

# **Bureaucratic Rent-Seeking in the European Union**

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*October 2003*

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Editor: Eva Roth

Department of Environmental and Business Economics  
IME WORKING PAPER 46/03

ISSN 1399-3224

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## **Abstract**

Our theoretical model suggests that ‘bureaucratisation’ is a potential threat to future economic growth in the EU. The bureaucratic incentives to budget maximize leads to overwhelming pressure for new administrative tasks because bureaucracies are competing for resources just like fishermen or hunters. EU bureaucracies will, given economical rational self-interest, try to reap more than what is efficient at the EU level and consequently raise the general taxation level in the EU.

This idea seems to be confirmed by the overall development in the EU, which has had a total staff increase of more than 300 percent in thirty years. For example, in the specific case of the largest budget expense, namely the Common Agricultural Policy that consumes roughly half of the total budget, all attempts to reform only led to a whole range of new tasks resulting in more administrative staff and higher budgets.

Bureaucratic rent-seeking is arguably possible at the EU level due to the strong institutional position of the Commission, which runs the budget, and the weak institutional position of the EU Parliament, which does not have the strength nor the information to critically review, approve and co-ordinate the total EU budget. Therefore, the uncoordinated activities of EU bureaucracies threaten to reduce the stock of production factors below the efficient amount, thereby lowering future economic growth rates.

**JEL Codes:** H2, H3, P1, P2, Q17, Q18

**Keywords:** Rent-seeking, EU, budget maximisation, bureaucracy, Commission, Parliament, Common Agricultural Policy, Reform.

**Acknowledgement:** Special thanks to Martin Paldam, Tipparat Pongthapanich, Niels Vestergaard and Pauline Madsen. The paper is a further development of the model in Kurrild-Klitgaard and Svendsen (2003), who apply a common-pool model to the roving banditry of the Vikings.



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# 1. Introduction

The ultimate goal of legal bureaucratic rent-seeking is simply maximisation of budgets. This is rational in the sense of consolidating bureaucratic positions; that is, by establishing a ‘buffer’ against politicians who will try to cut the size of bureaucracy. What’s more, the largest bureaucracies have the strongest negotiating positions (as they represent most resources and thereby have the most power to punish opponents) when trying to maximize their slices of the total EU income pie. This pursuit of bureaucratic goals rather than those of the general public is possible due to monopoly power (Mueller, 1989).

These ideas originate from Tullock (1965), who described bureaucrats as self-interested maximizers capable of influencing political decisions as a separate and well-organised constituency to further their own private interests. Government grows, writes Tullock, to a very large extent because the factor suppliers – that is, people who work for the government – are permitted to vote. They are a constituency for larger government and will inevitably elect politicians supporting a government that is larger than the median non-bureaucrat citizen would want. Niskanen (1971, 1994 and 2001) also saw bureaucrats as ‘budget maximizers’. Bureaucrats are in the position to obtain large budgets for two main reasons. First, because they are monopoly suppliers of public services that people want. Second, they have much more information than their legislative overseer about how much it really costs to supply those services and whether they are actually needed. Both reasons allow bureaucrats to claim a larger budget than they need in order to serve the public interest.

Hence, existing literature points to rational bureaucratic behaviour leading to an irrational outcome for society as a whole. However, the general idea in the following is that bureaucratic rent-seeking affects the policy design in favour of the bureaucracies themselves, thus driving taxation too high compared to the optimal point. Hence, our contribution is to demonstrate that seemingly rational bureaucratic behaviour *also* leads to an irrational outcome for the bureaucrats themselves and not only for society as a whole. More specifically, we suggest

that strong fiscal pressure occurs in the EU because its bureaucracies are competing to maximize their share of taxpayers' money just like fishermen or hunters try to exploit a free access resource. To our knowledge, such a political economy approach has not yet been undertaken.

Political economy is 'the economic approach to politics'. It is the study of rational decisions in the institutional context of political and economic institutions (see Green and Shapiro, 1994, p. xi). Bringing economic man into the political arena assumes that both political and economic actors behave optimally in line with well-specified utility functions, while at the same time being constrained by the institutions established to structure their interaction.

The key word in the political economy literature is the concept of rent-seeking as introduced by Tullock (1967). Rent-seeking was later defined as the use of resources in lobbying and other activities directed at securing protective legislation (McKenzie and Tullock, 1981). In other words, 'rent' is not used in its everyday meaning as the payment for using goods one does not own, as for example, paying the rent for a flat. Rather, it means the economic rent created by government intervention in the market economy, such as the price-support system in the Common Agricultural Policy.

Within this political economy framework, the main objective is to examine whether the EU institutional set-up is consistent with the strategic goal of economic growth or whether it, due to bureaucratic rent-seeking, might instead lead to economic decline by distorting markets. For example, the EU institutional ability to handle the largest budget expense, namely the Common Agricultural Policy (half of the total EU budget), may be seriously questioned. We undertake a comprehensive analysis of the way in which the design of such EU policy can be affected by interactions between interest groups and the institutions and bureaucrats of the EU. In particular, we focus on bureaucratic interests and the absence of tight fiscal control in the EU and in the case of the Common Agricultural Policy. More bureaucracy and regulation will raise the

general tax level in the EU thus having a detrimental effect on its competitiveness.

Consequently, bureaucratic rent-seeking may endanger the EU's new strategic goal for the next decade set in Lisbon, in 2000, which is: '...to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion' EU (2002). Thus, the vision is to become the world's leading economy in terms of competitiveness and economic growth. The question is whether the EU possesses the adequate institutional set-up to achieve its new strategic goal for the next decade. How will the present institutional set-up affect policy outcomes and economic growth, for example in the case of the Common Agricultural Policy?

## **2. Bureaucratic rent-seeking**

### ***2.1. Free access resource***

A bureaucracy is free to strive for maximisation of its budget if it is left more or less on its own. This seems a fair description of the EU institutional set-up, because it is very hard for the EU Parliament to efficiently monitor and control the annual budget of the EU Commission in detail. For example, irregularities in the EU Commission budget were only discovered by accident (see Svendsen 2003 about Van Buitenen and the 1999 crisis). Such absence of tight financial control leads to an irrational outcome. Why? Because the bureaucratic competition means, first, that too many resources are spent within a given area, and second, the resources are not necessarily employed in an optimal way because budgets are directed according to bureaucratic self interest and not the EU public interest. Just like the individual fisherman tries to catch as many fish as possible, each bureaucracy will try to 'harvest' as many resources as possible per year, and compete for maximising their share of the EU tax payers' money.

This bureaucratic access to resources is not a pure public good because it only fulfils the condition of *non-exclusivity* (where everyone can exploit the resource). The second condition of *non-divisibility* (where consumption does not change the good) is not fulfilled. Because the ‘capture’ must be subtracted from the amount available to other bureaucracies, access to resources is not a true public good but a semi-public good, i.e. a private good with open access. Therefore, the *first-come, first-served* principle applies; no individual or group holds the power (or it is not viable) to restrict access. Consequently, we argue, that too many resources are spent on any particular project (Svendsen, 2003).

## ***2.2. Budget catch game***

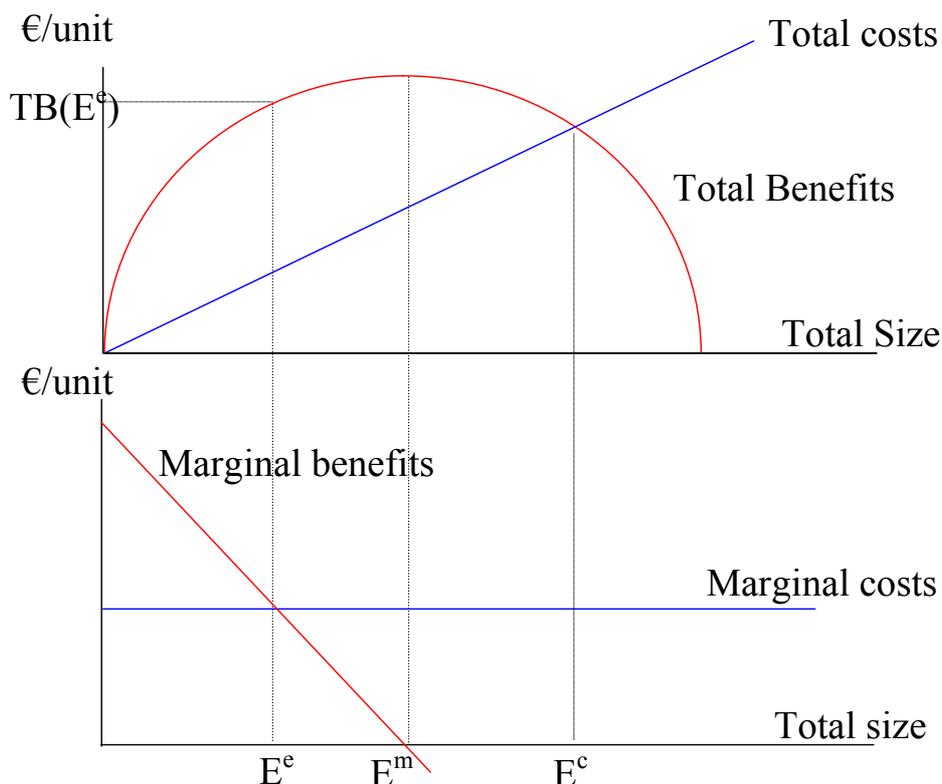
In the following, we will use the term, ‘budget catch game’, for the bureaucratic over exploitation of an open access resource. To align this budget catch game to the model of an “ordinary” open access, renewable resource situation, we need the following assumption.

Let us assume that the benefit that a bureaucracy provides to society can be identified and allocated back to the bureau (in any given proportion). Thus, to get the model right, we assume that each bureaucracy can get the benefit that it provides. This is a realistic assumption because bureaucracies investing in budget maximisation benefit themselves by hiring more people to do the same, for example, by establishing departments with the prime purpose of inventing new tasks for the bureaucracy. Overall, given this assumption, the total benefit function is simply the total benefit that a given bureau size will provide. Such benefits naturally include the value of the services that the bureaucracy will provide the public. Thus, the total gain for society from having a bureaucracy is given by Total Benefits (TB), which denotes the bureaucratic services and collective good provisions. For expositional purposes, in the upper part of Figure 1, we let the total benefit function be the same shape as a standard bionomic catch curve (see e.g. Tietenberg, 2002). Note that this is done by looking at the benefit per unit of size of the bureaucracy.

The reason why total benefits per unit (of bureaucracy) marginally decrease in the total size is as follows: if we assume that a bureau makes the service that gives the most benefits first, then an increase in size will not give as many additional benefits. This is in line with the assumption that a bureaucracy gets what it provides and is interested in as much benefit as possible. In addition, a bureaucracy will use more and more resources to capture rent instead of providing services to the public. That is, the more the individual bureaucracies increase, the less will be additional gains to society.

The cost of running such a bureaucracy is given by Total Costs ( $TC$ ). This includes the costs of employing the staff, and also the costs (to society) of distortions following increased taxation. For simplicity, in Figure 1, we assume that this function is quadratic in the size of the total bureaucracy so that total costs per unit are linear and increasing. As demonstrated in Figure 1, benefits and costs from budget maximisation can be viewed as a function of budget maximisation efforts.

**Figure 1: Optimal level of bureaucracy**



Given this set-up, the efficient size of the bureaucracy is given by  $E^c$ , where the marginal benefits from increased size equal the marginal costs of running the bureaucracy, which can be seen in the lower part of Figure 1. This is the efficient level where marginal benefits ( $MB$ ) are equal to marginal costs ( $MC$ ).  $MB$  is represented as the slope of the  $TB$  curve and the  $MC$  line represents the slope of the  $TC$  curve. Here the net benefit to society from having the bureaucracy is maximized. At this level, the given amount of resources  $E^e$ , are allocated to the different bureaucracies.

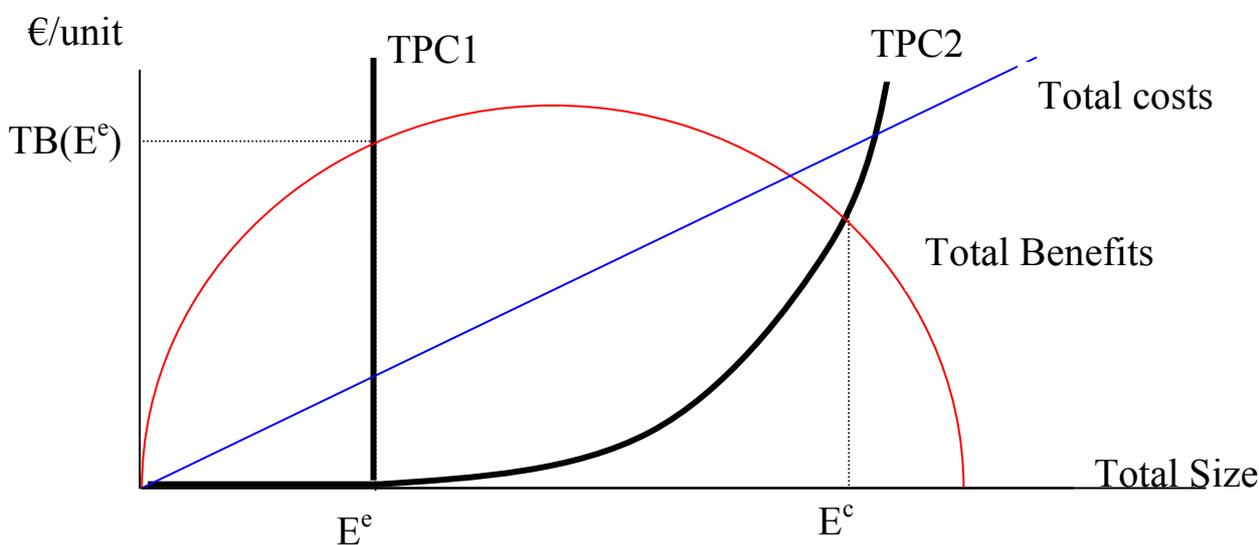
The budget maximisation hypothesis claims that the objective of an individual bureaucracy is to achieve as high a budget as possible. Note, however, that the  $TC$  curve in this setting is different from the case of a fisherman using equipment and time to get his catch. The cost curve of an individual bureaucracy (labelled private cost curve,  $PC$ ) will contain political costs in the sense that

overly aggressive behaviour may lead to political awareness and future budget cuts. This political risk, following from single-minded budget maximisation, should be the relevant costs.

Consequently, we assume that the Private Costs (PC) only include the cost of the political risk mentioned above. Furthermore, we assume that this risk of detection for a bureaucracy increases (as expressed by a convex curve) following more and more aggressive bureaucratic behaviour.

Given this, only in the unlikely situation, where total private costs are equal to total benefits at exactly  $E^e$ , will the socially optimal level of bureaucracy prevail (In Figure 2 this is indicated by *TPC1*). This is, however, unlikely, since it would imply a very strict control regime, which, as argued above, is not present. Note that such a situation resembles the optimal level of enforcement. If it is increasingly costly to have tighter fiscal control, then in the (second best) efficient situation, a certain level of “over bureaucracy” is efficient.

**Figure 2: Budget maximisation as a free access resource**



In the more likely event, indicated by *TPC2*, bureaus will keep on competing for more resources, as benefits are not exhausted. The total size of the bureaucracy will, in this open access situation, be  $E^c$ , far above  $E^e$ . Because access to

budget maximisation is basically unrestricted (non-exclusive), an increasing number of bureaucracies will expand the EU's taxing efforts beyond the budget maximizing level  $E^e$ . Why does over-use occur? It occurs because each bureaucracy has an incentive to increase its budget maximizing efforts until profits are zero, which is represented by  $E^c$  in Figure 2. At this point, total budgets will be reduced due to over-taxation and total costs increased compared to the optimal level,  $E^e$ .

Overall, if it is possible for a bureaucracy to increase its size by pointing to the need for more resources, then we have the adverse effect of budget maximizing. This could happen in the case of asymmetric information, when the individual bureau is better informed about the benefits its activities yield to the public, or when there is no tight fiscal control.

Just like the individual fisherman trying to catch as many fish as possible, each EU bureaucracy will try to 'harvest' as many resources as possible per year. The bureaucratic consumption of more and more resources leads to higher EU taxation (higher contributions from member states) and eventually reduces the population of production factors (e.g. industries may shut down or move outside the EU area). An individual bureaucracy will go a long way in redistributing to itself before it stops, because it gets all the benefits and bears only a small share of the costs. Therefore, too many resources will be spent, implying that too many taxes will be collected at the member state level to finance bureaus' spending. In contrast, it does not pay the individual bureau to reduce the use of resources and thereby the level of taxation. If one EU bureau reduces its budgets (and member state taxation) on its own, the benefits are mainly captured by other EU bureaus that do not restrain their behaviour, just like the individual fisherman who creates a larger catch for all the other fishermen by fishing less. Overall, in the absence of tight fiscal control, an irrational outcome arguably results both for bureaucrats and society as a whole. Christoffersen and Svendsen (2002) have named this situation the 'missing troop leader' in their

study of bureaucratic budget maximisation co-ordinating and the resulting fiscal policies.

### 2.3. Formalisation of the model

Lets now try to formalize the arguments above in a more general setting (not relying on the exact shapes shown in Figures 1 and 2) in order to precisely point to the reason for the inefficient large size of the bureaucracies.

The idea is that a bureau can engage in activities to increase its budget above  $E^e$ . As discussed above, it is reasonable to expect that each bureau only care about the total benefit it receives. To make things simple, assume that there exist two possible types of behaviour for an individual bureaucracy. Either to budget maximize, or not to budget maximize, where the latter simply means to choose a size of  $E_i^e$ . Formally, bureaucracy number  $i$ ,  $i \in [0,1]$ , decides whether or not to budget maximize. Let  $p_i$  be equal to 1 if it decides to budget maximize and equal to 0 if it decides not to. Hence,  $p_i \in \{0,1\}$ . Thus, the total amount of budget maximization, called  $P$ , is given by:

$$P = \int_{i=0}^1 p_i di$$

The individual net benefit from budget maximization is dependent on the total amount of doing so, meaning that the individual utility (for bureau  $i$ ) is  $u^i = p_i B(P)$ .<sup>1</sup> Assume that  $B' < 0$  meaning that the more budget maximization, the less benefit from undertaking this activity.<sup>2</sup>

Because each bureau will maximize its budget maximizing effort under the assumption that its individual effort has an insignificant effect on  $P$ , it will not

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1 If it does not engage in budget maximizing efforts, then its utility is normalized to 0, since  $p_i=0$ .

2 The function  $B$  is equal to  $TB-TPC$  in figure 2, if we let  $P$  be an appropriate measure of the total size of the bureaucracy.

take into account how its effort affects total budget maximization resulting in the non-optimal outcome of  $P^*$ , that is:

$$\text{Max } u^i \Rightarrow p_i^* = 1. \text{ Total amount of budget maximization is equal to 1, since}$$

$$\int_{i=0}^1 p_i^* di = 1 = P^* .$$

The optimal amount of budget maximization can be found by maximizing the sum of all bureaucracies' utility with respect to  $P$  and is given by

$$\text{max } \int_{i=0}^1 u^i di = P^{**} .$$

Here, it is taken into account that increased budget maximization reduces benefits, that is, we get the effect from  $B' < 0$ , and consequently,  $P^{**} < P^*$ .

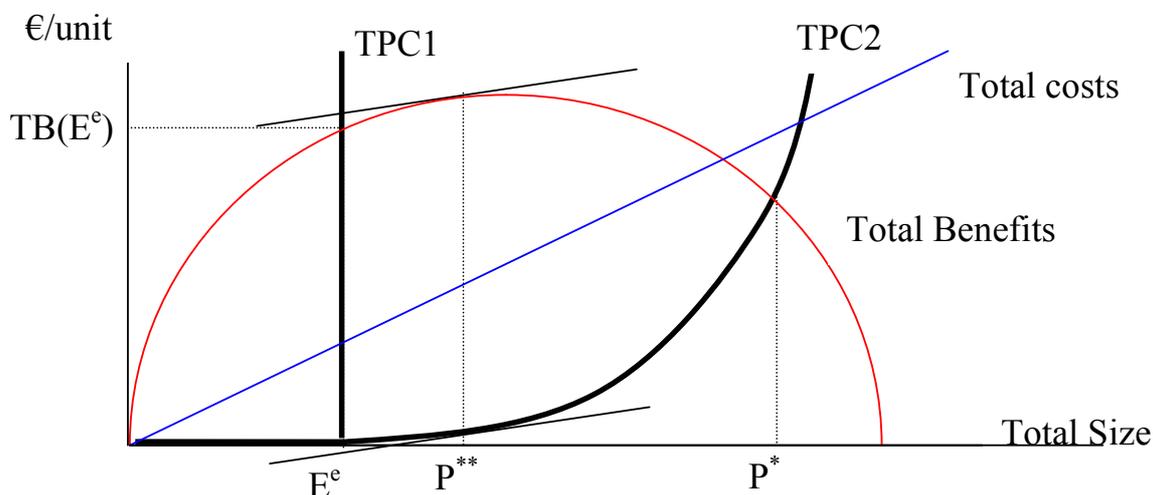
Results:

- 1: Budget maximizing behaviour always increases the size of the bureaucracy above the efficient level  $E^e$ , unless there are very strict control regimes and no costs of monitoring.
- 2: The size of the inefficiency depends on the risk perceived by the individual bureaus of being detected and the "punishment".

This effect is equal to the effect in an open access, renewable resource situation. When an individual agent considers whether or not to increase its harvest (or usage of the resource), it has no incentives to take into account the effect that increases in own harvest reduces the value of the other agents' harvesting (increasing the total size from  $P^{**}$  to  $P^*$  which is shown in Figure 3). This is the core of our analysis. As in the open excess situation, individual agents (bureaus) do not pay attention to the effect their own efforts have on the other agents' (bureaus') benefits. By neglecting this effect (by setting  $p_i=0$ ), the agents (bureaus) increase their effort above the efficient level. Since all agents (bureaus)

have the same incentives, all will increase their efforts, such that the total size of the bureaucracy will increase to an inefficiently high level.

**Figure 3: Budget maximisation in a general setting**



The second effect is that as long as the bureau is interested in having as large a budget as possible, the only costs that matter are the probability to get caught. Whether or not this tends to increase budgets even further depends on the perceived risk by the individual bureaus of being detected and the “punishment”.<sup>3</sup>

In other words, bureaucracies will, in the absence of tight fiscal controls, get access to more resources than would be efficient in order to maintain the efficient amount of production factors in the EU. These uncoordinated activities reduce the stock of production factors for industrial production, farming, trading, etc., and thereby future economic growth rates, i.e. the profit level from bureaucratic rent-seeking will be lower over time. What exactly does inefficiency mean in this case? That each bureau will provide services that will not give the public much benefit, and that each bureau will invest resources in rent seeking. This is costly to society, both in terms of having unproductive resources and in the adverse effect of too high taxation.

<sup>3</sup> This means that the efficient level seen from the point of view of the individual bureaus ( $p^{**}$ ) is not equal to (but always larger than) the efficient level for society as a whole ( $E^e$ ).

### 3. The EU Commission and Budget

The EU Commission is the bureaucracy of the EU. *Twenty* commissioners, or bureaucratic leaders, are appointed for five-year terms by their national governments and must be approved by the European Parliament. One commissioner comes from each member state, and two commissioners from the five largest states (France, Germany, Italy, the United Kingdom and Spain). The twenty commissioners each have their own responsibilities. One of the twenty commissioners acts as the president (Jones, 2001, pp. 112–135).

Note, that the EU Commission has the exclusive right to initiate all legislation by submitting proposals to the Council of Ministers. At the same time, the EU Commission promotes the inclusion of affected interest groups in the process of policy formulation in order to draw upon the expert knowledge of external actors. Furthermore, the EU Commission acts as the enforcement agent of EU lawmaking, and is by far the most influential institution in the EU. Therefore, the bureaucratic leadership in the EU is clear (Svendsen, 2003).

Authors who promote functionalist theories would claim that the EU Commission is a neutral secretariat with technical information, which helps governments to agree. Indeed, if the EU Commission is a neutral and independent agent, the main justification of the civil servants in the Commission is to secure efficiency in policy measures and thereby make ‘the pie as large as possible’. However, the independence and neutrality of the EU Commission may be questioned. George and Bache (2001, p. 237) list three main criticisms. First, because only the EU Commission can initiate new legislation on its own, it can choose (and to some degree ‘not choose’) between possible policies. Second, the EU Commission has the capability to ‘Europeanising’ a sector with the help of powerful national interest groups, which again may soften up local governments. Third, the EU Commission can itself create new networks among producers and use experts to promote its interests. What’s more, as argued by

Svendsen (2003), the EU Commission can choose to subsidise groups, such as consumer and public interest groups.

Concerning the EU budget, we first turn to the development in the permanent staff of the EU institutions from 1968 to 2000. During this period, the size of the permanent staff has more than tripled from 9,026 to 30,777 bureaucrats. The EU Commission is the largest institution and has also roughly tripled its staff numbers from 7,703 to 21,703. In the year 2000, the EU Commission was roughly five times larger than the Parliament in terms of staff; yet another indicator of the difference in power between these two institutions (21,703 vs. 4,126). Still, the Parliament has caught up somewhat compared to 1968, when the EU Commission was roughly fourteen times larger (7,703 vs. 514). The two smallest institutions, the Council and the Court of Justice, employed 2,648 and 1,006 people, respectively, in the year 2000 (EU, 2001).

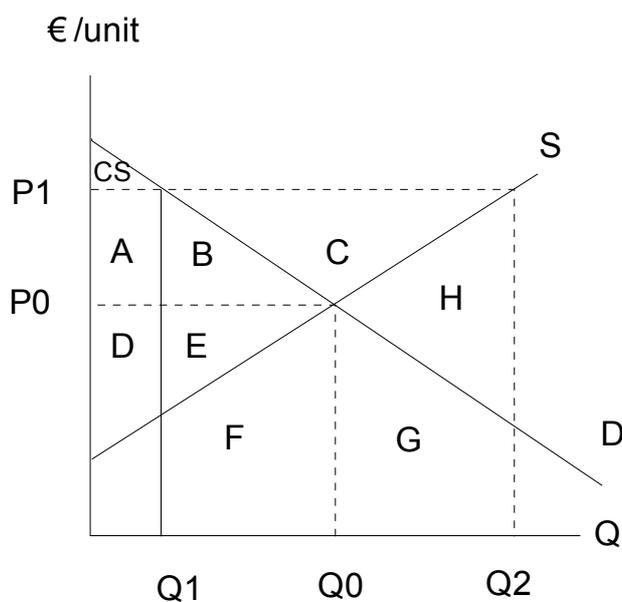
The EU budget totals € 96 billion in 2001 (rounded figures). The biggest expenditure was on agriculture at the cost of €44 billion. In other words, the Common Agricultural Policy costs roughly half the total budget (45.5 per cent). The next largest expenditure is structural funding totalling €33 billion, or roughly one-third of the total budget (34.2 per cent). The Structural Funds for regional development, most prominently the European Regional Development Fund (ERDF), were established in Paris (1972) and the ambition was to create equal economic performance all over Europe (see George and Bache, 2001, p. 363). Note, that important collective good provisions such as the environment and common foreign and security policy only amount to €167.7 million (0.2 per cent) and €36 million (0 per cent), respectively, of the total EU budget. Note also, that administrative costs (DA) amount to €5 billion or one-twentieth of the total budget (5.1 per cent), see CEU (2001). As we saw above, the EU staff in 2001 amounted to 30,777 bureaucrats. This means an average annual administrative cost of €1.6 million per bureaucrat (*ibid.*).

## 4. Common Agricultural Policy

In the previous section, we observed that the biggest expense in the EU is the Common Agricultural Policy, where half of the total EU budget is spent. The Common Agricultural Policy fundamentally contradicts the main idea in the EU of facilitating free trade and a single market, as it builds on a price support system. Basically, the Common Agricultural Policy is a high price policy, meaning that it supports farm incomes through a system of guaranteed minimum prices. This price support system has been supported by the use of import levies, stockpiling and export subsidies. Thus, consumers have also paid a significant share of the cost of subsidising farmers (Daugbjerg, 1998 and 2002).

We illustrate this price support system in Figure 4. Here, in a market for agricultural products, politicians have established the minimum price,  $P_1$ , above the market price,  $P_0$ . At  $P_1$ , farmers will supply  $Q_2$ , whereas consumers only will demand  $Q_1$ . Therefore, we accumulate, for example, food mountains and wine lakes corresponding to  $Q_2 - Q_1$ . The EU buys this overproduction at the cost of  $P_1(Q_2 - Q_1)$ . Furthermore, the EU faces storage and/or dumping costs.

**Figure 4: Common Agricultural Policy and price support**



It is apparent that the Common Agricultural Policy contains planned economy elements rather than free market elements, which is clearly disadvantageous to EU taxpayers and consumers. If we assume that the surplus production cannot be sold, taxpayers have to pay  $P1 (Q2-Q1)$  for buying up the surplus production. This redistribution from taxpayers to producers is a transfer payment in economic terms and not a loss. Producers now gain areas  $ABC$ , in addition to areas  $D$  and  $E$  in producer surplus. In contrast, consumers lose areas  $A$  (due to the higher price  $P1$ ) and  $B$  (due to the smaller consumption  $Q1$ ). Thus, consumers experience the welfare loss of  $A$  and  $B$  and are left with  $CS$  in consumer surplus.

The heavy burden on EU budgets caused the EU Commission to propose The Mansholt Plan in 1968. Here, a restructuring of agriculture was proposed. The idea was to make it economically attractive for small and inefficient farmers to leave the land by buying them out, offering pensions to farmers over 55, and by helping young farmers to find new jobs. At the same time, price levels should be cut gradually, so that inefficient farmers would be eliminated, Daugbjerg (2002).

Some agricultural reforms did take place during the 1980s. However, up until the 1990s they were clearly aimed at preserving minimum price support as the major instrument for supporting farm incomes. The MacSharry reform of May 1992, which was basically a reintroduction of the 'Mansholt plan', is so far the most comprehensive reform (Svendsen, 2003). Unlike earlier reforms, the MacSharry reform involved a shift in policy instruments in the arable market regimes. Guaranteed prices were lowered and a substantial share of agricultural support was paid directly to the farmers. The Agenda 2000 reform of March 1999 continued along this path by further reducing guaranteed prices and increasing direct payments (Daugbjerg, 2002). Still, these attempts to reform the Common Agricultural Policy did not work. As we just saw in the previous section, agricultural expenses amount to half of the total EU budget.

The idea of arable land (letting land lie fallow) in the MacSharry reform is a better solution for EU taxpayers. If the amount of available farming land in the EU is reduced to  $Q_1$ , we will then have a vertical  $S$  curve at this point forcing the price up to  $P_1$ . In the arable market system, farmers now only need  $B+C+E$  in compensation to get the same extra gain as under the price support system. Paying  $B+C+E$  only is cheaper for EU taxpayers as they now save areas  $F+G+H$  compared to the previous total payment of  $P_1(Q_2-Q_1)$ .

Paradoxically, the MacSharry reform, which was meant to strengthen liberalisation within the EU agricultural market, is just another case of an attempt to deregulate, which turned out to strengthen bureaucratic interests opposing fundamental changes in the existing system. The implementation of the MacSharry reform required national ministries of agriculture to hire additional staff to undertake administration of the direct payments and supply regulations on individual farms. For instance, in Denmark, the EC Directorate that carries out the day-to-day administration of the Common Agricultural Policy market regimes increased its staff by 60 per cent from 1991 to 1995. These new people have a strong interest in the current Common Agricultural Policy because without it, they would be out of jobs, and career opportunities would disappear (Daugbjerg, 2002).

## 5. Conclusion

Our theoretical model suggested that ‘bureaucratisation’ was a potential threat to future economic growth in the EU. We argued that the incentive for budget maximisation led to overwhelming pressure for new administrative tasks because bureaucracies were competing for resources just like fishermen or hunters. EU bureaucracies would, given economic rational self-interest, try to reap more than what was efficient at the EU level and consequently raise the general taxation level in the EU.

This idea was confirmed by the overall development in the EU, which has had a total staff increase of more than 300 percent in thirty years. For example, in the

specific case of the largest budget expense, namely the Common Agricultural Policy which consumes roughly half of the total budget, attempts at reform have not led more free-trade but rather to a whole range of new tasks resulting in more administrative staff and higher budgets.

Bureaucratic rent-seeking was possible due to the strong institutional position of the Commission, which runs the budget, and the weak institutional position of the EU Parliament, which does not have the strength nor the information to critically review, approve or co-ordinate the total EU budget. Therefore, the un-coordinated activities of collective action among EU bureaucracies threaten to reduce the stock of production factors below the efficient amount, thereby lowering future economic growth rates.

In conclusion, such a move away from market forces and free-trade towards regulation and a more planned economy could endanger future economic growth in the EU and its ambition from Lisbon 2000 of becoming the World's leading economy within the decade. The solution would be to strengthen the EU Parliament. Without a stronger Parliament, the powerful drive towards budget maximisation will be allowed to move freely and will distort policy outcomes and economic growth. As the saying goes, the EU will 'shoot itself in the foot' if incentive structures are not changed in the near future. Note, that it is not the individual EU bureaucrat who aggressively drives budget maximisation and eventually taxation too far, it is the professional staffs of lobbyists or representatives who have been hired to promote the interests of a particular EU bureaucracy. If these professional representatives do not do their job in a satisfactory way, they will have to look for another employer.

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