

# The Power of Specialization: How Interest Groups Influence EU Legislation

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*Questo lavoro fornisce supporto alle affermazioni di Mancur Olson secondo il quale la politica economica è caratterizzata da larghe asimmetrie nel potere dei gruppi di interesse coinvolti. L'attenzione è rivolta ad una specifica fase del processo decisionale all'interno dell'Unione Europea, e cioè ai negoziati interni per decidere la posizione di ciascun paese sulle proposte legislative della Commissione. L'analisi, condotta mediante regressioni, mostra che durante il processo di contrattazione, i gruppi di produttori e di consumatori, portatori di interessi particolaristici, sono in grado di muovere il risultato nella direzione da loro preferita. Al contrario, gli interessi generali dei consumatori sembrano scarsamente influenti, mentre gli interessi generali dei produttori mostrano una capacità di influenza comune nei vari paesi membri dell'UE considerati.*

*This article lends strong support to Mancur Olson's assertion that large power asymmetries between competing interest groups typify public policy making. We examine one particular phase in the decision making process within the European Union, namely the domestic pre-negotiations on legislative proposals of the Commission. Our regression analysis demonstrates that "privileged" or specialized producer and consumer groups are able to stir the outcome into their preferred direction during this crucial bargaining*

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*process. While general consumer interests remain most often powerless, general producer interests exert a similar influence across the four EU member states under examination. [JEL Code: D72, D78, F15, P51]*

## 1. - Introduction

When the European Union (EU) finally decided to harmonise taxation on savings income in January 2003, some commentators immediately pointed out that this “compromise” particularly benefited the interests of the countries with a strong banking industry. The governments of these member states had indeed lobbied so vigorously against the Commission proposal that they were exempted from the proposed information exchange across countries under the provision that they impose a withholding tax on deposits. Two years earlier, the mavericks had even forced the Commission to withdraw a more far-reaching proposal. The resistance went so far that lobbyists from the “City of London” and other banking centres threatened that the capital of their clients would leave London and move to “tax heavens”.

Although such attempts to influence policy makers backfire on some occasions, we have ample reason to suspect that interest groups are powerful in European legislation. Obvious sources for their possibly disproportional role are the absence of EU-wide discussions on legislative proposals and the lack of scrutiny to which the deliberations of the Council of Ministers, still the most important legislative actor in the organisation, are exposed. In this paper, we study the influence of competing interest groups at the domestic level in four EU member states. Because the 15 legislative proposals that we examine activated the cleavage between producer and consumer organisations, we compare the relative power specialized and more general consumer and producer groups possess in Germany, Finland, the Netherlands and the United Kingdom.

The pioneering framework developed by Olson (1965) guides our empirical analysis. We conjecture that specialised interest groups possess an advantage over public interests in the domes-

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tic pre-negotiations on legislative proposals by the European Commission. Our results indicate for Germany and the Netherlands that privileged interests groups are key actors in these domestic pre-negotiations, while the asymmetries are not so pronounced in Finland and the United Kingdom. Our results thus contradict some pluralist and neo-corporatist expectations that the European Union is likely to move towards a balance of power between contending interests (Falkner (1998), Gorges (1996), Grote and Schmitter (1999), Schmitter and Streck (1991)). We argue against this backdrop that the lack of transparency in EU decision making will most likely aggravate the asymmetries between “private” and “public” interest groups. The counter-measures the European Commission (2001) outlined in its *White Paper on European Governance* are, in our view, not sufficient to overcome these mounting problems.

Our article is structured as follows: Section 2 introduces the relevant literature from which we will derive our hypotheses. Next, we will outline the research design and the data set on which we rely. Section 4 presents the statistical analysis as well as some illustrative evidence from the cases under examination. In the conclusion we offer a critical summary of the results.

## **2. - Interest group influence on EU Policy: Review and hypotheses**

Interest groups can, arguably, use two main routes to influence legislative outcomes within the European Union. At the supranational level, they are directly able to lobby the Commission, the Council, the Parliament and other key institutions that are formally responsible for EU legislation. Because the Council of Ministers is still an important institution within the European Union, we should, however, also observe some lobbying at the domestic level. In this second lobbying arena, interest groups and other stakeholders would typically attempt to influence national decision makers before they meet with their colleagues from other EU member states.

Several authors contend that the supranational access path has grown in importance over the past few years (Andersen and Eliassen (1993)), not the least because of the considerable shift of power from the national to the international level. The number of studies that analyse the interactions between EU actors and interests groups in a rigorous fashion has grown in line with this development. One recent example is Crombez (2002) who offers a formal analysis of the optimal proposals that interest groups can make in European legislation. Broscheid and Coen (2003) similarly focus on the attempts by the European Commission to garner useful information from the interest groups through the creation of “fora” that restrict the access of lobbyists to decision makers.

The national lobbying path has, by comparison, largely escaped the scrutiny from academic researchers. This neglect is, however, not substantively justified, as Coen’s (1997) massive survey of the lobbying activities of large European firms shows. He demonstrates that most multinationals simultaneously use both routes to influence legislation. Adshead (1996, p. 599) similarly writes in a case study of lobbying in Ireland that «(I)n seeking to influence policy, Irish interest groups do not rely exclusively on either national or EC level policy, rather, the two approaches are seen to be mutually reinforcing»<sup>1</sup>.

While we do not want to downplay the importance of the supranational path of lobbying, we focus in this study on the relationship between contending interest groups and government actors in the domestic setting. Studies that systematically analyse the role of interest groups and lobbying in the context of European integration are rare and most of the existing examinations

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<sup>1</sup> Practitioners support this point of view. Jean-Marc Lepeu, the former general secretary of ACEA, stated in the beginning of the 1990s «that lobbying at Commission-level was twice as effective if you already had national support and had lobbied at the national level». (FORUM EUROPE (1993, p. 11)). In an interview, a representative of a member country of the EU emphasizes: «From our point of view, policy is not made in Brussels, but in the capitals of the Member States. If you want to influence policy, you must look first of all at the Ministers and ministerial officials in the Member States. They produce policy positions» (STERN A. 1994, p. 131).

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remain descriptive, reflecting a general trend in the literature (e.g. Greenwood (1992), (1997), Mazey and Richardson (1993))<sup>2</sup>. The lack of systematic and especially comparative studies reveals a wide gap between theoretical aspirations and empirical evidence. Hence, our main task is to try close this gap a bit through empirical tests of contending theoretical propositions.

Our analysis follows the spatial model of politics and assumes that interests groups have ideal points on a legislative proposal. Interest groups and other relevant actors accordingly evaluate the utility of a legislative proposal and try to move the negotiation position of their government towards their own ideal points<sup>3</sup>. To assess the power of the lobbies, we define a utility loss function for every stakeholder, implying that the smaller the loss, the larger the influence of an interest group. In an important article, Barry (1980) attacked the validity of this operational definition. He raised the question of whether or not taking a pivotal position amounts to “luck” rather than “power”<sup>4</sup>. We reduce the severity of this problem, however, through the inclusion of 15 different proposals in our inquiry. Our comparative research design minimizes the risk that we always find the same kind of actor type in the pivotal position across the different proposals and across the four countries under examination. Note also that quite some of the interest groups became active on different proposals.

The literature on the varying influence that interest groups can exert is, by and large, still split into disciplinary categories. While economists have dealt with the question of interest group influence largely from a theoretical viewpoint, some applications in political science have tried to estimate the power of interest groups (for reviews see Potters and Sloof (1996), Baumgartner and

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<sup>2</sup> The edited volume by VAN SCHENDELEN M.P.C.M. (1993) offers for instance some country studies.

<sup>3</sup> For an extensive literature review on empirical models see POTTERS J. - SLOOF R. (1996).

<sup>4</sup> We also used the median position instead of the ideal point of the leading ministry as an alternative reference point. This operationalisation did, however, not lead to convincing results because many legislative proposals activated only one type of interest group. The median, thus, reflects the asymmetry in coming up with a position rather than the domestic consensus on what should be adopted.

Leech (1998)). Only very few examination use recent advances in the theory of interest groups (Sloof (1998), Grossman and Helpman (2001))<sup>5</sup>. The starting point for many empirical studies thus still remains Olson's (1965) pathbreaking analysis of the *Logic of Collective Action*. In this work Olson introduced the important dichotomy between "specialized" and "general" interest groups or, to use his terminology, "privileged" and "latent" interests. Because specialized (or "private") interests face smaller collective action problems than general (or "public") interests, we should expect influence asymmetries between these two types of interest groups.

Although there is often more collective action than one could predict from this baseline prediction, a host of studies confirms that the severity of acting collectively is a positive function of the number of individuals that could profit from the provision of a public good (Ostrom (1999))<sup>6</sup>. Criticizing the theoretical basis of Olson's line of reasoning, Marwell and Oliver (1993) (and also Sandler (1992)) for instance argue that the individual decision to contribute to the provision of the public good does not depend on the size of the group but rather on the distribution of resources and preferences among its members. We will consider these refinements in the following and analyse whether Olson's argument holds in the domestic pre-negotiations on EU legislative matters. Hence, we expect that public interests are at a disadvantage in the legislative process of the European Union and that specialized interests are disproportionately influential.

Empirical studies that, directly or indirectly, examine this claim have not come up with consistent findings. While some studies have found evidence for asymmetries between capital and labour, other studies argue that governments play an active role in interest intermediation and partly offset the influence of sectoral interests. Yet, it has to be noted that the theoretical debate in this research area focuses much more on the development of the system of interest intermediation in the European Union and

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<sup>5</sup> For a recent survey of the theoretical literature see URSPRUNG H. (2000).

<sup>6</sup> See SANDLER T. (1992) offers a useful survey of the large literature on collective action.

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whether it will move into a corporatist or rather pluralist type of interaction. While Falkner (1998), and also Gorges (1996) for instance expects that the EU system of interest intermediation will move towards a corporatist direction in which state actors help the organisations of capital and labour to come up with consensual solutions, Schmitter and Streeck (1991) assume that the EU is rather developing into a pluralist direction in which the competition between contending interest groups will grow. Despite these differences in classifying the system of interest intermediation in the European Union both attempts share the expectation that the influence asymmetries between contending interest groups are not exceedingly large.

In the reminder of the paper we will test whether the Olsonian hypothesis or rather the convergence hypothesis finds empirical support. Our statistical analysis will rely on the detailed information provided by our dataset, especially on the preferences of domestic stakeholders on 15 legislative proposals initiated by the European Commission. In order to test the Olsonian hypothesis first of all we subdivide all active interest groups into four types: 1) specialized producer interest groups; 2) general producer interest groups; 3) specialized consumer interests and 4) general consumer interests. We will analyse based on this operationalisation the utility loss that these four types of interest groups experienced during the domestic pre-negotiations. We expect in line with Olson that specialized interest groups possess an advantage over general ones and that producer interests are more influential than consumer interests.

Recent studies on lobbying (Grossman and Helpman 2001, p. 143) consider that lobbying activities can be costly and that lobbying costs can prevent interest groups from becoming active on a legislative proposal. The general assumption is that the marginal costs of lobbying decrease with the relative importance of a legislative proposal for an interest group<sup>7</sup>. We therefore control for the possibility that special interest groups are more influential

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<sup>7</sup> Another and more implicit assumption is that the fixed costs of lobbying are more or less equally distributed among the interest groups.

than general interest groups because they are more interested in the legislative proposals under examination than the general interest groups.

As the four member states under examination differ with respect to their institutional structure and their system of interest intermediation, we also assume that the influence of interest groups will vary across the four countries. Katzenstein (1985) for instance expects that differences between member states should have their effect on the severity of influence asymmetries between contending interest groups. Although his argument is more historical rather than institutionalist, he argues that Scandinavian corporatism favours rather labour, while continental systems of interest intermediation are biased in favour of capital interests. In the following we will test whether public interest groups are better represented in Finland than in the two continental countries.

### **3. - Research Design and Data Set**

Our empirical analysis relies on the National Decision Making in the European Union data set (NDEU). We have selected 15 legislative proposals from a sample of around 70 proposals that are part of a larger research project<sup>8</sup>. This larger set of cases represents a stratified sample of the legislative proposals of the European Commission from 1997 to 2000 (Bailer/Schneider (2002a, b), Schneider and Bailer (2002)). The sample had to represent the variety of legislative procedures within the European Union and the policy areas within which the European Union is active. A further selection criterion was that the proposals had to be sufficiently controversial to be included. The 15 proposals included in our analysis cover different policy areas ranging from health, over

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<sup>8</sup> This larger project is the project on Decision-Making in the EU (DEU) and evaluates the relative merit of competing game-theoretic models of EU decision making. It unites researchers from the Universities of Groningen, Konstanz, Leiden, Michigan (Ann Arbor), Nijmegen and Turku. For some interim results see BAILER S. and SCHNEIDER G., (2002 a, 2000 b) and SCHNEIDER G. - BAILER S. (2002).

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consumer to fishery policy and most often activated the cleavage between producer and consumer interest groups<sup>9</sup>.

Four collaborators from the University of Konstanz collected detailed information on the 15 proposals in the four member states under examination. We relied on expert interview and secondary sources to gather the decision making data. A first step was the identification of experts that had a broad knowledge on the domestic negotiations preceding the interactions within the Council of Ministers. Our interviewers travelled to the capitals of the four member states and asked the experts on the domestic pre-negotiations detailed questions on the proposals. Once the experts had identified the conflictual topics within a proposal, they had to list the actors that became active within the decision making process. They had also to locate the ideal points of all these stakeholders and the final position the ministry in charge for the pre-negotiations adopted. If it was possible, our interview partners had also to position the reference point (the outcome that would be chosen in case the piece of legislation is not accepted) and to quantify the saliency each actor attributed to an issue.

As previously indicated, we expect that interest groups evaluate how much they will possibly gain or lose from a certain proposal. Based on similar measures used by Mokken *et Al.* (2000), Bailer and Schneider (2002, and 2000a) as well as Schneider and Bailer (2002) the direct influence of an actor is accordingly operationalized through the utility loss that the final negotiation position of the government generates. The utility loss measures the relative difference between two absolute differences, namely the

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<sup>9</sup> The proposals included are: Com (97) 358 End-of life vehicles; Com 98 (295) Taxation on savings income; Com (98) 320 Taxation of cigarettes and manufactured tobacco; Com (98) 320 Supervision of electronic money institutions; Com (98) 546 Notification of vertical agreements; Com (98) 586 Legal aspects of electronic commerce; Com (98) 623 Prevention and control of TSE; Com (99) 130 Limits of veterinary medical products in foodstuffs of animal origin; (Com (99) 348 Jurisdiction in civil and commercial matters; Com(99) 382 Dialogue with industry and groups affected by common fisheries policies; Com (99) 456 Health problems related to trade in bovine animals and swine; Com (99) 565-7 Equal treatment in employment and occupation irrespective of racial or ethnic origin; Com (99) 577 Toys made of PVC containing phthalates.

difference between the ideal point of an actor (POS) and the initial position of the leading ministry (IP) and the difference between the ideal point and the final national position (NP), i.e.  $L = |POS-IP| - |POS-NP|$ .

To make the proposals comparable, all actor positions, their power and the possible outcomes were normalized on a scale ranging from 0 to 100. Hence, the underlying assumption of the research endeavour is that we can represent policy conflict on a continuous scale. Our analysis evaluates the utility loss an actor endures on a specific issue under contestation within a legislative proposal<sup>10</sup>. We used several dummy variables that summarize different actor groups as the main explanatory variables. The most important differentiation is the one between specialized and general interest groups. If an interest group formulated an opinion in less (more) than 40% of all issues raised in its own country, it belonged to the former (latter) type of interest group. As indicated, we also distinguished between consumer and producer interest groups. Country-specific lists and the secondary literature on interest groups helped us in identifying to which group an organization belongs. To control for saliency an interest groups attaches to a proposal, we used a variable indicating the overall value of a proposal to an actor. This concept is also normalized on a scale from 0 to 100. The lower value indicates that an actor values the status quo highly and disregards the significance of the proposal. A value of 100, conversely, means that an actor attributes utmost importance to a proposal.

To control for the possible variation of interest group influence across the four countries under examination, we used the United Kingdom as the reference category and included country dummies for the other three states in some of our statistical results. For the statistical analysis we employ OLS regression to account for the impact actors have on the change from

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<sup>10</sup> The alternative would have been to calculate the utility loss over the whole proposal and not only over the different issues. The results that we obtained for this unit of analysis are similar and can be obtained from the authors upon request.

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the initial proposal to the final negotiation position. We also controlled for the clustering of positions within an issue, because the positions actors take on an issue possibly correlate among each other. Nevertheless the results of the reported fixed effect models and of the unreported standard OLS models only differ marginally<sup>11</sup>.

#### **4. - Actor Groups and their Influence on the Domestic Pre-Negotiations: Empirical Evidence**

In this Section we present both qualitative and quantitative support in favour of the Olsonian thesis that specialized interests groups possess an advantage over public interest groups. We first compare the proposals and the different actor types on a descriptive level and then move on to the statistical analysis of the influence of the different interest groups.

To assess the influence of interest groups, it is first necessary to assess whether or not the proposals induce serious conflict in the domestic pre-negotiations. Table 1 shows for the 15 proposals under examination how many issues of contestations they raised, how many actors uttered an opinion on the proposal and how large the variance between the positions of the actors was. The evidence presented in Table 1 shows that day-to-day decision making in the European Union is rather consensual. This is quite surprising if one takes case studies into consideration that only focus on what their authors consider to be landmark events of regional integration (Moravcsik (1998)). Even if we concentrate our analysis on Commission proposals that created a minimum level of controversy, many cases did not involve a shift between the initial and the national position of the leading ministry. Some of the proposals were only contested in some of the countries under examination.

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<sup>11</sup> If actors were behaving strategically rather than sincerely as assumed in this paper, the positions they take within a proposals would correlate among each other. This would violate the requirement that cases should be independent of each other.

TABLE 1

## A COMPARISON OF THE PROPOSALS ACROSS FOUR COUNTRIES

Proposal	D	Fin	NL	GB	Ø	D	Fin	NL	GB	Ø	D	Fin	NL	GB	Ø
	Number of Issues					Number of actors*					Standard deviation				
End-of-life vehicles Com (97) 358	2	1	1	5	2.3	13	6	6	7	8	37	41	34	47	40
Taxation on savings income Com (98) 295	3	3	3	5	3.5	5	6	5	18	8.5	39	44	46	44	43
Taxation of cigarettes Com (98) 320	2	1	2	1	1.5	5	2	4	5	4	46	71	47	45	52
Supervision e-money Com (98) 461	1	3	3	0	1.8	4	5	5	-	4.7	50	42	48	-	47
Notification agreements Com (98) 546	3	3	5	2	3.3	6	8	8	10	8	40	42	43	40	41
Legal aspects of e-commerce Com (98) 586	3	4	2	2	2.8	17	9	7	11	11	30	39	32	43	36
Prevention/ Control of TSE Com (98) 623	1	1	3	0	1.3	9	13	6	-	9.3	38	8	39	-	28
Limits vet. medical products Com (99) 130	0	0	4	0	1	-	-	9	-	9	-	-	39	-	39
Establishment of "Eurodac" Com (99) 260	1	0	3	1	1.3	3	-	6	6	5	53	-	49	41	48
North-East Atlantic Zone fishing Com (99) 345	0	0	1	0	0.3	-	-	3	-	3	-	-	50	-	50
Jurisdiction comm. matters Com (99) 348	3	1	3	1	2	11	4	5	7	6.8	31	50	43	50	44
Dialogue common fisheries Com (99) 382	1	2	2	1	1.5	10	6	3	3	5.5	42	34	49	58	46
Bovine animals/ swine Com (99) 456	0	0	1	1	0.5	-	-	5	5	5	-	-	46	45	46
Equal treatment employment Com (99) 565-7	1	2	3	1	1.8	11	4	8	7	7.5	31	40	35	34	35
Toys made of PVC Com (99) 577	3	3	3	1	2.5	10	12	8	8	9.5	33	31	41	39	36
Aggregate value	24	24	39	21	108	220	155	230	169	774	39	44	42	46	42

\* Highest number of actors per issue taken in case that the number of actors varies within a multi-issue proposal.

The Table 1 reveals that the level of controversy a legislative proposal by the European Commission creates varies greatly between proposals and between countries. Very controversial proposals have been the attempts by the Commission to regulate taxation on savings income, electronic money institutions and electronic commerce. All these proposals score high on the number

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of contested questions and activated stakeholders. As already mentioned, the proposal to harmonize taxation on savings income led especially in the United Kingdom to a fierce reaction by interest groups. 18 stakeholders formulated a position and tried to influence the Blair government. On the other hand there are also proposals that seem to have minor significance to the domestic stakeholders. The proposal regarding the control of the North-East Atlantic Zone for instance induced only three stakeholders in the Netherlands to formulate an opinion. The fact that explicit strategic action is the exception rather than the norm is also a further indication of this trend towards non-controversial pre-bargaining. Our interview partners also confirmed in this vein that explicit threats are a very rare event.

Two reasons can account for the non-controversial nature of many of the decision making processes: a low saliency of the contested issues or the formal or informal agenda setting power of the leading ministries. Table 2 provides summary information on different actor types and shows how many times a specific actor type was activated. We also include aggregate data on how much the positions varied, the salience of the proposals and how large the average attributed power to an actor is<sup>12</sup>. The summary information presented in Table 2 also allows us to compare how the interest groups scored in comparison to two different types of government actors: the leading ministry, which officially is in charge of the domestic pre-negotiations, other ministries and the national parliaments involved in the decision making process. We also provide summary information on the mean difference between the position of a stakeholder and the initial position (*ip*) of the leading ministry and the mean difference between the position of an actor and the final national position (*np*) of the ministry. The average utility loss measure, which is shown in the last column of Table 2, measures the difference between the other two differences.

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<sup>12</sup> We asked the experts on how large the capabilities of an actor were in the policy field under consideration. The range goes from 0 (negligible actor) to 100 (very powerful actor).

TABLE 2

## SUMMARY INFORMATION ON DIFFERENT ACTOR TYPES

	Number of actors	Standard deviation positions	Overall Value of Proposal (Salience)*	Attributed power*	Mean $ pos-ip $ *	Mean $ pos-np $ *	Utility loss
Leading ministry	117	41.63	72.86 (25.47)	88.88 (18.37)	0.85 (4.66)	12.89 (16.16)	-12.04 (14.56)
Normal ministry	110	38.75	50.77 (28.99)	63.45 (24.92)	20.45 (29.72)	23.68 (28.50)	- 3.22 (17.48)
Parliament	37	43.63	59.73 (27.48)	47.70 (32.33)	30.27 (37.30)	32.18 (33.95)	- 1.92 (19.57)
Spec. consumer interests	51	45.97	68.92 (28.62)	42.05 (29.95)	47.05 (39.51)	42.55 (37.72)	+ 4.51 (14.60)
Gen. consumer interests	36	36.68	60.55 (21.63)	49.72 (20.77)	28.61 (30.22)	31.94 (27.10)	- 3.33 (22.45)
Spec. producer interests	154	43.40	68.83 (26.28)	43.47 (23.14)	48.99 (36.66)	44.44 (32.99)	+ 4.54 (22.44)
Gen. producer interests	109	38.99	74.72 (22.21)	50.50 (23.25)	56.33 (37.98)	54.77 (35.24)	+ 1.56 (16.83)

\* Range of values varies from 0 to 100. Values in parentheses are standard deviations.

The findings reported in Table 2 are quite striking: The first column shows that producer interest groups become more frequently active than consumer interest groups. This is a first indication that private interests might possess a strategic advantage over public ones and become more easily involved in the domestic pre-negotiations. The saliency data lend, however, only partial support to this finding. General consumer interests are in line with our key hypothesis less interested than other interest groups in EU legislation. It is especially revealing that general producer interests exhibit at the average a higher average saliency. Although specific consumer interests are about as interested in a proposal as general producer interests, they become less often active. This suggests most likely that the costs of lobbying are asymmetrically distributed and

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the producer interests possess an advantage over consumer interest groups<sup>13</sup>.

Yet., the average power attributed to producer interest groups is not much larger than the one of the corresponding consumer interest groups. In our view the marginal difference is not the least a consequence of the divergent abilities to act collectively. Because producers are more often present in the political scene than consumers, our sample also includes a disproportional number of producer organisations with relatively little power.

The clearest descriptive evidence in favour of our lead hypothesis stems from the influence measures. Although general consumer interests are on average closer to the position of the leading ministry even after the domestic pre-negotiations, they are on average not able to pull the position of the ministry closer to their ideal position. This inability to influence the position of the ministry once the agenda is set is partially offset by the willingness of the ministry to choose positions that are nevertheless close to the general consumer interests.

The results reported in Table 2 also demonstrates that “power” remains an elusive concept. In considerable contrast to the power measure, general consumer interests lost at the average in the domestic pre-negotiations and the general producer interests only turned out to be marginal winners. Specialized interest groups, however, were able to gain more from these domestic negotiations.

The most important actors in the domestic pre-negotiations, however, seem to be the government ministries. The leading ministry as the principal agenda setter has to loose necessarily during the domestic negotiations, but it is nevertheless typically considered to be the most powerful actor<sup>14</sup>. Baltz, König and Schnei-

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<sup>13</sup> There is, as expected, a moderately positive correlation (Pearson's  $r=0.30$ ) between the mean overall value of a proposal for an interest group type and the frequency of its activation.

<sup>14</sup> When the median position of all actors is used as a reference point instead of the initial position of the leading ministry, the power of the leading ministries in the domestic pre-negotiations to win against the median position of all actors becomes much more visible in the statistical analysis. v. BALTZ K. - KÖNIG T. - SCHNEIDER G. (2003).

der (2003) argue based on this finding that interest intermediation still largely follows an étatiste rather than a pluralist or corporatist tradition, as it is often claimed. The results also indicate that governments do often not act unitarily, but that ministries fight over the negotiation stance that the government should adopt in Brussels.

Although the descriptive evidence yields some indications on the structure of interest intermediation in the European Union, it does not provide a real assessment of the Olsonian hypothesis and the competing pluralist and corporatist convergence thesis. To test the competing claims, we conducted multivariate regressions with the utility loss measure as the dependent variable. In contrast to Baltz, König and Schneider (2003), we focus on the four interest group types as the main explanatory variables and the salience variable as a control variable. Table 3 shows the results of the statistical analysis of the two different models we calculated. The first model considers only the different interest group types and controls for salience and the possibility that strategic position taking influences the individual performance in the pre-negotiations. The influence of strategic position taking is measured through the distance of an actor's position from the median position. The second full model controls also for the different countries under consideration. Table 3 only reports the estimations with the cases where the final position after the domestic pre-negotiations did not correspond to the initial position of the leading ministries. The inclusion of the issues in which the two positions coincide and in which the leading ministry was accordingly a perfect agenda setter does not change the results substantially<sup>15</sup>.

The results in Table 3 reveal that with the exception of the general consumer organisations all other interest group types are able to move the negotiation outcome into their preferred direction. It is, however, also obvious that the impact of the different groups on the negotiation stances differs considerably. Specialized producer interest groups are, in general, the clearest profiteers in the domestic pre-negotiations on EU legislations, while special-

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<sup>15</sup> These results can be obtained from the authors upon request.

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TABLE 3

FIXED-EFFECT OLS REGRESSION MODELS ON THE INFLUENCE OF  
INTEREST GROUPS ON DOMESTIC PRE-NEGOTIATIONS\*

	(1)	(2)
<i>Actors:</i>		
Specialized producer interests	17.45*** (2.76)	19.44*** (2.68)
General producer interests	12.14*** (2.41)	11.80*** (3.28)
Specialized consumer interests	17.22*** (5.12)	18.80*** (4.94)
General consumer interests	5.28 (4.37)	5.33 (4.27)
<i>Member States:</i>		
Finland		14.66*** (4.83)
Germany		22.41*** (4.46)
Netherlands		25.38*** (4.65)
Saliency	-0.02 (0.04)	-0.04 (0.04)
Difference to Median	0.16*** (0.04)	0.15*** (0.04)
Constant	-13.06*** (3.03)	-32.27*** (4.75)
<i>N</i>	437	437
<i>Adj. R</i> <sup>2</sup>	0.14	0.20

\* Entries are regression parameter. Standard Deviation in parentheses.

ized consumer interests are also moving the outcome in the direction they prefer. The legislative gain of the general producer organisations is much smaller by comparison. These results are all in line with the Olsonian conjecture that private interests are more influential in public policy making than public ones<sup>16</sup>. Hence, the expectation that there is a balance of power between different types of interest groups receives much less support than

<sup>16</sup> Note again that the parameter estimates are comparable because the dependent variable is normalized on a scale from -100 to +100.

the hypothesis that there are distinct influence asymmetries between specialized and general interest groups. While specialized consumer interest groups exert an influence, the general ones do not. Further, the power of the producer organisations is larger than the one of the corresponding consumer groups. A further result is that the negotiation process favours those actors with an extreme position. This indicates most likely that at least some of the positions seem to reflect strategic considerations rather than the sincere preference of an interest group. Note that the saliency of a proposal has no direct effect on the utility an actor can gain or lose during the domestic prenegotiations at the issue-level. The inclusion of this control does also not affect the impact of the various interest group types. Hence, general consumer interest groups are not less influential because they are on average less interested in the proposals than other groups. On the contrary, they rather suffer from the constraints that Olson analyzed in the 1960s<sup>17</sup>. We drop the saliency variable from our further tests.

The results reported in Table 3 with respect to the member states also let us expect that lobbying success will vary across the four countries under examination. In order to test the hypothesis that the Finnish system of interest intermediation differs from the continental ones we conducted a country-level analysis of the impact of the interest group types on the government negotiation stance. Table 4 reports the results of four fixed effect OLS models.

Table 4 shows that specialized interest groups possess an advantage at the national level of EU legislation. Whereas in Germany and in the Netherlands the overall pattern of influence exertion remains stable, we can observe differences for Great Britain and Finland. Because in Great Britain many issues were not controversial at all, the largely insignificant results in this case are not very conclusive. It is interesting, however, that taking an extreme position pays off in all countries with the exception of Germany. As expected, consumer organisations exert the strongest in-

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<sup>17</sup> These results do also not change significantly if interaction variables (between the type of interest group and the salience variable) are used.

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TABLE 4

STATISTICAL MODELS ON THE INFLUENCE  
OF INTEREST GROUPS IN FOUR MEMBER STATES\*

	Germany	Netherlands	Great Britain	Finland
Special producer interests	27.07*** (3.50)	22.69*** (4.81)	-10.29 (8.09)	13.94** (7.09)
General producer interests	2.19 (4.23)	22.96*** (5.28)	4.59 (19.73)	24.02*** (8.67)
Special consumer interests	15.97** (6.68)	10.48 (8.08)	8.01 (15.34)	27.91** (12.04)
General consumer interests	5.75 (4.58)	5.62 (8.04)	-10.38 (12.06)	-
Difference to Median	-0.12** (0.05)	0.30*** (0.06)	0.82*** (0.14)	0.23** (0.09)
Constant	-6.52*** (2.11)	-16.30*** (2.77)	-34.51*** (5.44)	-22.92*** (5.08)
<i>N</i>	196	132	29	80
<i>Adj. R</i> <sup>2</sup>	0.25	0.33	0.56	0.14

fluence in Finland while specialized producers remain a relatively marginal political force in this country. This result supports the observation of Katzenstein (1985) that the Scandinavian system of interest representation favours interest groups of the political left rather than the right. In Germany and the Netherlands, exactly the opposite seems to be the case although specialized consumer interests are a force to reckon with in the former country. We will illustrate in the following the differences between the four countries in case studies on the attempt the European Commission to harmonise taxation on savings income (Com 98 295, see Agence Europe (1998)<sup>18</sup>.

*Great Britain:* This legislative proposal is for the United Kingdom insofar untypical as it activated a large number of actors. It

<sup>18</sup> Note that not all actors had positions on all issues under contestation in the UK, Netherlands and Finland. Such actors were thus interpreted as being indifferent between the initial position of the leading ministry and the reference point. Their position on such an issue thus represents the mean of the distance between the reference point and initial position of the national ministry.

is, however, quite in line with our expectation that only groups representing the interests of the banking sector lobbied against this proposal. As Graph 1 show, the “City of London” and the government actors remained relatively united throughout the domestic deliberations. The compromise they found was in considerable opposition to the proposal by the European Commission.

The main argument against the new European-wide tax was the fear of the banking business to lose customers to “tax-heavens” or competitors based in New York and Tokyo. The proposal raised five issues in Great Britain. The most important one was how far the directive should go, i.e. whether the European Union should only request an exchange of information or opt for a co-existence of taxation and the exchange of information obligation. Another issue referred to the question whether eurobonds, investment funds, gilts and securities should be considered in the directive. As it had to be expected, this plan met the fierce opposition of the stakeholders. A similar constellation arose on the issue of whether or not “grandfather-rights” should be granted and, more specifically, whether existing bonds should be taxed. The domestic actors also argued about the ability of the government to negotiate a solution in Brussels that was not too harmful to the “City”. Since some of the stakeholder mistrusted the proclamations of the Blair government, they asked for a public commitment of the government to bloc the directive. Yet, these attempts were only partially successful. The last controversial issue was whether or not agreements with third countries should be a precondition for the complete entry into force of the directive. Although the Commission was opposed to such a linkage, all stakeholders agreed on the position that at least agreements with the UK dependencies, i.e. mainly the Channel Islands should be included.

During the domestic bargaining process several actors issued threats and promises. The Conservative Party promised to support the government in blocking the directive, but simultaneously threatened to start a public campaign if the Blair government refused to actively fight for the interests of the “City”. The organisations representing the banking industry also issued a threat that some companies would leave London and move to a place without taxation on

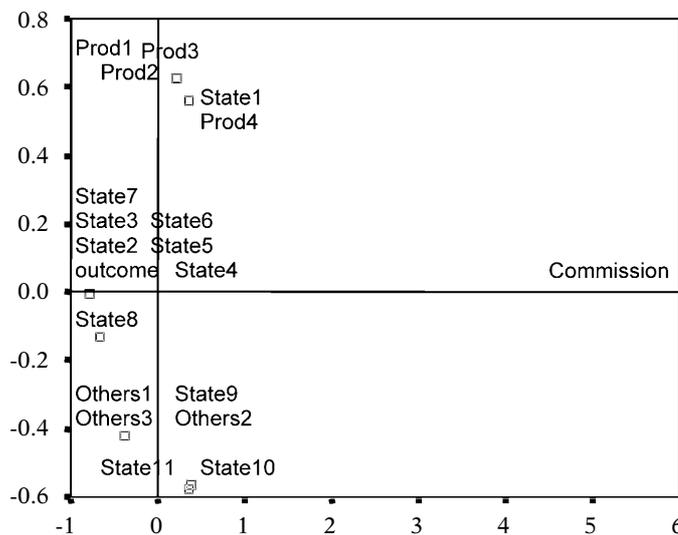
*G. Schneider-K. Baltz, The Power of Specialization: etc.*

saving income. Two governmental or at least semi-governmental actors, the Treasury Debt Management Office and the Bank of England, argued that a “wrong” directive would threaten the ability of the UK to issue their bonds for financing public spending.

Graph 1 visualizes the political space in which this conflict took place. We used multidimensional scaling to reduce dimensionality of the five-dimensional to a two-dimensional space. To

GRAPH 1

MDS PLOT OF PREFERENCES OF ACTORS IN THE UK ON THE TAXATION ON SAVINGS PROPOSAL (STRESS = 0.005)



*Legend:* Prod1 = British Bankers'/ London Investment Bankers' Association; Prod2 = International Primary Market Association; Prod3 = International Secondary Market Association; Prod4 = Confederation of British Industry;

State1 = Conservative Party; State2 = Initial Position of Inland Revenue Department (= Leading Ministry); State3 = Bank of England; State4 = International Policy Unit; State5 = Select Committee on EC; State6 = Labour Party; State7 = governments of UK dependencies; State8 = Treasury Select Committee; State9 = Dept Management Office (agency); State10 = House of Lords' European Scrutiny Committee; State11 = Liberal Democrats; Others1 = Chartered Institute of Accountants in England and Wales; Others2 = Corporation of London (City of London); Others3 = Chartered Institute of Taxation (professionals on taxation); Outcome = National position of leading ministry after domestic prenegotiations.

compare the distance between the actors positions and the actors and the national position the euclidean distances between their positions are computed. It should be noted that not all 18 actors are included in Graph 1 because not all stakeholders had an opinion on all five contested issues.

The plot reveals that the domestic bargaining process follows a clientelist logic. The Blair government took the interests of the banking sector largely into account and built an alliance with it against the plans of the European Commission. One cluster of actors is located near the outcome. Because this group by and large encompasses state actors, it is easy to see that the government only experienced marginal losses in this bargaining process. The banking industry also formed a relatively tight coalition, but the distance of these actors from the government position is much smaller than the distance from the ideal point of the Commission.

*Germany:* Quite surprisingly, the same proposal only motivated four stakeholders besides the ministry in charge (Ministry of Finance) to formulate a position: the German Banking Association, the taxpayers' union, the finance committee of the Parliament and some members of the Parliament. The German debate focussed on three issues. The first bone of contestation was the planned control notification. While the leading ministry favoured this idea, the position of the Parliament and the financial committee was rather non-committal. The banking associations and the taxpayers union, conversely, opposed this control measure. The second topic that arose conflict was the level of taxation, with the banking associations and the taxpayer's union preferring a lower level than the Ministry. The parliamentary actors took a middle position between these two extremes. A minor issue under contestation was the ability to carry out administrative matters. At least the Ministry of Finance, the banking associations and the taxpayer's union attributed some importance to this question.

All stakeholders behaved strategically during the domestic pre-negotiations. The threat issued by the taxpayer's unions' and the banking association that some important business would move

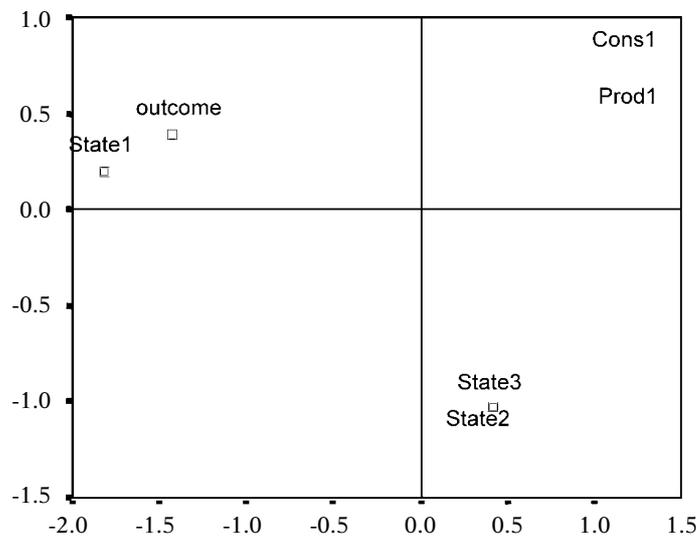
G. Schneider-K. Baltz, *The Power of Specialization: etc.*

away from Frankfurt echoed the solemn predictions of the British banking sector. The German banking sector argued that the status quo promised more tax income than the government could obtain under the proposed regime.

Graph 2 demonstrates that three groups of actors participated in the German pre-legislation. Although the interest groups seem to be able to move the position of the national ministry into their preferred direction, they are much less successful on the first (horizontal) than on the second (vertical) dimension. The German case thus demonstrates that the leading ministry possesses considerable agenda setting power, while the interest groups were at least partly more successful than the other state actors.

GRAPH 2

MDS PLOT OF PREFERENCES OF ACTORS IN GERMANY ON  
TAXATION ON SAVINGS PROPOSAL (STRESS = 0.000)



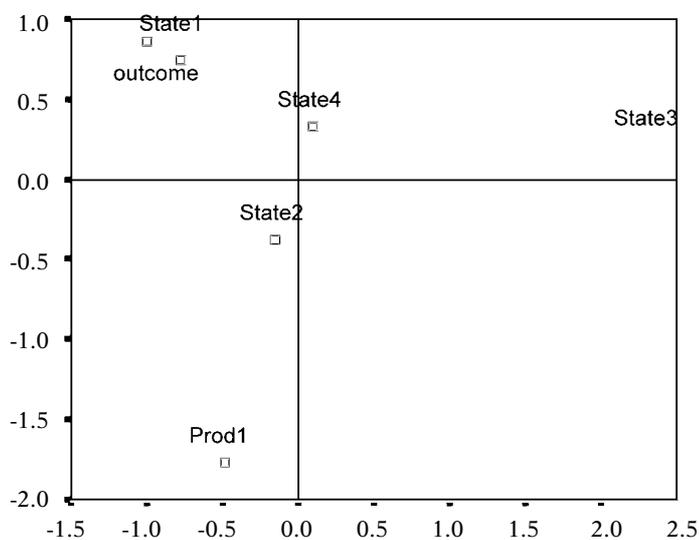
*Legend:* State1 = Initial Position of Leading Ministry (Ministry of Finance); State2 = Parliament; State3 = supervisory authority of credit grantors; Prod1 = banking associations; Cons1 = taxpayers' union; Outcome = National position of leading ministry after domestic negotiations.

*Netherlands:* In contrast to the debate in the United Kingdom and to some extent in Germany the proposal was not a controversial one in the Netherlands considering that only one major interest group became active on this proposal apart from some state actors.

The Ministries of Finance, Economics and Foreign Affairs, the Parliament and the Dutch banking federation negotiated over three issues. The first one dealt with the budgetary effects of the proposal. The Ministry of Finance as the leading ministry preferred an exchange of information on payments whereas the banks were much more protective. They threatened the governmental agenda setter that they could not and would not fulfil the requested obligations. The Ministry of Finance vaguely promised to

GRAPH 3

MDS PLOT OF PREFERENCES OF ACTORS IN THE NETHERLANDS ON THE TAXATION ON SAVINGS PROPOSAL (STRESS = 0.005)



*Legend:* State1 = Initial position of leading ministry (=Ministry of Finance); State2 = Ministry of Economic Affairs; State3 = Ministry of Foreign Affairs; State4 = Parliament; Prod1 = Dutch banking federation; Outcome = National position of leading ministry after domestic negotiations.

*G. Schneider-K. Baltz, The Power of Specialization: etc.*

consider this opinion in the negotiations of the Council of Ministers.

The second topic mainly concerned the leading ministry and the Ministry of Foreign Affairs. The question was whether or not the proposal should encompass Dutch dependencies outside Europe (Netherlands Antilles). The Ministry of Finance preferred such a discussion, but the Ministry of Foreign Affairs opposed this. The third issue dealt — as in all other countries under examination — with the scope of the directive and more precisely with the question whether or not this discussion should be linked to other fields of taxation. Most of the stakeholders were in favour of this linkage except the Ministry of Foreign Affairs.

Graph 3 shows that the Dutch decision making process on this proposal boils down to a negotiation between competing ministries. Although the influence of specialized interests is large in this country in the aggregate, the banking industry only played a marginal role in this decision making process. The Ministry of Foreign Affairs remained equally marginalized.

*Finland:* The Commission proposal did not create much debate in Finland. Only a few stakeholders consequently discussed the three contested issues. The first disagreement was about the level of withholding tax. The Commission and the Finnish government, which was then in charge of the EU-Presidency, proposed a level of 20% and found the support of the the Banking Association and the Association of Investment Funds. A lower level of about 15% was preferred by the taxpayers union, the only consumer interest group active on this proposal, and by the Association of Industry and Employers (TT). The Parliament and the Ministry of Finance, the leading ministry in the domestic prenegotiations, were with their preference of a tax of about 25% closest to the the national status quo which amounted to a tax level of 29%.

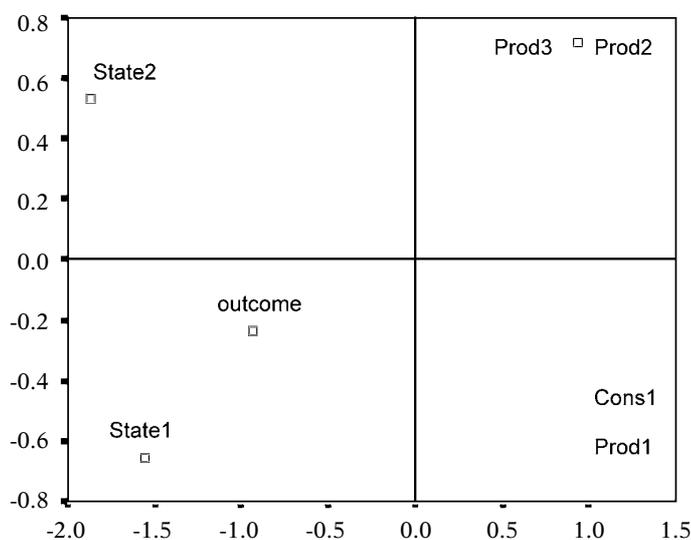
The second issue concerned the scope of the directive. Only the Finnish Parliament wanted a more encompassing European tax than the one proposed by the European Commission. The leading ministry argued that it would be better to start with a modest proposal and to extend the scope of the tax later, while

the other domestic actor seemed satisfied with the Commission proposal. The third disagreement referred to the question of who shall levy the tax. As the banks wanted to avoid withholding the tax, the Banking Association and the Association of Investment Funds opposed the Commission proposal which would have obliged the banks to exchange information and to carry the burden. The Ministry of Finance first opted for the position of the Commission, but finally gave in to the pressure exerted by the banking industry.

Graph 4 demonstrates that the prenegotiations on the Commission proposal were quite polarized in Finland. The adopted

GRAPH 4

MDS PLOT OF PREFERENCES OF ACTORS IN FINLAND ON TAXATION ON SAVINGS PROPOSAL (STRESS = 0.036)



*Legend:* State1 = Initial Position of Ministry of Finance (=leading ministry); State2 = Parliament; Prod1 = Association of Industry and Employers (TT); Prod2 = Association of Investment Funds; Prod3 = Banking Association; Cons1 = taxpayers' union; Outcome = National position of leading ministry after domestic negotiations

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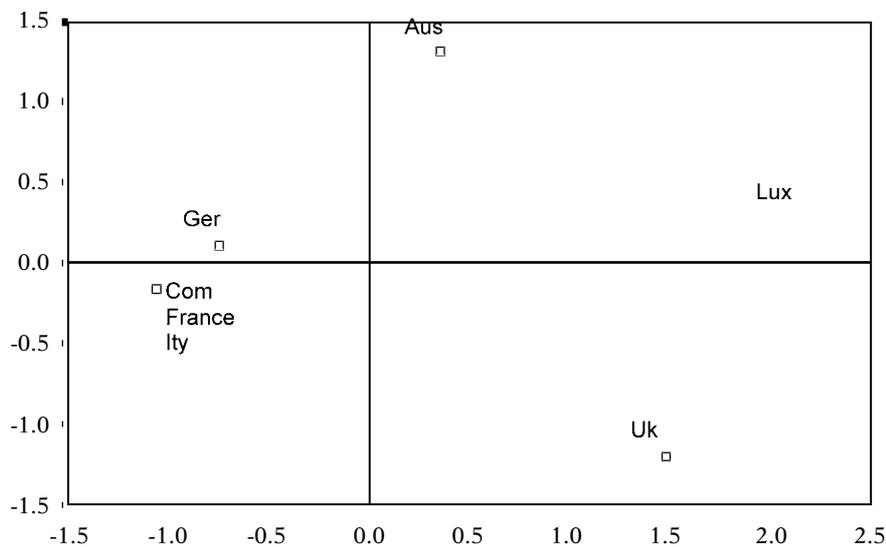
proposal shows that the lobbying of the interest groups payed at least partly off. Note also that the taxpayers' union, which built an association with the Banking industry in Germany, was in this conflict opposed to most of the interests of the banking industry. The leading ministry had, however, not to give in much in the end to the various counterproposals.

*Comparison and European negotiations:* The four domestic prenegotiations demonstrate that specific interests are much better represented than the general interests. The threats of the banking industry to move out of the City of London seems to have worked at least in Great Britain while the Schröder government was much more reluctant to take the corresponding wishes of "Frankfurt" into consideration. The lobbying of the banking industry was, however, successful at the European level. Graph 5 summarizes the decision making process at the European level.

The issue of capital tax harmonisation topped the agenda of successive European Council meetings in the second half of the

GRAPH 5

MDS PLOT OF PREFERENCES OF COUNCIL MEMBERS  
ON TAXATION ON SAVINGS PROPOSAL (STRESS = 0.003)



1990s. The Commission received some support for its plans at the Feira summit in June 2000 during which the member states committed themselves to adopt the Commission proposal no later than December 31, 2002. The most important concession to the laggards was that the European Council asked the Commission to negotiate with the key countries over the possible introduction of equivalent measures.

Yet, this interim settlement was not sufficient. The pressure of the defenders of the *status quo* was so large that European Commission withdrew its proposal in July 2001 and suggested another solution. The finance ministers agreed on this revised proposal in January 2003 after some haggling between various interest groups, member states and non-member states with a strong banking industry. The final result largely reflected the interests of the maverick countries that had vetoed the original proposal.

## 5. - Conclusion

While the literature on interest groups is full of a multitude of theoretical models, few systematic empirical tests of these models exist. This discrepancy between the theoretical aspiration and the scarcity of empirical results is particularly pronounced for the field of European Union politics. In this article, we tried to close this significant gap a bit in an analysis of the Olsonian hypothesis that specialized interests are better represented and are more influential than public interests. Our analysis of the domestic negotiations on “average” Commission proposals has confirmed that significant asymmetries exist in EU lobbying between the different types of interest groups. Although we can observe strategic advantages of specialized interest groups in all four member states under examination, the gains that private interests can make in Germany and the Netherlands exceed the influence of specialized interests in Finland and the United Kingdom.

The expectation advanced by some political scientists that the process of European integration leads to a balance of power

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between contending interest groups did, conversely, not receive much support. Only the Finnish consumer interest groups seem to be as powerful as the producer organisations. The result that general interests and especially general consumer interests are much less influential in the domestic pre-negotiations is partly offset by the agenda setting of the leading ministries. On average they take more consumer friendly positions and still remain in vicinity of their positions even after the domestic negotiations.

We do, therefore, not conclude that the influence asymmetry that favours special interest groups in the domestic pre-negotiations is under all circumstances negative from a normative point of view. Becker (1983) has shown that giving in to pressure from lobbying efforts can correct market failures and therefore maintain social welfare or efficiency. Other authors (Grossman and Helpman (2001)) have shown that interest groups provide important information to the regulator. Our results indicate in line with these theoretical arguments that the relative close alliance between government and general consumer interests might help member states to avoid the adoption of inefficient policies. Yet, consumer interests are still most often too weak to offset the wishes of specialized producer interests.

Our analysis let us expect that sectoral interests will remain powerful in the European Union at least on the domestic level as long as the decision making processes in the Council does not become more transparent. Recently, the Commission and the European Council have made some steps to open up the decision making process to the public. The Commission has tried to sketch in a so-called *White Paper* some instruments that would strengthen the public involvement and participation in the EU decision making processes. Yet, there is no guarantee that the organisation will sincerely try to move away from the current procedures. It is quite conceivable that the governments of the member states rather prefer to continue their tradition of backroom door policy making. As long as this habit is allowed to life on, we can expect sectoral interest groups to be key players in EU decision making.

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