The European Research Institute

Working Paper Series

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14 July 2002
Working paper: Comments welcome

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Hussein Kassim and Anand Menon[1]

Introduction

The principal-agent model and the theory of delegation, both of which originated in the new economics of organization, have been increasingly applied in the study of the European Union.[2] This article offers a critical examination of these applications. It argues that the insights offered by the principal-agent model holds significant promise for understanding the complex relationships and interactions that characterise the Union, not least on account of its greater institutional sensitivity in comparison with traditional theories of integration. However, as yet their potential has not been fully realised. This is due partly to the prior theoretical commitments of EU scholars, who have used these models, partly to misunderstandings of the complexity and full implications of the approach.

The discussion below is divided into three parts. The first offers a brief overview of the principal-agent model, its emergence in the new economics of organization, and its application in political science, most notably in the study of the Congressional power in the US.[3] The second section critically reviews applications of the principal-agent model in the study of the EU. After a discussion of the promise that the model offers for understanding European integration and governance, it discusses applications from four perspectives– liberal intergovernmentalism (LI), institutional intergovernmentalism (II), historical institutionalist supranationalism (HIS) and rational choice supranationalism (RCS) – in detail.[4] The final section discusses general weaknesses in the way that the principal-agent model has been applied to the EU.

The Principal-Agent Approach: Origins, Development and Uses

The principal-agent model originated as a theoretical construct in the new economics of organization to examine contractual and hierarchical relations between actors within the firm, and continues to provide an important framework for the analysis of a broad range of relationships in economics.[5] The model emerged in the context of an attempt 'to move beyond the neoclassical theory of the firm, which assumes away all organizational considerations, to a theory of economic organisations that can explain why firms, corporations, and other enterprises behave as they do' (Moe 1984: 739).[6] In place of the neoclassical theories of perfect competition, where information is freely available, and of the firm, centred on the actions of a hypothetical entrepreneur (Moe 1984: 740), the new economics proceeded on the assumption that information is imperfect,[7] and used the concept of transactions costs to capture the efforts expended by market actors, previously assumed to be costless (Moe 1984: 742).[8] It showed that the costs of transacting – in efforts to obtain information or to secure the arrangements necessary to undertake complex production -- are likely to lead to the replacement of 'atomistic market-based exchange' by

[1] We would like to thank Damian Chalmers, Sara Connolly, Dionyssis Dimitrakopoulos, Morten Hviid, Erik Jones, Bill Tompson, Catherine Waddams-Price, and two anonymous reviewers for many helpful suggestions. All errors that remain are, of course, our own.

[2] See, for example, Doleys (2000), Gerus (1991), Garrett (1992), Garrett and Weingast (1993), Moravcsik (1993 1998), Garrett (1995), Kilroy (1995), Egan (1998), Pierson (1996), Pollack (1996, 1997), Hix (1999), Stetter (2001), Francino (2001), and Menon (2002).

[3] Space constraints permit no more than a cursory discussion here. The best analysis remains Moe (1984). Besanko *et al*. (2000) offer an accessible introductory overview.

[4] For present purposes, we follow the distinction between intergovernmentalism and supranationalism made by Doleys (2000: fn 4). He distinguishes accounts that emphasize the influence of supranational institutions on EU decision making (supranationalism) from neofunctionalism, which makes additional claims about the process of integration, most notably in regard to spillover and the inevitability of integration.

[5] See, for example, Prendergast (1999, 2001a, 2001b) and Bennett and Waddams-Price (2002).

[6] See Moe (1984).

[7] The assumption of imperfect information reflected the influence of Herbert Simon, who had attempted to substitute for the fully rational, fully informed *homo oeconomicus* of classical theory a conception of the market actor as 'boundedly rational' (Moe 1984).

[8] The classic account of transactions costs can be found in Coase (1937); see also Williamson (1975 1985). Doleys (2000) provides an excellent, succinct overview.

'non-market hierarchical governance forms' (Doleys 2000: 532), since 'optimizing actors organize to minimize the effect of transaction costs on exchange' (Doleys 2000: 534; see also Alchian and Demsetz 1972, Williamson, 1975, 1985). The firm thus internalises, and contractualises, relations that would otherwise be costly and precarious (see Coase cited in Moe 1984: 743).

Although the creation of the firm brings important benefits -- the internalisation of exchange enables actors to give and receive 'credible commitments' (Williamson 1985: 49), whereas in the market 'intrinsic uncertainties make it impossible for parties to specify *ex ante* a contract that is immune to defection *ex post*' (Doleys 2000: 535), and the hierarchical organization of firms enables the efficient use of production inputs through division of labour and role specification – it also creates its own problems. The principal-agent model has become the dominant framework for examining the generic difficulties that arise in any setting from contracting and the contractual relationship. Agency relationships are created when one party, the *principal*, enters into a contractual agreement with a second party, the *agent*, and delegates to the latter responsibility for carrying out a function or set of tasks on the principal's behalf. In the classic representation, the principal is the shareholder of a company that contracts an executive to manage the firm on a day-to-day basis, but the principal can be any individual or organization that delegates responsibility to another in order to economise on transactions costs, pursue goals that would otherwise be too costly, or to secure expertise.

The aim of construing the contractual relationship in principal-agent terms is to highlight the difficulties that arise in such on account of an asymmetric distribution of information that favours the agent (Mancho-Stadler and Pérez Castrillo 1997; Kiewiet and McCubbins 1991: 25, Niskanen 1971; Holmstrom 1979; Arrow 1985). Two notable problems are *adverse selection*, where the principal, responsible for recruitment, is unable to observe directly and, therefore, assess the knowledge or skill possessed by the agent and *moral hazard*, where the agent enjoys superior information, not only about his or her own preferences and abilities, but also about the tasks assigned to him or her, and his or her own actions, which are not usually observable to the principal. In addition, and perhaps of most interest, the asymmetry of information may allow the agent to engage in opportunistic behaviour – *shirking* – that is costly to the principal, but difficult to detect. The likelihood of shirking is increased by *slippage*, when the very structure of delegation `provides incentives for the agent to behave in ways inimical to the preferences of the principal' (Pollack 1997: 108). Assuring control and limiting shirking is the 'principal's problem' (Ross 1973). The challenge for the principal is to find ways of ensuring perfect compliance, so that agents are unable to exploit the costs of measuring their characteristics and performance in such a way as to act contrary to his or her (i.e. the principal's) preferences. Economists' have focused on incentive structures that discourage opportunistic behaviour on the part of the agent. Contractual restrictions on the agent's operational purview (Doleys 2000: 538) or monitoring the agent are alternative possibilities, but can be costly and their effectiveness is limited by the extent to which actions can be observed.

The Principal-Agent Model in Political Science

Insights from the new economics of organisation have been very influential in political science. Rational choice institutionalism, in particular, has drawn from its toolkit in its explanations of how institutions emerge and interact.[9] Scholars of US politics have used the principal-agent model to investigate the relationship between Congress and executive agencies, and the specialist tasks performed by congressional committees.[10] In international relations, delegation has been used to explain why sovereignty-conscious states create international organizations.[11] The basic model has been used to assess the efficacy of strategies and mechanisms devised to ensure agent compliance, and extended, elaborated upon and adapted to take account of cases where there are multiple principals.

[9] For discussion of rational choice institutionalism, see Hall and Taylor (1996).
[10] Weingast and Moran (1983), Weingast (1984), McCubbins and Schwartz (1984), McCubbins (1985), McCubbins and Page (1987), McCubbins et al (1987, 1989). See Moe (1987) for a critical overview.

Why delegate?

A rich literature has explored the motivations that lead principals to delegate functions and confer authority to agents in the political world. Pollack (1997: 102) suggests that, fundamentally, delegation is a question of institutional design and that 'the question of institutional choice is functionalist': institutions are chosen or created because of their intended effects. In most cases, choice is motivated by the desire to lower or minimize transaction costs.[12] Delegation may also provide a means:

- to overcome problems of collective action, where actors anticipate benefits from long-term co-operation (Axelrod 1984; Oye 1986; Axelrod and Keohane 1985), but need to ensure, first, that the transaction costs involved in monitoring compliance do not outweigh the benefits of the agreement and, second, that the other parties respect the original terms of the contract and do not 'free ride'. The credibility of the contract is likely to be strengthened if the contracting parties create an agent to circulate information between contracting parties (Keohane 1984; Shepsle 1979; Weingast and Marshall 1988), or even more considerably to 'disseminate the rules, monitor membership violations, enforce sanctions and facilitate further negotiations among members' (Patterson 1997: 3-4);
- to deal with the problem of incomplete contracting (Williamson 1985). Where the interaction envisaged by an agreement is long-term, the bargain complex, the negotiating process difficult, and 'the realization of mutual gain … contingent upon the durability of the contract' (Doleys 2000: 535), the parties are unlikely to be able to write a contract that covers all contingencies or all claims that might possibly arise in the future. They are likely to opt instead for the less time-consuming choice of writing a limited 'framing agreement' or 'incomplete contract'. As well as setting out the general goals, the criteria for deciding what action to take when unforeseen developments arise, and dispute resolution mechanisms in the case of disagreements (Milgrom and Roberts 1992: 131), the actors are likely to create an agent, such as a court, that will be able to `fill in the details of an incomplete contract and adjudicate future disputes' (Pollack 1997: 104);
- to improve policy and policy making in technical areas, by delegating responsibilities to an agent that has expert knowledge (Egan 1998: 487; see also Gilligan and Krehbiel 1987, 1989; Krehbiel 1987, 1991);
- to overcome regulatory competition (Egan 1998: 488) in situations where interdependent states each have an incentive to treat their firms leniently. In such circumstances, regulations are likely to be weak and lack credibility, resulting in market failure. The delegation of regulatory responsibility to an independent international institution offers a way for states to avoid or resolve the prisoner's dilemma and achieve an outcome that is optimal (Majone 1994);
- to displace responsibility. A politician's chance of re-election may be high where agents make the right decisions, but agents can be blamed for policy failures, even where they have been conscientiously carrying out the tasks entrusted to them by the principals (Fiorina 1977; Epstein and O'Halloran 1999: 23);
- to 'lock in' distributional benefits. An alternative perspective to the information-centred accounts outlined above, which are based on the assumption that agents are created to provide specialist, impartial knowledge, contends that delegation is foremost a mechanism for `locking in' distributional benefits. According to one application of this approach the 'industrial organization of Congress' (Weingast and Marshall 1988) is best understood as an efficient way of facilitating 'pork-barrelling' and 'log-rolling'. Specialist committees enable members of Congress to take decisions in those areas that are most electorally significant for their constituents. Similarly, an alternative to Majone's 'search for independence' view contests the idea that a regulator is necessarily neutral. According to Stetter (2000: 84-5) the creation of institutions is intrinsically distributive and the choice of institutions motivated by the desire to institutionalise a preferred set of preferences;
- to resolve the problem of policy-making instability. According to an important perspective, associated with Riker (1980) systems of majoritarian decision making are likely to be beset by instability, since policy choices are likely to

[11] See Keohane (1984). Delegation and principal-agent have also been used as organising concepts in the study of European politics. See, for example, Bergman et al (2000); Thatcher and Stone Sweet (2002).
[12] See also Hall and Taylor (1996: 945-6).

> 'cycle' among multiple possible equilibria (see also McKelvey 1976). In the same vein, in his work on the US Congress, Shepsle demonstrated that congressional institutions -- notably, the committee system -- could produce 'structure-induced equilibrium' by limiting the permissible range of policy choices and structuring the voting and veto power of participants in the process. Delegation of agenda-setting powers to an agent in other settings may similarly prevent endless 'cycling' (Pollack 1997: 104).

After delegation: coping with the `Principal's Problem'

Political scientists have investigated the consequences of delegation and focused particular attention on how principals have designed institutions to ensure outcomes that are favourable to them (Kiewiet and McCubbins 1991; Moe 1987; Egan 1998: 489). Studies commonly begin with the assumption that incentive incompatibility between principals and agents is 'an inherent feature of contracting relationships' (Doleys 2000: 537; Moe 1989: 271; Kiewiet and McCubbins 1991; Bawn 1995), and that asymmetric information allows shirking, leading to agency losses (Weingast and Moran 1983). They examine *ex ante* controls and *ex post* oversight mechanisms that can be used to mitigate this tendency, and assess the cost to the principal of various sanctioning strategies (see Pollack 1997; Moe 1984; McCubbins and Schwartz, 1984).

Ex ante control typically takes the form of administrative procedures, designed 'to limit the scope of agency activity, the legal instruments available to the agency, and the procedures it must follow' (Pollack 1997: 108). They can be more or less restrictive, and may be altered in response to agency loss. However, any restrictions come at the cost of the agent's flexibility and comprehensiveness of action (McCubbins and Page 1987; McCubbins, Noll and Weingast 1987, 1989), which may affect the effectiveness and overall capacity of the system. *Ex post* oversight falls into two broad categories (Pollack 1997): the imposition of sanctions, where principals attempt to control agency loss through budgetary restrictions, appointments or revising the agent's mandate through legislative or regulatory means; and monitoring, whereby an attempt is made to rebalance the asymmetry of information by surveillance of agent behaviour. McCubbins and Schwartz (1984) famously distinguish two monitoring strategies: 'police patrol' oversight, where the principal engages in continuous and detailed vigilance of agent action; and 'fire alarm' oversight, where the principal relies on third parties – members of the public, interest groups, the media, or perhaps dedicated institutions function (Kiewiet and McCubbins 1987) – to alert it to agency transgressions. The second strategy is less costly, and imposes fewer demands on the principal, than the first, but the contrast between the two highlights a fundamental point: all methods of agency control imply costs to the principal and any choice involves trading off these costs against the benefits derived from limiting non-compliance (Pollack 1997: 112-3; see also McCubbins, Noll and Weingast 1987, 1989).

The cost of monitoring is likely to be substantially higher where there are multiple principals. Aside from the obvious point that action involving more than a single actor requires co-ordination, which is usually costly, such a strategy runs potentially significant risks, as McCubbins, Noll and Weingast have observed in the American context:

> 'Some forms of sanctions require legislation, which demands the coordinated effort of both houses of Congress and the President. The introduction of legislation creates the addition problem that it can reopen long settled, but still contentious, aspects of a policy that are unrelated to the compliance problem. To impose legislative sanctions, therefore, requires running the risk of other undesirable legislative outcomes from the perspective of any given principals' (1987: 252).

A review of the literature on the subject of sanctioning by multiple principals in the US leads Pollack (1997: 112-3) to identify three factors that determine whether sanctions are likely to be imposed: the extent to which the preferences of the principals converge; the decision rules that govern the application of sanctions; and the 'default condition' in the event that there should be no agreement among the principals. Pollack suggests that a knowing and opportunistic agent can exploit the situation, when these barriers are high (ibid).

A further issue concerns what kind of agency behaviour it is that the principal is trying to control. Control can be exercised in order to ensure that agents do not expand their tasks or their remit beyond that laid out in the original contract

(McCubbins, Noll and Weingast 1989). Control can be more intrusive, however, when principals are authorised to interfere in the operation of the agent even within its contractually defined sphere of competence (Epstein and O'Halloran 1999). The choice of approach involves an important trade-off:

> 'The most direct way [to control an agency] is for today's authorities to specify, in excruciating detail, precisely what the agency is to do and how it is to do it, leaving as little as possible to the discretionary judgment of bureaucrats… Obviously this is not a formula for creating effective organisations. In the interests of public protection, agencies are knowingly burdened with cumbersome, complicated, technically inappropriate structures that undermine their capacity to perform their jobs well.' (Moe 1990: 228)

At issue, in other words, is the *effectiveness* of delegation. The principal seems to face a straight choice: minimize the risk of agency loss or allow the agent the independence to carry out its responsibilities efficiently. The use of budgetary cuts, for example, may enable principals to rebuke the budget-maximising ambitions of agents, but is also likely to hinder agents in performing the tasks for which they were created (Moe 1987: 487).

A related complication arises when delegation is utilised as a means to establish credible commitments to long-term aims. In such cases, for example, the creation of independent central banks, delegation to an agent is motivated by a concern to secure advantages that depend upon the independence of that agent. Institutional choice has been governed by a concern to protect against coalitional or principal drift (Shepsle and Bonchek 1997; Elgie and Jones 2000; Horn and Shepsle 1989; Shepsle 1992). In situations, where there is a conflict between the short- and long-term interests of principals, a decision may be taken to insulate the agent from interference. However, as Shepsle and Bonchek point out, the 'civil servants and political appointees of bureaus insulated from political overseers are thereby empowered to pursue independent courses of action. Protection from coalitional drift comes at the price of an increased potential for bureaucratic drift' (1997: 375).

PRINCIPAL-AGENT APPROACHES TO THE EU

In recent years, a growing number of scholars have used the principal-agent model in the study of the EU,[13] producing valuable insights in several areas and advancing understanding of European integration and governance by 'transcend[ing] the intergovernmentalist-neofunctionalist debate' (Pollack 1997: 101; see also Pierson 1996).[14] The principal-agent approach holds considerable promise. First, it is explicitly concerned with complex inter-institutional interactions and need not systematically privilege the role played by one institution or class of actor over others – a trap into which many theoretical approaches have fallen (Menon 2002). It can, therefore, generate more nuanced hypotheses than the theories that have historically dominated the field. Pollack's use of the model to analyse the power of the European Commission and the European Court of Justice, for example, leads him to the conclusion that the `autonomy of a given supranational institution depends crucially on the efficacy and credibility of control mechanisms established by member state principals, and that these vary form institution to institution -- as well as from issue-area to issue-area and over time – leading to varying patterns of supranational autonomy' (1997: 101). This reasoning is more subtle than either neofunctionalism or intergovernmentalism is capable of. Second, the principal-agent model offers a way of grasping the institutional complexity of the EU. As Moe has argued, the model 'cuts through the inherent complexity of organisational relationships by identifying distinct aspects of individuals and their environments that are most worthy of investigation, and it integrates these elements into a logically coherent whole' (1984: 757). Third, the employment of theoretical constructs and models that are in more general use may enable EU scholarship to benefit from belonging to the mainstream (see Moravcsik 1998; Pollack 1997; Menon 2002).

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[13] See supra fn 2.

[14] This debate has, in recent years, arguably generated more heat than light and imposed a straitjacket on enquiry into integration and the functioning of EU institutions (Schmidt 1997; Branch and Øhrgaard 1999).

In this section, we review four applications -- liberal intergovernmentalism (LI), institutional intergovernmentalism (II), historical institutionalist supranationalism (HIS) and rational choice institutional supranationalism (RCIS) -- of the principal-agent approach to the EU. All four proceed from the assumption that delegation to supranational agents is grounded in member state interests, though they reach very different conclusions about the ability of member states to retain their control and the extent to which the Commission and the Court are willing and able to act independently. The first two approaches – LI and II -- contend that the member states remain in control of European governance and integration; the third and fourth – HIS and RCIS -- that the influence of supranational institutions cannot be explained solely in terms of member state preferences.

Liberal intergovernmentalism

LI explains the creation of the EU's 'strong supranational institutions' (Moravcsik 1993: 507) in terms of the interests of states, who under conditions of economic interdependence recognise the benefits of long-term co-operation, but need then to establish mechanisms that overcome problems of collective action. Drawing on international regime theory, Moravcsik argues that international institutions are 'deliberate instruments to improve the efficiency of bargaining between states' (507) and that '[m]uch of the institutional structure of the EC can be readily explained by the functional theory of regimes'. He further suggests that member states decide on the basis of a cost-benefit analysis of the 'stream of future substantive decisions expected to follow from alternative institutional designs' whether to adopt QMV or to delegate to supranational institutions (509). The calculation involves trading-off efficient collective decision making against the risk of being outvoted or overruled. He argues that member states are influenced by the 'potential gains from co-operation', the 'level of uncertainty regarding the details of specific delegated or pooled decision', and the 'level of political risk for individual governments or interest groups with intense preferences' (510-11). These calculations led, in the 1950s, to delegation in respect of agenda setting, enforcement, and external representation. With respect to agenda-setting, Moravcsik argues that the interests of the member states are served because the Commission 'assures that [the] technical information necessary for decision is available' (511) and that 'as a neutral arbiter, it provides an authoritative means of reducing the number of proposals to be considered' (ibid). In relation to enforcement, Moravcsik asserts that '[t]he possibilities for co-operation are enhanced when neutral procedures exist to monitor, interpret and enforce compliance' (ibid).

There are several difficulties with the way that LI deploys the principal-agent approach, however. A fundamental problem concerns the use of the functional theory of delegation. Functional explanation is itself inherently problematic due to its *ex post facto* attribution of motives without empirical investigation, its stress on interests that remain unelaborated, and its lack of precision in identifying the mechanism that links cause to effect.[15] In the current case, no empirical evidence is offered in support of the contention that member states engage in a cost-benefit analysis or even that the supranational institutions were created for the reasons alleged by LI. Moreover, the problems that occur with delegation (e.g. conflicting interests or agency loss) are not addressed. The possibility that member state principals and supranational agents may develop divergent preferences, that the Commission may draw on its own resources to pursue its own policy agenda, or that the Court may evolve into a more powerful institution than the original contract envisages is not contemplated.

More importantly, LI assumes that, although the supranational institutions may continue to perform the formal functions that Moravcsik identifies – itself a questionable assumption -- there is no reason to suppose that the initial calculations of the original Six about the stream of substantive policy decisions still hold true decades after the signing of the Treaty of Rome. Although he acknowledges that behaviour on the part of the European Court of Justice represents 'an anomaly for the functional explanation of delegation as a deliberate means by national governments of increasing the efficiency of collective decision making' (1993: 513),[16] and appears to endorse an explanation put forward by Burley and

[15] See Sandholtz (1996) for a discussion of these problems in relation to liberal intergovernmentalism. For discussions of functionalist explanation, see Elster (1985); Cohen (2001); Lessnoff (1974)

[16] In a way quite unanticipated by the member states, he notes that 'the ECJ has constitutionalized the Treaty of Rome, built alliances with domestic courts and interest groups, pre-empted national law in important cases, and opened new avenues for

Mattli (1993), which explains the expansion of the role of the Court in terms of 'a number of factors idiosyncratic to the EC' (ibid), Moravcsik does not explain how this view might be reconciled with the key tenets of LI. Nor does he suggest how or why supranational institutions continue to serve the interests of the member states or are kept in check by them.

The view that the member states have been able to control the direction of integration is difficult to sustain for reasons specified by Pierson (see below). There are also empirical grounds for challenging this assumption. It is easy, for example, to over-estimate the administrative, and, therefore, the monitoring, capacities of national administrations. Recent research on member state co-ordination of EU policy (Kassim et al 2000; Kassim et al 2001) reveals a broad range of national ambitions. Although some states, such as France and the UK, maintain strongly centralised procedures, commit considerable resources to EU policy co-ordination, and actively monitor developments across the full range of EU activity, others have more limited aims and more modest means (Laffan 2001; Magone 2001). The image of ever-vigilant, comprehensively prepared member state principals is misleading. In addition, even unitary states with single party governments are prey to inter-departmental rivalries and political indecision. 'Bureaucratic politics' and what Offe describes as the 'sectorisation of the state' caution against regarding member state principals as unitary actors (1996: 60-64). Co-ordination may be even more problematic in federal states, countries with decentralised administrations, or those governed by coalitions.

Turning to supranational agents, LI underestimates the Commission's ability to act as a policy entrepreneur. Although the Commission is small and fragmented, it has significant resources at its disposal. As well as its formal monopoly over policy initiation -- the Commission's 'permanent mandate for political leadership' (Laffan, O'Donnell and Smith 2000) -- the Commission has accumulated considerable expertise, sectoral and procedural, in its Directorates-General, the Secretariat-General and the Legal Services,[17] and, as 'process manager' (Eichener 1993), occupies a strategic location at the heart of Community decision making. It enjoys access to information that would be difficult for even the best organised and most motivated national administrations to gather (Kassim 2000). A Commission official in a functional Directorate-General might not know more about a sector in a member state than a civil servant, but he or she may well know more about the sector across fifteen member states than any national official.

Finally, it does not follow from the assumption that the member states prefer an independent supranational body to a randomly chosen national government (Moravcsik 1993: 512) that the Commission will in practice act neutrally.[18] In theory, the Commission embodies the interest of the Community – one could debate whether this represents, in Rousseaunian terms, the general interest, the sum of the particular interests of the member states, or the average interest – but in practice, in seeking to implement the treaties, it acts as a 'purposeful opportunist' (Cram 1993). This often involves partisan behaviour, favouring, for example, free market solutions over protectionist policies, or more Europe rather than less. In several policy areas, including telecommunications (Schmidt 1997; Thatcher 1996) and air transport (Kassim and Stevens forthcoming), the Commission has has forced the introduction of policy at the European level against some, or even a majority of the, member states by using its competition powers. In other areas, for example, environmental policy (Héritier, Knill and Mingers 1996), the Commission has actively constructed coalitions with like-minded member states to press a particular agenda. Action of this type is hard to reconcile with the view that it acts as a neutral arbiter.[19] In other words, LI too easily adopts an information-based approach to delegation, ignoring ways in which delegation can produce distributive gains for some member states at the expense of others, thus serving to `institutionalise partiality' (Menon 2002).

Commission initiative, as in cases like *ERTA* in common commercial policy, and *Cassis de Dijon* in technical harmonization' (1993: 513).

[17] We thank Damian Chalmers for this point.

[18] Interestingly, exactly the reverse is true in the case of the Council Presidency, since the member state that holds that position is expected to assume the role of 'honest broker' (Hayes-Renshaw and Wallace 1996).

[19] See Liesbet Hooghe (2001) on the orientation of Commission officials.

Institutional intergovernmentalism

II (Garrett 1992; Garrett and Weingast 1993), by contrast, directly addresses the distributive implications of delegation. Though it also deploys the functional theory of delegation to explain the EU's institutional arrangements (see, e.g. Garrett 1992: 533-4), it takes a more critical approach than LI. Garrett argues that functional theory overemphasises the informational advantages of co-operation and thereby disregards the distributional consequences of the institutions chosen by the member states, when it is precisely these latter considerations that account for why one equilibrium position is selected among the many that are possible (1992: 534-5).[20] Functional theory takes the view that institutions are constructed as 'informational clearing houses', not as '"governing structures"' (1992: 535), but the nature of the post-1992 institutions agreed by the member states do more simply than provide the information that allows the states to further their own interests. They challenge nation-state sovereignty and alter the 'political structure of the international system' (1992: 535) no less. The adoption of QMV in the Council abolishes the national veto, while the constitutionalization of the founding treaties by the European Court of Justice has created a legal system (1992: 536) with a unique identity.

Despite these changes, II does not believe that the member states' control over EU governance has been significantly diminished. National governments continue to play a decisive role in the legislative process (Garrett 1992; Garrett and Tsebelis 1996; Tsebelis and Garrett 1997, 2001).[21] The European Court of Justice, moreover, does not threaten state autonomy. Indeed, the interests of the Court and the member states coincide, since governments have chosen to delegate the task of monitoring compliance and to resolve the problem of incomplete contracting by entrusting the Court with responsibility for applying the rules of the Treaty in specific cases (Garrett 1992: 557-8). As an agent, the Court has not struck out independently, but has exercised self-constraint, aware, like all courts, that its powers are subject to revision by elected politicians and conscious of its particular vulnerability, given that 'its position is not explicitly supported by a written constitution' (1992: 558). Evidence of the Court's quiescence can be found in its jurisprudence. II claims that the Court's decisions are 'consistent with the preferences of France and Germany' (1992: 558, 589). Should a Court ruling go against a particular state, moreover, II contends that that government is likely to be inclined not to comply (1992: 555-6).

II presents a more sophisticated account of institutional arrangements at the European level than LI (see Garrett 1992; Garrett and Tsebelis 1996; Tsebelis and Garrett 1997, 2001), but is similarly afflicted by a tension between its *a priori* commitment to member state primacy and the potential problems that arise from principal-agent relationships. Like LI, II discounts the possibility of agency loss, but on different grounds. II recognises that the Commission has an influence in the legislative process, but at the same time emphasizes its ultimate dependence on the member states (e.g. the need to find support among a majority within the Council) and the decisive influence of the Council exercised as last mover (Garrett 1992; Garrett and Tsebelis 1996; Tsebelis and Garrett 1997, 2001). Moreover, though II stresses the uniqueness of the Community's legal system, on the one hand, on the other, it posits the subservience of the Court to the member states – a somewhat blatant contradiction. Its proponents provide neither an adequate account of the constitutionalization process, nor systematic evidence that Court jurisprudence is congruent with the interests of France and Germany. How, for example, does the Court keeps track of these interests? As Craig has pointed out, 'While all courts will be influenced in general terms by what is "acceptable" to their constituency, there is no consistent evidence to sustain the neo-realist assertion that national interests are the principal factor in shaping judicial behaviour' (2003: 31). Nor do advocates of II successfully reconcile two apparently contradictory claims: that the Court serves the interests of the member states by ensuring compliance with treaty obligations; and that the decisions of the Court in practice favour two amongst their number.[22] They do not, finally, answer satisfactorily the objection

[20] Moravcsik acknowledges this point when he argues that member states take into account the likelihood that future streams of substantive decisions resulting from the pooling or delegation of sovereignty will be to their benefit when deciding on institutional design. However, he does not discuss the tension that this recognition introduces between the information-based and the distributional consequence views.

[21] Space constraints do not permit discussion here, but see Scully (1997); Corbett (2000, 2001).

[22] We owe these points to Damian Chalmers.

of legal theorists that *contra* II member states are unlikely to defy the Court, because of the damage to their reputations that they would sustain (Burley and Mattli 1993; Alter 1996).

A historical institutionalist approach

The influence of the principal-agent approach is evident in HI's explanation of the dynamics of European integration, even if the terminology is not employed explicitly or systematically.[23] Pierson challenges the intergovernmentalist account from a perspective that draws upon historical institutionalism (Ikenberry 1994; Thelen and Steinmo 1992). In an account that 'stresses the difficulties of subjecting institutional evolution to tight control' (1996: 126-7), he argues that the intergovernmentalist approach to integration is flawed, because 'the current functioning of institutions cannot be derived from the aspirations of the original designers' (1996: 127).

Pierson contends that the member states lose control over the integration process, because gaps emerge that are difficult for them to close. These gaps develop for four reasons

- the 'autonomous actions of European institutional actors': EC institutions are new actors, with their own interests, which are likely to 'diverge from those of its creators', and have significant resources that are their own, notably, 'expertise and delegated authority' (Moe 1990: 121). As well as its responsibility for policy initiation, the Commission, for example, has, has the function of 'process manager' (Eichener 1993), involving the exercise of regulatory power, which places it at the centre of experts and committees. The European Court, moreover, has extensive powers of judicial review;
- the 'restricted time horizons of national decision makers': politicians in the member states are likely to give greater priority to the short-term (Pierson 1996: 136) due to the demands of the electoral cycle and their relatively short periods in office compared with the long-term mission of the Commission and the European Court of Justice;
- the potential for unintended consequences: issue density in the European context generates 'overload' and 'spillover', producing 'interaction effects' and leading to outcomes unlikely to have been anticipated at the outset of integration (Pierson 1996: 136-9);
- shifts in the policy preferences of national governments: the institutional and policy preferences of the member states are not fixed eternally, but are likely to change over time. The expansion of the EEC/EC/EU through successive enlargements, furthermore, has created the possibility for new, and a greater number of, policy coalitions.

Once gaps in control emerge, moreover, `change-resistant decision rules and sunk costs associated with societal adaptations make it difficult for member states to reassert their authority' (1996: 123).

Although HI reveals important weaknesses in the intergovernmentalist approach, it is not without problems of its own. Three in particular stand out. First, HI's account of why member state control cannot be sustained over the long-term needs qualification. While governments may have short-term horizons, it does not follow that they neglect developments at the European level. Member states have established specialist mechanisms to co-ordinate their European policies and to manage their inputs into EU decision making (Kassim et al 2000; Kassim et al 2001). With respect to unintended consequences, though issue densities and overload may make spillover possible, national administrations are present at key stages of the policy process, enabling them to intervene to defend their interests (Kassim and Wright 1991; Kassim 2002; Dogan 1997). In addition, the European policies of the member states do not betray the kind of instability that HI suggests. At the polity level, the outlook of many states has been remarkably stable – France in favour of a state-centred Europe, Germany a federal Europe, and the UK as little Europe as possible. Continuity is also a feature at the sectoral level. France's preferences with respect to agriculture have remained constant, as have Greece, Portugal and Spain's with regional policy, and Spain and the UK with fisheries.

[23] In fact, in the first section of his article, Pierson takes the view that the projection of supranational institutions as agents implies their subservience to the member states. However, in a later section, he uses a more familiar construal where asymmetric information enables agents to escape the control of the principal (1996: 139).

HI, moreover, overstates the inability of the member states to re-assert their control. The supranational institutions certainly do not control the EU's constitutional agenda, as the European Commission and the European Parliament have discovered at successive IGCs. Even the power of the Court should not be exaggerated. The Barber Protocol, agreed by member governments at Maastricht, was specifically aimed at limiting the impact of a Court decision. In addition, the institutional barriers to member state directed reform are often not insurmountable. At Maastricht, Amsterdam and Nice, member state principals have reined in the Commission and Court in EMU, in the CFSP, in the development of the ESDP, and in the third pillar. The Lisbon Process and the 'open method of co-ordination' (Hodson and Maher 2000) further limit the influence of the Commission. These are powerful counterexamples to the claim that the member states are unable to re-assert their control as a result of 'learning' (Williamson 1993, Menon 2002, Kassim and Menon 2003).

Finally, Pierson's sunk-costs argument is not altogether persuasive in that he underestimates the extent to which radical revision of even established policy is impossible. Reform in preparation for the accession of countries from Central and Eastern Europe within the rubric of Agenda 2000, for example, has brought about significant reform not only in structural (regional) policy, but also in the Common Agricultural Policy, which has been presented as unreformable. Moreover, Pierson does not elaborate on how 'lock ins' operate, under what conditions they arise and why they are difficult to escape. HI needs to explain specifically how and when member states are constrained by domestic constituencies.

Rational choice supranationalism

Arguably, the most sophisticated use of the principal-agent model in the EU literature is made by Pollack (1996 1997) in his exploration of the conditions under which 'supranational institutions will be delegated authority and will enjoy autonomy from and exert influence on the member governments of the Community' (1997, pp. 100-1).[24] Pollack's test of the functional theory of delegation leads him to the conclusion that it can explain the functions attributed to the Commission and the Court – monitoring compliance and enforcing treaty provision, solving problems of incomplete contracting, independent regulation and agenda-setting – even if it falls short when it comes to the role of the Parliament. He challenges the theory's assumptions that 'the institutions adopted are those that most efficiently perform the tasks set out for them' (1997: 107) and argues that institutions can assume roles that were not originally anticipated.

In his analysis of member state control over the Commission, Pollack identifies and assesses the efficacy of four mechanisms:

- comitology (a form of police patrol monitoring), whereby the member states monitor and control the exercise by the Commission of its executive function, but where effectiveness depends on which of the three committee types is in place
- fire-alarm oversight, involving the EC legal system, the European Parliament's power of dismissal, and the European Court of Auditors, which are designed to enforce Commission accountability. Pollack argues that the ECJ provides an effective control mechanism.
- *ex post* sanctions, including cutting the budget – costly to member states, since it may have adverse effects for their domestic constituencies; the power of appointment – relatively ineffective, since it can only be exercised every five years in the case of the Commission and six in the case of judges of the Court; the introduction of new legislation – costly, because it requires mustering a winning majority under QMV or the support of all other member states, where the unanimity rule applies; and unilateral non-compliance – too costly to a member state's reputation.
- revising an agent's mandate though revision of the treaty. Pollack considers this 'the "nuclear option" – exceedingly effective, but difficult to use – and … therefore a relatively ineffective and noncredible means of member state control' (1997: 118-9).

[24] Pollack's book, *The Engines of Integration*, Oxford, 2003, appeared too late for discussion to be included in this paper.

On agenda setting, Pollack argues that the Commission may exercise considerable formal agenda-setting power in situations where it enjoys the exclusive right of initiative and where it 'is easier to adopt than to amend a Commission proposal … differences in member state preferences can be effectively exploited, and … member states are dissatisfied with the status quo and impatient to adopt a new policy' (1997: 124). Its informal agenda-setting influence depends, meanwhile, on `member state uncertainty regarding the problems and policies confronting them and on the Commission's acuity in identifying problems and policies that can rally the necessary consensus among member states in search of solutions to their policy problems' (1997: 128).

Pollack's conclusion is that supranational autonomy is determined by four factors: the distribution of preferences among member state principals and supranational agents (1997: 129); the institutional decisions rules for applying sanctions, overruling legislation, and changing agents' mandates (ibid); the role of incomplete information and uncertainty in principal-agent relationships (1997: 129-30) with autonomy greater where the Commission has more information about itself than do others (Pollack 1997: 130); and the presence or absence of transnational constituencies of subnational institutions, interest groups or individuals within the member states, which can act to bypass the member governments and/or place pressure directly on them (1997: 130).

Despite its subtlety, and, in particular, its sensitivity to agent- and sector-specific variation, RCS does give rise to a number of problems. There is no place for 'learning' on the part of the member states, for example, though the evidence of IGCs since Maastricht is that governments have become aware of the Commission and Court's ability to extend Community competence and have responded by restricting their involvement in new policy domains and established intergovernmental decision-making procedures (see Kassim and Menon forthcoming 2003). The frequency of constitutional revision, moreover, tends to contradict the view that recontracting is a 'nuclear option'. Most importantly, these developments tend to counter the subtext of Pollack's analysis that there is an inevitable trajectory towards further integration.

A second point concerns Pollack's reading of comitology. Comitology originated, of course, as a mechanism for ensuring member state control over the exercise by the Commission of its executive responsibilities. However, discussion between national officials is not typically centred on whether power should be delegated to the EU level. Without going so far as to endorse the mystical image of comitology as a projection of Habermas's 'ideal speech community', an alternative view is that these committees are more concerned about the technical quality of the matter at hand than they are about the competence of the Community. The approach is one of problem solving, not a clash over the locus of decision-making.[25]

Finally, and somewhat paradoxically in view of its emphasis on the ability of supranational institutions to elude member state control, RCS understates the Commission's power, while overstating the capacity of national governments to keep it in check. On the one hand, the leverage that the Commission can exert by means of its competition powers is considerable (see above). On the other, it cannot be assumed that the member states monitor the Commission closely or directly. Though most of the EU 15 maintain contacts with 'their' Commissioner, and some have created networks among their nationals within the Commission, not all do. Some countries – Belgium, France and the Netherlands – for example, saw such contacts as taboo (see, Kassim et al 2001). Only very few have put in place structures designed to detect policy initiatives in the Directorates-General at an early stage (Kassim and Peters 2001).

CONCLUSIONS: THE PRACTICE AND PROMISE OF PRINCIPAL-AGENT APPROACHES TO THE EU

The four approaches considered above use delegation theory and, in the case of II and two versions of supranationalism, the principal-agent model to present a more sophisticated analysis of European integration than their intellectual forebears, intergovernmentalism and neofunctionalism. These constructs offer greater leverage in understanding the motivation of the member states in creating the European Communities and their preparedness to entrust supranational institutions with key

[25] We thank Dionyssis Dimitrakopoulos for drawing this formulation to our attention.

responsibilities, and provide a valuable heuristic for approaching the relationship between governments and those institutions, as well as for assessing the extent to which the Commission and Court have developed independent interests and a capacity for independent action.

Yet the above discussion has drawn attention to particular weaknesses in the four accounts. An important difficulty with both variants of intergovernmentalism, for example, lies in the tension between their recognition of the fact of delegation, on the one hand, and their commitment to a belief in continued member state control over the course of integration and the action of supranational institutions, on the other. HI, by contrast, tends to overstate the power of the Commission in important respects, while underestimating the ability of the member states to assert influence in European integration and governance. More generally, however, there are weaknesses in the way that these insights from the new economics of organisation have been applied that lead us to conclude that the promise of the principal-agent model in the study of the EU has not yet been fulfilled and that its deployment may yet produce important insights into European integration and governance.

A first problem concerns the degree to which the four approaches simplify the complexity of the EU in their application of these constructs. The assumption that either member states or Commission are unitary actors is extremely questionable. The level of analysis selected by the authors discussed may make this assumption attractive, but they do need to state that it is a convenient fiction. Moreover, the focus on member state control of process and institutions – Garrett is the exception -- precludes from the outset the examination of transinstitutional alliances, such as the coalitions constructed with the Commission by member states that are keen to multilateralise their national policy preferences (Héritier, Knill and Mingers 1996).

More problematic is the inclination to give a linear reading of integration. LI and II privilege the role of national governments, while supranationalists stress the influence of the Commission and the Court and emphasize the inability of the member states to assert their control. The danger is that subtleties of analysis that are promised by the principal-agent model are lost when a prior commitment is made to a view that either national or supranational actors are likely to pre-dominate in the long term. The risk is not only that the intergovernmentalism-neofunctionalism rivalry will emerge in a different and disguised form, but that empirical evidence will be disregarded in an attempt to demonstrate the truth of the eternal verities. Intergovernmentalists will continue to disregard evidence that the organizational capacities of national governments are less than perfect, while supranationalists will overlook member state abilities to 'learn', re-contract and limit the scope of operation of the Court and Commission, and both will construe the relationship between member states and supranational institutions in conflictual terms -- a view that not only neglects the policy dimension and asserts the transfer of sovereignty is always the central issue (Menon 2002), but also disregards the image of EU decision making, increasingly championed by scholars and practitioners, as co-operative (Haas 1958; Wessels 1997; Lewis 1998, 1999; Kerremans 1996) and consensual (Mazey and Richardson 1995).

A second problem is what theorists ignore when they apply the principal-agent approach. The limited focus -- on the Commission and the Court of Justice, and to a lesser extent, the Parliament – but not the Court of Auditors or European agencies – is one illustration. The issues that arise from the existence of multiple principals is, similarly, not fully explored.[26] Only Garrett addresses the question of multiple agents and how they interact. Neither does discussion of principal drift – or what Sokolowski has called (in another context) 'the opportunist principal' (2001)[27] – figure in the four approaches discussed above, despite the importance of principal drift to agency efficiency and independence. The extent to which the efficiency of the Commission is diminished by comitology or its neutrality threatened by infiltration by national officials, typically, at the

[26] Although Pollack (1997) discusses how divergent interests between the member states might enable supranational agents to behave opportunistically to extend their power, he does not elaborate on how and under what conditions this might occur.
[27] We thank Bill Tompson for the reference.

level of the *cabinets*, are important issues that merit close attention. However, the approaches surveyed above have been more concerned with agency discretion than they have with agency efficiency.[28]

Moreover, the approaches surveyed above – II excepted – are biased towards an interpretation of delegation and principal-agent that focuses on informational aspects. The distributional consequences of institutional design tend be overlooked. The problem here is that distribution is a far more important aspect of European integration and the European Union -- indeed of all institutional structures (Knight 1992) -- than is appreciated. Member states are inclined to support the transfer of competences to the EU or back the Commission, for example, when they are likely to win. Distribution also has implications for continued willingness on the part of principals to delegate significant power. Garrett and Weingast (1993: 186) observe that the influence of an informal agenda setter should be greatest when the distributional consequences of the policy are small. However, the scope, and importance, of Community action has expanded dramatically since 1991 with clear implications, according to such reasoning, for the potential influence of the Commission. Indeed, the sheer longevity of the EC/EU itself poses a serious problem for those interested in utilising the principal-agent model to explain its development and functioning. Over a period of some fifty years, different functions have been delegated to the Community institutions and the degree of autonomy form member state control varies significantly between different policy fields and functions. Inevitably, there are tensions between these various roles, and hence attempting to utilise one specific form of principal-agent approach – for instance information based – is at best likely to provide only a partial explanation.

Finally, delegation raises the issue of democratic legitimacy. Delegation may improve decision making in valuable ways, but it may complicate or erode well-established lines of democratic accountability.[29] In 1969, Ted Lowi launched a scathing attack on Congress for delegating excessive power to unelected bureaucrats who were entrusted with ever-increasing discretion over their areas of responsibility. In the recent past, however, Majone (1993) has taken the opposite view and argued that the creation of non-majoritarian institutions is entirely compatible with democratic decision making. Legitimacy is of course related to efficiency, since the effectiveness of an agent and, therefore, of the system as a whole, is usually at least partially a function of the agent's status and the way that it is perceived. Neglect of this question is surprising, not only due to its intrinsic importance, but also in view of widespread concern, especially since Maastricht, to enhance the democratic credentials of the EU (Menon and Weatherill 2002).

The question of effectiveness, the notion of delegation for distributional as opposed to informational purposes, as well as the implications of delegation for legitimacy and democratic accountability are all, therefore, promising avenues for future research on the European Union based on the principal-agent model. Such research could complement those approaches outlines above, and help students of the EU ensure that the scholarly achievements of those working with this model match its early promise.

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[28] Pollack does make a passing reference to this issue: `member state control imposes costs on the principals as well as their agent, and more specifically presents the member states with a clear and explicit trade-off between member state control, on the one hand, and speed and efficiency of decision making, on the other' (1997: 115).

[29] See, for example, the 1995 special issue of *Parliamentary Affairs* on quangos and democracy.

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