Exit and the Collective Representation of Business in the European Union

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Abstract

In this paper, I examine the microfoundations of associational activity in order to discern the conditions under which transnational business association become strong and effective advocates for pursuing members' political goals. Drawing on Albert Hirschman's notion of exit, I argue that the ability and willingness of firms and their representative national associations to exit transnational association and represent their own views, at a minimum, constrains the positions that transnational associations can take, and, at a maximum, undermines effective collective action. The ability and willingness to exit depends, in turn, on the characteristics of firms' assets and markets, the size of firms and the concentration of the sector. I suggest that highly concentrated sectors of large firms sometimes have less effective transnational associations because of firms' ability to exit.

Exit and the Collective Representation of Business in the European Union

The institutional and political changes in the European Union (EU) during the 1980s and 1990s prompted many firms and business associations to mobilize politically in Brussels. The number of European interest groups alone has more than doubled since the 1970s, with over 550 now having offices in Brussels. Approximately 70% of these represent industry, commerce and services.[1] While the number of European level associations representing business interests in Brussels has increased, there are significant differences in the strength and effectiveness of these collective organizations across sectors.[2] In some cases, as in the chemical, pharmaceutical and insurance sectors, there are well established and effective European trade associations.[3] In other sectors, including automobiles and consumer electronics,

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[1] See Sonia Mazey and Jeremy Richardson, "Pressure Groups and Lobbying in the EC," in Juliet Lodge, The European Community and the Challenge of the Future, (New York: St. Martin's Press, 1993), p. 37 and Neill Nugent, The Government and Politics of the European Union, (Durham: Duke University Press, 1994), 3rd edition, p. 254.

[2] See Justin Greenwood, Jürgen Grote and Karsten Ronit, eds., Organized Interests and the European Community, Newbury Park, CA: Sage Publications, 1992).

[3] See, for example, Justin Greenwood and Karsten Ronit, "Established and Emergent Sectors: Organized Interests at the European at the European Level in the Pharmaceutical Industry and the New Biotechnologies," in Greenwood et al., Organized Interests and the EC; also P. Camerra-Rowe, "Lobbying in the New Europe: Firms and Politics in the Single European Market," Ph.D. dissertation, Duke University, 1994.

collective representation at the European level has been relatively weak.[4] These empirical differences across sectors cannot be fully accounted for by our traditional understanding of collective action. Olson has argued small groups have an easier time overcoming the free rider problems of collective action.[5] This leads us to expect that concentrated sectors of large firms will have the strongest and most effective collective organizations. Yet, this proves not to be the case. In some concentrated sectors, collective action has been relatively weak and ineffective, while in other more fragmented sectors, transnational collective associations have effective and almost corporatist like relationships with Commission officials.

In this paper, I examine the microfoundations of associational activity in order to discern the conditions under which transnational business associations become strong and effective advocates for pursing members' political goals. Drawing on Hirschman's notion of exit, I argue that the

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[4] On automobiles, see Andrew McLaughlin and Grant Jordan, "The Rationality of Lobbying in Europe: Why are Euro-Groups so Numerous and So Weak? Some Evidence from the Car Industry," in S. Mazey and J. Richardson, eds., Lobbying in the European Community, (New York: Oxford University Press, 1993), pp. 122-161; and P. Camerra-Rowe, "Lobbying in the New Europe: Firms and Politics in the Single European Market." For more on consumer electronics, see Alan Cawson, "Interests, Groups and Public Policy-Making: the Case of the European Consumer Electronics Industry," in Greenwood et al., eds. Organized Interests and the European Community, pp. 99-118.

[5] Mancur Olson, The Logic of Collective Action, (Cambridge, MA: Harvard University Press, 1965).

ability and willingness of firms and their representative national associations to exit transnational associations and represent their own views, at a minimum, constrains the positions that transnational associations can take and, at a maximum, undermines effective collective action.[6] The ability and willingness to exit depends, in turn, on the characteristics of firms' assets and markets, the size of firms, and the concentration of the sector. I suggest that highly concentrated sectors of large firms sometimes have less effective associations than more fragmented sectors of firms as a result of firms' ability to exit.

In the first section of the paper, I outline the theoretical underpinnings of the argument. I then provide some preliminary evidence from the automobile and insurance sectors. Finally, I draw some broader implications of this research for the study of collective action and the representation of business interests in the European Union.

Exit and Transnational Collective Action

In the European Union, much of the political activity of business is organized through European level sectoral associations. These sectoral associations, which represent

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[6] A.O. Hirschman, Exit, Voice and Loyalty, (Cambridge, MA: Harvard University Press, 1970).

specific industries, services or products, are generally comprised of national associations. However, an increasing number have direct membership of individual firms.[7] European trade associations are voluntary associations that depend on the consent and contributions of the firms or national associations that are their members. While these European level associations are the major channel for interest representation in Brussels, firms and national trade associations also gather information and represent their interests in the European Union through other channels such as European umbrella organizations, individual lobbying, ad hoc alliances with other firms or groups, and political consultants.

Although it is unlikely that firms and their representative national associations will rely exclusively on any single path of lobbying and representation, they will rely on some channels more than others.[8] The extent to which they rely primarily on the European trade association will depend on the ability of that association to provide its members with selective benefits and to

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[7] Examples of European associations that represent large firms include the Association of European Automobile Constructors and the Association of Petrochemical Producers in Europe.

[8] Wyn Grant, "Pressure Groups and the European Community: An Overview," and Sonia Mazey and Jeremy Richardson, "Conclusion: A European Policy Style?" in Mazey and Richardson, eds., <u>Lobbying in the European Community</u>.

meet members' collective political goals.[9]

If firms or national associations are dissatisfied with European collective representation, one strategy is to exit the European association in order to lobby on their own. This strategy differs from free riding in at least two ways. First, by exiting to represent their own views, individual firms or national associations often decrease the European association's effectiveness by providing contradictory views and information to EU officials. Free riding does not have this effect since free riders remain silent. Second, exiting undermines the European association's claim to representativeness because it (self-evidently) does not speak for those firms or national associations who have exited to lobby on their own. Again, this is not a consequence of free riding, since free riders do not present alternative views to public officials.

Exiting can be a risky political strategy for a firm (or national association). Not only is it costly to establish a presence in Brussels and develop contacts with European Union officials, but there is no guarantee that Commission officials

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[9] For a discussion of selective benefits and collective goals see Olson, The Logic of Collective Action. Also see Terry Moe, The Organization of Interests, (Chicago: University of Chicago Pres, 1980) and David Marsh, "On Joining Interest Groups: An Empirical Consideration of the Work of Mancur Olson, Jr.," British Journal of Political Science, 6 (1976): 257-271. Marsh notes, for example, that among large firms collective goals appear to be more important to group membership than selective benefits.

and members of the European Parliament will be receptive to the arguments of individual firms or national associations.[10] Moreover, in the political arena, speaking with a collective voice is generally more effective in influencing policy.

However, exit can also lead to significant individual gains. A firm, for example, may be able to win significant concessions or side payments from the Commission as a result of individual lobbying. Thus, firms and national associations may an economic incentive to lobby on their own.

Consequences of Exit for Collective Representation

When members exit collective organizations, they can undermine the association's effectiveness. The organization loses revenues and representativeness and it may be impelled to search for new ways of representing its members' interests.[11] Even if an individual member does not completely exit the association but does represent his own views, he can undermine collective activity. Exiting altogether could result in a worse outcome for an individual member since the association might then

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[10] Emil Kirchner and H. Schwaiger, The Role of Interest Groups in the European Community, (Aldershot: Gower, 1981). For a recent assessment of EU-interest groups relations, see Andrew McLaughlin and Justin Greenwood, "The Management of Interest Representation in the European Union," Journal of Common Market Studies, 33, 1 (March 1995): 143-156.

[11] Hirschman, Exit, Voice and Loyalty.

take a more extreme position. Thus, a member may stay in the association in order to retain some influence over the association's policy positions. Yet this will tend to weaken the power of the collective organization because members will then use the collective association simply as a means of preventing the association from pursing common bads rather than as a channel for pursuing common goods.

Moreover, simply the fact that members have the option of exiting can significantly constrain the behavior of the trade associations that represent them. The ability of members to exit gives them less incentive to compromise in pursuit of collective goals. This often leads associations to take the "lowest common denominator position." Disgruntled members may then go directly to policy makers to represent their interests. This muffles the message to policy makers and hence undermines the effectiveness of the collective association. Associations that represent only a few members are under more pressure not to contravene the interests of those members or the members will simply represent their interests directly, thereby weakening association's claim to be representative. Thus, I would expect that European trade associations representing a few large firms or a few powerful national associations must strive for consensus if they wish to retain their members. This, paradoxically, dilutes the political impact that we would otherwise expect these associations to have.

In the case where firms or their representative national associations cannot exit, collective activity will be strengthened both internally and externally. Internally, it means that members are stuck, that is, they are forced to accept a wider range of association positions if they wish to influence policy or represent their interests. European associations therefore have greater flexibility in the types of positions they take. Externally, it means that the association has greater political weight because it can claim to speak on behalf of all members.

Thus, unlike free riding, the ability and willingness of firms (or national associations) to exit European trade associations and represent their own interests in Brussels at a minimum narrows the range of issues on which associations can take positions and forces them to seek consensus. At a maximum, it undermines transnational collective action. In both cases, this undermines the effectiveness of collective associations. But this is only a partial answer to the puzzle of why some collective associations are weaker and less effective representatives of members' political goals. What is missing is an explanation of why some members choose to exit.

Why Members Exit

To explain why some firms and national associations choose to exit, we need to turn to the microfoundations of interest representation and examine the characteristics of individual firms and their relationship to one another in the sector. Three factors are key to explaining the ability and willingness of firms (and their representative national associations) to opt out of European collective representation -- firms' economic assets and markets, firm size, and the concentration of sector.[12]

The willingness to exit will depend first on the nature of its members' assets and their markets. The greater the differences in members' economic assets and markets, the more difficult it will be to reach collective agreement on the range of European wide issues. In particular, the greater the variation in the geographic concentration of firms' markets, the extent of dependence on national government regulation, and the homogeneity of assets, the greater the incentive for firms to opt out and represent their own views.

In terms of market concentration, firms whose markets are concentrated in a single country or region are more likely to be adversely affected by European single market legislation than

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[12] Clearly the willingness of European and national officials to consult with individual firms and national associations also affects the decision to exit. In this paper, I do not consider the role of government officials, focusing instead on the economic characteristics and strategies of individual firms. However, I do suggest in the conclusion that the actions of public officials can affect the effectiveness of transnational collective activity by influencing a firm's decision to exit.

those whose markets are more geographically dispersed.[13] Similarly, firms or national associations whose members are strongly dependent on national government regulation are more likely to be adversely affected by single market legislation than those that compete in an open market.[14] The extent to which these vary will influence the range of economic issues on which firms can reach agreement. The greater the disparities, the harder it will be for members to achieve collective agreement and the greater the incentives for members to opt out.

In addition, the homogeneity of members' assets will also affect their willingness to undertake collective activity.[15] Homogeneity simply refers to the extent to which the firm's assets are dedicated to a single industry or use. Firms with homogeneous assets operate within a single sector; those with heterogeneous assets operate across a number of different sectors. Firms with heterogeneous assets will have more diffuse and eclectic policy preferences than firms with homogeneous assets because they operate across sectors. This makes it more

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[13] For a discussion of the relationship between a firm's export orientation and position on protection, see Helen Milner, "Trading Places: Industries for Free Trade," World Politics, (April 1988): 350-76.

[14] For the effects of regulation, see James Q. Wilson, ed. The Politics of Regulation, (New York: Basic Books, 1983).

[15] Wyn Grant and Wolfgang Streeck, "Large Firms and Representation of Business Interests in the UK and West German Construction Industry," in Alan Cawson, ed. Organized Interests and the State, (London: Sage, 1985).

difficult for these firms to work through a single sectoral association to represent their views. Therefore, I expect that firms with heterogeneous assets will have greater incentives to opt out of associational activity and pursue private gains on their own.

Even when firms or national association have difficulties achieving collective goals, this does not mean they will necessarily opt out and lobby on their own. This is because they must also weigh the feasibility or likely effectiveness of opting out and representing their own views. This will be determined by the size of individual members and the concentration of the sector. Size affects the ability to exit collective organizations and seek private gains on their own. Large firms, for example, have greater resources and more political and economic clout because of their control over substantial investment and employment. It is therefore less costly and likely to be more effective for a large firm to represent its interests individually. Small and medium sized firms lack the economic and political clout to be effective individual lobbyists at the transnational level and lack the resources to lobby there on a regular basis.[16]

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[16] For the effects of size, see D. Willis and Wyn Grant, "The United Kingdom: Still a Company State?" in M.P.C.M. VanSchlenden and R. Jackson, eds. The Politicisation of Business in Western Europe, (London: Croom Helm, 1987).

The concentration of the sector affects the firm's calculations in two ways. On the one hand, as Olson argues, small groups are likely to have an easier time undertaking collective action because of their ability to overcome the collective action problem.[17] Thus, we expect firms in concentrated sectors to have an easier time undertaking collective activity and reaching agreement on collective goals. However, in the economy, as group size diminishes, the size of firms tends to increase. In a concentrated sector comprised of a few large firms, individual firms will have a lot of economic clout. This will increase their potential effectiveness as individual lobbyists. Thus, in concentrated sectors of large firms where the assets of the firms vary considerably, firms will often have the ability to lobby privately.

In sum, the ability of collective organizations to represent the political goals of their members depends on the willingness and ability of individual members to exit the association and represent their own views. A European association whose members are able and willing to exit are more constrained in the positions they take, thus undermining their effectiveness.
The ability and willingness to exit depends on the economic characteristics of individual firms, the size of firms and the concentration of the sector. While concentrated sectors of large firms are better able to overcome problems of collective action,

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17 Olson, The Logic of Collective Action, pp. 143-48.

their ability to do so may be offset by the size of firms and/or differences in the nature of assets and markets among firms in the sector. In concentrated sectors where the nature of firms' assets and markets varies greatly, it will be much more difficult for firms or their representative national associations to undertake collective representation at the European level. This suggests that in some cases, concentrated sectors of large firms or a few national associations will have weak, fragmented European level associations. In order to show how this framework can be fruitfully employed, let me briefly examine the mobilization patterns of automobile firms and insurance firms.

Some preliminary evidence

A. The Automobile Sector

One of the puzzles raised by the lobbying patterns in the European Union is why some concentrated sectors like automobiles have had surprisingly weak European collective associations. The major European automobile manufacturers were represented in Brussels throughout the 1980s and early 1990s by two European level trade associations - the CLCA (Coordinating Council of European Car Manufacturers), made up of the seven national automobile trade associations from the major EU car producing countries, and the CCMC (Committee of Common Market Automobile Constructors), which included the chairmen of the major European car companies. While there were efforts to coordinate the activities of the two associations, these were not very successful. The two organizations often addressed the same issues, but took different policy positions. One Commission official told me that much of the information he received from the two organizations was often either "contradictory or useless."[18] As a result, he said, the automobile industry had little effect on EC policy. Thus, while organized, collective activity among automobile firms was surprisingly ineffective. Even after the two associations reorganized in 1991 into a single association, (the Association of European Automobile Constructors (ACEA)), the collective organization still strove to achieve consensus among its members, which suggests that it will continue to be limited in its effectiveness.

Employing the framework outlined above, we can begin to unravel this puzzle. While the automobile sector was highly concentrated, the nature of members' assets and markets differed substantially. Some automakers operated in fairly open and competitive markets and had geographically dispersed markets, while others were highly regulated by national government officials and markets that were concentrated in a single country. Daimler-Benz and BMW, for example, were well established in both their domestic and foreign markets, many of which were open and unregulated. These firms were not concerned about the effects of a single European market. If anything, firm officials told me

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[18] Personal interview, May 6, 1991.

they welcomed the general initiative to complete the single market because it was likely to reduce transportation and border transaction costs and reduce the risks of a trade war with the Japanese and Americans.

Other firms like Fiat, Renault and Peugeot (PSA Group), and even Volkswagen, had more restricted markets and, in the case of the Italian and French automakers, were subject to greater national government protection. Fiat, Renault, Rover, and Peugeot all operated primarily in their own national market and were protected from foreign competition by their governments' regulatory policies. VW, while more export oriented than the other firms, had much less geographically dispersed markets than BMW or Daimler-Benz. VW had made its major gains in the 1980s in Europe's most protected and regulated markets -- France and Italy. These automakers expected to have some difficulties competing in an open market, particularly if it were opened to the Japanese. As one official put it, "The Japanese have the products, productivity and quality."[19] Thus, despite being members of the same sector, the range of common interests was narrowed significantly by differences in market position and regulatory relations.

In addition to the disparities in markets and government regulation, some firms like Fiat, Daimler-Benz, and BMW have

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[19] Personal Interview, March 18, 1991.

heterogeneous assets. During the 1980s and early 1990s, for example, Daimler acquired Deutsche Aerospace, the electronics firm, AEG, and set up an insurance and marketing firm. Because of these heterogeneous assets, Daimler could not find adequate representation through a single sectoral association. So it had an incentive to open up its own lobbying office and seek private gains. As one firm official noted, "We as a technological company have no specific trade association; therefore it is important for a conglomerate to have direct representation." As a result of these differences across firms, it was difficult for association members to reach agreement over the wide range of single market issues, thereby increasing the incentives for these firms to represent their interests privately.

Not only did these firms have the incentive to opt out to represent their own views, but they had the potential to be effective individual lobbyists because of their size and the concentration of the sector. There are only 16 major automakers in the sector, which gives each considerable economic clout. Moreover, each of these firms is a large company that employs many workers both directly and indirectly.[20] Not only could they threaten to opt out and represent their own views, but many did. Even before the Single Market Program was initiated,

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[20] It is estimated that in the European Union the automobile industry employs directly or indirectly one out of 10 people. See Commission of the European Communities, Panorama of EC Industry, (Luxembourg: Office for Official Publications, 1990), p. 13-6.

several automakers including Fiat, Ford of Europe, GM and Peugeot had established their own lobbying offices in Brussels. After the Single Market Program was passed, Daimler-Benz, and several years later, BMW, also opened offices in Brussels. This unilateral action helped undermine the effectiveness of the European collective organizations.

The ability of these firms to represent their own views on issues and gather their own information meant that the associations had to be careful to seek consensus if they wished to represent the views of the automakers. Throughout the 1970s and 1980s, both European level trade associations used rules of unanimity, which allowed any single automaker the right to veto positions that might hurt it economically. This allowed Peugeot's chairman, Jacques Calvet, for example, to block any compromise position on the EU's policy toward Japanese imports. Ironically, by seeking consensus and allowing a single member veto power, the associations also undermined their own effectiveness since it made it more difficult to reach agreement. There was no need for coalition building within the association, since firms could opt out to represent their own views and also veto undesired policy positions within the European association.

The automakers recognized these weaknesses and reorganized the two European automobile associations into a single association, ACEA, in 1991. The new association extended its membership to include American and Swedish automakers, increased its staff, and instituted new decisionmaking rules from unanimity to a super majority -- 75% to pass policy positions with each company having one vote. As a result of the new decisionmaking rules, Peugeot, the sector's most obstinate member, did not join. Yet despite these changes, the automakers still could not get around the need to achieve consensus. Even though automakers now only need 75% agreement to pass policy proposals, one car manufacturer told me "the association will still seek consensus among its members."[21] This is because large firms have alternative channels to represent their interests if they cannot reach consensus. This need for consensus is likely to continue to make it difficult to undertake effective collective activity on many sensitive issues, and, paradoxically reinforces the need of firms to represent their own views.[22]

This is not to say that ACEA is not stronger and more effective than the previous two car manufacturers' associations. Its members have taken policy positions more quickly and consulted with the Commission more regularly. However, it may still be unable to reach consensus on many important, controversial issues. Moreover, as McLaughlin and Jordan have rightly pointed out, the reason that some members remain in the

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21 Personal interview, July 23, 1991.

22 Indeed, BMW set up its own lobbying office in Brussels after the creation of the new organization and the majority of other European automakers also maintain lobbying offices in Brussels.

association appears to be defensive -- as a way of keeping the association from taking too extreme a position.[23] This undermines the effectiveness of the organization since individual members are not working toward achieving common political goals. Finally, ACEA is not fully representative since it does not include Peugeot. This forces public officials to seek out the views of individual automakers like Peugeot if they wish an industry wide view.

In short, the size of automobile firms, the concentration of the sector, and the wide range of differences in their markets and assets, provided them the ability and willingness to opt out of the European association and represent their own views. This prevented the European associations from taking positions on important issues and thereby undermined its effectiveness. Even with the reorganization of the associations into a single entity in the 1990s, it still must seek consensus among its members if it wishes to be an effective voice for the automakers. This need to achieve consensus limits the range of policy issues that the association can effectively address. As a result, a concentrated sector of large firms, where one would expect the most effective collective action, generally has relatively weak collective representation.

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[23] McLaughlin and Jordan, "The Rationality of Lobbying in Europe," p. 154.

B. Insurance

Insurance is a critical economic sector in the EU and one that was specifically targeted for liberalization by the Commission under the Single Market Program.[24] Unlike the automobile sector, this sector has traditionally been represented by a single European association, the European Insurance Committee (CEA). The CEA is among the most well-resourced and largest of the European sectoral associations. It is headquartered in Paris, where it has 23 full-time staff members.[25] It also has a Brussels office with four employees who act as liaisons with the Commission and European Parliament. The CEA is a federation of the national insurance associations from 20 different countries rather than an association comprised of individual member firms. Because it is a relatively small group, collective goals are likely to be important to members in maintaining the organization.

The insurance sector is puzzling, not because the collective organization is weak, but because the European association has been quite effective and enjoys almost corporatist-like relations with Commission officials. This occurs despite the fact that

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[24] Insurance companies in the EU employ some 1.2 million people and insurance premiums account for $270 billion or 5.5% of the EU's GDP. See Commission of the European Communities, Panorama of EC Industry 1990, p. 26-27.

[25] Its budget for 1990 was 14.79 million French francs.

there are significant differences in firms' markets and assets across member countries. Traditionally, insurance regulations have varied widely across member states. In some countries, such as Great Britain, there were few controls on insurance companies aside from annual solvency requirements. In other member countries, particularly Germany, government officials specified the substance of insurance contracts, set insurance premiums, and regulated insurance companies investments.[26] A European level regulatory regime that would suit firms in one member country might not suit firms in another member country. Given the differing degrees of national regulation among insurers, I would expect the members of the CEA to have difficulties reaching agreement on collective goals. Firms and national associations would then have an incentive to opt out and represent their own views, thereby undermining representation by the European association.

However, this has not been the case. There has been little effort by individual firms and their representative national associations to represent their own interests in Brussels. While some of the EU's largest insurance firms have lobbied Commission officials on specific issues, they have not generally opened up

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26 For more on the insurance sector, see S. Woolcock, M. Hodges and K. Schreiber, Britain, Germany and 1992, (London: Pinter, 1991), especially Ch. 6; also Bill Pool, The Creation of the Internal Market in Insurance, Report prepared for the Commission of the European Communities, (Luxembourg: Office for Official Publications of the European Communities, 1990).

lobbying offices in Brussels or represented their own interests on a regular basis. One firm official in charge of European affairs for a large British insurer told me in the early 1990s, that he had been twice to Brussels as a "company man."[27] Even in cases where British firms were encouraged either by employees or outside consulting agencies to establish an office in Brussels, they often did not do so.[28] Europe's largest insurance company, Allianz, has also tended to rely primarily on the European association for representation. While it has sought to establish contacts with some Commission officials, company officials said they did not feel compelled to establish a regular presence in Brussels.

Similarly, with the exception of the German national insurance association (**Gesamtverband der deutschen Versicherung GDV**), national insurance associations did not open their own offices in Brussels as a result of the Single European Act. The GDV did open a Brussels office in 1989 and Commission officials said it was the most active and best informed of the national associations.[29] GDV officials said that this was necessary because Germany had a "unique" regulatory system which it needed to explain and defend in the EU. Germany has had the most highly regulated insurance system within the EU and has been among the

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27 Personal Interview, July 22, 1991.

28 Personal interview, July 11, 1991.

29 Personal Interview, February 27, 1991.

slowest to liberalize.

But even GDV officials said they continue to rely in the first instance on the European trade association to represent the industry's views.[30] As a result, the GDV has established only a limited presence in Brussels. Rather than opening up a full-fledged office, the national association has simply sent someone to its Brussels office from Bonn once a week to lobby and gather information.

Because firms and national associations tended not to opt out, the CEA has been the main channel for interest representation. Indeed, Commission officials regard it as the key representative of the sector. As Sir Leon Brittan noted in a 1989 speech,

> the CEA has proved its worth as a strong and effective standard bearer for the insurance industry at the European level. I know that DG XV has come to rely greatly on the CEA and its officials, not only as our main source of technical advice as to what can practically and realistically be achieved but more importantly as an "interlocutor valuable" in the fullest sense. That is, as an organization which is fully representative of the insurance industry, which puts your views and concerns to us

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[30] Personal Interview, December 4, 1990. There are several explanations for this. On the one hand, the German association may have believed that it would not be able to stop the liberalization of the national market by lobbying on its own, but only influence technical details of the new European regulatory regime since the Commission and member states like Britain appeared committed to liberalizing the market. Indeed, it was unable to stop liberalization efforts, although it was able to postpone liberalization of brokering. On the other hand, officials may have believed that insurance would remain primarily a national product even with greater liberalization.

frankly and powerfully and defends them tenaciously."[31]

Commission officials I interviewed echoed these sentiments. They said they have almost institutionalized, corporatist-like relations with the CEA. Before a directive is proposed, there are generally hearings with the group. This, said one official, is in the Commission's own interest since it cannot evaluate the consequences of policies as well as the insurance association.[32]

The differences between the collective associations representing the automobile and insurance sectors are striking. To account for these differences, we turn again to the microfoundations of lobbying. The lack of individual firm lobbying can best be explained by examining the characteristics of firms and their ability and willingness to exit. The major factors influencing the ability of individual firms to lobby are their size and the concentration of the sector. The insurance sector as a whole is more fragmented than the automobile industry. In Germany, the largest EU insurance market, there are some 770 insurance companies; in Britain, the second largest, there are some 850 insurance companies.[33] This lack of concentration, while making collective action on the one hand

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[31] Sir Leon Brittan, Text of a speech given to the Comite Europeen des Assurances, Brussels, November 27, 1989.

[32] Personal interview, February 27, 1991.

[33] Pool, <u>The Creation of the Internal Market in Insurance</u>, pp. 123-124.

more difficult, also means that insurance firms have less political weight as individual lobbyists and therefore have a less viable exit option. This makes them more dependent on collective means to influence policy and gives both the national associations and the European association more flexibility in the positions they take on EU issues.

Moreover, while insurance companies are generally medium to large sized companies, most are not as large as automobile manufacturers or other multinationals nor do they employ as many people. Thus, again, they are likely to be less important constituents and likely to be less effective individual lobbyists in the European arena. Indeed, most firms I interviewed said that while they were important national constituents, they were only small or medium-sized players in the European arena and did not have the political clout, or the resources to lobby on their own in Brussels.[34] They relied instead on their national associations, which provided them with information about developments in the EU.

One exception to the rule on size is Allianz, which is the largest EU insurer and the only EU insurance company among the 10 largest insurers in the world. Since the 1980s, it has acquired companies in Britain, France, Italy, Hungary, Spain and the US and it became the first European insurer to be authorized to form

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[34] Personal Interview, January 25, 1991.

a subsidiary in the non-life sector in Japan.[35]

But even Allianz undertakes lobbying in Brussels only on an intermittent basis and relies primarily on the European association for representation. In part, this reflects the fact that its assets are not as diverse as a firm like Daimler-Benz, allowing it to rely more heavily on a sectoral association to represent its views. Moreover, because it is already a multinational insurer with geographically dispersed assets, it was less concerned about the single European market than other firms. Finally, because of the imbalance in size between Allianz and other European insurers, national and the European trade associations have generally taken the views of the firm into account in drawing up their policy positions. One Allianz company official told me that his company's position papers on EU policies often became the position papers of his national association.[36] Smaller and medium sized firms underscored this fact, saying that the association was careful not to step on Allianz's toes in formulating policy positions. When there are disagreements within the European or national association, Allianz has lobbied the Commission directly as it did on a bankruptcy fund for insurance companies, which it opposed. Its importance as a global and EU insurance company provided it with

[35] David Mayes and Peter Hart, The Single Market Programme as a Stimulus to Change, (New York: Cambridge University Press, 1994), p. 168.

[36] Personal Interview, June 20, 1991.

the economic and political clout to lobby directly.

In short, while insurance firms operated under different national regulatory regimes, individual representation in Brussels has not been a feasible option.[37] Insurance firms lack the resources and economic and political clout to effectively lobby at the transnational level. In order to protect their specific national interests and gather information about the EU, they relied on collective associations. The inability of individual firms to exit in Brussels gives both the national and European associations more latitude in formulating positions on EU policy. With the exit option in Brussels foreclosed, firms must accept the policy positions of the associations if they wish their interests to be represented.[38] This, in turn, provides the European association with greater flexibility and stronger claims to represent collectively one of the most important sectors of

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[37] Even if individual insurance firms had the ability to exit and represent their own views in Brussels, it is not clear that they would have done so. Insurance generally remains a national product for all but the largest insurance firms. Even with the passage of the Third Life and Third Non-Life Directives, there are still differing tax measures for insurance premium and insurers' reserves and firms still need to have a local market presence to assess damages and service claims, particularly in the area of property and casualty insurance for mass risks.

[38] Their best strategy may simply be to make economic adjustments in order to make themselves more competitive. Many firms have done so by entering into joint ventures or merging with other companies in order to establish themselves in other EU markets. Over the past ten years, there have been a number of acquisitions including Allianz's takeover of Cornhill; Nederlandse Reassurantie Groep's acquisition of Victory Re; and Assurance Generales takeover of Sentry.

the EU service economy.

The Importance of Exit

While the evidence is still preliminary and more work needs to be done to compare the effectiveness of associations across sectors, the initial evidence from the automobile and insurance sectors suggests that concentrated sectors of large firms do not necessarily have the most unified and effective European trade associations. The ability and willingness of firms and national association to opt out of collective activity and represent their own views helps account for some of the difficulties concentrated sectors have in representing their interests collectively.

The most critical factor in determining individual members' ability to exit and represent their own interests in Brussels is size. It is only if firms are large European players that they can effectively represent their own views. It is after this that other variables like the concentration of the sector and variations in firms' assets and markets become operative. European associations representing fragmented sectors, where firms have fewer exit options, will have greater flexibility and therefore be more effective lobbyists than some European associations representing concentrated sectors.

Conclusions: When the Weak Dominate the Strong

This paper underscores the importance of studying the economic characteristics and political strategies of the individual members of trade associations. Inter-firm or inter-national association dynamics may affect the effectiveness of transnational trade associations. The differences across sectors are determined by the microbehavior of firms and their representative national trade associations.

Moreover, the study contributes to the debate on the role of interest groups in the integration process. Many neo-functionalists assumed that European trade associations would strengthen and displace national association lobbying as integration proceeded.[39] However, European trade associations have not become the prime vehicle of interest representation in all sectors. In many sectors, lobbying by individual firms and national associations has increased in Brussels as integration has proceeded.

This, in turn, has several practical consequences for the EU's policy making process. As the level of individual firm and national association lobbying increases in some sectors, it will be more difficult for European associations to reach consensus on

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[39] See, for example, Ernst Haas, The Uniting of Europe: Political, Economic and Social Forces 1950-1957, (Stanford, CA: Stanford University Press, 1958.

policy issues and thereby undermine their influence on EU policy. In addition, with more firms lobbying in Brussels, Commission officials will find increasing numbers of lobbyists who represent many different positions trying to influence the policy process. This greater mobilization will make it more difficult for the Commission to achieve its integration goals. It has already pressured the Commission to begin considering formalizing its relations with interest groups.[40] By understanding which firms and associations are most effective, we can better understand which will have a role in formulating those new rules. The new rules will allocate power to various groups and thus, affect the ability of firms to influence EU policy in the future, as well as determine the broader shape of the European political economy.

In addition, the research suggests that in some sectors, effective collective representation at the European level may require state intervention or coercion. In cases of concentrated sectors of large firms with highly divergent markets and national regulation, the only way in which corporatist-like relations will evolve over the broad range of issues, will be if the Commission and other EU institutions are able to devise rules which limit representation to channels that use European collective organizations. Thus, the role of the state may be critical in determining the form and shape that representation takes.

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40 See McLaughlin and Greenwood, "The Management of Interest Representation in the European Union."

Finally, this paper contributes to our broader understanding of collective action among firms. It suggests that it may sometimes be difficult for small groups of large firms to effectively undertake collective action because the ability of individual members to exit collective organizations and seek private gains on their own. This ability to exit can undermine the collective association's representativeness and the incentives to cooperate on collective goals. Moreover, the ability of large firms to exit also places significant constraints on the behavior of trade associations that represent large firms, since they will have to strive for consensus and may not be able to take positions on controversial issues. The difficulties of undertaking collective action among large firms suggests why concentrated sectors of large firms can sometimes be defeated in the political arena despite their obvious economic clout. Trade associations that represent large numbers of small or medium sized firms will often have wider latitude in the positions they take because individual firms do not have the resources or political clout to opt out and lobby on their own. In short, this tells us why the weak may sometimes dominate the strong.