growth in the new millennium.

Keywords

Lobbyism; EU; redistribution; constitutional change

THE FOUNDATIONS OF THE EUROPEAN UNION (EU) CAN BE FOUND IN THE 1957 TREATY of Rome. At its 50th anniversary, the EU was able to celebrate a number of very important developments such as the creation of the single market, increased political stability and enlargement to the former communist bloc of central and Eastern Europe. The original and 'noble' purpose of the Treaty of Rome was for free trade among the European countries as a means to tie these nations together and strengthen their postwar economies. In this way, new wars between the large European states – Germany and France in particular – were to be avoided. It would be both expensive and foolish for a state to attack its best trading partner, as that nation would lose future gains from trade.

The main goal of the Lisbon Strategy, outlined in 2000, remained in line with this dream; namely, it was for the EU "...to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and

better jobs and greater social cohesion" (European Council 2000). Thus, it can be stated that the EU dream is to become the world's leading economy in terms of competitiveness and economic growth. In spite of this simple starting point, free trade cooperation has paradoxically led to a number of policies that are closer to those of a planned economy than to free trade. Market protection and subsidies still exist, implying that there is room to modify the EU system in such a way that it better accommodates its original purpose.

The theoretical model set out in this article suggests that the paradox of 'missing free trade' is caused by a high level of lobbying, which again is caused by the current political set-up in the EU. Basically, political decision-making power is centralised in the hands of the bureaucracy (the European Commission) rather than in the (publically elected) Parliament. The main question is this: How does power centralisation in the EU affect lobbying and economic growth?

The bureaucratic element of leadership in the EU is clear since the European Commission has the exclusive right to initiate all legislation by submitting proposals to the Council of Ministers. The Parliament can ask the Commission to present legislative proposals to the Council, but still the Commission retains the formal power to initiate

At the same time, the Commission promotes the inclusion of affected interest groups in the process of policy formulation in order to draw upon the expert knowledge of external actors. Furthermore, the Commission acts as the enforcement agent of EU lawmaking and is by far the most influential institution in the EU, as also documented by empirical research (Gullberg 2009).

In this political climate, policymakers are confronted with special interest groups that pursue private goals that may conflict with the overall goals of society. So, if the dominant interest groups like a particular proposal, they may promote it; if not, they may block it. This means in contrast to traditional economic theory that the institutional setup of society must be taken into account because it determines how easy it is for dominant interest groups, bureaucrats or politicians to promote their own interests rather than those of the public. Economic theory has traditionally been 'institution-free', as it does not explicitly refer to any state. The government is just there to correct market failures (Mueller 2003). However, under the strong influence of interest groups and bureaucrats, government intervention may, in reality, prove worse than the 'disease' of market failure it was meant to 'cure'.

Much has been written about the behaviour of interest groups within the EU, see for example: George and Bache (2006), El-Agraa (2001), Greenwood and Aspinwall (1998), Jones (2001) and Mazey and Richardson (1993). This literature is interesting and informative, and can generally be placed within the discipline of political science. We supplement this literature by combining political science with the discipline of economics, (i.e. we apply an interdisciplinary 'political economy' approach). As in political science, we focus on public issues like the behaviour of interest groups, bureaucracies and political parties, and not the market as in economics. Thus, the arena for research in political economy is the political (non-market) arena of political science (Green and Shapiro 1994). However, to the political arena we now add the behavioural assumptions of economics and model the effect of institutional setup on lobbying and the resulting EU policies.

There is no fully unified view on the effect that decentralising decision-making power has on growth. Some papers (see Glaeser *et al.* 2004) argue against such a positive relationship. The argument is that decentralisation – understood as checks and balances on those in power – does not cause economic growth, whereas human capital is one of the most important factors in causing it. However, our argument, as set out in this article, considers

rent-seeking behaviour. It is not the decentralisation as such that makes the economy more efficient in our model; rather, the resulting reduction in rent-seeking is the key. The same argument can be applied to the question of whether decentralised political systems always result in better policies (Mulligan *et al.* 2004).

Even though decentralisation tends to mitigate pressures from narrow interest groups, constitutions vary in their ability to raise the price on favourable regulation. To illustrate this, consider either a super-presidentialist system or a parliamentary one-party system. In each case, the price of achieving special regulation tends to be lower than in a political system in which a multiparty parliament shares political power with a popularly elected president (see Holler and Owen 2001).

The answer to the main question of how power centralisation may affect rent-seeking – given the existing quality of the institutional design – is found in the following way. Firstly, the rent seeking approach is presented in Section 2. On top of this approach, a hypothesis is deducted based on the theory of institutional economics and power centralisation in Section 3. Then, in Section 4, the stylised facts of the role of the Commission and the annual budget are presented, suggesting how the institutional set-up may be improved to reduce rent-seeking and generate more economic growth in the EU. Finally, a conclusion is given in Section 5.

Rent seeking

In this section, rent-seeking is broadly defined as actions taken for the sole purpose of influencing regulatory decisions. Such actions are socially inefficient and would not be undertaken unless it were possible to gain from the regulations. Actions could include the presentation of media campaigns and written reports, happenings, etc. Lobbyism may here be viewed as a specific type of rent-seeking, and we simply define lobbyism as deliberate attempts by a person or a group of persons to affect political decisions by undertaking actions of an influential nature. Thus, in contrast to the broad notion of rent-seeking, lobbyism necessarily involves face-to-face interaction and individual communication between lobbyists (those seeking to influence) and political decision-makers (those to be influenced).

Rent-seeking is to seek redistribution in one's own favour at the expense of one's fellow citizens. These redistributive gains could come in several shapes and forms, such as granted monopoly power, quotas or other benefits, or could be presented as political decisions considered helpful to the rent-seeker. Hillman (2003: 447) writes that rent seekers do not present themselves with the challenge of 'what productive activity can I undertake today to earn income?' Rather, they ask the question 'what can I convince someone to do for me today?' This general attempt to influence political decision-makers can take many forms; for example, the use of the media, production of scientific reports, or organisation of demonstrations. Social loss from rent-seeking arises when rents are contestable through persuasion or the rent-seeking of political decision-makers. That is, social loss due to rent-seeking arises because of the use of time and other resources in competition for rents.

Buchanan and Tullock (1962) were the first to show that the losses generated by a distorting policy are not confined to the dead-weight loss when resources are moved into or out of an affected activity. Tullock (1967) and Posner (1975) find that rent-seeking in itself captures all rents from successful monopolisation. The idea is that in order to obtain or maintain a monopoly (by defending a dominant position), it is necessary to incur rent-seeking expenditures. There is total rent dissipation when competition for rents is perfectly competitive. Lobbyism and rent-seeking are not limited to protecting monopoly

power but are relevant in all situations where “people feel that people in government are amenable to persuasion to provide privileged personal benefits” (Hillman 2003: 447).

More generally, Hillman and Samet (1987) have shown that if the contest for a price is perfectly discriminating (only the highest outlet wins the price), then all rent will be dissipated as expected (see also Lockard and Tullock 2001 for a more recent review of this strand of the literature). One of the fundamental results is that firms will undertake rent-seeking behaviour/lobbyism to maximise their expected utility. That is, they will allocate resources to rent-seeking behaviour as long as the expected utility of their investment is positive. The general conclusion is that rent-seeking has a negative effect on growth and investment (Murphy *et al.* 1993). Note that income transfers are not a loss to society *per se*, but that redirecting capital from the productive sector to rent-seeking activity is. Hillman (2003) argues that inefficiency may also arise if income transfers to incompetent politicians and bureaucrats encourage them to stay in power for a longer time. The wasting of resources results from the time spent and other resources reallocated to influence the political decision-makers. Such resources are not invested in productive capital.

Finally, two other types of costs must be added to the dead-weight loss. First, a person or a group of persons affected by the policy may engage in rent-seeking efforts to block or advance a proposal in the pipeline. Second, a person or a group of persons may engage directly in politics to get access to decision-making power. Overall, the state is pushed and pulled by lobbies and interest groups that are more interested in redistribution and favouring their own groups than in economic growth for society overall. In a pluralistic system characterised by free competition between interest groups to influence decision-makers, resources will be redirected from production to rent-seeking.

While consumers lose consumer surplus as described above, domestic producers experience an increase in producer surplus because they can increase their prices (due to reduced competition) and still sell more. In this case, we get the opposite situation: although society at large is worse off, the producers prefer this new situation (compared to the free trade situation). The overall lesson of this example, if we are to fully understand the choice of regulation, is that identifying the winners and losers of a proposed regulation (or government intervention in the market) is essential when such parties have rent-seeking power.

Crucially, the domestic suppliers are willing to invest up to their gain from market protection to persuade the national government to put tariffs or an equivalent quota on imports. This provides us with a quantitative measure of how far the suppliers are willing to go in their rent-seeking activities to influence policy-makers. As argued by Tollison (2000), producers may rationally spend up to this gain in producer surplus to promote legislation that is in their favour. In fact, they may spend enough of their gain to make deregulation socially unprofitable (see also Rowley 2001).

Even though society as a whole benefits from free trade, individual industrial groups might nevertheless face losses and therefore oppose free trade. The social cost of rent-seeking is simply the increase in gross domestic product that would result in a feasible system for reallocating resources from lawyers and lobbyists to more productive uses. The strong ability of rent-seeking agents to resist reallocation is yet another reason not to waste resources in attempting to persuade them to behave differently (Tollison and Wagner 1991). Added to the costs of seeking political gain, real resources may also be expended to protect this gain from being encroached upon by other competing groups (Tollison and Wagner 1991). If rent-seeking involves the provision of utility or real income to participants, these benefits should be weighted against the cost of rent seeking. If the lobbyist takes the bureaucrat and/or the politician out to dinner, for example, the value

that the regulator places on the dinner must be subtracted from the social costs of rent-seeking (Congleton 1988).

Model

Douglass C. North, who received the Nobel Prize in 1993, is the most prominent representative of modern institutional economics. This approach is basically the study of economic interaction in a world where economic agents do *not* have full information. This is in contrast to the standard assumption of full information in neoclassical economic theory. Because agents lack information, extra transaction costs must be added to the exchange of goods and services. North (1990: 54) writes that “[t]he inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third World” (cited by Zak and Knack 2001). For example, agents must use resources to protect against non-voluntary transactions such as theft and to screen the market to gain insight into potential buyers and sellers and their financial abilities. Also, resources must be employed to draft and enforce a contract (Coase 1960). These transaction costs will always be positive when the agents do not possess full information. Furthermore, to support the exchange of goods and services in a world with incomplete information, the agents need to construct ‘rules of the game’, i.e., institutions (North 1990).

Institutions can be both formal (rules that are written down) and informal (rules that are not written down), and both types matter to economic growth. Another more detailed definition is given wherein institutions are defined as persistent and connected sets of rules (formal and informal) that prescribe behavioural roles, constrain states, and shape expectations (George and Bache 2006). This view that *institutions matter* to policy outcomes is also the starting point here – how the institutional set-up will determine rent-seeking economic performance in the future.

One may argue that informal institutions and behavioural norms enforced at the decentralised level by agents could create savings on monitoring costs and third-party enforcement costs. Modern economic systems, however, cannot rely on such informal organisations only. Many gains cannot be realised in primitive trade without institutions, e.g. to make a long-term contract or loan, or insure a trade (Milgrom, North and Weingast 1990). Here, transactions typically take place only when one gives with one hand and takes with the other, face-to-face. Formal institutions sanctioned by the state are crucial to determining whether a society can accomplish economic growth in the long run (North and Weingast 1989).

Institutional economists tend to focus on the institutional circumstances that facilitate successful rent-seeking and the achievement of net gain among organised interest groups. Here, Schjødt and Svendsen (2002) emphasise that the ability to acquire favourable regulation is strictly related to the formation of political institutions and rules of the game.

Given this institutional set-up, successful rent-seeking and redistribution will then occur according to Olson’s logic of collective action (1965). Rational producer groups will try to redistribute as much money as possible from the taxpayers and/or consumers to themselves. For example, a farmer lobby may represent one per cent of the total income in the EU. It follows that the group will only stop redistributing to its clients when the reduction in national income is 100 times as great as the amount they win in the redistributive struggle. In contrast, if the interest group tries to change policies for the better, the group will only receive one per cent of the benefits but will bear all the costs.

This kind of rent-seeking will tend to result in redistribution from all EU taxpayers to special interest groups such as EU farmers.

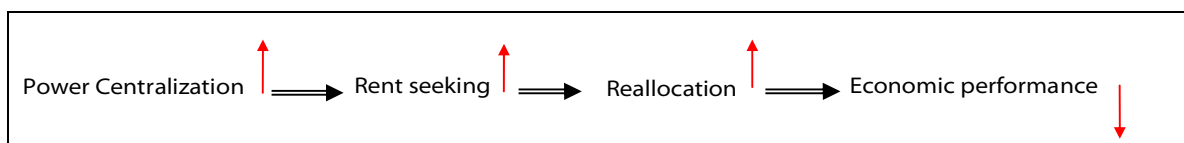
This theory suggests that asymmetrical political pressure against full market liberalisation will occur in the EU. For example, each of the farmers' organisations in France would have a strong economic incentive to provide the collective good represented by the status quo on its own; i.e. to maintain the Common Agricultural Policy (CAP). Therefore, this small group with only a few members will oppose full market liberalisation even in the absence of organisation and cost-sharing.

In contrast, none of the almost 500 million EU consumers would lobby for full market liberalisation on their own because each of them would gain only little and would then have to pay all the costs of rent-seeking in the absence of organisation. Even though the EU consumer group as a whole would receive, for example, ten times the money invested by collective action, this would not provide for the common good because the large group would not be organised. Therefore, a large, non-organised group will not act to promote full market liberalisation.

So, based on the ideas of Olson (1965), theory predicts that well-organised and small-sized 'Euro groups' such as farmers' groups or business groups are in a strong position to win the economic struggle in the EU political arena, for example by preventing price liberalisation, and thus to maintain the collective good of receiving subsidies for their groups. Such institutional sclerosis will slow down economic growth, as interest groups may achieve a net gain from being regulated as compared to what they would receive without regulation.

Figure 1 summarises the mechanisms that yield the economically harmful effects of rent-seeking. The mechanisms are sketched in Figure 1. Power centralisation attracts rent-seeking and the reallocation of resources to less productive or non-productive activities, thus reducing overall economic performance.

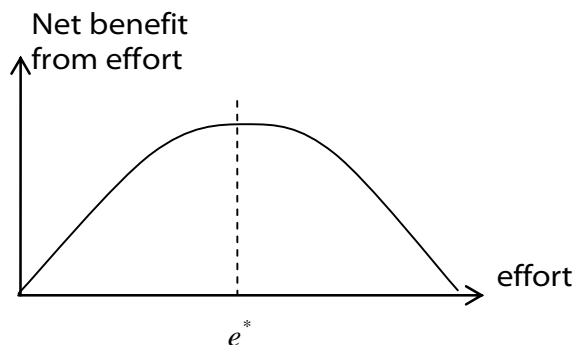
Figure 1: *Power centralisation and economic performance.*



Below we present a stylised model for rent-seeking activity. We assume that rent-seeking efforts yield no productive capacity whatsoever, so that any reduction in effort is beneficial to society.

The behavioural assumption of the lobbyist (rent-seeker) is that he/she chooses lobby activities first that yield the highest net benefit. That is, for each possible lobby activity, the lobbyist compares the cost and the benefit of providing this effort and then chooses the activity that yields the highest overall net benefit. In Figure 2, it is assumed that the net benefit function is strictly concave such that an interior optimum exists.

Figure 2: Net benefit of lobby activity



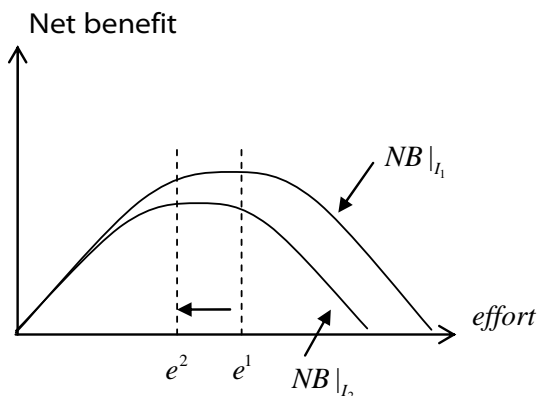
If we consider rent-seeking activity as a means of increasing the probability of changing the policy in a preferred direction (sometimes denoted to increase the probability of winning the price), then rent-seeking efforts can be reduced by:

- 1) Making the probability of winning the price smaller.
- 2) Reducing the increase in price as rent-seeking effort is increased
- 3) Increasing the marginal costs of rent-seeking efforts.

The mechanism is that rent-seeking invests effort as long as the expected marginal net benefit of the investment is positive; see Figure 2 above. Given the assumptions of the net benefit function, an optimum exists where the marginal net benefit is zero. Call this level e_L^* .

We are interested in mechanisms (that is, changes in the institutional setting) that may decrease e_L^* - the optimal lobby activity. Such a situation is shown in Figure 3. Here we compare two institutional settings, I_1 and I_2 , and as seen, there will be more lobbying in I_1 than in I_2 . In figure 3, $NB|_{I_1}$ and $NB|_{I_2}$ denote the net benefit from rent-seeking under institutional settings one and two, respectively. Here a decrease in the marginal net benefit of rent-seeking will reduce rent-seeking efforts, and hence, given that this effort is a waste for society, will reduce inefficiency.

Figure 3: Change in institution changes optimal lobby effort



One way to reduce rent-seeking is by creating a more diverse and decentralised power structure. This will make it more time- and resource-consuming for the rent-seekers to gain influence. One way to achieve power decentralisation then is to increase the marginal transaction costs of rent-seeking, in contrast to traditional economic circumstances where transaction costs are welfare-reducing. In our setting, transaction costs are welfare-increasing since they reduce detrimental rent-seeking efforts.

Note that lobbying in particular is likely to be even more sensitive to a change in power centralisation than the broader notion of rent-seeking. That is, the cost of providing effort is particularly large (positive) for lobbying. The more power is decentralised, the more cumbersome lobbying becomes, relatively speaking, since it requires more face-to-face encounters or individual communication with various decision-makers. In the specific case of the EU, it is cheaper for a professional lobbyist to confront and convince one bureaucrat in charge of a directive proposal than it is to convince more than half of the members of the Parliament.

Overall, we simply hypothesise that the more centralised power is, the easier it is for rent-seeking groups, especially small-sized groups, to achieve favours. If one institution basically holds all of the power, a group only has to lobby one place, as opposed to a situation in which power is spread out over many institutions, such as the parliament and the government; as a result interest groups are forced to lobby many places.

The Commission and the Budget

The EU Commission may be viewed in a positive light as a neutral bureaucracy with technical information helping governments to agree. The Commission has the executive role of drafting legislative proposals and safeguarding the Treaty – that is, implementing EU policies. Furthermore, the Commission is a technocratic body of about 20,000 civil servants and, hence, is not a political entity. Indeed, if the Commission is a neutral and independent agent, the main justification for the civil servants on the Commission is that they ensure the efficient provision of public goods and thereby make ‘the pie as large as possible’. Still, the ability of the Commission to serve as an efficient provider of public goods may be questionable.

George and Bache (2006) list three main criticisms of the Commission. First, the Commission has the exclusive right to initiate all legislation by submitting proposals to the Council of Ministers, which is the main legislative body. Here, national ministers are gathered according to subject; e.g. agricultural issues are handled by the agricultural ministers. Thus, the nationally elected members of the Council of Ministers have the power to approve the proposals put forward by the Commission, so that there is indirect democratic control involved here. Also, the Council can ask the Commission to come up with legislative proposals in various areas, and so can the Parliament according to Article 36 of the Parliament’s Rules of Procedure (Wallace and Wallace 2001). The Council of Ministers is, however, surrounded by extreme secrecy, which may be beneficial to negotiations but at the same time also hides what is going on from the public. At the end of the day, this right to initiate legislation enables the EU Commission to choose (and to some degree ‘not to choose’) between possible policies.

Second, the EU Commission is capable of ‘Europeanising’ a sector with the help of powerful national interest groups, which again may soften up local governments. Third, the EU Commission can itself create new networks among producers. It may, for example, promote the inclusion of affected interest groups in the process of policy formulation in order to draw upon the expert knowledge of external actors. Furthermore, the EU Commission can choose to subsidise groups such as consumer and public interest groups

(see also Spence 2006; Kohler-Kock and Quittkat 1999). These three institutional strongholds, especially the right to initiate legislation, mean that the EU Commission is the centre of decision-making power in Brussels. As lobbyists go where the power lies, professional lobbyists will invest their main efforts in trying to influence the EU Commission and its legislative initiatives.

In contrast, the EU Parliament, supposedly the financial controller of the Commission, does not have much political decision-making power, although it has gradually gained more power since the introduction of direct elections in 1979. As the co-decision procedure and various inter-institutional agreements have now been added to the EU decision-making process, the immense growth of legislative acts adopted by co-decision has turned the Parliament into one of the most lobbied institutions in the EU. The Parliament signs the Interinstitutional Agreement with the Council and the Commission for the Financial Perspectives. The Parliament is also the one that, every year, has to give the budget discharge to the European Commission – this is actually one of the strongest tools that the Parliament has (Corbett, Jacobs and Shackleton 2007). Furthermore, the EU Parliament must approve new commissioners and can, with a two-thirds majority, dismiss the EU Commission as a whole, though it cannot dismiss individual members. Finally, the EU Parliament participates in the legislative process as an advisory body that also may request commission initiate policy initiative developed from within the chamber.

Gullberg (2009) has undertaken a comprehensive empirical analysis based on interviews with interest group representatives and decision-makers in Brussels and Oslo. The sample includes representatives of major business and environmental NGOs and decision-makers from the executive branch as well as the European Parliament and the Norwegian *Storting*. She finds that business organisations lobby both the Parliament and the Commission but that they prefer to work with the Commission. The large business organisations also lobby the Council, even though the Council is generally considered a difficult venue in which to exert influence.

Overall, as the EU parliament cannot directly initiate legislation, the Commission is still the main target for lobbyists in the EU. Because the EU Parliament is not a 'real' parliament with the right to initiate legislation, the former British Prime Minister Margaret Thatcher has called the EU Parliament a *Mickey Mouse parliament*, meaning a discussion club without influence (Folketinget 2009). Overall, the fact that the Commission initiates legislation in the EU makes it easier for well-organised interest groups to achieve political favours at the expense of all EU taxpayers and/or consumers.

Non-regulated rent-seeking is likely to reduce economic growth in the EU system because voters cannot find out how decision-makers are affected by different interest groups. In other words, voters will not receive clear political signals convincing them that their tax money is being optimally invested for public goods rather than being redistributed to special interest groups. Voters will, if they are economically rational, ask for 'bang for their buck' (as one Pentagon general once put it). Examples of economically harmful redistribution systems that are not acceptable to EU voters in general prevail.

One must bear in mind that the EU does not function as a nation-state. Although the separation of power exists at the EU level, the institutions have a different role than in the national arena. Consequently, the European level and European policies may not exactly target the same kind of collective good as a nation-state would (Nugent 2003). Still, the priority of various expenses in the budget may be disputed. The biggest and most disputed expense is clearly the CAP, which consumes almost half of the total €122 billion budget (45.1%), see Table 1. Structural funding accounts for more than one-third of the

budget (37.2%). In total, these two main redistribution policies consume more than four-fifths (82.3%) of the total 2007 budget.

In stark contrast to the high priority of redistribution, we observe that collective goods such as education (0.7%), energy/environment (1.0%), EU-citizenship and consumer protection (1.2%), research (4.8%) and foreign policy issues (5.2%) have low priority.

Table 1: *The EU budget, 2007.*

	Budget 2007	
	Billion €	%
Agriculture	55.1	45.1
Structural funding	45.4	37.2
Education	0.9	0.7
Energy, environment, fishery, etc.	1.2	1.0
EU-citizenship, consumer protection, media etc.	1.4	1.2
Research	5.9	4.8
EU as a global partner, humanitarian aid, compensation for new member countries, etc.	6.4	5.2
Administration	5.9	4.8
Total	122.2	100.0

Source: Commission (2007).

Concerning the CAP, HM Treasury (2005) has calculated that the total welfare loss for the period 2007-13 amounts to €100 billion per year. Half of the total welfare loss stems from the fact that consumers have to pay artificially high agricultural prices, and the other half stems from the fact that taxpayers face higher taxes when financing subsidies to agriculture. For an average family in the EU, this welfare loss corresponds to an extra annual cost of €950 or a 15 per cent extra VAT on agricultural products.

France receives the lion's share of the agricultural budget; see Table 2. In 2002, France received €9248 million, corresponding to 22.0 per cent of the total CAP budget. Next Spain followed next at 14.7 per cent and Germany at 14.0 per cent. In other words, French farmer organisations have the strongest incentive to block any liberalisation of the CAP. Empirical evidence seems to confirm that militant French farmer's organisations actually did play a main role in blocking any attempt to reform the CAP (Ackrill 2005).

Table 2: *The allocation of the agricultural budget between EU countries, 2002 (Million € and %)*

	B	DK	D	Gr	Sp	F	Ire	I	Lux	NL	A	Pt	Fin	S	UK
Mil. €	939	1114	5880	2617	6194	9248	1599	5348	30	1156	1055	882	816	780	4380
%	2.2	2.6	14.0	6.2	14.7	22.0	3.8	12.7	0.0	2.7	2.5	2.0	1.9	1.9	10.4

Source: Landbrugsraadet (2003)

Beside the redistribution observed in the 2007 budget, another indicator of rent-seeking in the EU is the observation that the EU has protected its own producers by restricting imports of a whole range of agricultural products such as sugar. Other recent examples are import restrictions on shoes and textiles against China in particular to protect producer groups in Southern Europe, the watered down regulation of chemicals (REACH) and the critical choices of grandfathering and national implementation of quota systems for greenhouse gases (Svendsen 2003).

Measuring lobbyism is a difficult matter since it often takes place precisely in 'the lobby'; in other words, behind the scenes, where it avoids public scrutiny. A main challenge to future research is therefore to develop better data on interest organisation politics in the EU (Coen 2007; Berkhout and Lowery 2008). In contrast to US scholars, who can take advantage of large-n research on US interest organisations using lobby registration data, EU scholars do not have access to such high-quality data sources simply due to the fact that lobbyists are not registered and regulated at the moment. Formal legislation in the EU corresponding to the US Lobbying Disclosure Act from 1995 is non-existing at this time. In the absence of mandatory registration for lobbyists in Brussels, it is, for example, impossible to establish the actual number of lobbyists. The Commission estimates around 15,000 lobbyists and acknowledges a need for formal regulation of the area in its green paper on a European transparency initiative, presented in 2006 (Commission 2006). Thus, indirect rather than direct measurement methods have prevailed in EU research up until now.

Conclusion

We have argued that institutional changes which move power away from the Commission are necessary if the golden EU dream of economic growth and social cohesion is to come true. The fact that power is centralised in the Commission (the bureaucracy) rather than in the Parliament (with the directly elected members) lowers the cost of rent-seeking and leads to more economically harmful redistribution, which is reflected in the annual EU budget

This idea was inspired by theory from institutional economics, suggesting that the degree of rent-seeking will be determined by the design of the political system, that is, the degree of power centralisation. Overall, the model suggested how the institutional set-up facilitates rent-seeking, thereby affecting specific policy outcomes and economic growth. If one bureaucrat or politician basically holds all of the power, an interest group has to lobby in only one place, as opposed to a situation in which power is distributed between many individuals in several institutions such as the parliament and the government, forcing interest groups to lobby in many different places. Thus, the policy recommendation is that central power should be minimised and dispersed among institutions to undercut economically harmful rent-seeking by means of market liberalisation and free-trade policies as efficient cartel busters.

Furthermore, we have suggested how 'low-cost' rent-seeking primarily would take place among well-organised and small-sized 'Euro groups'. The crucial logic of group size gave interest groups such as farmers and business groups small-group advantage when trying to affect policy outcomes in order to provide the collective good of redistributing resources to their members. Such asymmetrical political pressure and the resulting institutional sclerosis will eventually slow down economic growth. Illustrative examples are the two main redistribution policies (Common Agricultural Policy and the Structural Funds), which consume more than four fifths of the total budget.

In conclusion, we argue that a political system that centralises political decision-making power gives rise to more rent-seeking, distorted policy outcomes and a risk of economic

decline, which again weakens overall public support for the EU system. This model has wide-ranging implications for the future design of the EU institutional setup and needs to be tested more rigorously in future research.

Thus, if the EU is to achieve its strategic goal as presented in Lisbon, a strong cure is needed to reduce redistribution and encourage free trade. The simple cure for this 'EU disease' is to strengthen the policy initiation power of the Parliament at the expense of that of the Commission. In this way, political decision-making power and the right to initiate legislation would be dispersed over a total of 750 democratically elected members of Parliament rather than concentrated on a few bureaucrats. Such constitutional change and power decentralisation would vastly increase the costs of lobbying, thereby reducing distortions of policy outcomes and clearing the road for free trade policies and economic growth in the new millennium.

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