Lobbying, Bargaining and EU Enlargement

Daniel Brou - Michele Ruta
Columbia University, New York

Gli ultimi cinquanta anni del processo di integrazione europea possono essere visti come il risultato di un gioco politico a due livelli: a casa i governi nazionali interagivano in maniera strategica con gruppi di interesse nazionali, nell'arena europea conflitti distributivi venivano risolti tramite contrattazioni tra governi. Applicando questo schema all'attuale processo di allargamento ai paesi dell'Europa Centrale ed Orientale, mostriamo che se esiste un surplus *derivante dall'integrazione politica, tutti i peasi beneficiano dall'allargamento. Tuttavia, essendo il risultato della contrattazione tra stati determinato dal potere contrattuale delle parti, i nostri risultati indicano che i paesi membri dell'Unione Europea possono guadagnare di più dall'allargamento rispetto ai nuovi membri.*

The past fifty years of European integration can be seen as the result of a two-level political game: at home national governments interacted strategically with organized interest groups, while in the European arena interstate distributional conflicts were solved by bargaining. Applying this scheme to the actual process of Enlargement to Eastern and Central European nations we show that, if there is a surplus from political integration, all countries receive a positive benefit from Enlargement. However, contrary to conventional wisdom, being the outcomes of the bargaining process shaped by relative power, our results suggest that EU members could gain more from Enlargement than entering countries [JEL Code: F02, D72, H41].

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1. - Introduction

At the European Council in Copenhagen in December 2002 the European Union concluded the negotiations, officially started in May 2001, to add ten new members to the group of fifteen countries already part of the union. These recent developments in Europe raise several interesting questions: Why do independent political entities find it convenient to form (or to join) an international jurisdiction such as the European Union? In other words, what are the benefits and the costs of political integration? And how are these benefits and costs divided between negotiating countries?

Political integration of sovereign nation states is a novel phenomenon in the history of international relations. Political scientists have provided several theories that attempt to explain some aspects or the general logic of political integration, highlighting geopolitical reasons, the role of key political figures or politico-economic interests.[1] More recently, economists have started to build a formal framework to study the formation of international jurisdictions.[2]

In our approach, first presented in Brou and Ruta (2002), we borrow from the recent political economy literature on special interest politics (mainly Grossman and Helpman, 1994, 1995 and 2001, Persson, 1998, and Persson and Tabellini, 2000) and adapt the analysis to consider the welfare effects of political integration. We consider political integration as the result of a two-level political game. On the one hand, special interests influence political decisions and distort policies to their advantage. On the other hand, major steps toward deeper integration are taken by national governments as the result of a bargaining process. Special interests politics and international bargaining strongly influence the distribution of the benefits and costs of political integration.

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[1] For a survey of the political science approach to European integration see NUGENT N. (1999) and MATTLI W. (1999).

[2] Among others, important contributions in this area include ALESINA A. - ANGELONI I.F. - ETRO G. (2001), ALESINA A. - SPOLAORE E. (1997), BOLTON P. - ROLAND G. (1997) and CASELLA A. - FEINSTEIN J.S. (1990). For a recent survey, see RUTA M. (2002).

In this paper we expand upon Brou and Ruta (2002) by considering a realistic bargaining procedure. The integration process, rather than a one shot decision, is characterized by national governments' alternate offers at the negotiating table. Our interest is to shed light on how this form of international bargaining affects the distribution of benefits from political integration.

We build a formal framework with two distinct political regimes: political separation, under which each government sets policies independently, and political integration, where a union government sets policies for the entire international union. Political integration affects national welfare in three ways: through redistribution, the common provision of global public goods and lobbying activity. The national «surplus» of political integration depends on the interplay of these three effects. We show that, if overall there is a positive surplus from political integration, all countries benefit by integrating. However, the share of the surplus that each country receives depends on its bargaining power. Moreover, the country that initiates the bargaining procedure has an advantage in the bargaining process.

The paper is organized as follows. The next Section presents the formal model and derives the welfare effects of integration versus separation. In Section 3, we analyze the international bargaining outcome. Concluding remarks follow.

2. - The Model

We summarize the results of the model presented in Brou and Ruta (2002). In the economy there are two countries: *A* and *B*. The two countries have similar political and economic environments, but they differ in two respects: country *A* is richer, and it is also more organized in the sense that it has a higher proportion of lobbies (organized groups that can pay contributions to the government). The government supplies two types of public goods: local (or targeted) public goods and global public goods. The two countries can choose to be politically integrated in an international union or to be separated. Political integration implies

that governments A and B cede the right to choose policy to a supranational government.

Formally, in economy $i = A, B$ there are J groups of individuals. Each group $j = 1, 2, ..., J$ has N_i^j "members" with

$$\sum_j N_i^j = N_i$$

so that N_i is total population in economy i and $N_U = N_A + N_B$ is the Union population. All individuals in group j have the same preferences, given by the quasi-linear utility function:

$$W_i^j = c_i^j + H(g_i^j) + F(G_i) \tag{1}$$

where c^j is consumption of the private good and g^j is the local public good that benefits each individual belonging to group j. G is the global public good. This public good is non rival and excludable across, but not within, countries. If the two countries are separate, the global public good must be provided separately in each country.

For simplicity we assume that preferences in the two countries are the same.[3] Moreover we assume that all individuals in each country have the same income $y_i^j = y_i$, $i = A, B$. This allows us to abstract away from issues arising from differences between groups and to focus on differences across countries.

We assume that a subset L_i of groups in country i is organized to influence the government to their advantage. Organized lobby groups can offer the government contributions in return for policy favors. The share of organized groups in i as

$$\lambda_i = \sum_{j \in L_i} \frac{N_i^j}{N_i}$$

Here we follow Persson and Tabellini (2000) in applying the Grossman-Helpman (1994) lobbying framework to a model with local public goods.

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[3] See Alesina A. - Angeloni I.F. - Etro G. (2001) for a model with heterogeneity in preferences.

The government is "semi-benevolent" in the sense that it gives some weight to the general interest, but can also be influenced by lobbies through contributions. The important assumption is that one country is more politically organized than the other (formally, $\lambda_A > \lambda_B$). This assumption simply states that in one country, the share of the population that is represented by active political lobbies is larger than in the other country. A second assumption is that the same country is also richer than the other ($y_A > y_B$). The results that follow do not depend on this assumption, but it is made to represent the difference between the EU and candidate countries.

The game has three stages:

1) *Political Integration*. Each government decides whether or not to join the union. If both governments are in favor, the union is formed and a central government sets policy for the entire population. Otherwise, each government is responsible for providing public goods to its own citizens.

2) *Lobbying*. Every lobby j, with $j \in L_i$, non cooperatively and simultaneously presents to the appropriate government (national or union) a per-capita contribution schedule $C^j(g)$, giving a binding promise of payment, conditional on the chosen policy.

3) *Public Good Provision*. The government sets policy so as to maximize its own objective function.

We first consider stage 3. If a political union has not been formed, each government sets g and G so as to maximize a weighted sum of social welfare and contributions:

$$(2) \qquad W_i^{GOV}(g, G) = \eta \sum_j N_i^j W_i^j(g, G) + (1-\eta) \sum_{j \in L_i} N_i^j C^j(g)$$

where is the measure of government benevolence.

We derive an equilibrium in truthful strategies.[4] With this restriction, maximizing the above objective function is equivalent to maximizing the following weighted sum:

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[4] In effect, we restrict the lobby groups so that they present the government with contribution schedules that accurately reflect the effect of policy changes on the group's utility. GROSSMAN G. - HELPMAN M.E. (2001) argue that this restriction imposes no burden on the interest group.

$$(3) \qquad W_i^{GOV} = \eta \sum_{j \notin L_i} N_i^j W_i^j(g, G) + \Sigma_{j \in L_i} N_i^j W_i^j (g, G)$$

In other words, the equilibrium coincides with the solution to a planning problem in which the non-organized groups receive a lower weight than the organized ones to an extent that depends on the government's benevolence.

The government budget constraint is given by:

$$(4) \qquad t_i N_i y_i = \Sigma_j N_i^j g^j + G$$

If a political union has been formed in stage 1, the Union government will set g and G so as to maximize aggregate government welfare:

$$(5) \qquad \max_{g,G} W_U^{GOV} = W_A^{GOV} + W_B^{GOV}$$

subject to the Union budget constraint

$$(6) \qquad t_U(N_A y_A + N_B y_B) = \Sigma_j N_A^j g_A^j + \Sigma_j N_B^j g_B^j + G$$

where W_i^{GOV} with $i = A, B$ is given by equation *(3)*.

In the case where there are no lobbies in either the generic country $i = A, B$ or in the Union, the members of every group receive the «amount» of targeted public good that gives them the same marginal benefit as the members of any other group. Provision of the global public good satisfies the Samuelson condition that aggregate marginal benefit equals the marginal cost of provision.[5]

The first-order conditions that define the equilibrium allocations are the following:

$$(7) \qquad H_g(\tilde{g}^{j,L}) - 1 = -(1 - \lambda_i)(1 - \eta) \leq 0$$

$$\text{for } j \in L_i$$

[5] A social planner that does not consider contributions would set the provision of local public goods equally for all citizens in order to satisfy the condition $H_g(g^*) = 1$. In other words, the marginal benefit to each citizen would equal the actual marginal cost.

$$H_g(\tilde{g}^{j,N}) - 1 = \lambda_i \, (1 - \eta)/\eta \geq 0 \tag{8}$$

$$\text{for } j \notin L_i, \text{ and } F_G(\tilde{G}) = \frac{1}{N_i} \tag{9}$$

Where the parameter λ_i is the share of the population organized in lobbies,

$$0 \leq \lambda_i = \sum\nolimits_{j \in L_i} \frac{N_i^j}{N_i} \leq 1$$

$$\text{for } i = A, B \text{ and } \lambda_i \equiv \frac{N_A + y_A}{N\bar{y}} \lambda + \frac{N_B + y_B}{N\bar{y}} \lambda_B$$

when there is a political union (we slightly abuse notation by allowing $i = U$ to denote the case of a political union)[6]. Note that λ_U is a weighted average of each country's λ, where the weights depend on the country's relative size (N_i/N) and its relative income ($y_i/\bar{y}$).

Groups that can pay contributions get more and unorganized groups get less local public goods relative to the social optimum, $\tilde{g}^L > g^* > \tilde{g}^N$. The extent to which lobbies can influence the government is larger the more the government values contributions (the smaller η). Lobbying activity does not distort the allocation of the global public good. Lobbying distorts policies that have a different impact on different groups, this is not the case of a global public good that has the same impact on organized and non-organized groups.

The key result is that equilibrium local public goods provision depends on λ_i. The effectiveness of lobbies is a decreasing function of the share of organized groups in total population. The intuition is the following: the fewer are the groups that can pay contributions, the more the semi-benevolent government is willing to satisfy the few organized groups. Moreover, the lower is the share of lobbies over total population, the better off are also the non organized groups. The government dedicates less resources

[6] With $\bar{y}$ we denote the Union average per capita income (i.e. $\bar{y} = \frac{N_A y_A + N_B y_B}{N}$).

to satisfying lobbies' demands and, therefore, the extent to which non-organized groups' interests are taken into account is increased.

We want to compare how the provision of public goods is going to change in the case of the formation of an international union between country *A* and *B*. The result is summarized in Proposition 1 from Brou and Ruta (2002).

PROPOSITION 1. *(i)* The provision of the global public good will increase under integration. *(ii)* Both organized and non-organized groups in the richer country (i.e. the country with a higher portion of lobbies) receive more of the local public good under Union than under separation. *(iii)* The opposite occurs to organized and non-organized groups in the poor country (i.e. the country with a lower share of lobbies).

Lobbies in the rich country receive more of the local public good because they can expand their influence under a Union, since they were not able to affect decisions of the other country's government under separation. Less intuitive is the result for the non-organized groups in the rich country. They are better off simply because their relative number in society is increased and the union government will pay more attention to them. The opposite occurs to organized and non-organized groups in the poor (less-organized) country.[7]

In stage 2, lobbies simply provide the appropriate government with a per-capita contribution schedule $C^i(g)$, giving a binding promise of payment, conditional on the chosen policy. As previously discussed, we limit lobbies to truthful contribution schedules.

In stage 1, each government must decide whether it prefers political union or separation.

In this simplified setting if both governments are in favor of forming an international political union, the policies implemented are $(\tilde{g}_U, \tilde{G}_U, \tilde{t}_U)$. If even one of them is against integration, then the political process is separated and leads to the equilibrium policies $(\tilde{g}^i_s, \tilde{G}^i_s, \tilde{t}^i_s)$, where $i = A, B$.

Each government will be in favor of integration if:

[7] The proof follows directly from the fact that $\lambda_A > \lambda_U > \lambda_B$.

$$\Delta^i = \tilde{W}_U^i - \tilde{W}_s^i > 0 \tag{10}$$

where $\tilde{W}_U^i$ and $\tilde{W}_s^i$ are the utility of government i under union and separation respectively. They are derived by substituting the equilibrium policies $(\tilde{g}_U,\ \tilde{G}_U,\ \tilde{t}_U)$ and $(\tilde{g}_s^i,\ \tilde{G}_s^i,\ \tilde{t}_s^i)$, under the two different regimes, into equation *(3)*. Therefore:

$$\tilde{W}_U^i = \eta\Sigma_{j\in L_i} N_i^j W_i^j(\tilde{g}_U^{j,N},\tilde{G}_U) + \Sigma_{je L_i} N_i^j W_i^j(\tilde{g}_U^{j,L},\tilde{G}_U) \tag{11}$$

and

$$\tilde{W}_S^i = \eta\Sigma_{j\notin L_i} N_i^j(\tilde{g}_S^{j,N},\tilde{G}_S) + \Sigma_{j\in L_i} N_i^j W_i^j(\tilde{g}_S^{j,L},\tilde{G}_S) \tag{12}$$

Consider the change in welfare of each group j in country i that arises from political integration:

$$\Delta_i^j = \tilde{W}_{iU}^j - \tilde{W}_{iS}^j > 0$$

Substituting in the equilibrium policies and rearranging we get:

$$\Delta_i^j = [H(\tilde{g}_U^j) - H(\tilde{g}_S^j)] + [F(\tilde{G}_U) - F(\tilde{G}_S^i)] - [y_i(\tilde{t}_U - \tilde{t}_S^i)]$$

The change in each group's welfare, and therefore the change in the government's welfare, can be broken up into three different effects. The first is the gain (loss) from the provision of the local public good, the second is the gain from centralized provision of the global public good and the third component is the redistribution effect, which captures the change in the cost of providing public goods as well as the redistributive effect implied by proportional taxation.

1) Groups in the rich and more organized (poor and less organized) country are going to receive more (less) targeted public goods under union than under integration.

2) The amount of the global public good is increased and the cost is spread over a larger population.

3) Under integration the richer (poorer) country has to support more (less) of the burden of public spending because of proportional taxation.

The second and the third effects are the ones traditionally highlighted in the literature - the economies of scale in the global public good provision and the redistribution effect respectively. The first component is the new channel that we introduce. By providing an additional source of benefits (costs) from political integration for the richer and more organized (poorer and less organized) country, this new channel helps to explain the eagerness of the European Union to expand to Eastern Europe, as well as rising complaints from interest groups in entering countries.[8]

Each government's choice will depend on the relative strength of the three channels through which political integration affects welfare. In particular, country i will be in favor of joining the political union if $\Delta_i \equiv \Sigma_j \Delta_i^j > 0$.

3 - Bargaining

In this Section we impose some structure on the integration process by introducing a specific bargaining procedure. Stage one will more realistically be a negotiating stage where the relative power of the two countries will affect the final outcome. Actual negotiations between the EU and the entering countries look more like bargaining with alternate offers than like a one shot decision as simplified in the previous section. To show how negotiations affect the division of the surplus deriving from political integration between the two countries, we adopt the Rubinstein bargaining process.

Suppose that we start from political separation and that the two governments meet at the bargaining table to discuss the pos-

[8] An unsatisfactory result of the current set-up is that all citizens of a given country are affected similarly by the interaction of lobbying and enlargement. This result is largely driven by the fact that we assume there to be only one type of heterogeneity across individuals within a region — organized or not. A more appealing set up would allow for groups of individuals in each region to differ along some other dimension (for example, preferences over public goods or ownership of different factors), thus allowing for the possibility that agents within a country are affected differently by integration. We thank Stefano Manzocchi for raising this point and leave this topic for future research.

sibility of forming an international union. Country A offers a transfer T_A to country B, with $T_A \in [0,\Delta]$, where $\Delta = \Sigma_i \Delta_i$ is the total surplus from political integration. Country B can either accept or reject country A's offer. If B accepts, an agreement is reached and country A receives $\Delta - T_A$, while country B gets T_A.[9] If country B rejects the offer, it is allowed to make a counteroffer $T_B \in [0,\Delta]$ at time $\tau > 0$. If this counteroffer is accepted by the government in A, then country B receives $\Delta - T_B$, while country A gets T_B. Otherwise, the government of A makes another offer at time 2τ. This process continues indefinitely until one of the two governments accepts an offer.

If the two countries reach an agreement at time $k\tau$ on a partition of the surplus coming from political integration that gives to country i a transfer T_i, then country i's effective welfare is:

$$[\tilde{W}_i^S(\tilde{g}_i^S, \tilde{G}_i^S) + T_i]e^{r_i k\tau}$$

where $r_i > 0$ is government i's discount rate. For notational convenience, define $\delta_i \equiv e^{-r_i\tau}$. If the two governments never reach an agreement, then political integration does not occur (even if it would be convenient) and each country i's welfare is given by the status quo of political separation $\tilde{W}_i^S(\tilde{g}_i^S, \tilde{G}_i^S)$.

As shown by Osborne and Rubinstein (1994), all the subgame perfect equilibria of this bargaining game have the properties of no delay (all equilibrium offers are accepted) and stationarity (a player always makes the same offer in equilibrium).[10] Let T_i^* denote the equilibrium offer by government i. Given these two properties, the current present value for government B of rejecting an offer T_A^* is $\delta_B(\Delta - T_B^*)$. This implies that in equilibrium:

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[9] Note that, in order for political integration to occur, it must be $\Delta = \Delta_A + \Delta_B > 0$. Where $\Delta_i = \tilde{W}_i^U - \tilde{W}_i^S$ with $i = A, B$. In other words, the two countries must have something to bargain over. However, it could well be the case that $\Delta_i \leq 0$ for one of the two countries, as long as total surplus is still positive. This is a characteristic of any bargaining solution, not just of Rubinstein bargaining, that was not present in the simple political equilibrium of the previous section. The reason is intuitive: the negotiation process allows for transfers between the two countries that were not allowed in the previous formulation.

[10] Moreover, OSBORNE M. - RUBINSTEIN A. (1994) show that an equilibrium that satisfies these two properties exists and is unique.

$$T_A^* = \delta_B(\Delta - T_B^*) \tag{13}$$

Similarly, for country *A*'s government:

$$T_B^* = \delta_A(\Delta - T_A^*) \tag{14}$$

Therefore, there is a unique equilibrium with:

$$T_A^* = \Delta \frac{\delta_B - \delta_B\delta_A}{1 - \delta_B\delta_A} \tag{15}$$

$$T_B^* = \Delta \frac{\delta_A - \delta_B\delta_A}{1 - \delta_B\delta_A} \tag{16}$$

The following proposition summarizes the properties of this solution of the bargaining game:

PROPOSITION 2 Whenever $\Delta > 0$*:* (*i*) Both countries receive a positive benefit from political integration; (*ii*) Country i's share of the surplus increases with its «relative patience» and its welfare in the fall-back position of political separation, while is decreasing in its gains from political integration; (*iii*) There is a first mover advantage.

PROOF:

(*i*) By assumption $r_i > 0$. This implies that $0 < \delta_i < 1$ and therefore $0 < T_i^* < \Delta$ for $i = A, B$.

$$(ii)\ \frac{\partial T_i^*}{\partial \delta_i} = \Delta \frac{\delta_j\,(\delta_j - 1)}{(1 - \delta_i\delta_j)^2} < 0$$

$$\text{and } \frac{\partial T_i^*}{\partial \delta_j} = \Delta \frac{1 - \delta_i}{(1 - \delta_i\delta_j)^2} > 0 \text{ if } \delta_i < 1 \text{ and } \delta_j < 1.$$

Recall that: $\Delta = \Delta_A + \Delta_B = [\tilde{W}_A^U - \tilde{W}_A^S + \tilde{W}_B^U - \tilde{W}_B^S]$

by definition. Using this into T_i^*, we get

$$\frac{\partial T_i^*}{\partial W_i^S} = -\frac{\delta_j(1-\delta_i)}{(1-\delta_i\delta_j)} < 0 \text{ and } \frac{\partial T_i^*}{\partial W_i^U} = \frac{\delta_j(1-\delta_i)}{(1-\delta_i\delta_j)} > 0 \text{ if } \delta_i < 1 \text{ and } \delta_j < 1.$$

The result simply follows considering that what a country gets of the surplus is $\Delta - T_i^*$.

(*iii*) Assume without loss of generality that $\delta_A = \delta_B = \delta < 1$. If government *A* is the first mover in the negotiation, country *A* gets

$$\Delta - T_A^* = \Delta \frac{1}{1+\delta,}$$

while country *B* receives $T_A^* = \Delta \frac{\delta}{1+\delta,}$. Clearly $\Delta - T_A^* > T_A^*$.[11]

The results of this proposition are quite standard. If there are frictions and both governments (possibly for electoral reasons) positively discount the future, no country can steal the entire surplus. However, it could well be that $T_A^* < \Delta_B$. In this case, country *A* gets some of country *B*'s surplus. As usual, higher welfare in the status quo ante (the political separation regime) gives a negotiator a stronger position in the bargaining table, while the potential gains from integration have the opposite effect. Each government also gains more from political integration the more patient it can be while bargaining. The reason is that more patience and a better fall-back position give to a negotiator a credible threat to decline an offer, pushing the other negotiator to increase its offer to reach an agreement with less delay. Last, in the presence of time frictions ($\tau > 0$) the division of the surplus depends on which government can make the initial offer.

Several implications could be drawn from the bargaining solution for the actual negotiations between the EU and the Eastern and Central European countries. First, if some transfer schemes within the enlarged EU are allowed, for example maintaining structural and cohesion funds, it would be possible to en-

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[11] Note, however, that the first mover advantage disappears as the time interval goes to zero. In particular:

$$\lim_{\tau \to 0} T_A^* = \frac{\Delta}{2}$$

the division of the surplus is 50-50.

large the EU even if some countries would initially be penalized, provided that the overall benefit is positive.

Second, our theory is quite ambiguous on which countries should be gaining more from political integration because of the interplay of the three effects highlighted in Section 3, and because these effects are difficult to measure empirically. However, there are still some issues to consider. Even if we do not model the supply side of political integration (i.e. the political incentives of governments to accept or reject integration as career concerns, electoral reasons etc.), we can assume governments of entering countries that are undertaking the *acquis communitaire* as being more impatient and having more to lose politically from the failure of negotiations, simply because they have invested more in this process. If this is the case, point (*ii*) of proposition 2 implies that the EU is going to get a higher share of the surplus coming from enlargement.[12]

Lastly, to the extent that the EU is the first mover at the bargaining table, as is the case in actual negotiations, it can exploit the first mover advantage predicted by the theory and gain from political integration also on those grounds.

4 - Conclusions

In this paper we study the role of lobbying activity and of international bargaining in shaping the welfare effects of international political integration.

Following the works of Putnam (1988) and, in particular, Moravcsik (1998), we adopt a rationalist framework based on two stages in which politico-economic factors are the driving force of political integration. In a first stage, national preferences over political integration are shaped by national economic interests. In the second stage, interstate distributional conflicts over the «surplus» of political integration are solved by international bargaining.

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[12] For a detailed discussion of the supply side of integration, see MATTLI W. (1999).

Our approach is based on two main assumptions. First, special interest politics matters at the national level as well as in an international union. Second, in the international arena national governments bargain. These assumptions are consistent with the European experience.

Data on lobbying activity are difficult to find. Where these data are available, mainly in the US, a large empirical literature has shown the relevance of special interest politics.[13] A rough indicator of the extent of lobbying activity in Europe is the number of «civil society» associations and of trade and business associations. Available data suggest that special interests play an important role at the EU level (in the European Commission's web site on «civil society» there are registered almost one thousand interest groups). An interesting aspect is that far more special interest groups exist in the EU than in candidate countries (respectively 1,396 and 170 formal trade and business associations).[14]

According to Moravcsik (1998), historical records on major turning points of the European integration process - mainly the five *Treaties* from the *Treaty of Rome* in 1957 to the *Maastricht Treaty* of 1992 - clearly show that interstate distributional conflicts within the EU were constantly solved by international bargaining.

Our main result is that countries that are already members of the EU can benefit from East enlargement on politico-economic grounds. This implies that once more economic interests are key forces - along with geopolitical reasons not considered in our approach - driving European integration.

We show that the EU enlargement affects welfare through two channels that were largely overlooked by previous political economy literature. First, as already argued in Brou and Ruta (2002), the difference in lobbying structure between current EU members

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[13] For a general discussion on the importance of special interest politics in modern democracies see GROSSMAN G. - HELPMAN M.E. (2001). Most of the empirical works are in the field of international trade, in particular GOLDBERG P. - MAGGI C. (1999) test the predictions of the GROSSMAN G. - HELPMAN M.E. (1994) model. For a survey see GAWANDE K. - KRISHNA P. (forthcoming).

[14] The web site of the European Commission dedicated to special interests can be found at the page: *http://europa.eu.int/comm/civil_society/coneccs/index_en.htm.* The data on the business associations in Europe are taken from EUROMONITOR (1997).

and applicants increases the surplus from integration for the first group of countries and reduces the surplus for the latter. The intuition of this result is that political integration favors organized EU groups that face a weaker competition for influence and can distort policies in their favor to a larger extent. Second, international bargaining solves the distributional conflict between the EU and entering countries to the advantage of the first. Intuitively this comes from the EU having a stronger bargaining position at the negotiating table.

Research in this field will have to deal both with empirical and theoretical issues. In particular, a better understanding of how lobbying activity influences in practice political integration and how international bargaining shapes the distribution of benefits is a promising area for future work.

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