



## Information for sale in the European Union<sup>☆</sup>



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### ABSTRACT

This paper empirically explores the role of informational lobbying in shaping the EU trade policy. To this purpose, we construct an original dataset by collecting information on the participation of national and international organizations in the European Commission consultations on trade issues and by merging it with newly released data on non-tariff measures aggregated at the tariff-line level between 1999 and 2007. Our results suggest that European lobbies exert a major influence on policy-makers. Drawing upon the panel structure of the dataset, we find that participation in consultation meetings increases the probability of a protectionist policy, even after controlling for product fixed effects and a number of control variables. Moreover, actual attendance turns out to be more effective than simple registration and organizations representing more than one industrial category are more likely to obtain protection than single-sector organizations. These findings are interpreted in light of a political economy model of lobbying with (possibly endogenous) costs.

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## 1. Introduction

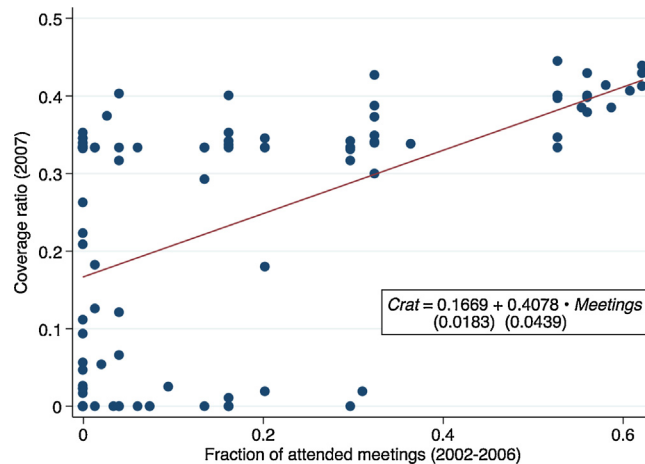
World trade is on a much smaller scale than predicted by theoretical models although there is little disagreement, among international economists, about the welfare benefits of free trade. This still holds in the 21st century, although multilateral trade negotiations have appreciably lowered tariff barriers in the past 30 years, especially among the developed countries. While tariff measures have undergone considerable reduction, however, neo-protectionist and regulatory trade instruments have proliferated in the past 30 years (Beghin, 2006; Orden et al., 2012; WTO, 2012; Nicita and Gourdon, 2013; Basu et al., 2011). Although they are not necessarily protectionist, non-tariff measures (NTMs) represent an important source of international trade costs (Anderson and van Wincoop, 2004; Hoekman and Nicita, 2011). As stressed by a large body of literature (surveyed by Gawande and Krishna, 2003), special interest groups play a major role in the trade policy formation process. This paper explores the role of informational lobbying in the European Union.

In the past 20 years, as the power of the European Union institutions has grown, there has been a proliferation of special interest groups gravitating around Brussels and a dramatic intensification of their activity. The *Corporate Europe Observatory* (2011) estimates that between 15,000 and 30,000 lobbyists meet Commission and European Parliament officials on a daily basis. This frenetic activity has resulted in a massive exchange of information and has acquired a remarkable role in

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**Fig. 1.** Coverage ratios and attended meetings in the EU. Note: Coverage ratio (*Crat*) is the EU average share of imports covered by an NTM in each industrial sector (4-digit ISIC). Source: TRAINS-UNCTAD (2013). Fraction of attended meetings (*Meetings*) is the fraction of meetings organized by the European DG-Trade Civil Society Dialogue attended by at least one organization in each industrial sector (4-digit ISIC) between 2002 and 2006. Source: European Commission (2011).

policy formation. The decision-making process of the European Union is indeed more decentralized than that characterizing a national system and much more open to outside input and consultation mechanisms (Coen, 2009). The European Commission, which has the power of initiative in trade and regulatory matters, largely resorts to private actors to gather the information needed to draft legislation (Broscheid and Coen, 2003). Thus, lobbies represent an important source of grassroots information and play a very dynamic role during the legislative process: they bring issues to policy-makers' attention, provide information, and often take part in the committees (Directorates-General) that assist the Commission in preparing proposals (Bouwen, 2002).

In this paper we measure the influence of lobbies in forming trade policy by considering the participation of business groups in the regular meetings on external trade matters organized by the European Union Directorate-General for Trade (DG-Trade), the Trade Civil Society Dialogue, and involving the European Commissioner for trade, the senior Commission officials, and the trade negotiators (European Commission, 2011). While consultations between the European Commission and civil society started in 1998, regular meetings have only been held since 2001. Registration is compulsory for attendance, the registration procedure for organizations having been established in 2002. We collect information on the organizations registered for each meeting that took place between 2002 and 2006 and on whether or not they in fact attended those meetings. After classifying registered organizations into industrial manufacturing categories, we match this information with data on NTMs aggregated at the tariff-line level (6-digit of the Harmonized System – HS) in 1999 and 2007. Since we can observe non-tariff measures before and after the official meetings were launched, we are able to disentangle the effects of the consultations on European policy decisions.

To provide guidance to our empirical analysis, we rely on a stylized theoretical framework that is general enough to fit the European institutional environment. “I know that for many of your organizations, resources are limited, and that you can't be everywhere at once. So I particularly want to thank you for taking the time to come today. I understand that some of you have been wondering whether coming to such meetings makes a difference to the outcomes in these and other negotiations. To us, it is very obvious that it does” (Pascal Lamy at the meeting with Civil Society on the 4th of July 2002). The simple model that we exploit in this paper captures two distinguishing features of the European trade policy formation process, which have been summarized by the former European Union Trade Commissioner in the quoted passage. First, lobbies have a fundamental role in informing policy-making, as is openly recognized by European representatives and officials. Second, information dissemination and participation in policy consultations is costly and lobbies' resources are limited. Accordingly, we adopt a model of informational lobbying with possibly endogenous costs, borrowed from Potters and van Winden (1992) (see also Grossman and Helpman, 2001, Ch. 5). We obtain that costly informational lobbying may be instructive even if the policy-maker cannot check the accuracy of the message delivered and there exists a potential conflict of interest between the government and the lobbies. In the presence of an information advantage of the special interest groups, the policy-maker may be able to infer relevant information about the policy environment from the act of lobbying and from the size of the lobbies' expenses. Hence, the business groups spend resources to buy credibility, and the more they spend, the more favorable is the response elicited. It follows that the probability of a protectionist trade policy increases with the lobbying effort.

Fig. 1 shows the correlation between the cumulative number of the European Union Trade Civil Society Dialogue meetings attended by at least one organization between 2002 and 2006 and the European Union average coverage ratio in 2007 computed for each industrial category (4-digit of the International Standard Industrial Classification, Revision 3 – ISIC). As will be seen, there is a positive and statistically highly significant correlation between the two. This association is suggestive,

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