The Role of the Trade Policy Committee in EU Trade Policy: A Political-Economic Analysis[*]

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Abstract

This paper presents a political-economic analysis of the Trade Policy Committee's role in setting European Union (EU) trade policy. In particular we formulate game-theoretical models of EU trade policy making in the presence of informational asymmetries. The legislative body delegates the conduct of policy making to an agenda setting committee, and appoints an oversight committee to monitor it. The agenda setter's proposals require the legislators' approval by supermajority. We study the rationale for the appointment of the oversight committee and analyze the optimal oversight committee choice for the legislative body. We conclude that it may be optimal for the legislators to appoint an oversight committee with more extreme preferences than the legislative body's pivotal members, rather than to do the monitoring themselves. The appointment of an oversight committee may represent a credible means for the legislators to commit to reject certain proposals by the agenda setting committee.

- Key words: European Union, Trade Policy, Delegation, Oversight, Asymmetric information.

1   Introduction

Delegation is an important characteristic of policy making. Providing incentives to specialize in specific policy matters represents one of the main rationales for delegation (Gilligan and Krehbiel, 1987 and 1989). Legislators cannot develop expertise in all policy areas. For that reason legislatures tend to set up committees that specialize in specific policy domains. Subsequently they often use closed rule procedures to provide committees incentives to specialize.

Policy making in the European Union (EU) is also characterized by delegation, especially in the area of external trade. Many authors argue that delegation takes place at multiple levels (Damro, 2007; Kerremans, 2003). There is delegation of authority from individual governments of member states to the legislative members in the Council, who in turn delegate the actual authority to negotiate trade agreements and draft proposals to the civil servants in the Commission (Meunier & Nicolaïdis, 2006). After the negotiations, the Commission submits a policy proposal to the Council, which then votes on this proposal under closed rule. Approval requires support by a supermajority.[1] The delegation of authority from the Council to the Commission can lead to moral hazard issues between them. Therefore their relationship is often portrayed as a principal/agent relationship in the literature.[2]

External trade is arguably the most supranational of all policy areas because of the prominent role the Commission plays in it. According to Meunier (2005) there are both legal and practical reasons for this, as the only way the European Economic Community could legally exist under the General Agreement on Tariffs and Trade was by becoming a customs union. The most practical way to manage the relations of such a union was by adopting a single voice in trade, thus creating institutions that could act in external matters. Meunier continues that the EU member states decided to be represented by the Commission in order to place the need for international trade liberalization above the desire to preserve national sovereignty. This conclusion is similar to the one drawn by Nugent (2006), who focuses on the existence of exclusive supranational competence in internal trade. Additionally, authors like Johnson (1998) have identified the informational advantages that the Commission may have as a result of its specialization in trade, adding to the power of the bureaucrats.

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[1] This is called a qualified majority in the European Union.

[2] For an elaborate analysis of moral hazard issues we refer to Holmstrom (1979). For a formal analysis of delegation in the EU, see Franchino (2005)

Yet, even though trade policy is often considered as one of the most supranational policy area in the EU, authors also stress the important role of the member states in the Council by pointing out the many tools at their disposal to control the Commission (Aggarwal and Fogarty, 2004; De Bièvre and Dür, 2005; Meunier, 2005). One way to control an agent is by monitoring and the monitoring tool discussed in this paper is the Trade Policy Committee (TPC).[3] This committee frequently sits at the table with the Commission. It fulfills two basic functions. First, it provides a channel of information to the Commission on the preferences of the member states, such that the Commission can alter its proposals and get them adopted in the Council. Second, it directly monitors the Commission for the Council and transmits information to it.

While the first aspect of its function is rather clear and has been elaborately discussed in the literature, less is known about the mechanism of direct monitoring. Most authors limit themselves to stating that the principal monitors the agent via this committee (Aggarwal and Fogarty, 2004; De Bièvre and Dür, 2005; Meunier, 2005). That is, the Member States in the Council delegate the authority to monitor the Commission to the TPC.

This was emphasized, for example, by a DG Trade official who was interviewed by Damro (2007), and stated that the TPC's weekly meetings with the Commission serve as an important instrument through which member states *do their best to find out* what is happening in the negotiations. This suggests that there is indeed an information stream from the Commission to the Council via the TPC, but that this information is *noisy*.

In this paper focus on the delegation of monitoring. Since the Council appoints the TPC, it can manipulate the preferences of this committee and by consequence the credibility of the information the TPC transmits. If the Council appoints a TPC with the same preferences as itself, noiseless information transmission between the oversight committee and the Council can be expected. Yet the noisy information stream observed by Damro (2007) suggests that there is more at play. The noise could be the result of the TPC's incomplete information or of its strategic use of information. In this paper we focus on the latter source of noise. We present a model of delegation in which an agenda-setting committee is monitored by an oversight committee, both committees have perfect information, and the legislature considers the agenda-setter's proposals under closed rule.

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[3]Before the adoption of the Lisbon Treaty the official name of this committee was the Article 133 Committee. Prior to this treaty, article 133 prescribed that the Commission had to report regularly to the Council members. This is now established in article 207.

We apply this framework to EU external trade policy-making and the role of the TPC. While we acknowledge the other functions of the TPC, such as signaling the preferences of the Council to the Commission during trade negotiations, we focus on the oversight role the TPC fulfills and on the Council's strategic considerations in the delegation of monitoring.[4] We build our model on the closed rule model put forward by Gilligan and Krehbiel (1989). Their model deals with heterogeneous committees, but can also be thought of as a model of a legislature that interacts with an agenda setting committee on the one hand, and a committee or lobbyist with a signaling role on the other hand. We extend this view by allowing the location of the signaling committee to be determined by the legislative body. The committee can then be thought of as an oversight committee that has received the authority to monitor the agenda setting committee. In addition we incorporate important features of EU trade policy making into our model, such as voting by supermajority rule in the legislative body. We present a general model and apply it to the EU. In the EU the Council, the Commission and the TPC play the roles of legislative body, agenda setting committee and oversight committee, respectively.[5]

We find that the legislature has an incentive to bias the oversight committee away from the agenda setting committee. This incentive is so strong that legislators may prefer not to have perfect information on the consequences of policies, but let a strategic information transmitter signal these to them. By doing so, they create a credible commitment to refuse proposals in which most of the value created by the policy would go to the agenda setting committee.[6] As a result the agenda setting committee offers policies the legislators prefer to the proposals it would make in the absence of oversight or if the legislators were perfectly informed. Having a more extreme oversight committee compensates for informational inefficiencies the legislators may suffer compared to having perfect information. The well-known distributional losses the legislature may suffer to the agenda setting committee, as observed by Gilligan and Krehbiel (1989) can be reduced when the legislature can strategically choose the oversight committee. The legislature can then give the agenda setting committee in-

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[4]The Committee also plays a role in trade negotiations, but we do not model the negotiations between the Commission and the third country.

[5]Under the Lisbon Treaty, the Parliament now also plays an important role in the process, but we ignore that role in this paper. The Parliament has veto rights at the end of the procedure. This may have an impact on the policies the Commission can get approved. However, in this paper we focus on the Trade Policy Committee (TPC), its role and its appointment.

[6]The increased utility by uncertainty reduction is beneficial for all parties, but the proposal drafted by the agenda setting committee under closed rule may lead to distributional losses if the preferences of the agenda setter and the legislators are divergent.

centives to specialize through the closed rule, while reducing the distributional losses by appointing an extreme oversight committee.

The remainder of this paper is structured as follows. Section two studies the policy making process. In section three we analyze the committee appointment process. More specifically, we identify the preferences of the legislators regarding the location of the oversight committee. Section four presents the conclusions.

2 The policy making process

In this section we analyze the interactions between three institutions that participate in the policy making process: a legislature, a perfectly informed agenda setting committee and a perfectly informed oversight committee. The legislature uses supermajority rule. As a result we can simplify the analysis by focusing on the two legislators who are pivotal under supermajority rule. Legislators L_L and L_R are the pivotal legislators under supermajority rule for moves to the left and right, respectively. The agenda setting committee, C_1 uses simple majority rule. As a result we can represent it by its median voter.[7] The oversight committee C_2 consist of representatives of the legislators: each legislator appoints one oversight committee member. The members appointed by legislator L_L and legislator L_R are C_{2L} and C_{2R}, respectively.

The policy space $\mathbb{R}$ is assumed to be one dimensional. This dimension could reflect degrees of trade liberalization, for example, with actors on the right being more in favor than actors on the left. Actors have preferences over policy *results* rather than policies as such. However, the legislators do not know the exact result of policy p: there is asymmetric information. The result of policy p is represented by $r(p) = p + \omega$, where ω represents an external shock. Actors have Euclidean preferences. That is, they prefer policy results that are closer to rather than farther away from their ideal result. In particular actor x with ideal policy result r_x derives utility $U_x(p) = -(r(p) - r_x)^2$ from policy p. As in other models, the external shock is distributed uniformly over the unit interval, $\omega \sim U[0, 1]$. The legislators only know its distribution, whereas both committees are informed about its exact realization, because committee C_1 is specialized in the policy issue and committee C_2 keeps a strict oversight over committee C_1.[8] Committee C_1 proposes a policy to the legis-

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[7]For a full discussion on median voters we refer to Black (1948).

[8]While it is possible that the oversight committee acquires only a fraction of the information the agenda setting committee has, we assume that both committees have the same information for

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lators as a function of the external shock that it observes, whereas each member of committee C_2 sends a private signal on the value of the shock to the legislator who appointed him.

For simplicity and without loss of generality we normalize the one-dimensional policy space such that the average ideal policy result of the two pivotal actors under supermajority rule is equal to zero: $\frac{L_L + L_R}{2} = 0$, as illustrated in Figure 1. The ideal policy result of legislator L_R is set equal to the value L_R. The ideal policy result of legislator L_L is then equal to $-L_R$. The ideal policy result of committee C_1 is assumed to be equal to aL_R and the ideal policy result of oversight committee members C_{2L} and C_{2R} equal to $q_L L_R$ and $q_R L_R$, respectively, with a, q_L, $q_R \in \mathbb{R}$. Variables a, q_L and q_R are then measures of how extreme the committees are relative to the legislature. We refer to agenda setters and committee members with levels of extremeness in the interval $[-1, 1]$ as moderate because their preferences are located between the ideal policies of the pivotal legislators L_L and L_R. When their levels of extremeness lie outside this range, they are considered extreme.
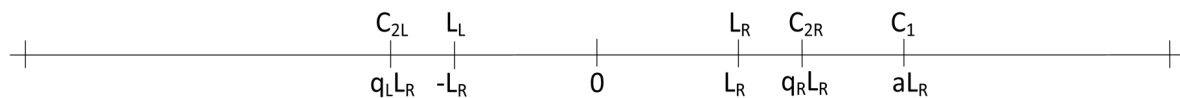

Figure 1: An endogenous oversight committee with an extreme agenda setter.

In this section the variables, a, q_L and q_R are assumed to be exogenous. In the next section we study the choice of variables q_L and q_R, that is, we study the legislators' choice of oversight committee members. The location of the agenda setter is considered as exogenous throughout the paper.[9] Figure 1 displays the situation where the agenda setting committee is at the extreme right, legislator L_L's oversight committee member C_{2L} is to L_L's left and, legislator L_R's oversight committee member C_{2R} is to L_R's right.

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simplicity.

[9]In the EU, the Council and the Parliament appoint the Commission for five year terms. During these five year terms, the Commission has many responsibilities besides external trade. Its preferences on external trade are thus likely to diverge from the Member States' preferences. Moreover, the median Commissioner is unlikely to have the ideal position for all Member States, and Member States' preferences can change due to changes in domestic government. For these reasons, it makes sense to consider the location of the Commission as exogenous when studying trade policy making. See Crombez (1997) and Crombez and Hix (2011) for models of Commission appointment.

In this section we focus on one legislator. We present a formal model with one legislator, L_L and one oversight committee member C_{2L}. In the next section we consider both pivotal legislators and their choices of oversight committee members. In this section we focus on one legislator because the legislator's optimal choice of oversight committee member does not depend on there being more legislators, as we will discuss in section 3.

The sequence of events in the policy making process is as follows. In the first stage both committees observe ω. In the second stage the agenda setting committee drafts a proposal b and the oversight committee member simultaneously sends out a private signal s_{2L} to legislator L_L on the value of ω. This signal is a continuous variable that can be interpreted as the reported value of ω.[10] It is said to be a *consistent* signal if the value of the shock as reported by the oversight committee is equal to the value of the shock that the agenda setter's proposal suggests. In the final stage legislator L_L votes on the proposal. The legislator observes the bill b and the signal s, but does not observe the shock ω. If the legislator accepts the bill, the policy is adopted. Otherwise the status quo prevails.

We look for a perfect Bayesian equilibrium. It characterizes C_1's equilibrium proposal strategy $b^*(\omega)$, C_{2L}'s equilibrium signaling strategy $s_{2L}^*(\omega)$, the equilibrium beliefs $g^*(b, s)$ of the legislator, the legislator's voting strategy $v^*(b, s)$ and the equilibrium policy $p^*(b, s)$. In a Bayesian equilibrium beliefs depend on the prior distribution of ω and the strategies used by the players, and the beliefs are updated when players observe certain actions. In what follows we consider equilibria with an agenda setter to the right. The situation with a left agenda setter is perfectly symmetric and the private incentives are therefore symmetric as well. This equilibrium can be found in Appendix A.2.

When the agenda setter is to the right of the legislator, we have that $a > -1$. We discuss the equilibrium if $q_L \in [-2 - a, -1]$, because the q_L that is optimal in this interval is optimal in general. Any q_L outside the interval is dominated by a q_L inside this interval. First we show that any value $q_L > -1$ is dominated by a q_L in the interval. Suppose that the legislators choose $q > -1$ and that the oversight committee member C_{2L} is thus to the right of legislator L_L. One possibility is that the oversight committee is even to the agenda setter's right. This cannot be desirable for the legislator, because then the signal the oversight committee member sends is less

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[10]The signal s could also be a dichotomous variable that signals whether the legislature should accept or reject the proposal. To preserve the similarity with Gilligan and Krehbiel's models (1987, 1989), we have chosen to follow their set-up.

trustworthy than the information derived from the proposal the agenda setter makes. But also if the oversight committee member is located between the agenda setter and the legislator, the legislator does not trust a signal by its committee member. Since committee member C_{2L} is then closer to the agenda setter than is legislator L_L, it has an incentive to send a positive signal too often. For those situations where the status quo result is between the legislator and his committee member, C_{2L} signals to accept a proposal, while the legislator prefers the status quo. Furthermore, for those values of the status quo result in which *all* players prefer a move to the right, the committee member is willing to accept policy changes too far to the right from legislator L_L's viewpoint. The legislator then prefers to be perfectly informed by a committee member with $q_L = -1$ rather then by a committee member with $q_L > -1$.

The formal proof of the interval's lower bound $-(2+a)$ can be found in Appendix A.4. Intuitively, one might see why an extreme left committee is not advantageous for the legislator. If the oversight committee is as extreme as $q_L = -(2+a)$, it has preferences equally distant from the legislator as the agenda setter, but in the opposite direction. So if $q_L < -(2+a)$, the oversight committee member C_{2L} is located even further away from the legislator than is the agenda setter. Information from an extreme committee member becomes too unreliable for the legislator and therefore he prefer a more moderate committee member.

We have now established that the optimal oversight committee member for a legislator is not biased in the direction of the agenda setter, nor biased too much in the opposite direction. This gives us the range $[-2-a, -1]$ in which the optimal q_L must lie. In what follows, we first consider the equilibrium for this range of values.

The equilibrium for an agenda setter to the right is characterized in Proposition 1. The Proposition is explained below. The proof of the Proposition can be found in Appendix A.1.

Proposition 1 *Suppose that the oversight committee is to the legislator's left, and not farther away to the legislator than is the agenda setter, that is, $q_L \in [-2-a, -1]$. Suppose furthermore that the agenda setter is to the legislator's right. The agenda setting committee then obtains its ideal, if the oversight committee prefers it to the status quo. By contrast, the status quo prevails, if the agenda setting and oversight committees want to move in opposite directions away from the status quo. Otherwise the policy that makes the oversight committee indifferent to the status quo is adopted. In particular, an equilibrium with two informed committees, an agenda setting committee and an oversight committee, and a single legislator consists of the following*

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strategies and beliefs:

$$b^*(\omega) \;=\; \begin{cases} aL_R - \omega & \text{if } \omega \geq -p_0 + aL_R \text{ or } \omega \leq (2q_L - a)L_R - p_0 \\ 2(q_L L_R - \omega) - p_0 & \text{if } (2q_L - a)L_R - p_0 < \omega \leq q_L L_R - p_0 \\ b \in [aL_R, aL_R - 1] & \text{otherwise} \end{cases}$$

$$s_{2L}^*(\omega) \;=\; \begin{cases} \omega & \text{if } \omega \geq -p_0 + aL_R \text{ or } \omega \leq (2q_L - a)L_R - p_0 \\ \omega & \text{if } (2q_L - a)L_R - p_0 < \omega \leq q_L L_R - p_0 \\ s \in [0,1] & \text{otherwise} \end{cases}$$

$$g^*(b,s) \;=\; \begin{cases} aL_R - b & \text{if } b \leq p_0 \text{ or } b \geq -2(q_L - a)L_R + p_0, \text{ and } s_{2L} = aL_R - b \\ -[p_0 + b]/2 - q_L R & \text{if } b \in (p_0, -2(q_L - a)L_R + p_0) \text{ and } s_{2L} = \frac{-(b+p_0)}{2} + q_L L_R \\ \omega \in [q_L L_R - p_0, aL_R - p_0] & \text{otherwise} \end{cases}$$

$$v^*(b,s) \;=\; \begin{cases} \text{accept } b & \text{if } b \leq p_0 \text{ or } b \geq -2(q_L - a)L_R + p_0, \text{ and } s_{2L} = aL_R - b \\ \text{accept } b & \text{if } b \in (p_0, -2(q_L - a)L_R + p_0) \text{ and } s_{2L} = \frac{-(b+p_0)}{2} + q_L L_R \\ \text{reject } b & \text{otherwise} \end{cases}$$

so that the equilibrium policy becomes

$$p^*(b,s) = \begin{cases} b & \text{if } b \leq p_0 \text{ or } b \geq -2(q_L - a)L_R + p_0, \text{ and } s = aL_R - b \\ b & \text{if } b \in (p_0, -2(q_L - a)L_R + p_0) \text{ and } s = \frac{-(b+p_0)}{2} + q_L L_R \\ p_0 & \text{otherwise} \end{cases}$$

This equilibrium closely resembles the closed rule equilibrium by Gilligan and Krehbiel (1989). Figure 2 illustrates the results of the equilibrium policy $p^*(b, s)$ in Proposition 1. On the horizontal axis the policy result of the status quo, $p_0 + \omega$, is displayed. On the vertical axis the equilibrium policy result can be found.

First we discuss the solid line. This line represents the case $q_L = -a < -1$. For very small and very large values of ω (in intervals **I** and **IV** respectively) the agenda setting committee is able to obtain its ideal policy result aL_R. As can be seen in the Proposition, the agenda setting committee successfully proposes $aL_R - \omega$ as policy when $\omega \geq -p_0 + aL_R$ or when $\omega \leq (2q_L - a)L_R - p_0$. In those situations its ideal policy result is attractive enough for the oversight committee to report the correct value of ω to the legislator. The legislator then knows that the proposal is better for him than the status quo and votes in favor of it. In interval **II**, where $(2q_L - a)L_R - p_0 < \omega \leq q_L L_R - p_0$, the agenda setting committee cannot attract the support of the oversight committee by proposing its ideal policy, because the oversight committee prefers the result of the status quo. Therefore it seeks the support of the oversight committee by proposing the policy that makes the oversight committee indifferent to the result of the status quo. For all other values of ω, in
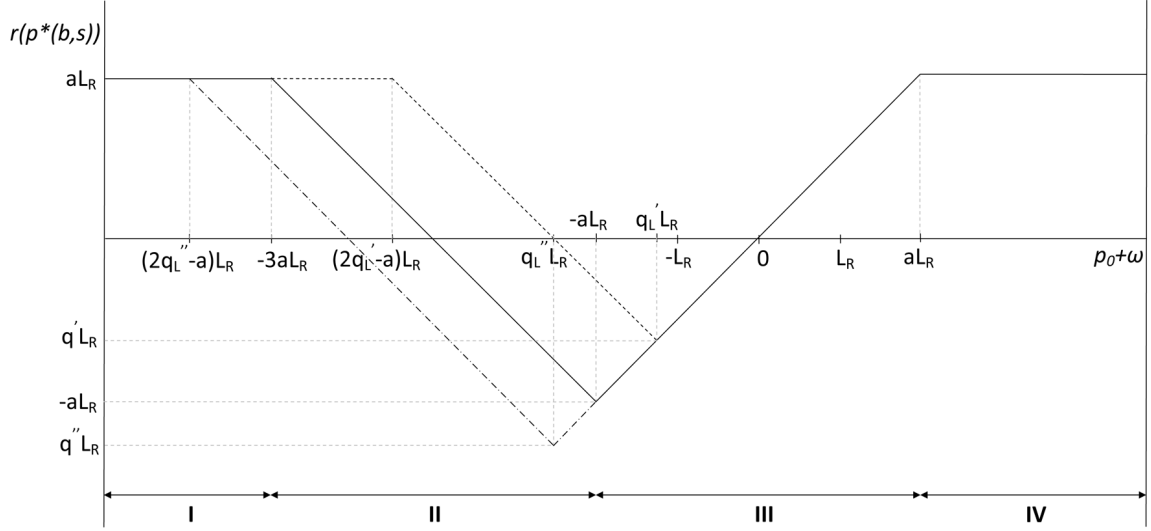
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Figure 2: Endogenous case with extreme agenda setting committee.

interval **III**, the oversight committee is not willing to give a consistent signal because it prefers a move to the left of the status quo, whereas the agenda setter desires a move to the right. The agenda setter is unable to signal to the left pivotal legislator whether the proposal is beneficial for him. In the absence of any further information, the left pivotal legislator prefers the status quo over any proposal that the agenda setting committee can make.

In addition to the $q_L = -a$ case, two other situations are illustrated in Figure 2.[11] We now discuss the situation where $q_L = q''_L < -a$, which is represented by the mixed line. It captures what happens if the oversight committee becomes more extreme. The effects of having a more moderate oversight committee, with $q_L = q'_L > -a$, are the opposite of what is discussed below. A first effect of a more extreme oversight committee is that the agenda setting committee is able to achieve its ideal policy result for fewer status quos. In the Figure we can see this by noting that interval **I** is smaller under $q''_L < -a$ than under $q = -a$. This is due to the fact that in equilibrium the agenda setter needs to seek the support of this more extreme oversight committee. It does this by offering the oversight committee member a policy that is sufficient to the left so that he will send out a consistent signal ω, which induces legislator L_L

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[11]Both cases have been chosen such that $q_L \in [-2-a, -1]$, to match the equilibrium we described above.

to accept the proposal. The legislator likes this effect because it forces the agenda setter to make concessions for both small and medium values of the status quo result in interval **I** and **II**. As the agenda setter becomes more extreme, the overall effect is even more beneficial.

The second effect of having a more extreme oversight committee is that this committee's information transmission becomes more noisy. It will refuse to send out a consistent ω for proposals that are actually beneficial for the legislator and this effect is more pronounced than with a more moderate oversight committee. We can see this in the Figure in interval **III** by noting that the distance between $q_L'' L_R$ and $a L_R$ is larger than the line between $-a L_R$ and $a L_R$. This is something the legislator does not like, because the status quo is maintained in those situations where a beneficial policy change is possible for both the legislator and the agenda setter.

3   Oversight committee appointment

In this section the trade policy committee appointment is discussed, based on the equilibrium we have derived above. First we derive the private incentives of legislators. Then we analyze the actual appointment decisions.

The previous section considered the two tendencies a legislator must balance in appointing his optimal oversight committee member. On the one hand biasing an oversight committee increases the noise and leads to more situations in which the status quo is maintained. On the other hand it also shapes the proposals that the agenda setter does make, making the proposals more beneficial for legislator L_L. Let $q_L = q_L^*$ denote legislator L_L's optimal choice. Proposition 2 characterizes q_L^*. The proof can be found in Appendix A.5.

Proposition 2 *Legislator L_L chooses an oversight committee member C_{2L} who has preferences biased away from legislator L_L in the opposite direction of the agenda setting committee. As the agenda setter becomes more extreme, the left pivotal legislator wants a more extremely biased oversight committee. In particular, the optimal level of extremeness for the pivotal legislator L_L is $q_L^* = -(2+a)$. That is, legislator L_L's optimal oversight committee is located equally for from him as is the agenda setter, but in the opposite direction.*

In what follows we discuss the interpretation of the case with a right agenda setter.

We now illustrate that it is indeed worthwhile for legislator L_L to source out monitoring to an oversight committee and to have a biased oversight committee.[12] Figure 3 displays the situation if legislator L_L is able to appoint an oversight committee member with $q_L = -(2+a)$. The horizontal axis displays the status quo result $p_0 + \omega$. The vertical axis measures the distance between the result of the equilibrium policy $p^*(b, s)$ and the legislator's ideal, $|r(p^*(b, s)), L_L|$. Legislator L_L prefers values close to 0 on the vertical axis over larger values because it indicates that the result of the equilibrium policy is closer to his ideal. The discrepancy between *what he wants* and *what he gets* is then smaller.
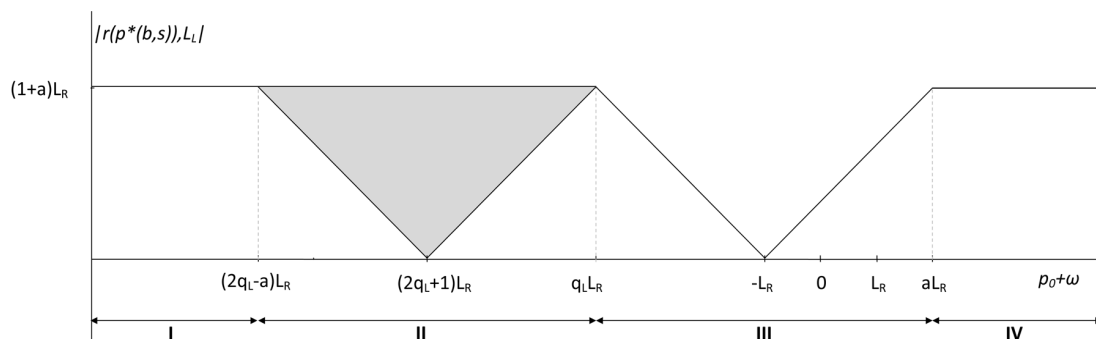

Figure 3: Gains to left pivotal legislator L_L from outsourcing monitoring to its ideal oversight committee ($q_L = -(2+a)$) versus having perfect information ($q_L = -1$).

Note that for two values of the status quo result, the legislator is able to obtain his ideal policy result. This happens when the status quo result is equal to $(2q_L + 1)L_R$ and when it is equal to $-L_R$. One can further see that in interval **I** and **IV** the agenda setter is able to achieve his ideal policy result. In interval **II** the agenda setter attracts the support of oversight committee member C_{2L} and in interval **III** pooling occurs due to the noisy information by the oversight committee. Note again that when $q_L = -(2 + a)$, the left pivotal legislator's preferences are at the exact center of the two committees' preferences: the optimal bias for an oversight committee is in the opposite direction of the agenda setter and to the extent that the agenda setter's preferences diverge from the legislator's.

Figure 3 also illustrates the situation $q_L = 1$. Legislator L_L then has perfect information himself due to noiseless information transmission. The graph is similar

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[12]By sourcing out monitoring, we refer to the legislator's incentives to not know the consequences of policy, but to appoint a committee with different prefences who monitors the agenda setter and sends out information regarding these consequences.

to the one representing $q_L = -(2+a)$, apart from the situation where $(2q_L - a)L_R < p_0 + \omega < q_L L_R$ in interval **II**. Here one sees that instead of obtaining results closer to the legislators ideal policy, the distance to his ideal policy result remains $(1 + a)L_R$. This is because under perfect information, the agenda setter can exploit the left legislator's information. The agenda setter only proposes a compromise when the left pivotal legislator prefers the status quo over the ideal policy result of the agenda setter as opposed to when the oversight committee does. So in interval **II**, the legislator prefers to source out the monitoring because the agenda setter can only propose a successful policy change if it attracts the oversight committee member's support, which is favorable to the policy change proposed by the agenda setter if the legislator was perfectly informed.

Now it becomes clear why legislator L_L has an incentive to delegate monitoring to another committee. Legislator L_L benefits from not knowing the consequences of a policy perfectly well and appointing an oversight committee that strategically transmits information back to him. The extent of the benefits can be represented by the grey triangle. The intuition for this is that under perfect information and by using the closed rule procedure the agenda setter extracts most of the surplus created by the new policy, potentially to the extent that the legislator is equally well off with the status quo. If the legislator knew the value of ω perfectly (either by acquiring perfect information himself or by having an oversight committee with the same ideal policy), as is shown in interval **II** in Figure 3, he could not make a credible commitment to reject these marginally improving offers since they provide at least the same utility as the status quo. This is different when the oversight committee is more extreme, because proposals that are not accompanied by a consistent signal by the oversight committee will not be accepted. The agenda setting committee then needs to attract the support of the other committee. It makes a proposal that is marginally attractive to the oversight committee - inducing the oversight committee to accept the proposal and send a consistent signal - but this proposal is much more attractive for the legislator. So by delegating the monitoring to an oversight committee that is biased in the opposite direction away from the legislator than is the agenda setting committee, the legislator gets a policy closer to his ideal point.

Figure 4 illustrates why it is optimal for legislator L_L to appoint a committee member as extreme as $q_L = -(2 + a)$. It shows the equilibrium policy result for a $q_L \in (-(2 + a), -1)$. If the oversight committee is more moderate, this results in smaller gains by outsourcing the monitoring than if the committee was more extreme. The upper right part of the grey triangle is chipped off when $q_L > -(2+a)$. Compared to the $q_L = -(2 + a)$ case the agenda setter successfully proposes his ideal policy for

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a wider range of status quos. Interval **I** is larger and interval **II** is smaller than they are in figure 3. Nonetheless, it is clear from this Figure that *any* $q \in (-2-a, -1]$ has the effect of creating a credible commitment not to accept certain proposals. The benefits to legislator L_L are smaller than in the $q_L = -(2+a)$ case, but outsourcing to a moderately extreme oversight committee is clearly also beneficial for him.
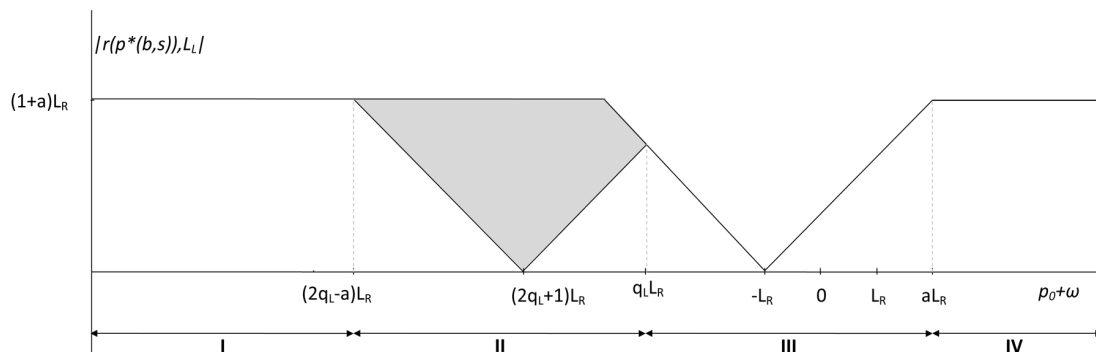

Figure 4: Gains to left pivotal legislator L_L from outsourcing the monitoring to an oversight committee with $q_L \in (-2-a, -1)$ versus having perfect information ($q_L = 1$).

Our findings can be used to extend the results of Gilligan and Krehbiel (1989). They found that if there is a cost to the agenda setting committee when it specializes, a closed rule procedure can be more beneficial than an open rule since it provides incentives for the committee to specialize. Specialization reduces the variance for all players - leading to a higher utility for all. Yet, the cost of specialization born by the agenda setter may outweigh the benefit from the reduction in variance. As a result, under the open rule the agenda setter may not want to specialize. The closed rule gives the committee a distributional benefit on top of the variance reduction. The legislator may still benefit as a result of the variance reduction, in spite of the distributional loss to the committee.

Our results contribute to this literature by showing that there is a middle ground between the two extremes of employing either an open rule and obtaining no benefits from variance reduction or employing a closed rule to secure benefits from variance reduction but incurring a distributional loss. By appointing a strategic oversight committee, the legislator can get a policy closer to his own ideal in a closed rule procedure, while still leaving enough incentives to specialize for the agenda setter. This enables the legislator to skim the surplus created by the specialization rather

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than having the agenda setter capture almost all the distributional benefit. If the cost of specialization for the agenda setter is high, the legislator may not want to appoint an oversight committee as extreme as $q_L = -(2 + a)$. The legislator can look for the most efficient incentives to specialize: if the cost is really low, it can use an open procedure. If the cost of specialization is above a certain threshold, he can use a closed rule procedure in combination with an extreme oversight committee. As the cost increases further, the optimal location of the oversight committee shifts to the right, up to the point that it is perfectly aligned with the legislator. Then a closed rule is used.

We can conclude that legislators have a private incentive to bias their oversight committee member *away* from the agenda setter. The extent of the bias is equal to the extent that the legislator and the agenda setter have different preferences. Until now we have studied the private incentives of a single legislator who votes on proposals. In the EU the Council decides using supermajority rule. Therefore the two pivotal legislators should take into account each other's incentives. However, because both legislators choose their own oversight committee member, their choice only affects their private information. This information cannot be inferred by the other pivotal legislator, so a pivotal legislator has no influence on the other legislator's committee member choice. Therefore, the pivotal legislators appoint the same oversight committee member as they would appoint if they were the only legislator in the policy making process. There are three scenarios that can occur: an extreme right agenda setter, a moderate agenda setter, and an extreme left agenda setter.

In the scenario of an extreme right agenda setter, when $a > 1$, both pivotal legislators have an incentive to bias their respective committee member to the left. As such they create a credible commitment to reject deals that are only marginally improving over the status quo. What matters for the agenda setter is that he obtains the approval of legislator L_L, because legislator L_L is farthest away from the agenda setter and his approval is thus more difficult to obtain. Legislator L_R approves all proposals that legislator L_L approves. For this reason, the agenda setter's optimal proposal strategy is the same as if the left legislator is the only legislator.

These considerations ultimately lead to the equilibrium policy result as presented in Figure 5, which is similar to Figure 2 in the previous section. The bold line indicates the equilibrium policy result for $q_L = -(2 + a)$ whereas the thin line refers to the equilibrium in case of perfect information for all legislators. Again, the left pivotal legislator prefers to have $q_L = -(2 + a)$ to having perfect information by for all values of the status quo result. On the vertical axis one can see that for each
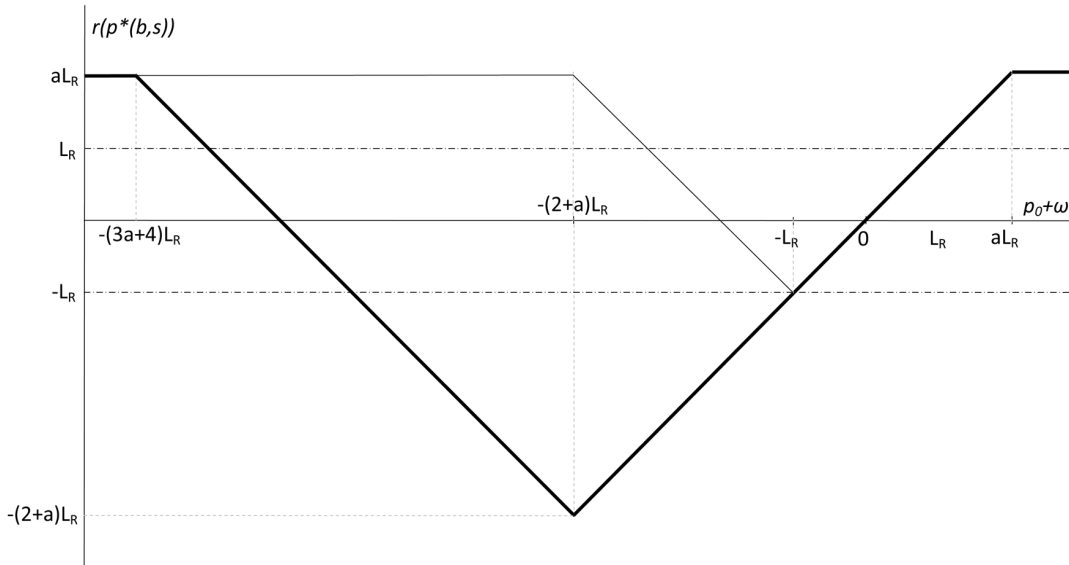
Figure 5: Equilibrium policy result for an extreme right agenda setter.

status quo result, the distance between the equilibrium policy result and legislator L_L's ideal is weakly smaller with the biased oversight committee. On the other hand, the right pivotal legislator prefers $q_L = -(2+a)$ for small values of the status quo result, but for larger values how would have preferred perfect information. However, he is unable to alter the information the left legislator receives. The exact opposite is true for an extreme *left* agenda setter, with $a < -1$.

A somewhat more complicated scenario is when the agenda setter is moderate, with $a \in [-1, 1]$. The left pivotal legislator is pivotal for moves to the right. He is unsure whether a policy change in that direction is beneficial for him. Indeed, proposals that move policy to the right could be too extreme for him. For policy changes in the left direction he has no uncertainty regarding the proposals merit: if the agenda setter prefers a policy to the left of the status quo, the legislator prefers the agenda setter's ideal to the status quo result. The right pivotal legislator faces uncertainty for policy changes in the left direction. Indeed, proposals that move to the left could move too far to the left from the right pivotal legislator's perspective. For proposals that move to the right, the right pivotal legislator is sure that the proposal is improving over the status quo.

The two pivotal legislators thus have private incentives to bias their oversight committee members in opposite directions: the left pivotal member biases his over-

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sight committee member to the left and the right pivotal legislator biases his committee member to the right. The legislators are pivotal for different directions of policy changes. These considerations ultimately lead to the equilibrium policy result as presented in Figure 6. For small values of the status quo result, legislator L_L is
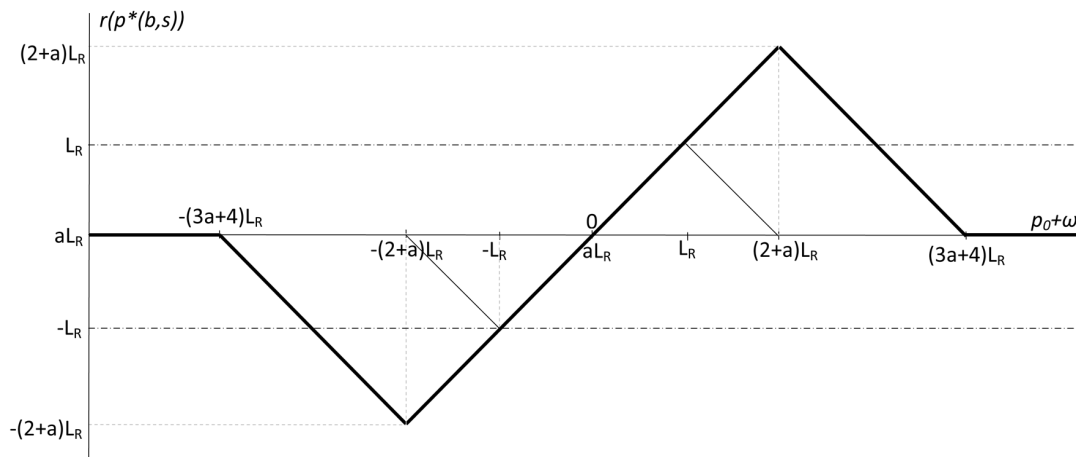

Figure 6: Equilibrium policy result for a moderate agenda setter.

pivotal because policy changes occur in the right direction. Because of his biased oversight committee member, policies are pulled more to the left than under perfect information. For lager values of the status quo result, legislator L_R is pivotal because policy changes happen in the left direction. Again, the biased signal his oversight committee member sends, pulls policies more to the right than under perfect information. As a result, the range of proposals that are ultimately approved are more extreme with biased oversight committees than would be if the legislators were perfectly informed. Paradoxical as it may seem, both legislators prefer the other one to be perfectly informed while receiving a biased signal themselves. Then they could pull proposals more in the direction they are pivotal for, while avoiding extreme policies when the other legislator does the same.

4 Conclusion

In this paper we develop a model that evaluates the strategic considerations involved in the legislature's appointment of an oversight committee as an instrument to monitor an agenda setting committee. This situation is representative of EU external

trade policy. In the EU the Council appoints a TPC to monitor the agenda setting Commission.

We present a game-theoretical model with asymmetric information. Our findings are that Council members have powerful incentives to appoint oversight committee members that have different preferences than themselves. The direction of this bias is in opposite direction of the appointing legislator than is the Commission. The oversight committee member that is appointed by a legislator is biased to the extent that the agenda setter's preferences differ from the legislator's.

In equilibrium we find that legislators only accept a proposal when their respective oversight committee gives a positive signal. Therefore, the agenda setter wants to attract the support of the oversight committee. When the committee is biased, the proposal the agenda setter makes is only marginally improving over the status quo for the oversight committee member, but is much more beneficial from the viewpoint of the legislator. This might account for the noisy information transmission that we referred to in the introduction: legislators must indeed do their best to find out what is happening in the policy making.

In the EU the member states benefit from having a TPC. Not only is reduced uncertainty beneficial for all members, it also ensures that more policies beneficial to a supermajority of members are accepted. Moreover, having a biased oversight committee member ensures that the proposals are not pulled too far away from what a legislator wants.

A   Appendix

The Appendix consists out of the proof for the extreme left and right agenda setter, the optimal level of q_L and the reason behind $q_L \geq -(2 + a)$.

A.1   Proof of Proposition 1

Proof. We divide our analysis of the equilibrium in several sections.

1. We start to look at the equilibrium where C_1 is able to propose its ideal location.

    (a) The first place where it can do so, is if $b < p_0$. If C_1 makes such a proposal, it must mean that $p_0 + \omega > aL_R$. In that situation, all interest are aligned and all players should prefer the ideal point of C_1, which corresponds to $b = aL_R - \omega$,

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so that the result of this proposal is the ideal location of C_1. Since also C_{2L} benefits from this proposal, it sends out a consistent signal $s = \omega = aL_R - b$. Observing $b < p_0$ and $s = aL_R - b$, the legislator accepts b.

(b) There is also another way C_1 could get its ideal location: if this is in the acceptance set of C_{2L} and thus beneficial for all players. This is possible as long as C_{2L} accepts this b over the status quo

$$
\begin{aligned}
|p_0 + \omega, q_L L_R| &> |aL_R, q_L L_R| \\
q_L L_R - p_0 - \omega &> aL_R - q L_R \\
\omega &< (2q_L - a)L_R - p_0
\end{aligned}
$$

So if $\omega < (2q_L - a)L_R - p_0$, C_{2L} will accept $b = aL_R - \omega$ and will give a consistent signal $s = \omega = aL_R - b$. Since $b = aL_R - \omega$, it is so that $\omega = aL_R - b$, such that if the legislators observe

$$
\begin{aligned}
aL_R - b &< (2q_L - a)L_R - p_0 \\
b &> -2(q_L - a)L_R + p_0
\end{aligned}
$$

and a consistent signal, they will accept the proposal.

2. For an ω just larger than $(2q_L - a)L_R - p_0$, it is possible to attract the support of C_{2L} by making a proposal it is indifferent over with respect to the status quo. This is only possible when $p_0 + \omega < q_L L_R$ and results in the following proposal

$$
\begin{aligned}
q_L L_R + |p_0 + \omega, q_L L_R| &= b + \omega \\
2(q_L L_R - \omega) - p_0 &= b
\end{aligned}
$$

This will be the proposal as long as C_{2L} can accept it, so as long as $p_0 + \omega < q_L L_R$, and until $b + \omega = aL_R$, which happens when $\omega = (2q_L - a)L_R - p_0$. Again, C_{2L} is satisfied and gives a consistent signal. This is also a good thing for the legislator, so when he observes a proposal that corresponds with this situation, $b \in (p_0, -2(q_L - a)L_R + p_0)$ and $s = \frac{-(b+p_0)}{2} - q_L L_R$, they will accept the proposal.

3. The only thing left to discuss is what happens for $\omega \in (q_L L_R - p_0, aL_R - p_0)$. In this segment, there is no signal given by C_{2L}, so both legislators know that ω must fall in this interval. There is still room for proposals as long as $p_0 + \omega < -L_R$, as then all player - besides C_{2L} of course - will want a move to the right. However, since setting a proposal b gives also information on the value of ω, C_1 could potentially set a large b to signal a low ω and to fool the legislature. Fooling happens only if C_1 has an incentive to fool: as long as it could not set its ideal point if L_L knew the true value

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of ω

$$\begin{aligned}
p_0 + \omega &> -L_R - |aL_R, -L_R| \\
p_0 + \omega &> -L_R(2 + a) \\
\omega &> -(2 + a)L_R - p_0
\end{aligned}$$

So if $\omega > -(2 + a)L_R - p_0$, the agenda setter has an incentive to fool. It is now easy to see that for all remaining $\omega \in (q_L L_R - p_0, aL_R - p_0)$, C_1 has an incentive to fool the legislature if $q_L \leq -(2 + a)$, since then the legislature knows that - in absence of a consistent signal - $\omega > -(2 + a)L_R - p_0$. As such, it is clear to see that L_L prefers to choose the status quo in the remaining cases, based on the prior. ∎

A.2 Equilibrium with agenda setter to the left

We consider the equilibrium for $q_L \in [1, 2 + a]$. Again, legislator L_L finds that the q_L that is optimal in this interval is optimal in general because any q_L outside the interval is dominated by a q_L inside this interval. Indeed, suppose that the legislators did choose $q_L < 1$ and that the oversight committee member C_{2L} were thus to the left of legislator L_L. Since committee member C_{2L} would then be closer to the agenda setter than is legislator L_L, it would again have an incentive to send a positive signal for proposals that both the agenda setter and itself prefer to the status quo but are not preferred to the status quo by legislator L_L. This in turn leads to lower expected utility for the left pivotal legislator. So, if legislator L_L decides the location of the oversight committee, it appoints a committee member to the right of itself.[13] The proof of the interval's upper bound $2 + a$ is found in Appendix A.4. The equilibrium with an agenda setter to the left is characterized in Proposition 3. The Proposition is explained below. The proof of the Proposition can be found in Appendix A.3.

Proposition 3 *Suppose that the oversight committee is to the legislator's right and the agenda setter is to the legislator's left. The agenda setting committee then obtains its ideal policy, if the oversight committee prefers it to the status quo. By contrast, the status quo prevails, if the agenda setting and oversight committees want to move in different directions away from it. Otherwise the policy that makes the oversight committee indifferent to the status quo is adopted. In particular, an equilibrium with two informed committees, an agenda setting committee and an oversight committee, and a single legislator or a legislature using simple majority rule in which L_L would be the median voter consists of the following*

---

[13]By this we mean an oversight committee with preferences as L_L or preferences to the right of it.

strategies and beliefs:

$$
b^*(\omega) \;=\; \begin{cases} aL_R - \omega & \text{if } \omega \le -p_0 + aL_R \ or \ \omega \ge (2q_L - a)L_R - p_0 \\ 2(q_L L_R - \omega) - p_0 & \text{if } (2q_L - a)L_R - p_0 > \omega \ge q_L L_R - p_0 \\ b \in [aL_R, aL_R - 1] & \text{otherwise} \end{cases}
$$

$$
s_{2L}^*(\omega) \;=\; \begin{cases} \omega & \text{if } \omega \le -p_0 + aL_R \ or \ \omega \ge (2q_L - a)L_R - p_0 \\ \omega & \text{if } (2q_L - a)L_R - p_0 > \omega \ge q_L L_R - p_0 \\ s \in [0,1] & \text{otherwise} \end{cases}
$$

$$
g^*(b,s) \;=\; \begin{cases} aL_R - b & \text{if } b \ge p_0 \ or \ b \le -2(q_L - a)L_R + p_0, \ and \ s_{2L} = aL_R - b \\ -[p_0 + b]/2 - qL_R & \text{if } b \in (-2(q_L - a)L_R + p_0, p_0) \ and \ s_{2L} = \frac{-(b+p_0)}{2} + q_L L_R \\ \omega \in [aL_R - p_0, q_L L_R - p_0] & \text{otherwise} \end{cases}
$$

$$
p^*(b,s) \;=\; \begin{cases} b & \text{if } b \ge p_0 \ or \ b \le -2(q_L - a)L_R + p_0, \ and \ s_{2L} = aL_R - b \\ b & \text{if } b \in (-2(q_L - a)L_R + p_0, p_0) \ and \ s_{2L} = \frac{-(b+p_0)}{2} + q_L L_R \\ p_0 & \text{otherwise} \end{cases}
$$

A.3   Proof of Proposition 3

Proof. This is the proof of Proposition 3. We divide our analysis of the equilibrium in several sections.

1. We start to look at the equilibrium where C_1 is able to propose its ideal location.

    (a) The first place where it can do so, is if $b > p_0$. If C_1 makes such a proposal, it must mean that $p_0 + \omega < aL_R$. In that situation, all interest are aligned and all players should prefer the ideal point of C_1, which corresponds to $b = aL_R - \omega$, so that the result of this proposal is the ideal location of C_1. Since also C_{2L} benefits from this proposal, it sends out a consistent signal $s = \omega = aL_R - b$. Observing $b > p_0$ and $s = aL_R - b$, the legislator accepts b.

    (b) There is also another way C_1 could get its ideal location: if this is in the acceptance set of C_{2L} and thus beneficial for all players. This is possible as long as C_{2L} accepts this b over the status quo

$$
\begin{aligned}
|p_0 + \omega, q_L L_R| &> |aL_R, q_L L_R| \\
-q_L L_R + p_0 + \omega &> -aL_R + q_L L_R \\
\omega &> (2q_L - a)L_R - p_0
\end{aligned}
$$

So if $\omega > (2q_L - a)L_R - p_0$, C_{2L} will accept $b = aL_R - \omega$ and will give a consistent signal $s = \omega = aL_R - b$. Since $b = aL_R - \omega$, it is so that $\omega = aL_R - b$, such

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that if the legislators observe

$$aL_R - b < (2q_L - a)L_R - p_0$$
$$b < -2(q_L - a)L_R + p_0$$

and a consistent signal, they will accept the proposal.

2. For an ω just smaller than $(2q_L - a)L_R - p_0$, it is possible to attract the support of C_{2L} by making a proposal it is indifferent over with respect to the status quo. This is only possible when $p_0 + \omega > q_L L_R$ and results in the following proposal

$$q_L L_R + |p_0 + \omega, q_L L_R| = b + \omega$$
$$2(q_L L_R - \omega) - p_0 = b$$

This will be the proposal as long as C_{2L} can accept it, so as long as $p_0 + \omega < q_L L_R$, and until $b + \omega = aL_R$, which happens when $\omega = (2q_L - a)L_R - p_0$. Again, C_{2L} is satisfied and gives a consistent signal. This is also a good thing for the legislator, so when he observes a proposal that corresponds with this situation, $b \in (-2(q_L - a)L_R + p_0, p_0)$ and $s = \frac{-(b + p_0)}{2} - q_L L_R$, they will accept the proposal.

3. The only thing left to discuss is what happens for $\omega \in (aL_R - p_0, q_L L_R - p_0)$. In this segment, there is no signal given by C_{2L}, so both legislators know that ω must fall in this interval. There is still room for proposals as long as $p_0 + \omega > -L_R$, as then all player - besides C_{2L} of course - will want a move to the left. However, since setting a proposal b gives also information on the value of ω, C_1 could potentially set a small b to signal a large ω and to fool the legislature. Fooling happens only if C_1 has an incentive to fool: as long as it could not set its ideal point if L_L knew the true value of ω

$$p_0 + \omega < -L_R - |aL_R, -L_R|$$
$$p_0 + \omega < -L_R(2 + a)$$
$$\omega < -(2 + a)L_R - p_0$$

So if $\omega < -(2 + a)L_R - p_0$, the agenda setter has an incentive to fool. It is now easy to see that for all remaining $\omega \in (aL_R - p_0, q_L L_R - p_0)$, C_1 has an incentive to fool the legislature if $q_L \geq 2 + a$, since then the legislature knows that - in absence of a consistent signal - $\omega < -(2 + a)L_R - p_0$. As such, it is clear to see that L_L prefers to choose the status quo in the remaining cases, based on the prior. ■
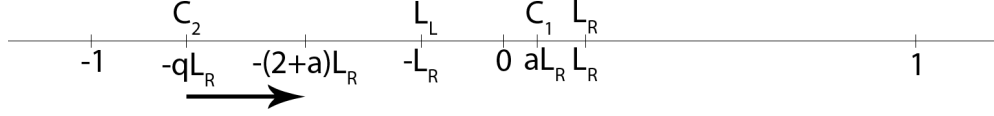
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Figure 7: Representation of the $q > 2 + a$ case

A.4 Proof of lower bound q_L

Proof. In this section, we will discuss what happens in the models if $q_L < -(2 + a)$. In the hypothesized equilibrium, most remains the same as in the previous case. So if the legislature observes that the non-agenda setting committee gives an inconsistent ω, it knows that $\omega \in (-(2 + a)L_R, -L_R)$. Yet it becomes possible to submit a non-fooling proposal, for $-qL_R < p_0 + \omega < -(2+a)L_R$, as displayed in Figure 7. So first we look at for which values of ω that C_1 will want to cheat. This is when the agenda setting committee would not be able to set its ideal policy if L_L knew the value of ω.

$$p_0 + \omega \ > \ -L_R - |-L_R, aL_R| \Rightarrow p_0 + \omega > -L_R - (aL_R + L_R)$$
$$\Leftrightarrow \omega \ > \ -(2 + a)L_R - p_0$$

Therefore, as we have discussed before, if $q_L < -(2 + a)$, there exists a value of ω that has not yet been signaled by the oversight committee for which the agenda setter doesn't need to cheat. So the next question is which proposals could only be made if $\omega < -(2+a)L_R - p_0$. It is clear that this is when

$$|b + \omega, aL_R| \geq |p_0 + \omega, aL_R| \ \Rightarrow \ b + \omega - aL_R \geq aL_R - p_0 - \omega$$
$$\Leftrightarrow \ b + 2(-(2 + a)L_R - p_0) \geq 2aL_R - p_0$$
$$\Leftrightarrow \ b \geq 4(1 + a)L_R + p_0$$

However, these proposals constitute a credible commitment on behalf of the agenda setter. It commits to a large proposal to signal that ω is low. But this signal is expensive for both the agenda setter as the legislator, since both would prefer a proposal more to the left. Therefore the left legislator L_L prefers to set $q_L = -(2 + a)$ over any $q_L < -(2 + a)$: it leads to a proposal that is at maximum as far away from the legislator as the the agenda setter's ideal, whereas as non-fooling proposal would always be at or beyond the agenda setter's ideal. ∎

A.5 Proof of Proposition 2

Proof. We first discuss what happens if there is an extreme right agenda setting committee. To calculate the optimal position of C_{2L} from L_L's viewpoint, we first look at his expected

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utility in terms of q_L:

$$
\begin{aligned}
EU_{L_L} \;=\; & \int_0^{(2q_L-a)L_R-p_0} -((1+a)L_R)^2 f(\omega)d\omega \\
& + \int_{(2q_L-a)L_R-p_0}^{q_L L_R-p_0} -(2q_L L_R - p_0 - \omega + L_R)^2 f(\omega)d\omega \\
& + \int_{q_L L_R-p_0}^{-p_0+aL_R} -(p_0 + \omega + L_R)^2 f(\omega)d\omega \\
& + \int_{-p_0+aL_R}^{1} -((1+a)L_R)^2 f(\omega)d\omega
\end{aligned}
$$

After taking the first derivative and solving for q_L, we find that the utility maximizing q_L^* for L_L is $q_{L_L}^* = -(2+a)$.

We now discuss what happens if there is an extreme left agenda setting committee. To calculate the optimal position of C_2 from L_L's viewpoint, we first look at his expected utility in terms of q_L:

$$
\begin{aligned}
EU_{L_L} \;=\; & \int_0^{-p_0+aL_R} -(aL_R + L_R)^2 f(\omega)d\omega \\
& + \int_{-p_0+aL_R}^{q_L L_R-p_0} -(L_R + p_0 + \omega)^2 f(\omega)d\omega \\
& + \int_{q_L L_R-p_0}^{(2q_L-a)L_R-p_0} -(2q_L L_R - p_0 - \omega + L_R)^2 f(\omega)d\omega \\
& + \int_{(2q_L-a)L_R-p_0}^{1} -(aL_R + L_R)^2 f(\omega)d\omega
\end{aligned}
$$

Next we look for the value of q_L that maximizes this expression. After taking the first derivative and solving for q_L, we find that the utility maximizing q_L^* for L_L equals $q_{L_L}^* = -(2+a)$. ∎

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