MPIfG Working Paper 02/7, July 2002

Business Interest Representation and European Commission Fora: A Game Theoretic Investigation

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Abstract

The relationship between business and the EU institutions has evolved from its corporatist origins into a complex elite pluralist arrangement centered around industrial fora and policy committees. We view the growth of forum politics as the direct consequence of the unprecedented boom in economic and public interest lobbying in the early 1990s: While the increase in European interest representation provided greater legitimacy for the European integration program, it put a strain on the existing open pluralist European business-government relationship. One of the European Commission's (EC) informal solutions was to create restricted-entry policy fora and select committees, which it hoped would provide fast and reliable decision-making. Employing a formal model of industrial fora and committees, we specify the mechanisms that we believe caused the establishment of the current elite pluralist system of interest representation in the EU. We argue that in the process of establishing selective-entry fora for interest representation, the European Commission acted not only as policy entrepreneur, but also as a political entrepreneur, fostering collective action.

Zusammenfassung

Die Beziehungen zwischen Wirtschaft und EU-Institutionen hat sich aus korporatistischen Anfängen zu einem komplexen Arrangement elitenpluralistischer Strukturen entwickelt, in dessen Mittelpunkt Industrieforen und Policy-Komittees stehen. Wir analysieren die wachsende Bedeutung dieser Forum Politics als direkte Folge des (wirtschaftlichen und zivilgesellschaftlichen) Lobbying-Booms der frühen 90er-Jahre. Obschon die vermehrte europäische Interessenvertretung die Legitimtät des europäischen Integrationsprogramms erhöhte, setzte sie zugleich das bestehende System offener pluralistischer Beziehungen zwischen Wirtschaft und europäischen Institutionen unter Druck. Als eine informelle Lösung dieses Problems etablierte die Europäische Kommission nichtständige Policy-Fora und Ausschüsse, deren Zugang sie kontrollierte. Mit Hilfe eines formalen Modells identifizieren wir die Mechanismen, die unseres Erachtens zu der Entwicklung des gegenwärtigen elitenpluralistischen Systems der EU-Interessenvertretung geführt haben. Wir argumentieren, dass die Europäische Kommission mit der Einrichtung zugangsbeschränkter Fora zur Interessenvertretung nicht nur as „policy entrepreneur" tätig wurde, sondern auch als „political entrepreneur" kollektives Handeln von Interessenvertretern förderte.

1   Introduction[1]

Since the late 1980s, we have been witnessing a proliferation of economic and public interest lobbying of European Union institutions. Partly as a result of the creation of the single market, the concomitant transfer of responsibilities to the European Union, and changed institutional procedures, there has been an increase in European-level interest associations, national interest associations with Brussels offices, and of direct representation of lobbyists in Brussels (Coen 1997; Mazey and Richardson 1993a). At the same time, we could observe a proliferation of European Commission fora for interest representation, such as conferences, working groups, and select committees (Coen 1998; Falke 1996). By now, the European Commission estimates that it "runs nearly 700 ad hoc consultation bodies in a wide range of policies" (2001: 17).

The coincidence of a lobbying boom and the extensive use of interest fora presents us with a puzzle. Although the European Commission has been known to foster interest representation, such activity has been primarily to arrange for the representation of otherwise badly organized interests (for example in the environmental and consumer fields, Greenwood 1997: 60). In contrast, what we find here is the organization of well-organized interests. As the Commission is known to have relatively little personnel, it is puzzling that it should use its scarce resources to make arrangements for the representation of interests that are represented even without the Commission's doing.

In this paper, we try to provide an answer to this puzzle. Using a formal model, we argue that interest representation can be costly to the European Commission. Although the interaction with societal interests provides the Commission with information and legitimacy (Gray 1998; Mazey and Richardson 1993b), interpreting the information provided by interest representatives becomes more costly as the number of interest representatives increases. Similarly, interest representatives have to incur higher lobbying costs if there are more fellow interest representatives, even if they do not pursue competing policy goals (Coen and Hausken 1999). The interplay of those factors helps us identify conditions under which the Commission prefers to establish restrictive-entry fora for interest representation.

Why should we care about European Commission fora? There are substantive as well as theoretical reasons. First, it has been recognized that the European Commission has to rely on interest representatives to perform many of its tasks. The Commission bureaucracy has approximately 16,000 people, the size of a larger city administration (van Schendelen 1996: 26). Thus, it relies to a large extent on private actors to supply it with information and help draft legislation. Investigating the mechanisms of interaction between Commission and interest representatives helps us understand who influences policy in the European Union (Mazey and Richardson 1993a: 10).

Second, one of the major concerns in political science has been to explain the formation of institutions (Hall and Taylor 1998; McCubbins 1985; Moe 1989). We make the argument that we can understand the creation of Commission fora as the result of institutional choice. By creating restricted- and selective-access fora for interest representation,

the European Commission acts as a political entrepreneur, boosting the provision of public goods (Salisbury 1969). Thereby, it furthers the representation of social interests, and it increases its ability to make use of the information provided by those interests.

The empirical puzzle that we try to explain in this paper is based on participant observations by one of the authors (Coen 1997). Here, we do not elaborate on the empirics but formulate a theoretical explanation, using a formal model. Since we do not test the model with new data, we offer "merely" an analytic narrative that makes sense of the existing empirical findings. The use of game theory, in this context, has two types of benefits: First, it allows us to explicitly state the assumptions and reasoning of our explanations, and it allows us to control the logical validity of our argument. Second, the simplicity of our model, and its derivation from a tool box of game theoretic models, increases the generality of our explanation (Scharpf 1997).

In the first part of the paper, we provide a brief substantive discussion of the main concepts used in the formal model. Following that, we present the model and its results, followed by a discussion of its implications. We conclude by placing the findings into a larger context.

2   Lobbying Context and Concepts

2.1   Lobbying

Individual and institutional interest representatives engage in a variety of activities. Business interest associations, for example, often provide informational services for their members, in some cases they perform regulatory tasks, or represent their members in collective bargaining (Schmitter and Streeck 1999). When they meet in working groups, conferences, and other fora, interest representatives engage not only in lobbying activities but also exchange "soft" information on their differing viewpoints, or establish informal contacts. In this paper, we focus on actual interest representation: the communication and active support of the political positions of the businesses represented by an association, lobbyist, or direct firm representative.

A central element of lobbying is the provision of information to decision makers. Interest representatives have to provide decision makers with information on the political positions of their clients. This is the classic, almost stereotypical, case of interest representation – a lobbyist approaches a decision maker and stresses the political demands of his or her clients. If the clients are important for the decision maker's political existence, this type of lobbying can be characterized as pressure group activity, particularly if it is supported by campaign contributions, mass mailings, and the like.

The most systematic accounts of lobbying have been developed to explain interest representation in the United States. Both the financial and informational aspects of lobbying play an important role in this literature. First, campaign contributions play a prominent role in the American electoral system; due to public disclosure laws, data about interest group and candidate expenditures are available for analysis. Hence, there is an extensive formal and empirical literature on the potential impact of campaign contributions on group access and influence (Brier and Munger 1986; Clawson and Neustadtl 1989; Denzau and

Munger 1986; Grier, Munger, and Roberts 1994; Hall and Wayman 1990; Hansen and Mitchell 2000; Wright 1989). In addition, the American system has provided the empirical backdrop for rent-seeking models that postulate campaign contribution schedules that are contingent on the rents realized by particular (economic) interests (Grossman and Helpman 1994, 1996).

Second, there has been an extensive formal literature investigating the informational relationship between interest representatives and policy makers (Ainsworth and Sened 1993; Austen-Smith and Wright 1992; Potters and van Winden 1990). The general conclusion of those models is that interest representatives are indeed able to influence policy by misrepresenting and/or selectively providing information to decision makers; on the other hand, decision makers minimize misinformation by carefully selecting the interest representatives whose information they take into account.

In Brussels the key to successful lobbying is not political patronage or campaign contribution, but the provision of information[2]. The Commission, with its executive instruments and directives, acts as the focal point in the early stages of the lobbying process[3]. As a technical bureaucracy it does not seek funds for re-election, but rather looks for a policy community which may provide a source of grass-root and European level information (Bouwen 2002; Coen 1997, 1999). Thus we can see two types of information; the first based on substantive expertise of interest representatives about the consequences of alternative policy choices and the second facilitating legitimacy for the policy process[4].

As the Commission bureaucracy is relatively small, it has to rely on private actors to supply it with the substantive information necessary to prepare legislation, but this does leave the institution open to accusations of resources dependency and capture (Mazey and Richardson 1996). To overcome these problems the Commission theoretically attempts to encourage an open dialogue with all the social and economic partners. However, constraints of time and resources often mean that interests and information must be bundled into alliances and collective positions. It is here that many economic interests and business attempt to create favored access for themselves by creating *issue identities* (Browne 1990; Coen 1998). In turn the Commission has attempted to manage these interests through the creation of *policy fora*. Hence, the interaction between European interest representatives is characterized by consultation and cooperation rather than the use of direct political pressure.

2.2   Restricted-Access Fora for Interest Representation

One of the characteristics of the European Union is the proliferation of a wide variety of committees, working groups, conferences, and other fora that perform a wide variety of functions and have a variety of members (Pedler and Schaefer 1996). Formal comitology committees, which serve as oversight bodies of the Commission, for example, are ap-

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2   Note that electoral control within the European Union is indirect and dominated by national processes.

3   Other EU institutions, such as the European Parliament and COREPER, also play a role as addresses of lobbying activities, although at a later stage of the policy process.

4   To use Scharpf's (1999) terminology, we can say that substantive expertise fosters output legitimacy, whereas the second type of information fosters input legitimacy.

pointed by the Council of Ministers and consist of governmental and non-governmental national experts. Such committees play a statutorily defined role, operating under clearly specified procedures. At the other, informal, extreme, there are venues with informal procedures and vaguely defined tasks. The European Benchmarking Forum, for example, characterizes its meetings as being "typical of brainstorming events."[5] There is also a proliferation of conferences, with clearly defined schedules and agendas, in which participation is open to anybody who is willing to pay the registration fee.

We use the term *forum* to refer to a subset of those committees, working groups, conferences, etc. This subset is defined by the following characteristics:

- *Purpose*: we are referring to organized events that, at least partially, serve as venues for interest representation. This excludes events such as those associated with the *Interprise* project of the Enterprise directorate general, which serve primarily to foster business cooperation among SMEs.
- *Recruitment*: at least some of the participants of the fora we try to explain have been selected by the European Commission. This excludes committees involved in comitology processes, whose members are appointed by the member states, and open conferences.
- *Insiders versus outsiders:* Traditionally insiders have been defined as actors who attain legitimate consultation rights with government (Grant 1978). However, in the context of this analysis we define insiders as those who obtain *privileged access,* that is to say not merely those actors that are consulted, but those that are actively involved in bargaining and policy negotiation (Maloney, Jordan, and McLaughlin 1994).

The bulk of the existing literature on European Union committees deals with formal comitology committees (Pedler and Schaefer 1996), with a particular focus on committee roles in comitology procedures (Franchino 2000; Steunenberg, Koboldt, and Schmidtchen 1996) and the conflict between Parliament and member states over Commission oversight (Bradley 1997; Dogan 1997). Among the studies that focus on Commission committees in more general terms, the dominant discourse deals with the relationship between committee decision making and democratic deliberation (Joerges and Neyer 1997). While those studies deal with the functioning and the consequences of committees, they do not attempt to explain the existence of the committees. We try to fill this gap.

3 The Model

In this paper, we do not specify a particular means of interest representation on which we focus, nor do we focus on a particular type of interest representative. In the formal conceptualization used here, lobbying simply consists in the expense of lobbying resources by some lobbyist. A lobbyist could be any kind of interest association (first- or second-order; sectoral, sub-sectoral, trans-sectoral, etc.), an individual firm, an ad-hoc coalition of firms, a professional lobbyist hired by some firm or association, or any other kind of interest rep-

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5 *The European Benchmarking Forum*, http://www.benchmarking-in-europe.com, accessed May 25, 2001.

resentative. Our conceptualization is similar to the one used in models of rent-seeking or competition over taxes and subsidies (Becker 1983; 1985; Tullock 1980).

3.1   Basic Concepts

Our model focuses on the interaction between interest representatives and the European Commission. Interest representatives can be national or European-level interest associations, professional lobbyists hired by a firm or national association, or representatives of individual lobbyists. For simplicity, we use the term *lobbyist* to subsume the different kinds of interest representatives.

Assume that there are l lobbyists that are interested in a particular policy area. The European Commission may decide to establish fora for interest representation in the policy area; if it does so, it chooses l_a lobbyists to be admitted to the forum. The admitted lobbyists then have the choice to join the policy forum (and become an *insider $i \in I$*), or not to join the policy forum (and to become an *outsider $j \in J$*). The number of actual insiders is denoted by l_I, the number of outsiders, l_J. Outsiders and insiders can lobby, but they can also decide not to lobby.

The sequence of interaction is illustrated in Figure 1: First, the European Commission either establishes a forum and chooses l_a lobbyists to become insiders, or it does not establish a forum. If the Commission decides to establish a forum, the l_a chosen lobbyists decide simultaneously with each other and with the outsiders whether to join the forum and how many resources to expend for lobbying; the outsiders only decide on the amount of lobbying. If the Commission decides not to establish a forum, there are only outsiders who simultaneously choose how much to lobby. As noted above, the lobbyists can decide not to lobby at all.[6]
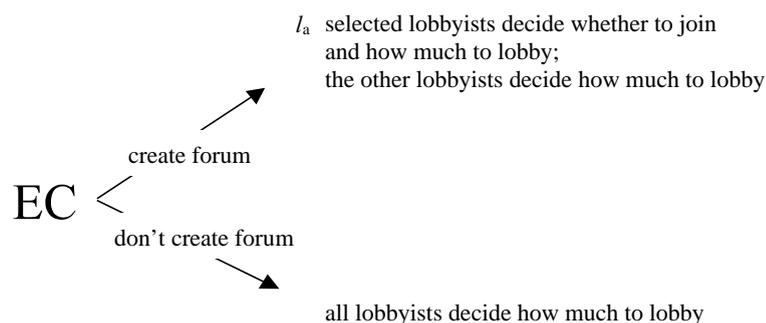
l_a selected lobbyists decide whether to join
and how much to lobby;
the other lobbyists decide how much to lobby

create forum

EC

don't create forum

all lobbyists decide how much to lobby

Figure 1   Game Sequence

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6   As usual, the game sequence is a simplification of complex interaction. There are two obvious possible extensions to this game sequence. First, the lobbyists' choice could be extended into (a) the choice whether or not to join the forum and (b) the amount of lobbying resources to expend. This extension would complicate the presentation of the results without meaningfully changing the results. Second, we could imagine a dynamic model in which lobbyists lobby in order to be invited into fora, in which the selection of insiders might cause outsid-

Lobbying produces collective goods that all lobbyists consume in a non-rivalrous manner. Substantively, the collective benefit can be understood as the expected benefit of a policy outcome: the benefit of a policy beneficial to all lobbyists, multiplied by the probability of the policy being passed. Higher levels of lobbying are associated with higher benefit levels, but there are declining marginal benefits, due to the probability factor. Technically, lobbyists might differ in their valuation of a particular policy; this can be operationalized as the maximal benefit attainable. However, for now we assume homogeneous policy preferences.

Formally, collective benefits are denoted by $P_C(\sum_{I,J} r)$. They increase with increasing lobbying resources ($\sum r$), with diminishing marginal benefits. In mathematical notation,

$$\frac{\partial P_C}{\partial \sum_{I,J} r} > 0 \text{ and } \frac{\partial^2 P_C}{\partial (\sum_{I,J} r)^2} < 0.\text{[7]}$$

The provision of the collective good is costly. The main cost factor is the effort involved in gaining access to the European Commission; therefore, the marginal lobbying costs of a lobbyist increase with the number of other lobbyists that try to gain access the Commission. It follows that the privileged access of forum members to the Commission results in lower marginal lobbying costs for forum members compared to outsiders (except in the case in which all lobbyists are members of the forum). This has two reasons: outsiders have to contend with insiders and other lobbying outsiders for Commission attention.

It should be noted that the number of lobbyists increases lobbying costs even if many or most of the lobbyists are not involved in lobbying activity. Lobbying is not the only activity pursued by interest representatives. For example, they use their Commission contacts to obtain information on Commission activities of interest to their clients. This activity, too, creates costs for other actors because channels of access to the Commission are being "clogged." Even if lobbyists are not actively involved in lobbying, their activities targeting the Commission make it more difficult for other actors to contact the Commission.

It will be useful to specify the lobbying costs formally: Assume that insider i spends r_i units of lobbying resources. Then we can say that i's lobbying costs are

$$c_i(r_i) = l_I \cdot r_i.$$

As the number of insiders increases, i's marginal lobbying costs increase, too. An outsider j's lobbying costs are

$$c_j(r_j) = (l_I + l_J) \cdot r_j.$$

We see that j's marginal lobbying costs depend on the number of insiders *and* lobbying outsiders. Therefore, j's marginal lobbying cost is at least as high as any insider's. Note

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ers to lobby more in order to become insiders themselves, etc. Some of the elements of such a model have been presented elsewhere (Coen and Hausken 1999), but they are beyond the focus of this paper.

7   For the sake of simplicity, we assume that all lobbyists have the same preferences. However, this does not affect our results, as long as other lobbyists' lobbying levels are not influenced by the lobbyists that we investigate. Technically, we can think about the lobbying benefits as the result of an influence function involving a ratio probability model with externally determined lobbying expenditures of the opponent.

that *c(r=0)=0* for insiders and outsiders. That is, if a lobbyist does not lobby, she does not incur any lobbying costs.[8]

Figure 2 illustrates costs and collective benefits for a particular lobbyist; the maximum policy benefit in this example is set to 1[9].

We can now specify the utility functions for lobbyists. The utility for lobbyist h, $h \in \{I, J\}$, is

$$u_h = P_C(\sum_{I,J} r) - c_h.$$

The utilities of insiders and outsiders are distinguished by differences in marginal costs. For a lobbyist that does not incur any lobbying expenses, that is, a free-rider, the cost factor drops out of the equation.
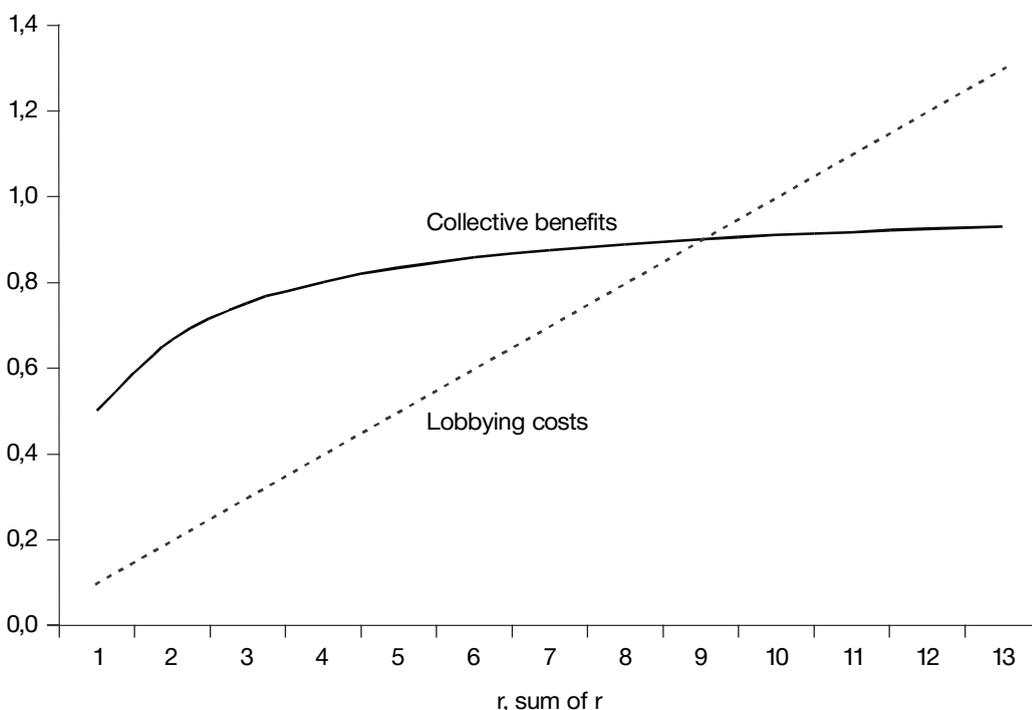
Costs, benefits

Figure 2   Lobbying costs and benefits of a particular lobbyist

The European Commission's utility is constituted of the following elements: the degree of certainty that policy decisions result in desired outcomes, institutional legitimacy, and information costs.

First, lobbying provides the Commission with information about successful policy, that is, policies that result in outcomes that the Commission (or the respective commissioner) prefers[10].

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8   We assume that the marginal lobbying costs, conditional on the number of lobbyists, are constant. Alternatively, we could assume that the costs were (weakly) convex (that is, with weakly increasing marginals with respect to *r*) without changing our results.

9   For expositional purposes, in Figure 2 marginal costs are scaled by a factor δ, so that for some *r*, marginal costs are lower than marginal benefits.

We assume that the knowledge (or certainty) about good policy depends on the number of lobbyists and the resources that they invest into lobbying. The more lobbyists are active and the more lobbying resources are expended, the more information is available for the Commission to use. Denote the certainty factor by $q(l, \sum_{I,J} r)$. Assume that

$$q(l, \sum_{I,J} r) = \overline{q}(l) + \hat{q}(\sum_{I,J} r), \text{ with } \frac{\partial \overline{q}}{\partial l} > 0, \frac{\partial \hat{q}}{\partial \sum_{I,J} r} > 0.$$

If a forum has been created, $\overline{q}(l) = \overline{q}(l_I)$; otherwise, $\overline{q}(l) = \overline{q}(l_J)$. Since the concept of certainty is related to probability, we assume that the certainty-based benefit cannot increase indefinitely but approaches a finite maximum. Therefore, $\overline{q}$ and $\hat{q}$ have diminishing marginals with respect to l or $\sum r$, respectively.

Second, the drawback of a large amount of lobbying activity is that information processing becomes costly: The Commission has to filter reliable and useful information from the flow of varied messages reaching it from the multitude of interest representatives. Therefore, the number of lobbyists also reduces Commission utility, they constitute a cost factor. Denote the Commission's costs by $c_{EC}(l_I)$ if a forum has been created and $c_{EC}(l_J)$ if no forum has been created. $\frac{\partial c_{EC}}{\partial l} > 0$. The marginal costs are constant. Assume that the functional form of both (insider and outsider) cost terms is the same, so that the informational costs of a forum cannot be higher than that of lobbying without a forum.

A third element of the Commission's utility function is institutional legitimacy. The more interest representatives participate in the Commission's decisions, the higher is its legitimacy (Mazey and Richardon 1994: 177). If the commission creates a forum, its legitimacy is $L(l_I)$, otherwise it is $L(l_J)$. $\frac{\partial L}{\partial l} > 0$ ($l = l_I$ if a forum has been established, $l = l_J$ otherwise). We believe that legitimacy has an upper limit. Therefore, we assume that L has diminishing marginals with respect to l.

The Commission's utility can be summarized as

$$u_{EC} = q(l, \sum_{I,J} r) + L(l) - c_{EC}(l).$$

Due to the legitimacy factor and to $\overline{q}(l)$, it is possible that there are conditions under which the Commission prefers not to create a forum, since reducing l (through the creation of a forum) might lead to a reduction in u_{EC}.

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10 We do not know much about what Commission members actually prefer. A common assumption is that the Commission exhibits a general pro-integration stance (Tsebelis 1994; Tsebelis and Garrett 2000). So far, this question has received only little empirical investigation. Based on a survey of 130 top-level Commission officials, Hooghe (1997) identifies three political dimensions that shape policy positions: First, a democratic dimension (technocratic bureaucrats versus responsive public servants); second, an economic liberalism dimension (regulators versus market liberals); and third a supranationalism/intergovernmentalism dimension.

3.2   Results

3.2.1   Fora Increase Lobbying Activity

In this subsection of the paper, we will consider the aggregate level of lobbying activity with and without Commission fora for interest representation. The following subsection will then consider the conditions under which the Commission establishes such fora.

As a first step, we show that the establishment of interest fora increases interest participation.

To establish a baseline, we specify the equilibrium level of interest participation (in terms of lobbying resources $\sum r$), given that no forum has been established. In this case, there are only outsiders (j). Consider outsider lobbyist h. h maximizes utility if

$$\frac{\partial c_h}{\partial r_h} = \frac{\partial P_C}{\partial r_h}.$$

Note that $\dfrac{\partial^2 P_c}{\partial r_h \partial \sum_J r} < 0$. As a result, if $\sum_k r_k, k \neq h$, is sufficiently large, then $\dfrac{\partial P_C}{\partial r_h}$ is always smaller than $\dfrac{\partial c_h}{\partial r_h}$. This means that h free-rides if the other actors provide enough lobbying.

In general, it should be noted that a variety of equilibria exist. In some equilibria, some actors free-ride (in fact, in several equilibria, only one actor lobbies). Other equilibria are characterized by various levels of lobbying by the different lobbyists. What all equilibria have in common is the aggregate level of lobbying resources, $\sum_J r^*$, as long as l remains constant.

We can easily observe that $\dfrac{\partial^2 c_j}{\partial r_j \partial l_J} > 0$ (in words, as the number of active lobbyists increases, the marginal costs of lobbying increase, too). Therefore, larger l_J leads to smaller $\sum_J r^*$.[11]

Next, we show that the creation of an interest representation forum increases lobbying activities, under the assumption that lobbyists chosen to be insiders will automatically agree to become an insider.

Lemma 1: Assume that the EC has selected a group of l_a lobbyists to become members of a Commission forum, and assume that all l_a lobbyists have accepted. Then at least one insider will lobby.

Proof: We use a proof by contradiction: We assume that none of the l_i insiders lobbies, and then show that the resulting level of lobbying activity is lower than the equilibrium level. The equilibrium outsider lobbying level, without insider lobbying, $\sum_J r'$, is such that

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11 This is one possibility to justify Olson's argument about group size and the level of collective good provision.

$$\frac{\partial c_j}{\partial r_j} = \frac{\partial P_C(\sum_J r^{'})}{\partial r_j}$$, for all j. Since insiders and outsiders have the same valuation of the

collective good, $\frac{\partial P_C}{\partial r_i} = \frac{\partial P_C}{\partial r_j}$. Because $l_I \leq l_I + l_J$, $\frac{\partial c_j}{\partial r_j} > \frac{\partial c_i}{\partial r_i}$. It follows that

$$\frac{\partial c_i}{\partial r_i} < \frac{\partial P_C(\sum_J r^{'})}{\partial r_i}$$. This contradicts the equilibrium assumption. Since $\frac{\partial^2 P_C(\sum_J r^{'})}{\partial r_i^2} < 0$,

the insiders' equilibrium level of aggregate lobbying is larger than $\sum_J r^{'}$. ∎

Lemma 2 shows that the aggregate level of lobbying with insiders is higher than the lobbying level without the existence of Commission fora. This is basically an extension of Lemma 1. However, Lemma 1 just shows that non-lobbying of insiders is not in equilibrium. It could still be thinkable that the overall level of lobbying might not change, or might even decrease, despite the participation of insiders. Lemma 2 shows that this is not the case.

Lemma 2: Assume that the EC has selected a group of l_a lobbyists to become members of a Commission forum, and assume that all l_a lobbyists have accepted. Then the overall level of lobbying (measured by $\sum r$) is larger than without a forum.

Proof: By contradiction. Assume that the equilibrium lobbying with forum is the same as without forum: $\sum_I r^{*} + \sum_J r^{*} = \sum_{J'} r^{'}$, where J' denotes the outsider lobbyists under the con-

dition that there is no Commission forum. Then $\frac{\partial c_i}{\partial r_i} < \frac{\partial P_C(\sum_{I,J} r^{*})}{\partial r_i}$ (see the proof to

Lemma 1), which constitutes the contradiction to the equilibrium assumption. Due to the second derivative to P_C with respect to r_i, as noted in the proof to Lemma 1, in equilibrium $\sum_I r^{*} + \sum_J r^{*} > \sum_{J'} r^{'}$. ∎

It should be noted again that, although it is possible to specify an equilibrium level of collective good provision, there is a multitude of actual equilibria. The model does not predict, for example, that all insiders actually lobby. It merely predicts that at least one insider lobbies, and that the overall level of lobbying activity with fora is higher than without fora.

3.2.2   When to Establish Commission Fora

We begin by asking about the conditions under which the European Commission prefers to establish fora for interest representation.

The number of lobbyists included in a Commission forum has positive as well as negative impact on EC's utility. Therefore, there is a definable optimal l_i. Denote the number of lobbyists that are part of the game without the establishment of a forum by l_{nf}. If the optimal (from EC's point of view) l_I is smaller than l_{nf}, EC prefers to establish a forum.

Therefore, we are interested in the conditions under which EC's optimal number of l_I is at least as large as l_{nf}, so that EC prefers *not* to establish a forum.

In order to determine the impact of forum establishment on EC's utility, we have to take a closer look at EC's utility function. First, the establishment of a forum reduces the factor $\bar{q}$ in EC's utility function from $\bar{q}(l_{nf})$ to $\bar{q}(l_I)$. Due to the declining marginal increases in $\bar{q}$ as l increases, the marginal utility loss of reducing l due to declining $\bar{q}$ is highest when l_{nf} is small.

Second, a reduction in l reduces the legitimacy factor L. This decrease is highest with small l_{nf}, because of the declining marginal benefits of L as a function of l. Third, costs c constantly decrease with a one-unit decrease in n.

Fourth, a reduction in l always increases $\sum r^*$, which in turn leads to an increase in $\hat{q}$. Depending on the exact functional form of the relationships between r, l, and $\hat{q}$, $\hat{q}$ can have decreasing (negative) marginals in l. This means that the indirect certainty gain due to decreased l may be highest with low l_{nf}.

The marginals of the L and $\bar{q}$ elements indicate that the losses in EC utility associated with forum establishment are highest when l_{nf} is small. This would suggest that the Commission does not prefer to establish interest fora when the existing number of interest representatives is low. However, the marginal gains of forum establishment are possibly also highest if l_{nf} is small, due to the fact that small l leads to a relatively large $\sum r^*$. Therefore, depending on the exact functional form of EC's utility function, small l_{nf} may or may not be related to a lack of Commission fora. Unfortunately, it is impossible to make precise a priori statements about the form of EC's utility function.

Nevertheless, we can draw some conclusions based on $c_{EC}(l)$. Since this cost factor has constant marginals, for a sufficiently high l (denote this l by $l°$), the EC's costs of paying attention to lobbyists are higher than the benefits. It follows that, if $l_{nf} \geq l°$, EC prefers to establish a forum with $l_I < l°$.

Proposition 1: Assume that, at a given l, EC does not prefer to establish a forum. Then there exists an $\bar{l} > l$ for which EC prefers to establish a forum.

Proposition 1 takes into account that our results do not determine whether or not the Commission prefers to establish an interest representation forum if there is only a small number of lobbyists involved in lobbying. Although it is possible to determine a range of EC utility functions for which the EC does not prefer forum establishment for a small l_{nf}, there are utility functions for which this is not true. However, we can conclude that for all u_{EC} with the characteristics specified above, the Commission prefers to establish fora when l_{nf} is large.

Proposition 1 helps explain the establishment of Commission fora for interest representation in the 1990s. As the number of interests active at the European level increased with the growth in European Union competence, particularly after the passage of the Maastricht treaty, the European Commission experienced an "interest overload" (Coen 1997; Coen 1998). In other words, the number of interest representatives interacting with the European Commission exceeded the capacities that the European Commission could

handle. In order to solve this problem, the Commission restricted the number of groups having access to its decision processes by establishing fora of interest representation.

The question under which conditions the European Commission prefers the establishment of fora for interest representation is only one side of the explanation. The other side of the question is whether lobbyists or interest representatives are willing to join such fora. We show that lobbyists always (weakly) prefer to join a forum.

Proposition 2: If given the choice, a lobbyist will always (weakly) prefer to join a forum.

Proof: It is easy to see that, given the equilibrium strategies of the other lobbyists, a lobbyist is always weakly better off joining a forum. Assume that in equilibrium, without being a forum member, lobbyist h expends r_h lobbying resources. The resulting utility is $u_h = P_C(\sum_{I,J} r) - c_h$. If h joins the forum, c is reduced. Therefore, h can (weakly) improve its utility outcome by expending not less than r_h. ∎

Some remarks: First, it should be noted that h's equilibrium strategy does not necessarily equal the r_h that h would "play" without joining the forum; it might be higher. Second, joining the forum increases h's equilibrium utility only weakly, that is, not in all cases. For example, if h is a free-rider, its equilibrium strategy might be to free-ride as a forum member, too. Third, proposition 2 is valid because all lobbyists choose their lobbying strategies simultaneously. We believe that this is an appropriate generalization of reality. While there is some general knowledge available about other interest representatives' past lobbying strategies (which is not part of the formal model), information about the current choices of other actors are more difficult to obtain, particularly for outsiders.

It is important to note again that we do not specify a unique equilibrium. In fact, the game that we analyze has a multitude of equilibria which are characterized by a common level of aggregate lobbying resources, $\sum_{I,J} r$. From the perspective of the lobbyists, the game includes a coordination game, as they simultaneously choose their equilibrium lobbying strategies. Coordination games imply coordination dilemmas; it is possible that equilibrium outcomes are not obtained. However, we can assume that individual actors act on their *believes* about the other actors' moves. Therefore, our conclusions are not affected by the coordination dilemma.

3.3   Extension: High- and Low-Preference Lobbyists

In the collective action literature, we find the argument that collective action is more likely if a group contains some members that value the collective good higher than other actors (Hardin 1982; Olson 1965). Similarly, if we incorporate the distinction between high-preference and low-preference actors into our model, we can show that the presence of high-preference actors increases lobbying output, and that the Commission prefers to invite high-preference actors to its industrial fora.

In order to introduce the distinction between high- and low-preference actors, suppose that some lobbyists are more interested in the collective good obtained through lob-

bying. Denote the utility of such a lobbyist by u^H, in contrast to u^L, the utility of a lobbyist with a lower preference for the collective good. Assume that the structure of the utility functions as well as the remaining assumptions of the model are the same as in the model detailed above, with the following additions:

$$P_C^H(\sum_{I,J} r) > P_C^L(\sum_{I,J} r), \ \frac{\partial P_C^H}{\partial \sum_{I,J} r} > \frac{\partial P_C^L}{\partial \sum_{I,J} r},$$

with $\sum_{I,J} r$ fixed at any value.

For argument's sake, assume that there are no industrial fora. Denote the equilibrium amount of aggregate lobbying resources in the presence of a high-interest lobbyist by $\sum r_H^*$, and the equilibrium resources without high-preference lobbyists by $\sum r_L^*$. Then it is easy to show that $\sum r_H^* > \sum r_L^*$: If $\sum r_H = \sum r_L$, $\frac{\partial P_C^H(\sum r_H)}{\partial r_j} > \frac{\partial P_C^L(\sum r_L)}{\partial r_j}$. In equilibrium, however, it is true that $\frac{\partial P_C^H(\sum r_H^*)}{\partial r_j} = \frac{\partial P_C^L(\sum r_L^*)}{\partial r_j} = n_j \cdot \delta$. Since the second derivatives of both P_C with respect to r_j are negative, it is true that $\sum r_H^* > \sum r_L^*$.

This argument is easily expanded to proof the following proposition:

Proposition 3: An industrial forum that contains high-preference lobbyists will produce more lobbying ($\sum_{I,J} r$) than a forum that contains only low-preference lobbyists.

Since the partial derivative of EC's utility function with respect to $\sum_{I,J} r$ is positive, we can state the following proposition:

Proposition 4: If there are lobbyists with a high preference for the collective good, and if the European Commission establishes an industrial forum, the EC will invite at least one of the high-preference lobbyists to the forum.[12]

4   Conclusion

There is more to the story than our simple model captures. The lobbying explosion was in part a function of the creation of the single market, with its gradual transfer of regulatory competencies to the EU, and a strategic reaction of business and public interests to rival interests' European lobbying strategies. To ensure that the new policy fora were as representative and legitimate as possible, the EC invited only those players that had proven

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12 It is easy to check that in all equilibria in which at least one high-preference lobbyist is a forum member, the aggregate lobbying output is the same.

themselves in the Brussels policy arena over a period of time. Great weight was given by the Commission to those firms which were prepared to establish some form of "*European credibility*" through the creation of political alliances with rival firms on European policy issues (Coen 1998; see also European Commission 1995–2002, 2001). Hence members of organizations like the European Round Table of Industrialists (ERT) and EU Committee of the American Chamber of Commerce (AMCHAM-EU) established high political profiles and a strong initial presence in the early policy fora (Cowles 1995). From the firms' perspective, the most effective means of establishing reputation was to develop EU "*issue identities*" and to participate in the creation of "*collective political goods*." Accordingly, the cost of identity building would be discounted against better access to company specific goods via access to other EC fora. Thus some large firms were able to establish themselves as "*political insiders*" through a process of regular and broad-based political activity (Aspinwall and Greenwood 1998; Coen 1997).

We set out to investigate why the European Commission fostered interest representation when there was plenty of lobbying. Our answer is that, as the number of interest representatives increases, both the lobbyists' costs of interest representation and the Commission's costs of dealing with interest representatives increase. As a consequence, despite the increase in interest representatives, overall lobbying for collective goods decreases. At the same time, the Commission prefers to create smaller circles of lobbyists, which we call *fora*, to reduce the number of actors with which it interacts, in order to increase lobbying and decrease the costs of interacting with interest representatives. Also, we show that the Commission tends to invite actors with stronger interests in a particular policy area to participate in a forum. We believe that our argument contributes to an understanding of the historical relationship between business and the EU institutions, which evolved from corporatist origins into a complex elite pluralist arrangement centered around industrial fora and policy committees (Coen 1997; Streeck and Schmitter 1991).

Our argument suggests that the European Commission functions as a political entrepreneur. While it has been suggested that the Commission is a *policy* entrepreneur in Kingdon's (1984) sense (Pollack 1997; Smyrl 1998), we argue that the Commission also actively influences and fosters collective action by interest representatives, which is a characteristic of a *political* entrepreneur (Frohlich, Oppenheimer, and Young 1971; Salisbury 1969). The interesting point is that the Commission influences collective action not only by directly fostering interest associations, but also by manipulating the strategic environment in which these associations, and other direct interest representatives, interact. In other words, the Commission uses institutional engineering in the service of political entrepreneurship.

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