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The EU, the EEA and domestic accountability: How outside forces affect delegation within member states

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The EU, the EEA and Domestic Accountability: How Outside Forces Affect Delegation within Member States

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The Nordic countries face a common challenge. The challenge is how to govern themselves given the emergence of powerful outside forces such as the European Union (EU) and the European Economic Area (EEA). Many people believe that the emergence of these powerful outside forces renders national governments less effective. Is this true? How do the EU and the EEA affect the ability of Member States to govern themselves?

Considerable scholarly effort has been directed towards explaining how international organisations such as the EU and the EEA affect domestic decision making. An emerging theme in this research is that national-level actors retain some power over decision making in the EU Council of Ministers and in the implementation of EU directives.[1] Nations often have the ability to delay implementation and they can stubbornly hold out for conditions favourable to them. Moreover, if the choices presented to sovereign nations are sufficiently bad, they can choose to be uncooperative on unrelated issues. So while the transfers of power inherent in the EU and EEA charters may weaken national governments in some respects, the magnitude of these changes is moderated because nations retain some discretion over how EU policies and the EEA treaty are implemented within their borders.

Research that focuses on the extent to which Member States abide by international agreements is necessary to determine how the EU and the EEA affect Member States. However, such research is not sufficient because the transfers of power that allow the EU and the EEA to impose rules on Member States may also affect relations *within Member States*. This article focuses on these domestic effects; clarifying whether and how the

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emergence of outside forces weakens the ability of Member States to accomplish important domestic objectives.

In what follows a theoretical framework is presented for understanding how the EU and the EEA affect *delegation and accountability within Member States*. This framework is used to argue that the EU and EEA can affect the relationship between a nation's voters, its members of parliament, its government and its civil service. Consistent with the belief that the EU and EEA weaken national governments, conditions are identified under which outside forces make governments less accountable to citizens and render civil servants less accountable to governments and ministers. However, also identified are conditions under which the EU and EEA make certain domestic governance arrangements easier to enforce. When these latter conditions hold, the EU and EEA increase domestic accountability and make it possible for governments to enact a different set of policies than they could in the absence of these outside forces.

Two sets of ideas are used to build this theoretical framework. The first set emanates from previous work conducted by this volume's research group.[2] This set of ideas begins with the premise that *representative democracy requires delegation*. An act of *delegation* occurs when one person or group, a *principal*, selects another person or group, an *agent*, to act on the principal's behalf. In an election, for example, citizens are *principals* who elect representatives to serve as their *agents* in parliament. All representative democracies rely on other delegations as well. For example, when civil servants implement legislation, they do so as the agents of the cabinet ministers or other officials who selected them.

This first set of ideas continues with the premise that a *chain of delegation* is the backbone for every modern parliamentary government. The typical chain includes a link that attaches voters to their agents (the members of parliament) a link that attaches members of parliament to their agent (the government) a link that attaches the government to their agents (individual ministers) and a link that attaches ministers to their agents (civil servants). So at one end of the typical delegation chain are citizens. At the other end of the chain are the civil servants that are charged with implementing the decisions of their predecessors in the chain. Thinking about modern governance as a chain of delegation provides a useful way to clarify who is accountable to whom in modern democratic societies.

The second set of ideas from which this theoretical framework is built comes from a quarter-century of formal modelling in economics and political science. This literature clarifies some fundamental properties of the relationship between institutions, information and political decision making.[3] This work reminds us that while the style of governance and shape of delegation chain vary from country to country, *there is a logic of*

delegation that is common to all modern governments. Of particular interest is the fact that we can use formal logic to help explain why some acts of delegation undermine accountability while others do not.

Combining these two sets of ideas leads to the following argument:

> If the EU and EEA affect the abilities of principals and agents within a country's chain of delegation, then the EU and EEA can affect political accountability within that country's borders. Therefore, if we can be clearer about how outside forces affect domestic principals and agents, then we can be clearer about how the EU and EEA affect Member State self-governance.

From this argument I conclude that the EU and the EEA need not weaken domestic accountability. To be sure, national governments have transferred some powers to these outside forces. However, these international organisations can also give domestic political actors the bargaining leverage or credibility they need to increase accountability within national borders.

This conclusion is reached by using a theoretical framework to show that the EU and EEA affect domestic accountability by affecting *reversion points* and *information* that are relevant to domestic acts of delegation. By reversion point I mean the policy that prevails if a principal and agent, who together can change a policy outcome, cannot agree on which change to pursue. When outside forces change a domestic reversion point, they also change the relative bargaining leverage of domestic principals and agents (that is, they also change who is accountable to whom domestically). To clarify how the EU and the EEA affect Member State self-governance, we derive conclusions about the conditions under which externally driven reversion-point shifts increase accountability as well as the conditions under which such shifts decrease accountability. Attention is then turned to information. I explain how outside forces can affect the credibility of domestic information providers and, subsequently, the information that domestic principals possess about their agents. When outside forces increase the credibility of the people who provide information to domestic principals, domestic accountability can increase.

In the end, we can all agree that the Nordic countries – and indeed all EU and EEA Member States – have transferred some governing authority to the EU and the EEA. However, this transfer does not imply that Member States have weakened their powers of self-governance. Outside forces such as the EU and the EEA can give domestic actors bargaining leverage and credibility that they would otherwise lack. These forces make it possible for domestic actors to commit to new types of agreements and provide new types of collective goods. When these forces also make government actions

more transparent, they shift domestic balances of power towards political principals and towards greater accountability.

The logical basis of the argument – a formal model of delegation – is presented in the next section. The model is then used to identify factors that determine whether or not agents are accountable to their principals. In conclusion, the model's logic is used to clarify how outside forces affect domestic acts of delegation.

A THEORY OF DELEGATION

In this section, a theory is described whose purpose is to clarify how the EU and the EEA affect Member State self-governance. First, a precise definition of an important aspect of national self-governance is given and then the theory's logical foundation – a simple formal model of delegation – is presented. The findings from the model are then used to clarify how outside forces affect domestic accountability.

Agency Loss: A Measure of Accountability

The purpose of this article is to address the question: 'How do the EU and the EEA affect national level governance?' It focuses, in particular, on how the EU and the EEA affect the extent to which any one actor in a country's chain of delegation is *accountable* to any other actor earlier in the chain. Therefore, the dependent variable is accountability.

To clarify how the EU and the EEA affect national-level governance, we must be precise about what we mean by *accountability*. We must be precise because the word accountability, like many words, is used in different ways by different people. Some people use the term accountability to describe *a process of control*. For example, we may say that civil servants are accountable to ministers if the ministers can influence the civil servants' actions. Other people use the term accountability to describe *a type of outcome*. For example, we may say that civil servants are accountable to ministers if the civil servant acts in the minister's interests. It is important to recognise, however, that the 'process' and 'outcome' definitions of accountability mean different things. To see the difference, note that a civil servant can provide outcomes that the minister likes without the minister exercising any control (for example, the civil servant and minister share precisely the same policy goals, and the civil servant ignores the minister when making a decision). Similarly, a minister can exercise great control over a civil servant without achieving a desirable outcome (for example, a minister makes a credible threat to remove a civil servant if a certain level of public service is not achieved, but circumstances render the civil servant unable to achieve the goal).

I use the term accountability to refer to a type of outcome rather than a process of control. This is because outcomes, rather than process, are the core concern of most people who participate in debates about the domestic effects of the EU and the EEA. So, while the models presented generate conclusions about both process and outcomes, this article describes the conclusions that pertain to outcomes.

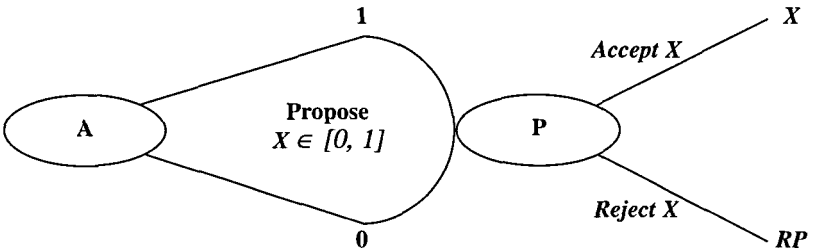
There are several metrics available for characterising outcomes. This article adopts a conventional metric called *agency loss*. Agency loss is the difference between the actual consequences of delegating to the agent and what the consequence would have been had the agent been a perfect agent. By perfect agent I mean an agent who does what the principal would have done if the principal possessed unlimited information and resources. Using the metric of agency loss alerts us to the difference between the actual outcome of delegation and the best that the outcome could have been for the principal. It provides a simple way to describe how a wide range of factors affects accountability.[4]

A Simple Model

A simple model of delegation is now described. While this model has its origins in economics,[5] the version presented here is based on work by Romer and Rosenthal.[6] In the model, delegation is a game between two players, a principal and an agent. The principal represents a person or persons who have delegated a particular task. The agent represents the person or persons to whom the principal's authority has been delegated. Put another way, by delegating, the principal (for example, a minister) gives her agent (that is, civil servants within her ministry) the ability to take certain actions on her behalf.

The sequence of events in the Romer–Rosenthal model is as follows and is depicted in Figure 1. The agent moves first by using his delegated authority to make a decision. The agent can be thought of as making a decision to change what was done in the past. Formally, we portray the agent's action as proposing a new policy, $X \in [0, 1]$. This policy is an alternative to *the reversion point*, $RP \in [0, 1]$ (that is, the pre-existing policy *status quo*). The principal then either accepts the agent's proposal or rejects it in favour of maintaining the reversion point (that is, she chooses X or RP). The principal's decision to reject the agent's action can be thought of as an outright veto of an agent's decision or as a decision to sanction the agent by an amount sufficient to induce the agent to revert to old ways.[7] To draw inferences about agency loss from such a model we employ the Nash equilibrium concept. Ordeshook writes that: 'A Nash equilibrium is a set of strategies – one for each player – such that each strategy in the set is a best response to all the others.'[8] Thus, when we describe principal and agent

FIGURE 1
A DELEGATION MODEL



behaviours below, the behaviours in question are the principal's best response to his perception of the agent's action and the agent's best response to his perception of the principal's likely action.

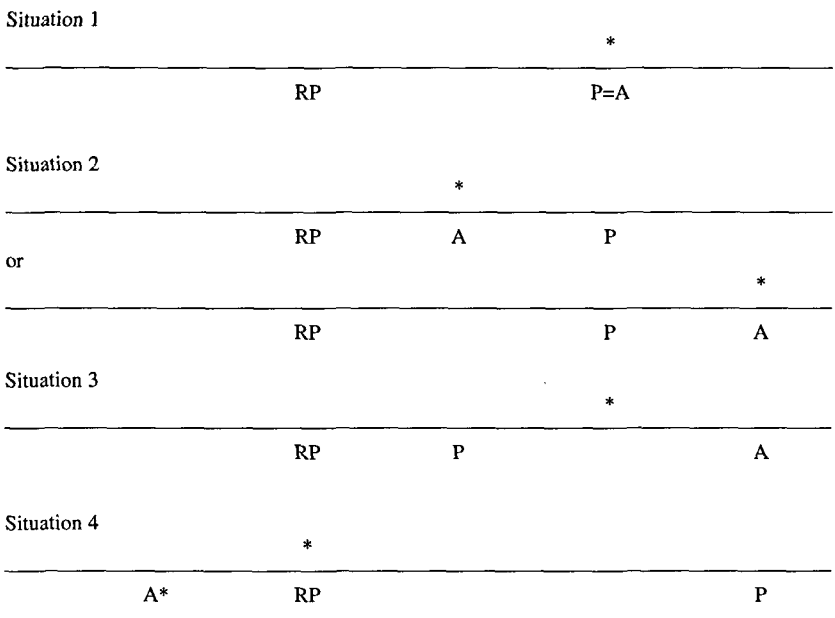
We assume that the principal and agent have preferences about what the outcome of their interaction should be. We represent these preferences by assuming that each player seeks to maximise a single-peaked utility function. We call the peak of each player's utility function his or her ideal policy. We denote the principal's ideal policy as $P \in [0, 1]$ and we denote the agent's ideal policy as $A \in [0, 1]$. Put another way, we assume that the principal and agent each prefer that the outcome of delegation be as close as possible to their own ideal policy outcome. It is further assumed, for the moment, that the principal and agent have complete information about all aspects of their interaction. Later we will show how gaps in the principal's information affect agency loss.

The main benefit of the Romer–Rosenthal model is that we can use it to deduce some fundamental dynamics of a delegation relationship, and the associated dynamics of agency loss. These dynamics are described below. The model reveals four mutually exclusive and collectively exhaustive situations. Figure 2 depicts these situations. What differentiates each situation from the others is the relationship between the principal's ideal policy, the agent's ideal policy and the reversion point.

In Situation 1, the principal and agent have identical ideal policies. In equilibrium, the agent proposes the principal's (and the agent's) ideal policy and the principal accepts the agent's proposal. In this situation, there is no agency loss – the agent is a perfect agent.

In Situation 2, the principal and agent have different ideal policies, but both players' ideal policies are on the same side of the reversion point. Put another way, the principal and agent agree on the desired direction of policy change but not on the magnitude of such change. Moreover, the principal's ideal policy is farther from the reversion point than it is from the agent's

FIGURE 2
GRAPHICAL DEPICTIONS OF THE POSSIBLE SITUATIONS



Note: The star indicates the predicted outcome of delegation in the (complete information) Romer and Rosenthal model.

ideal policy. This implies that the principal prefers the agent's ideal policy to maintaining the reversion point. In equilibrium, the agent chooses his ideal policy and the principal accepts it. This occurs because the agent knows that the principal prefers some degree of change (that is, the agent's ideal point) to no change at all (that is, the reversion point). The agency loss in Situation 2 is the difference between the agent's ideal policy and the principal's ideal policy.

Situation 3 differs from Situation 2 in only one respect. In Situation 3, the principal's ideal policy is closer to the reversion point than it is to the agent's ideal policy. This means that the principal would rather maintain the reversion point than accept the agent's ideal policy. Since the agent knows this, he *will not* propose his ideal policy. He will, however, propose a change. In equilibrium, the agent chooses the policy closest to his own ideal policy that the principal will accept.[9] The agency loss in Situation 3 is at least as great or greater than the agency loss in any of the previous cases and is just less than the difference between RP and P.

In Situation 4, the principal's and the agent's ideal policies are on opposite sides of the reversion point. In this situation there is no alternative to the reversion point that is mutually agreeable to the principal and the agent. In equilibrium, the outcome is the reversion point and the agency loss is RP – P.

What can we learn about how the EU and EEA affect national-level governance from this simple model? The first thing to notice is that as we move from any lower numbered situation to any higher numbered situation, agency loss increases (when it changes). The second thing to notice is that moving domestic principals and agents from a lower numbered situation to a higher numbered situation implies either (1) an increase in the distance between A and P or (2) an increase in the distance between P and RP relative to the distance between A and P. Put another way, agency loss grows (when it changes) as either the agent's ideal policy or the reversion point moves away from the principal's ideal policy. That agency loss grows with the distance between P and A is straightforward – as the agent finds himself having less common policy interests with the principal, the agent gains fewer rewards from serving the principal's interests rather than his own. That agency loss can grow with the distance between P and RP follows from the fact that *bad reversion points make a wider range of proposals seem attractive* (that is, beggars can't be choosers).

Consider, for example, cases where the EU promulgates new regulations that affect industries, labourers and consumers. When these same actors, or their elected representatives, enter the political arena, their bargaining power *vis-à-vis* other actors may change. Suppose that a Labour party's constituents are negatively impacted by an EU regulation (that is, a policy reversion point has moved farther from Labour's policy ideal). If Labour is a principal in a chain of delegation, then the set of possible agent proposals that Labour prefers to the new reversion point is larger than the set of proposals that Labour preferred to the previous reversion point. When this set grows, opportunistic agents can benefit. In particular, the agent can take actions that are better for Labour than the new reversion point, but worse for Labour than the old reversion point, and still expect that Labour will accept them. When this happens, the action of outside forces causes increased agency loss. Similar logic reveals that if an EU policy moves a domestic reversion point closer to Labour's ideal point, then – other things being equal – the actions of the outside force decrease agency loss.

Extending the Simple Model to Incorporate Information Problems

If, in the empirical circumstances we care about, principals and agents have complete information, the Romer–Rosenthal model provides a complete and exhaustive description of the extent of agency loss emanating from any act

of delegation. A common problem inherent in delegation, however, is that information can be hard to come by. In particular, political principals are regularly characterised as lacking information about their agent's actions.[10] The model is now extended by allowing the principal to lack information about her agent's action.

If the principal lacks such information, then even if she has the veto powers described in the Romer–Rosenthal model, she may not be able to wield these powers effectively. In particular, her lack of information may lead her to reject agent actions that are better for her than the reversion point or to accept agent actions that are worse for her than the reversion point.

In previous work an extension of the Romer–Rosenthal model has been offered that shows how the principal's lack of information affects the extent of agency loss.[11] Readers interested in the precise correspondence between the principal's information and the outcome of delegation can consult that paper. For our purposes here it is sufficient to summarise that paper's insight.

The Lupia model stipulates that if the principal lacks information about the agent's proposal in a Romer–Rosenthal type of delegation, then the agent always proposes his ideal point – regardless of its impact on the principal. This agent behaviour is different from that which is described in the Romer–Rosenthal model, particularly in Situation 3.

In Situation 3 of the Romer–Rosenthal model, the agent proposes an alternative to the reversion point that represents a compromise between himself and the principal. He offers the compromise because he knows that if he proposes his own ideal policy, the principal will reject it. In the equivalent situation in the Lupia model, the agent – who is now dealing with an uncertain principal – lacks an incentive to compromise. This follows because the agent can commit to no strategy other than proposing his own ideal – even if he were to promise a compromise, he could renege on his promise at the last possible moment and the principal would not have sufficient information to stop him. The principal, in turn, reacts by basing her decision about whether to accept or reject the agent's action on her prior beliefs about the agent's ideal point. That is, the principal acts as if the agent can commit only to proposing his own ideal policy. If the expected utility from choosing the agent's ideal policy is greater than the utility from choosing the reversion point, then the principal accepts the agent's action, otherwise she does not.

Table 1 shows how incorporating the principal's uncertainty affects agency loss. The left side of the table repeats the Romer–Rosenthal conclusions about the relationship between the reversion point and agency loss. The middle columns of the table display Lupia's agency loss results in the best case given an uncertain principal. In the best case, the principal can

TABLE 1
COMPLETE INFORMATION VERSUS INCOMPLETE INFORMATION

	Complete Information Romer-Rosenthal 1978		Incomplete Information Best Case – Lupia 1992		Incomplete Information Worst Case – Lupia 1992	
	Outcome	Agency Loss	Outcome	Δ Loss vs. Comp. Info.	Outcome	Δ Loss vs. Comp. Info.
Situation 1	P	None.	P	None.	RP	|P-RP|
Situation 2	A	- |A-P|	A	None.	RP	|A-RP|
Situation 3	ε closer to P than RP	- |RP - P| - ε	RP	ε	A	|A-(|RP-P|+ε)|
Situation 4	RP	- |RP - P|	RP	None	A*	|A*-RP|

Note: A* denotes the agent's ideal point in the situation where it and the principal's ideal point are on opposite sides of RP. In this situation, A* is worse for the principal than RP. ε denotes a number that is greater than zero, but very small.

guess the agent's behaviour correctly despite her uncertainty. The columns on the right display Lupia's agency loss results in the worst case given an uncertain principal. In the worst case, the principal's uncertainty leads her to make mistakes – to reject agent actions that would benefit her and accept agent actions that hurt her. Each set of columns show the policy outcome of delegation as well as its corresponding agency loss (that is, its utility consequences for the principal).

What can we learn about how outside forces affect domestic accountability from Table 1?[12] The first thing to notice is that uncertainty does not necessarily increase agency loss. As a result, the fact that the principal lacks some information about the agent's actions is, in itself, insufficient to generate additional agency loss. In the worst case, however, uncertainty significantly increases agency loss. In fact, Situation 4 with incomplete information generates the greatest agency loss possible in the model (that is, the agent takes actions that are bad for the principal and the principal accepts them). The lesson, therefore, is that an under-informed principal is not sufficient to cause agency loss. *What matters is whether or not the principal knows enough to wield whatever power she may have over the agent effectively.* Moreover, this lesson implies that an outside force can affect domestic accountability by affecting the principal's level of uncertainty – a point to which we will soon return.

The simple model and its extension reveal two ways in which outside forces affect agency loss.

- First, outside forces can affect the relationship between the principal's ideal policy and the reversion point.[13] For example, if the EU or EEA

shift a policy reversion point closer to a principal's ideal policy, then these outside forces can reduce agency loss.

- Second, if these outside forces provide the principal with information sufficient to wield her veto powers effectively, then outside forces can reduce agency loss. For example, in Situation 4, improving the principal's information reduces agency loss: from -|A*-P| to -|RP-P|. In situation 3, it reduces agency loss from -|A-P| to -|RP-P|. Moreover, in Situations 1 and 2, improving the principal's information prevents the principal from making a mistake – that is, it prevents her from vetoing a proposal that makes her better off than RP. Next, examples are provided of how outside forces affect the reversion points and information relevant to domestic political actors. These examples clarify the relationship between information, incentives, and behaviour in delegation contexts and reveal how the EU and the EEA affect domestic accountability.

HOW OUTSIDE FORCES MOVE DOMESTIC REVERSION POINTS

The EU takes many actions that affect the bargaining leverage that domestic political actors have *vis-à-vis* each other. Some of these actions do so by affecting the reversion point relevant to domestic acts of delegation. This section describes a piece of scholarship that clarifies how a branch of the EU, the European Court of Justice (ECJ), can affect domestic reversion points. This work explains how and why the ECJ gained the ability to affect many domestic reversion points.

K.J. Alter describes the evolution of the European Court of Justice (ECJ).[14] She shows how the ECJ evolved from an institution with relatively little authority into one that now influences how individuals challenge *national* law in national courts. Her research describes one way in which the EU, through the ECJ, shifts reversion points relevant to domestic delegation relationships.

Alter begins her argument with the premise that Member States 'want the ECJ to keep EU bodies in check'.[15] She then shows how the ECJ was able to increase its independence from Member State politicians. As she explains, the Member States created an ECJ that was not strong enough to gain such power by decree. She then shows that the ECJ gained powers by forming a coalition with a powerful set of domestic actors – national courts.

A compelling basis of Alter's argument is that 'judges and politicians have fundamentally different time horizons, which translates into different preferences for judges and politicians with regard to the outcome of individual cases'.[16] This difference between the time horizons of ECJ judges and Member State politicians created a window of opportunity for the ECJ.

This window allowed the ECJ to let present-day politicians escape the costs of possible transgressions of EU policy in exchange for establishing precedents for expanded ECJ influence. In particular, she asserts that 'Member States understood that the legal precedent established might create political costs in the future ... [b]ut were willing to trade off potential long-term costs so long as they could escape the political and financial costs of judicial decisions in the present'.[17] Over time, the ECJ used this type of decision making to develop legal doctrine and construct 'the institutional building blocks of its own power and authority without provoking a political response'.[18]

The evolution of ECJ doctrine included a coalition-building element. The ECJ's coalition partner was the national courts. As Alter argues:

> In the early years of the EU legal system, national politicians turned to extralegal means to circumvent unwanted decisions; they asserted the illegitimacy of the decisions in a battle for political legitimacy at home, instructed national administrations to ignore ECJ jurisprudence, or interpreted away any difference between EC law and national policy. The threat that national governments might turn to these extralegal means, disobeying an ECJ decision, helped contain ECJ activism. With national courts enforcing ECJ jurisprudence against their own governments, however, many of these extralegal avenues no longer worked. Because of national judicial support for ECJ jurisprudence, national governments were forced to frame their response in terms that could persuade a legal audience, and thus they became constrained by the legal rules of the game.[19]

The coalition of the ECJ and national courts allowed the EU to increase its influence over domestic reversion points by 'limiting the possible responses of national governments to [ECJ] decisions within the domestic political realm'.[20] While, in the early part of this period, a principal or agent who disliked EU actions could circumvent an EU-impacted reversion point, in the later part of this period the coalition of courts prevented such circumventions. When the ECJ and national courts protected reversion points that were relatively far from that of the affected principal, the presence of the EU increased agency loss. By contrast, when the ECJ and national courts protected reversion points that were relatively close to the affected principal, the presence of the EU decreased agency loss. Mazey makes a similar argument, showing how EU actions affected national-level gender equality policies.[21]

HOW OUTSIDE FORCES AFFECT INFORMATION

The EU and the EEA can affect a domestic principal's information in at least two ways. First, it can provide a new source of information for the principal. Kite, for example, suggests that after EU membership, the Swedish parliament, via its European Affairs Committee, actually began to receive more (rather than less) information about some areas of foreign policy.[22] This is because the Swedish cabinet is required to report to the European Affairs Committee about positions that it takes in the EU Council of Ministers. This has had impacts for some foreign policy questions (such as foreign trade) insofar as matters previously handled largely within the Ministry of Foreign Affairs itself are now presented before a parliamentary committee. Second, outside forces can affect the incentives of those domestic actors charged with providing information to political principals. How this can come about is a theoretical question upon which we now focus.

In the 30 years since Harsanyi introduced modern notions of uncertainty to game theory,[23] scholars have produced many enlightening advances in how information affects political decision making. The advances most relevant to the question at hand clarify how institutions affect what is said, what is believed, and who can learn what from whom.[24] A description follows of what this work implies about how outside forces affect domestic accountability by affecting the principal's information.

A principal may lack the information she needs to distinguish agent actions that help her from agent actions that hurt her (that is, she may lack knowledge sufficient to reduce agency loss). Such a principal can obtain relevant information in three ways: direct monitoring, attending to *what the agent says* about his activities, or attending to *third party testimony* about the agent's actions. Each of these options can provide a principal with valuable knowledge about her agent. However, each option also has drawbacks. Most political principals lack the time and energy to engage in direct monitoring of their agents. Therefore, they are forced to learn what they need to know from others.

Relying on others for information, however, can entail substantial peril. Not all people from whom political principals can seek advice are equally trustworthy or knowledgeable. Therefore, a principal who wants to exert some degree of control over her agent's actions must be very selective about which advice she follows. She has an incentive to seek information from sources that provide credible reports of agent activities and to avoid information from those who provide vague or misleading reports. Outside forces can help by *offering alternate means for assessing credibility*.

Through their actions, outside forces can affect what people *choose* to say and what people *choose* to believe. Thus, outside forces affect

credibility. How these forces work should be familiar to any member of an advanced industrial economy. For example, every day millions of people buy goods from, and sell goods to, people about whom they know little or nothing. Each of these transactions requires some degree of trust (for example, that the currency offered as payment is legitimate and that the merchandise has its advertised characteristics). Since buyers and sellers do not know each other well, they must have an alternate and effective means for evaluating credibility. Outside forces (that is, forces which do not directly participate in individual transactions) can take actions that provide buyers and sellers with substitutes for unobservable personal characteristics. For example, laws and customs realign strangers' incentives, giving people a basis for trust in billions of situations where it would not otherwise exist. The outside forces that promulgate and enforce these laws provide the basis for credibility that makes advanced economies possible.

What types of actions can the EU take to affect a domestic principal's ability to learn about her agent's activities? In particular, how do EU actions affect the incentives of those on whom domestic principals rely for advice about their agent's actions? These questions are answered by describing how verification, penalties for lying, and observable and costly efforts affect what domestic principals can learn about their agents. Individually, these forces can change what people say to a principal and can affect what a principal believes. Collectively, these three types of actions cover the range of effects that outside forces can have on communication. The following discussion is kept brief and intuitive.[25]

Verification works by posing the threat that the principal can discern true signals from false ones. This threat changes the speaker's incentives in the following way: as the probability of verification increases, the probability that he can benefit from sending a false signal decreases. Therefore, *verification decreases the expected value of making false or vague statements.* When the threat of verification distinguishes speakers from one another on the basis of their willingness to reveal what they know, the threat of verification provides the principal with a more effective way to judge the credibility of others.

Outside forces increase the likelihood of verification when they provide new actors with incentives to verify existing information. An agreement such as the EEA, for example, gives actors within Member States incentives and opportunities to act as verifiers on certain activities in other Member States. A domestic agent, who, in the absence of the threat of verification, would pursue a personal agenda rather than the agenda of his principals, must now consider the potentially verifying activities of actors in other EEA nations. When EEA or EU membership increases the population of potential verifiers, domestic agents are faced with a higher likelihood that their

principals will detect and reject his actions. In such a case, the emergence of the EU and the EEA can help to reduce agency loss.

Penalties for lying help a principal gain information about her agent's actions by giving everyone involved a reason to believe that the principal can distinguish truth tellers from liars. In general, a principal who believes that the speaker faces a penalty for lying can make one of the following two inferences upon hearing a statement from the speaker: (1) the statement is true; or (2) the statement is false and the value to the speaker of lying is greater than the expected penalty if caught. When penalties for lying have this effect, they provide a window through which the principal can perceive the speaker's incentives, and judge his credibility, with greater accuracy. As a result, when outside forces increase domestic penalties for lying they can reduce agency loss.

When outside forces induce people to take *observable and costly efforts*, they can also affect domestic actors' information about each other. The logic underlying this effect closely follows the old adage: 'actions speak louder than words.' When a speaker takes a costly action (that is, exerts effort), he reveals information about how much a particular outcome is worth to him.[26] When we can distinguish the claims of others by the amount of effort they put into making the statements, we have yet another tool for assessing credibility.

Actors in the EU can affect the likelihood that certain claims by domestic actors are verified, can affect the magnitude of a penalty for lying, can make certain types of costly efforts easier to observe, and can make certain types of observable efforts more costly. When the emergence of the EU has these effects, it affects a principal's ability to assess the credibility of others. A principal who can better assess credibility is better able to learn about her agent's actions and, therefore, is better able to increase domestic accountability.

An example of the EU affecting domestic delegation relationships through affecting who can learn from whom can be seen by examining European Affairs Committees (EACs). As Raunio has shown,[27] EACs have increased in importance in all EU Member States. In addition to providing information about EU activities directly, EACs have caused certain governments to document more of their goals and policy positions.[28] These increases in documentation provide a basis for verification, penalties for lying or costly effort that did not exist before. During a later policy debate or an election, this additional documentation may affect the credibility of domestic agents' claims. To the extent that these claims are made by agents (that is, ministers) who know that they can be held accountable by others (that is, MPs or voters), the fact that the EU has induced greater documentation may translate into reduced agency loss.

CONCLUSION

In every Member State of the EU or the EEA, governance requires a chain of delegation. If agents in this chain of delegation are accountable to their principals, then the chain links the interests of political actors at various levels of government. In many discussions about the EU and the EEA, a common hypothesis is that the emergence of these outside forces necessarily reduces Member State governments' effectiveness. This article rejects this hypothesis.

Outside forces can affect the incentives of domestic principals and agents. They do this by shifting domestic reversion points. Such shifts can change the balance of power between domestic principals and agents. When outside forces shift a reversion point closer to a principal's ideal policy and away from her agent's ideal policy, they also increase the principal's bargaining leverage *vis-à-vis* her agent, and can lead to increased domestic accountability. However, in cases when outside forces shift a reversion point farther from a principal's ideal policy, they can decrease the principal's bargaining leverage and lead to decreased domestic accountability.

Outside forces can also affect domestic political actors' information. The EU and EEA can either provide information directly or change individuals' incentives in ways that affect who is credible to whom. For example, when membership in the EU or the EEA increases the likelihood of verification, the magnitude of penalties for lying, or the observability or costs of certain actions, they can help domestic principals distinguish between credible and non-credible advice. When principals gain this ability, the presence of the EU and the EEA increases domestic accountability.

This analysis of how the EU and the EEA affect domestic accountability is brief, its focus on reversion points and information is narrow. However, it is sufficient to reject an important null hypothesis – that the emergence of the EU or the EEA necessarily weakens the prospects of accountable national-level governance. While the extent to which EU and EEA actors have shifted domestic reversion points or information is an empirical question, that they have done so and will continue to do so is a certainty. Our attempts to explain or increase domestic accountability should incorporate this reality.

NOTES

1. See, for example, T. Bergman, 'National Parliaments and EU Affairs Committees: Notes on Empirical Variation and Competing Explanations', *Journal of European Public Policy*, Vol.4, No.4, (1998), pp.373–87; L. Martin, *Democratic Commitments: Legislatures and International Cooperation* (forthcoming); T. Raunio, 'Always One Step Behind? National Legislatures and the European Union', *Government and Opposition*, Vol.34, No.2 (1999), pp.180–202.

2. See, K. Strøm, 'Delegation and Accountability in Parliamentary Democracies' (University of California: Manuscript, n.d.); K. Strøm, W.C. Müller and T. Bergman, *Delegation and Accountability in Parliamentary Democracies* (University of California: Book manuscript, n.d.).
3. For example, K.A. Shepsle, 'Institutional Arrangements and Equilibrium in Multidimensional Voting Models', *American Journal of Political Science*, Vol.23, No.1 (1979), pp.27–60; D.C. North, *Structure and Change in Economic History* (New York: Norton, 1981); O. Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: The Free Press, 1975).
4. In the text I use the agency loss metric for its simplicity. However, a problem with the agency loss metric is that it focuses on an unrealistic reference point – the actions of a perfect agent. If people forget about this reference point when using the metric to interpret a study of delegation, then delegation will often seem to be a bad idea. However, the presence of agency loss need not imply that delegation is undesirable. Many political principals, such as voters or MPs, do not have the ability to provide all of the services that they ask their agents to provide. That is, most voters, legislators and ministers lack the time or energy to be perfect agents for themselves. So even if no delegation takes place, outcomes are likely to deviate from the ones that perfect agents would provide (that is, policy outcomes absent delegation are equivalent to policy outcomes with delegation and agency loss). As a result, I believe it better to interpret delegation outcomes by comparing them to a more realistic reference point – what would have happened if the principal had chosen not to delegate. In other work, I have used such a metric. In A. Lupia and M.D. McCubbins, *The Democratic Dilemma: Can Citizens Learn What they Need to Know?* (New York: Cambridge University Press, 1998), and A. Lupia and M.D. McCubbins, 'When is Delegation Abdication: How Citizens Use Institutions to Make Their Agents Accountable', *European Journal of Political Research* (Special Issue edited by T. Bergman, W. Müller and K. Strøm, forthcoming 2000) we define delegation as *successful* if the outcome of delegation improves the principal's welfare relative to the policy reversion point (that is, what would have happened had the principal and agent been inactive). We define delegation as *failed* if the outcome of delegation decreases the principal's welfare relative to the policy reversion point. The main difference between the agency loss metric and the success/failure metric is that the reference point for the former is a hypothetical outcome that rarely exists – a perfect agent – while the reference point to the latter is an entity that always exists – the reversion point.
5. See, W.A. Niskanen, *Bureaucracy and Representative Government* (Chicago, IL: Aldine-Atherton, 1971).
6. T. Romer and H. Rosenthal, 'Political Resource Allocation, Controlled Agendas, and the Status Quo', *Public Choice*, Vol.33, No.1 (1978), pp.27–44.
7. I follow convention by modelling delegation as a situation in which the agent makes proposals and the principal acts as a veto player. This convention allows the consequences of delegation to be described in the simplest possible terms. Fortunately, the results reported in the text are affected in straightforward ways by increasing the principal's range of action. Generally, the greater the principal's amendment powers, the greater her ability to reduce agency loss.
8. P.C. Ordeshook, *A Political Theory Primer* (New York: Routledge, 1992), p.97.
9. If RP is greater than A and P, then the agent will propose $P - |RP-P| + \varepsilon$, where $\varepsilon>0$ and small. If RP is less than A and P, then the agent will propose $P + |RP-P| - \varepsilon$.
10. See, for example, M. Weber, 'Economy and Society', in H.H. Gerth and C. Wright Mills (eds.), *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1946); R.A. Dahl, *Pluralist Democracy in the United States: Conflict and Consent* (Chicago, IL: Rand McNally, 1967).
11. A. Lupia, 'Busy Voters, Agenda Control, and the Power of Information', *American Political Science Review*, Vol.86, No.2 (1992), pp.390–404.
12. To draw the proper inference about agency loss from Table 1, note that notation of the form $-|X - P|$ refers to the utility level of the principal given his ideal policy, $P \in [0,1]$, and the outcome of delegation, $X \in [0,1]$. So, for example, when the outcome of delegation is the principal's ideal policy, as it is in the complete information version of situation 1, then the

principal's utility level is –|P–P| or 0. When the outcome of delegation is the agent's ideal policy, as it is in several instances in the table, then the principal's utility level is –|A–P|. Now, recall that agency loss is the difference between the actual consequences of delegating to the agent and what the consequence would have been had the agent been a perfect agent. Hence, agency loss in Table 1 is the difference between the principal's actual utility level from delegating to the agent and P, what the principal's utility level would have been had the agent been perfect.

13. Note that I shall focus on how outside forces affect the relationship between P and RP, but not the relationship between P and A. The reason for this focus is that the reversion point is a policy and the EU can affect policy in observable ways. By contrast, the agent's ideal point may come from the agent's ideology, beliefs, or any number of psychological processes. While membership in the EU and the EEA may affect the psychological processes of domestic principals and agents, they do so in ways that tend to fall outside the focus of contemporary economic and positive political theory. Exceptions to this rule include North, *Structure and Change in Economic History*, E. Gerber and J.E. Jackson, 'Endogenous Preferences and the Study of Institutions', *American Political Science Review*, Vol.87, No.3 (1993), pp.639–56, and M. Hinich and M.C. Munger, *Ideology and the Theory of Political Choice* (Ann Arbor, MI: University of Michigan Press, 1994).
14. K.J. Alter, 'Who Are the Masters of the Treaty?: European Governments in the European Court of Justice', *International Organization*, Vol.52, No.1 (1997), pp.121–47.
15. Alter, 'Who Are the Masters of the Treaty?', p.126.
16. Alter, 'Who Are the Masters of the Treaty?', p.122.
17. Alter, 'Who Are the Masters of the Treaty?', p.143.
18. Alter, 'Who Are the Masters of the Treaty?', p.122.
19. Alter, 'Who Are the Masters of the Treaty?', p.122.
20. Alter, 'Who Are the Masters of the Treaty?', p.122.
21. S. Mazey, 'The European Union and Women's Rights: From the Europeanization of National Agendas to the Nationalization of a European Agenda?', *Journal of European Public Policy*, Vol.5, No.1 (1998), pp.131–52.
22. C. Kite, 'Making Foreign Policy After Membership: '"Post-Yes" Politics in Sweden', *The European Policy Process Occasional Paper*, No.24 (1996). Human Capital and Mobility Network, Essex, UK. See also the contributions in this volume.
23. J. Harsanyi, 'Games with Incomplete Information Played by "Bayesian" Players, I: The Basic Model', *Management Science*, Vol.14, No.3 (1967), pp.159–82.
24. For example, A.M. Spence, *Market Signaling: Informational Transfer in Hiring and Related Screening Processes* (Cambridge, MA: Harvard University Press, 1974); J.S. Banks, *Signaling Games in Political Science* (Chur, Switzerland: Harwood Academic Publishers, 1991); Lupia and McCubbins, *The Democratic Dilemma: Can Citizens Learn What they Need to Know?*.
25. For those interested in greater detail, see Lupia and McCubbins, *The Democratic Dilemma: Can Citizens Learn What they Need to Know?* .
26. For example, if a knowledgeable speaker pays $100 for the opportunity to persuade us, then we can infer that the difference in expected value to the speaker between what the speaker expects us to do after hearing his statement and what he expects us to do if we do not hear his statement is at least $100. Therefore, even if he ultimately delivers his statement in a language that we do not understand, the speaker's payment informs us that our choice is important to him.
27. Raunio, 'Always One Step Behind?: National Legislatures and the European Union'.
28. E. Damgaard and A.S. Nørgaard, 'The European Union and Danish Parliamentary Democracy', this volume.