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Delegation of Power: Agency Theory

1. The Role of Delegation

Delegation occurs when some people ask others to perform tasks on their behalf. For most of us, delegation is an important part of daily life. We delegate to grocers the task of acquiring various foods, we delegate to doctors the task of repairing broken bones, and we delegate to news agencies the task of informing us about local and world events. Delegation is beneficial because we can use it to overcome personal shortcomings. This benefit is important because each of us has limited time, energy, and talents. When the people to whom we delegate devote their time, energy, and talents to our needs, delegation increases the number of tasks that we can accomplish.

In addition to being an important part of daily life, delegation is a central concept in the conduct and the study of politics. Governments great and small use delegation to increase the range of services that they can provide. The governments of large nations, for example, delegate to defense ministries the task of maintaining national security and they delegate to finance ministries the task of managing their nation's economy. Indeed, the modern nation-state could not exist without delegation—for without delegation, lawmakers would be forced to implement and enforce every single law that they pass. With delegation, by contrast, national governments can address a wide range of social issues simultaneously.

In most polities, the most prominent form of delegation is from lawmakers (e.g., parliaments) to government agencies (e.g., economic, security, and public welfare agencies). Such agencies house the persons responsible for enforcing laws and tend to employ the nation's leading experts in the agency's policy area (e.g., economic agencies employ leading economists). In many places, these agencies are known collectively as the bureaucracy. In some places, people who work within these agencies are called bureaucrats or civil servants.

While delegation allows lawmakers to benefit from the expertise and abilities of others, it can also be hazardous. The hazards arise from the fact that delegation entails a transfer of power. For example,

every time lawmakers delegate to bureaucrats, they give away a portion of their authority to govern.

The great danger of delegation is that the people to whom power is delegated will abuse the power they receive. This possibility is why some people equate delegation to abdication (e.g., a presidential resignation or a king giving up his throne). If this fear is realized, then those entrusted with the responsibility of governing lose control of what is done in the government's name and anarchy can ensue.

2. The Study of Delegation

The scholarly study of delegation occurs primarily in the fields of Political Science and Economics. This research examines when delegation confers the benefits of expertise to social decision-makers and when it leads to anarchy. It also helps scholars and practitioners around the world answer one of the most fundamental questions in politics, 'Why do governments do what they do?' For this reason, delegation has been a central focus for social scientists throughout the twentieth century.

2.1 Early Studies

In the first half of the twentieth century, scholars sounded a pessimistic tone about the consequences of delegation. Weber's (1946 p. 232) warning is among the best-known:

Under normal conditions, the power position of a fully developed bureaucracy is always overpowering. The 'political master' finds himself in the position of the 'dilettante' who stands opposite the 'expert,' facing the trained official who stands within the management of administration. This holds whether the 'master' whom the bureaucracy serves is a 'people,' equipped with the weapons of 'legislative initiative,' the 'referendum,' and the right to remove officials, or a parliament, elected on a more aristocratic or more 'democratic' basis and equipped with the right to vote a lack of confidence ...

Michels (1915) was also skeptical of delegation. In his iron law of oligarchy, he asserts that democratic organization inevitably becomes subordinated to the interest of their leaders and that the leadership becomes an entrenched oligarchy. Like most of his contemporaries and many of the scholars who followed him, Michels believed in the tendency of people to whom governing power is delegated to use their power against the interests of those who delegated such powers.

2.2 Recent Work: The Rise of Agency Theory

Modern scholarship has produced more precise insights about when delegation benefits those who delegate. Many scholars now adopt the language of

principal-agent models (i.e., agency theory) to describe the logic of delegation.

The *principal* in principal-agent theories represents someone who delegates. The *agent* represents someone to whom authority is delegated. When a lawmaker delegates authority to an agency, for example, the lawmaker is the *principal* and the agency is the *agent*.

Scholars use principal-agent models to determine when agents do (and do not) act in their principals' interests. *Agency loss* provides a common metric for their distinctions. Agency loss is the difference between the consequences of delegation for the principal and the best possible consequence. Agency loss is zero when the agent takes actions that are entirely consistent with the principal's interests. As the agent's actions diverge from the principal's interests, agency loss increases. When the agent does things that are bad for the principal, agency loss is high.

Research on delegation (see, e.g., Lupia and McCubbins 1998) shows that agency loss is minimized when two statements are true. The first statement is that the principal and agent *share common interests* (Niskanen 1971, Romer and Rosenthal 1978). In other words, the principal and agent desire the same outcomes. The second statement is that the *principal is knowledgeable* about the consequences of the agent's activities. In other words, principals know enough about their agents' actions to determine whether or not these actions serve their interests.

If either of these two statements is false, then agency loss is likely to arise. Agency loss arises when the agent and principal do not have common interests because the agent gains an incentive to act against the principal's interests. If a liberal lawmaker delegates to conservative civil servants, for example, then the agents have less of an incentive to pursue the lawmaker's favored policies than they would if they were also liberals. Agency loss arises when the principal lacks knowledge about an agent's activities because the agent can act against the principal's interests without the principal being aware of the indiscretion. If, for example, lawmakers asks the police to enforce a restriction on public drunkenness, but lack information about agency activities, then the police may not fear retribution if they choose not to enforce the restriction (see Gerber et al. 2001 for examples).

Agency loss is even more likely if neither of the two statements is true. In other words, when principals have conflicting interests with agents whose activities they cannot know, delegation is likely to be abdication. The threats are greatest in these situations because agents have both an incentive and an opportunity to act against the principal's interests without fear of retribution.

When comparing the main themes of modern and early work on delegation, we see that many early scholars reached their dour conclusions because they presumed that the two statements described above were false. More recent work disputes this presump-

tion, uncovering the many ways in which principals can induce their agents to have common interests and learn about their agents' activities. While the new work does not totally contradict the idea that delegation can become abdication, it is more precise about when this negative outcome occurs.

A central theme in recent literature shows how principals design political institutions to affect the incentives and future actions of their agents. McCubbins et al. (1987), for example, examine how legislative decisions about the structure of political institutions affect the extent of agency loss. Drawing on a wide array of actual administrative procedures, they show that lawmakers can and do set rules for agents that reduce agency loss by ensuring that people who share their policy interests are able to influence what agents do. For example, lawmakers often not only require agents to file extensive reports on their activities, but also invite interested parties from outside the agency to do the same. These interested parties are chosen because they are known to share the lawmakers' policy preferences—including them in the process makes agents more attentive to the lawmakers' policy desires. Many studies also show how lawmakers attempt to reduce agency loss by choosing agents who share their interests (i.e., by making civil service appointments on a strictly political basis: see Epstein and O'Halloran 1999 and Laffont and Tirole 1993 for reviews of such findings).

3. Future Trends

Emerging trends in world politics make understanding delegation more important than ever. Many nations delegate increased responsibility to international organizations such as the European Union and the World Trade Organization. While such actions can produce lower trade barriers and increase social prosperity, they also require national governments to transfer power to others. Many people fear that such transfers will leave nations too weak to combat critical problems. As a result, the future value of research on delegation will be tied to how well it provides political leaders with the theory and evidence they need to make wise choices when delegating to others. Fortunately, today's scholars are responding to this challenge in creative and influential ways.

An emerging trend in delegation research clarifies which ways of delegating are most effective and efficient for political principals. Lupia and McCubbins (1998), for example, use principal-agent models and laboratory experiments to distinguish the types of institutional designs that are most effective in helping principals overcome problems associated with their lack of information about their agents' activities. Their results show when a wide range of political principals (i.e., voters, legislators, and jurors) can (and cannot) learn what they need to know about their agents.

Elsewhere, Epstein and O'Halloran (1999) use substantial theoretical and empirical research to distinguish when legislatures can (and cannot) benefit from narrowly constraining the agencies to which they delegate (see Huber and Shipan (2000) for a review of recent studies that adopt this perspective).

Works such as these will likely increase the extent to which real-world politicians learn the most effective and efficient ways to delegate. If they do, then delegation research will continue to give governments large and small the ability to cure broader ranges of social ills—a product of great value in an increasingly complex world.

See also: Authority: Delegation; Authority, Social Theories of; Bureaucracy and Bureaucratization; Organizations: Authority and Power; Organizations, Sociology of; Power in Society; Power: Political; Weber, Max (1864–1920)

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political leaders; the development of the laws, public policies, or regulations that govern a state; or the formation of alliances or agreements with other nations. Political deliberation may occur both within governing institutions and among the citizenry more generally. Despite an ancient lineage, the concept of political deliberation was largely ignored by political scientists for much of the twentieth century. This inattention was dramatically reversed in the last decades of the century as political theorists and experts on governmental institutions focused increasingly on the processes of deliberative decision making and on 'deliberative democracy.'

1. Origins

The first systematic treatment of political deliberation is found in Aristotle's ethical and political works from the fourth century BC. In the *Nicomachean Ethics* Aristotle defined deliberation as the reasoned consideration and investigation of 'things that are in our control and are attainable by action' (Aristotle 1934, p. 135). In political life such deliberation is a necessary element of prudence, or practical wisdom, the pre-eminent virtue of the statesman. Political deliberation, which draws heavily on experience (Aristotle 1934, p. 351), concerns itself with 'things that are good and bad for human beings' (Aristotle 1934, p. 337). Unlike 'execution [of laws and policies, which] should be swift,' 'deliberating takes a long time' (Aristotle 1934, p. 353).

In his *Politics* Aristotle argued that all regimes have three basic parts: one which 'deliberate[s] about common matters,' one which administers the government through various offices, and one which adjudicates disputes among citizens, and between citizens and the state (Aristotle 1984, p. 139). He called the deliberative part—which is responsible for matters of war and peace, foreign alliances, laws, the choice of public officials, and judicial cases that carry the most severe penalties (Aristotle 1984, p. 139)—the 'authoritative element of the regime' (Aristotle 1984, p. 182). In ancient democracies there were various modes for public participation in political deliberation; most popular was the assembly in which the citizens of the city-state (the free adult males) came together periodically to deliberate on and decide the great issues that faced the polity.

2. The Rise of Modern Democracies

In modern representative democracies the people in their collective capacity choose their lawmakers but normally do not otherwise engage in authoritative deliberation and decision making on matters of war and peace, laws, and foreign alliances. Many of the founders of modern democracies shared the belief, as

Deliberation: Political Aspects

In its political signification 'deliberation' refers to a process of reasoning about political choices. Such choices may include, among others, the selection of