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The Role of Oversight Committees in Closed Rule Legislation[*]

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Abstract

We formulate a game-theoretical model of closed rule legislation in the presence of informational asymmetries. In the model an agenda setter with private information proposes a policy to a legislature. The legislature appoints an oversight committee to monitor the agenda setter. We study the rationale for this appointment, and analyze the equilibrium oversight committee member choices for the legislators. We conclude that it is optimal for the legislators to appoint oversight committee members who are as far from them as is the agenda setter, but in the opposite direction, rather than do the monitoring themselves. The appointment of such oversight committee members represents a credible means for the legislators to commit to reject proposals that they only marginally prefer to the status quo.

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

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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 they set up committees to study specific policy domains. They often use closed rule procedures to provide these bodies with incentives to specialize. However, the delegation of authority can give rise to moral hazard problems. Therefore this relationship is often portrayed as a principal-agent relationship.

To regain control over their agents, the principals have several tools at their disposal. Peress (2009) showed that among those tools is the requirement to employ supermajority rule. If an agenda setter is powerful, the median legislator may prefer to consider the agenda setter's proposal under supermajority rather than simple majority rule. In doing so, the median legislator appoints additional veto players that are more extreme than himself. He thus creates a credible commitment to reject proposals that he is indifferent over relative to the status quo and obtains a policy he prefers more. In this paper we argue that under asymmetric information legislators can achieve similar results by appointing an oversight committee. By using an oversight committee, a committee without veto rights, that acts as an information transmitter, legislators can credibly commit to reject marginally improving proposals.

One example of legislative delegation with an oversight committee is trade policy making in the European Union (EU).[1] Authors such as Damro (2007) and Kerremans (2003) argue that delegation in EU external trade policy takes place at two levels. First, there is delegation of authority from the member state governments to the legislative members in the Council.[2] Second, there is delegation from the Council members to the Commission: the Commission negotiates trade agreements and drafts trade policy proposals (Meunier & Nicolaïdis, 2006).[3] The Council then considers the Commission's proposals under supermajority rule, which is called qualified majority rule in the EU.

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[1] For an analysis of delegation in the EU in general, see Franchino (2005). For formal analyses of EU policy making see, for example, Crombez (1996) and (1997).

[2] The Council is one of the EU's two main legislative bodies. It is an intergovernmental body that consists of one representative per member state.

[3] The Commission is the EU's executive body, and it has monopoly proposal rights in the legislative process.

Even though the Commission's dominant role in trade policy making renders trade one of the most supranational policy areas in the EU, Aggarwal and Fogarty (2004), De Bièvre and Dür (2005) and Meunier (2005) also stress the important role of the member states by pointing out the many tools at their disposal to control the Commission. The monitoring tool that relates to this paper is the Trade Policy Committee (TPC).[4] The TPC 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. This information may give the Commission an opportunity to alter its proposals and get them adopted in the Council. Second, the TPC directly monitors the Commission for the Council and transmits information to it.

While the first function is rather clear and has been elaborately discussed in the literature, less is known about the mechanism of monitoring. Most authors limit themselves to stating that the principal monitors the agent via the TPC. The reality is somewhat more complex, that is, the member states in the Council *delegate* the authority to monitor the Commission to the TPC.

In this paper we focus on the delegation of monitoring. Since legislators appoint the members of the oversight committee, they can manipulate this committee's preferences and by consequence the credibility of the information the committee transmits. If the Council appoints a TPC with the same preferences as itself, noiseless information transmission between the TPC and the Council can be expected. Yet the noisy information stream observed by Damro (2007) suggests that more may be at play: a Commission official, who was interviewed by him, 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 trade 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*. The noise could be the result of the TPC's incomplete information or of its strategic use of information. In this paper we study the latter source of noise.[5]

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[4]Before the adoption of the Lisbon Treaty this committee was know as the Article 133 Committee. Article 133 has now become Article 207. It states that the Commission has to report regularly to, and consult with, a special committee established by the Council.

[5]On trade issues the median legislator in the Council thus arguably uses two mechanisms to commit to reject marginally improving deals: supermajority rule and an oversight committee. In this paper we focus on the pivotal legislators and their incentives to appoint oversight committee members.' I think we need to add such a sentence, because it is an obvious comment to make, and readers may be confused otherwise (they may still be) by the use of supermajority rule in the model and Peress points we refer to.

We present a general model of delegation in which an agenda setter is monitored by an oversight committee, both the agenda setter and the oversight committee have perfect information, and the legislature considers the agenda setter's proposals under closed rule. We can 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, we focus on the oversight role the TPC fulfills and on the Council's strategic considerations in the delegation of monitoring.

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 setter 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 setter. In addition we incorporate important features of EU trade policy making into our model, such as voting by supermajority rule in the legislative body. In the EU the Council, the Commission and the TPC play the roles of legislature, agenda setter and oversight committee, respectively.[6]

We find that the legislators choose to appoint oversight committee members that have preferences different from their own. In particular they appoint members who are as far away from them as is the agenda setter, but in the opposite direction. Legislators thus prefer not to have perfect information on the consequences of policies, but rather let a strategic information transmitter signal these consequences to them. Thus they create a credible commitment to refuse proposals that are preferred to the status quo by the agenda setter, but represent only a marginal improvement for them. As a result the agenda setter proposes policies the pivotal legislators prefer to the proposals she would make in the absence of oversight or if the legislators were perfectly

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[6]When applied to the EU the model focuses on decision making within the EU. It can be extended, however, by including a non-EU country and assuming it plays a role in the formulation of a trade agreement. In equilibrium this country would take into account the preferences of the TPC and Council members, as does the Commission. In turn the member states would take into account the country's preferences when appointing the TPC, as they take the Commission's preferences into account. The conclusions of our model would thus not be fundamentally different if a non-EU country were included in the model. Moreover, we ignore the Parliament's role in the process. Including the Parliament in the model would merely add another veto player. The Commission would take its preferences into account, as it takes the preferences of the pivotal TPC and Council members into account.

informed. Obtaining a closer policy compensates for informational inefficiencies the legislators suffer compared to having perfect information. The distributional losses the legislators incur as a result of the use of a closed rule, as observed by Gilligan and Krehbiel (1989), can be reduced when the legislators can strategically choose the oversight committee members. The legislators can give the agenda setter incentives to specialize by using a closed rule, while reducing the distributional losses by appointing oversight committee members who are farther away from the agenda setter than they are themselves.

In section two we introduce and discuss a perfect information model of a closed rule procedure with oversight committee. Section three presents the asymmetric information model that is the main focus of our paper, and analyzes the policy making process. Section four focuses on the appointment of the oversight committee. We present conclusions in section five.

2   A perfect information model

First we consider just two institutions: a legislature and an agenda setter. 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 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 p_x derives utility $U_x(p) = -(p - p_x)^2$ from policy p. The legislature uses supermajority rule. As a result we can simplify the analysis by focusing on the two legislators L and R who are pivotal under supermajority rule. Legislator L is to the left of legislator R, and is pivotal for a move to the right. Legislator R is pivotal for a move to the left. The agenda setter A is a unitary actor.

For simplicity and without loss of generality we normalize the one-dimensional policy space such that the average ideal policy result of the two legislators is equal to zero: $\frac{L+R}{2} = 0$, as illustrated in Figure 1. The ideal policy result of legislator R is set equal to the value R. The ideal policy result of legislator L is then equal to $-R$. The ideal policy result of the agenda setter A is assumed to be equal to aR with $a \in \mathbb{R}$. Variable a is then a measure of how extreme the agenda setter is relative to the legislature. We refer to an agenda setter with a in the interval $[-1, 1]$ as moderate because her preferences are located between the ideal policies of legislators L and R. When her level of extremeness lies outside this range, she is considered extreme.
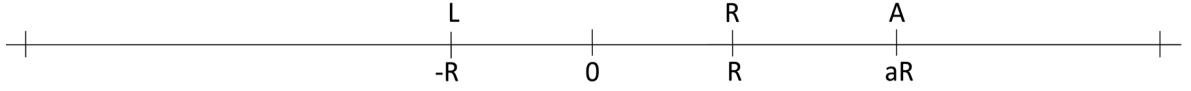
Figure 1: Perfect information and no oversight committee.

The sequence of events under perfect information is as follows. In the first stage the agenda setter drafts a proposal. In the second and final stage the legislators vote on the proposal. If both pivotal legislators vote in favor, the proposal is adopted and becomes policy. Otherwise the status quo prevails. The relevant equilibrium concept is subgame perfection.

In equilibrium, the agenda setter successfully proposes the policy she prefers most from among the policies both pivotal legislators prefer to the status quo q. The equilibrium thus depends on the location of the status quo, as can be seen in Figure 2. In interval **I**, all legislators prefer the agenda setter's ideal over the status quo. As a result the agenda setter successfully proposes her own ideal. In interval **II**, the left pivotal legislator L no longer prefers the agenda setter's ideal over the status quo. So the agenda setter offers as a proposal the policy $-2R - q$ that makes legislator L indifferent to the status quo. In interval **III**, the status quo prevails because the three actors do not all want to move away from the status quo in the same direction. In interval **IV**, they all prefer the agenda setter's ideal over the status quo, so the agenda setter successfully proposes her own ideal.

Assume next that the legislators appoint an oversight committee C. In particular, each legislator appoints one oversight committee member. Legislators L and R appoint members C_L and C_R, respectively. The ideal policy result of oversight committee members C_L and C_R are equal to $d_L R$ and $d_R R$, respectively, with d_L, $d_R \in \mathbb{R}$. Variables d_L and d_R measure how extreme the committee members are relative to the legislature. Figure 3 depicts a situation with extreme oversight committee members and an extreme agenda setter.

The function of the oversight committee members is to advise the legislators on whether to accept the proposal made by the agenda setter. Because there is perfect information, however, they have no influence on policy making if the legislators cannot credibly commit to follow their advice.
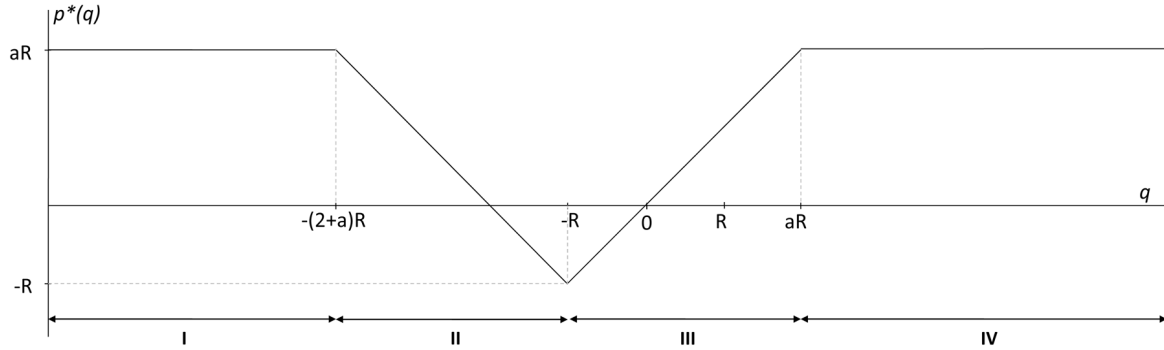
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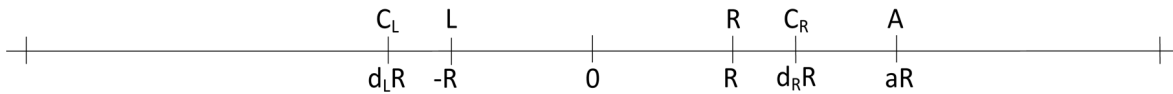Figure 2: The equilibrium under perfect information without oversight.

Figure 3: An extreme agenda setter and extreme oversight committee members.

Assume that the legislators *are* able to credibly commit to follow the advice given by their respective oversight committee members. What committee member should a legislator appoint? Under perfect information, legislators know their position relative to the status quo before they appoint their oversight committee members. For status quos to the left of legislator L, and an agenda setter to the right of R, legislator L is pivotal. However, as we can see in Figure 2, without being able to commit to vote against proposals that make him indifferent to the status quo, legislator L stands to gain little in the policy making process in interval **II**. By appointing an oversight committee member C_L who can act as a veto player and whose ideal result is at the midpoint between the status quo and his own ideal result, $d_L R = \frac{-R+q}{2}$, legislator L can get the agenda setter to make a proposal much more profitable for him. Indeed, for all status quos to the left of legislator L, the legislator can obtain his ideal by appointing such a veto player. For legislator R it is optimal to appoint an oversight committee member as if he were pivotal, even though he is not.

Committing to follow the oversight committee member's advice amounts to giving him veto rights. This is equivalent to a scenario without oversight committee but with a legislature that uses supermajority rule. Peress (2009) demonstrates that

by adding supermajority requirements the median legislator can reduce the agenda-setter's powers and obtain policies that he prefers. In the following section we show that in an asymmetric information model, legislators can obtain the same result without giving oversight committee members veto rights or using a stricter majority rule.

3   An asymmetric information model

In this section we introduce asymmetric information with regards to the consequences of policy. The oversight committee members monitor the agenda setter and transmit information about the consequences of policy to the legislators.

Actors have preferences over policy *results* rather than policies as such. The result of policy p is represented by $r(p) = p + \omega$, where ω represents an external shock that is uniformly distributed over the unit interval, $\omega \sim U[0,1]$. Whereas all players know the distribution of the shock, the actual realization of ω is knowledge that can only be obtained by specializing.

We assume, following Gilligan and Krehbiel (1987, 1989), that the cost of specialization is sufficiently low for the agenda setter to specialize in equilibrium. We further assume that the information obtained by specialization can be perfectly inferred by monitoring. As such oversight committee members acquire perfect information without engaging in costly research[7]. To ensure that the intervals identified in the equilibria are within the unit interval we impose the following purely technical restrictions: $(1+a)R < 1/4$ and $R < 1/8$.

The sequence of events in the policy making process is as follows. In the first stage the agenda setter and the oversight committee members learn the value of the external shock ω. In the second stage the agenda setter drafts a proposal b. Moreover, the oversight committee members C_L and C_R simultaneously send out private signals s_L and s_R, respectively, to their respective legislators on the value of the external shock ω. These signals are continuous variables that can be interpreted as the reported values of ω. A signal is said to be *consistent* if the value of the shock, as reported by the oversight committee member, matches with the value of the shock that the agenda setter's proposal suggests. In the final stage legislators L and R vote

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[7]In reality the oversight committee members may acquire only a fraction of the information the agenda setting committee has. We assume, however, for simplicity, that both committees have the same information.

on the proposal. The legislators do not observe the shock ω, but they observe the bill b and the signal of their oversight committee member, s_L or s_R. If both the legislators accept the bill, the policy is adopted. Otherwise the status quo prevails.

During the policy making process the variables a, d_L and d_R are exogenous. The equilibrium concept used is perfect Bayesian. The equilibrium characterizes agenda setter A's equilibrium proposal strategy $b^*(\omega)$, oversight committee members C_L and C_R's equilibrium signaling strategies $s_L^*(\omega)$ and $s_R^*(\omega)$, the equilibrium beliefs $g_L^*(b, s_L)$ and $g_R^*(b, s_R)$ of the legislators, and the legislators' voting strategies $v_L^*(b, s_L)$ and $v_R^*(b, s_R)$. The equilibrium policy is policy $p^*(b, s_L, s_R, v_L, v_R)$.

Variable a is fixed throughout the entire game. For simplicity we assume that the agenda setter is to the right of the midpoint between the two legislators, that is, $a > 0$. The analysis for an agenda setter to the left of the midpoint is analogous. Variables d_L and d_R are chosen during the appointment process. A change in these values can yield a different type of equilibria in the policy making process. However, certain types of equilibria make more sense than others. We discuss the equilibrium for $d_L \in [-(2 + a), -1]$ and $d_R \in [(2 - a), 1]$. This means that each oversight committee member is to the opposite side of the legislator who appointed him, but not farther away from that legislator than is the agenda setter. We do not discuss the equilibria in the policy making process for other values of the variables d_L and d_R, that is, for other locations of the oversight committee members, because it is easy to see that the legislators would not appoint such oversight committee members in equilibrium.

First, a legislator would not appoint an oversight committee to the same side of him as the agenda setter. He strictly prefers to appoint an oversight committee member with the same preferences as himself. Suppose for instance that legislator L chooses $d_L > -1$ and that the oversight committee member C_L is thus to the legislator's right. If the oversight committee member is to the agenda setter's right, the signal the oversight committee member sends is clearly less trustworthy than the information the legislator derives from the proposal the agenda setter makes. If the oversight committee member is located between the legislator and the agenda setter, the legislator does not trust a signal by his committee member. Since committee member C_L is then closer to the agenda setter than is legislator L, he 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_L may signal to accept a proposal, while the legislator prefers the status quo. Furthermore, for those values of the status quo result for 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's

viewpoint. The legislator thus prefers to be perfectly informed by a committee member with $d_L = -1$ rather than by a committee member with $d_L > -1$. The analysis for d_R and legislator R is similar.

Second, appointing an oversight committee member who is farther away from him than is the agenda setter is not optimal for a legislator either. The signal the legislator receives from the oversight committee member is then less trustworthy than is the information he derives from the agenda setter's proposal. Therefore he prefers a committee member who is more to the right, and closer to himself. The formal proof of this can be found in Appendix A.3.

The equilibria we discuss in the policy making process are extensions of Gilligan and Krehbiel's closed rule model for heterogeneous committees (1989). These are better suited for our analysis than equilibria in other information models in the literature. A first set of such equilibria are those in which no information is transmitted by the oversight committee members, and the agenda setter and legislators ignore the oversight committee members' signals. The legislators then rely on the proposal b offered by the agenda setter as the only source of information. This situation corresponds to Gilligan and Krehbiel's closed rule model with a homogenous committee (1987). They show that in such models, the agenda setter can make a proposal that is certain to benefit the legislators only if ω is very large or very small. Moreover, for certain values of ω the agenda setter makes a proposal that is inferior for both himself and the legislators, to signal that ω is indeed very low or very high. This situation is clearly less beneficial for all players than when there is additional information from the oversight committee members. In the 1989 closed rule model, on which our model is based, agenda setters are able to successfully propose a policy for more values of ω. Moreover, the agenda setter doesn't have to make an inferior proposal to signal that ω is very low or very high, because the oversight committee members provide additional information about ω that legislators can use.

A second set of alternative equilibria are presented by Krishna and Morgan (2001). They propose an equilibrium in which a legislator chooses the status quo if the signal by the exogenous oversight committee, s, plus the agenda setter's proposal, b, does not equal the legislator's ideal. In equilibrium the oversight committee member truthfully reports the value of ω, so that $s = \omega$, and the agenda setter makes a proposal that results in the legislator's ideal. Only if the oversight committee member or the agenda setter do not prefer the legislator's ideal over the status quo result, a compromise proposal that deviates from the legislator's ideal is made in

that player's direction to attract his support. In Krishna and Morgan's model the oversight committee's location is exogenous.

In this paper we let legislators choose their oversight committee member. In Krishna and Morgan's equilibria, the legislator prefers oversight committee members closer to his ideal, because he wants to avoid situations where a compromise proposal is made. The incentive to appoint oversight committee members closer to the legislator leads to the situation in which the legislator appoints an oversight committee member with the same preferences as himself. As a consequence the legislator is perfectly informed by the oversight committee member about the consequences of policy. However, when there is perfect information, the legislator can no longer credibly commit to refuse proposals that are different from his ideal. If the legislator prefers a proposal over the status quo, he accepts it. The agenda setter knows this and therefore proposes her own ideal policy. So, while equilibria as in Krishna and Morgan (2001) are more efficient in transmitting information, the Gilligan and Krehbiel (1989) equilibria are better suited for the study of endogenous oversight committees.

3.1   Policy making with an extreme agenda setter

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

Proposition 1 *The agenda setter obtains her ideal policy result, if both oversight committee members prefer it to the status quo result. By contrast, the status quo result prevails, if the agenda setter and at least one of the oversight committee members want to move in opposite directions away from the status quo result. Otherwise the policy that makes the oversight committee member furthest away from the agenda setter indifferent to the status quo is adopted. In particular, an equilibrium with an informed agenda setter and two informed oversight committee members, and a legislative body that uses supermajority rule consists of the following strategies and beliefs:*

The equilibrium proposal strategy:
$$b^*(\omega) = \begin{cases} aR - \omega & \text{if } \omega \geq -q + aR \text{ or } \omega \leq (2d_L - a)R - q \\ 2(d_L R - \omega) - q & \text{if } (2d_L - a)R - q < \omega \leq d_L R - q \\ b \in [aR - 1, aR,] & \text{otherwise} \end{cases}$$

The equilibrium signalling strategies:

$$s_L^*(\omega) = \begin{cases} \omega & \text{if } \omega \geq -q + aR \text{ or } \omega \leq (2d_L - a)R - q \\ \omega & \text{if } (2d_L - a)R - q < \omega \leq d_L R - q \\ s_{2L} \in [0,1] & \text{otherwise} \end{cases}$$

$$s_R^*(\omega) = \begin{cases} \omega & \text{if } \omega \geq -q + aR \text{ or } \omega \leq (2d_R - a)R - q \\ \omega & \text{if } (2d_R - a)R - q < \omega \leq d_R R - q \\ s_R \in [0,1] & \text{otherwise} \end{cases}$$

The equilibrium beliefs:

$$g_L^*(b, s_L) = \begin{cases} aR - b & \text{if } b \leq q \text{ or } b \geq -2(d_L - a)R + q \\ & \text{and } s_L = aR - b \\ -[q + b]/2 - d_L R & \text{if } b \in (q, -2(d_L - a)R + q) \\ & \text{and } s_{2L} = \frac{-(b+q)}{2} + d_L R \\ \omega \in [d_L R - q, aR - q] & \text{otherwise} \end{cases}$$

$$g_R^*(b, s_R) = \begin{cases} aR - b & \text{if } b \leq q \text{ or } b \geq -2(d_L - a)R + q \\ & \text{and } s_R = aR - b \\ -[q + b]/2 - d_R R & \text{if } b \in (q, -2(d_L - a)R + q) \\ & \text{and } s_R = \frac{-(b+q)}{2} + d_L R \\ \omega \in [d_R R - q, aR - q] & \text{otherwise} \end{cases}$$

The equilibrium voting strategies:

$$v_L^*(b, s_L) = \begin{cases} 1 & \text{if } b \leq q \text{ or } b \geq -2(d_L - a)R + q \\ & \text{and } s_L = aR - b \\ 1 & \text{if } b \in (q, -2(d_L - a)R + q) \\ & \text{and } s_L = \frac{-(b+q)}{2} + d_L R \\ 0 & \text{otherwise} \end{cases}$$

$$v_R^*(b, s_R) = \begin{cases} 1 & \text{if } b \leq q \text{ or } b \geq -2(d_L - a)R + q \\ & \text{and } s_R = aR - b \\ 1 & \text{if } b \in (q, -2(d_L - a)R + q) \\ & \text{and } s_R = \frac{-(b+q)}{2} + d_L R \\ 0 & \text{otherwise} \end{cases}$$

And the equilibrium policy is:

$$p^*(b, s_L, s_R, v_L, v_R) = \begin{cases} b & \text{if } b \leq q \text{ or } b \geq -2(d_L - a)R + q \text{ and } s_L = \frac{-(b+q)}{2} + d_L R \\ b & \text{if } b \in (q, -2(d_L - a)R + q) \text{ and } s_L = \frac{-(b+q)}{2} + d_L R \\ q & \text{otherwise} \end{cases}$$

The solid line in Figure 4 displays an example of the equilibrium with an extreme agenda setter and an oversight committee member C_L who is equidistant from the legislator as is the agenda setter, that is $d_L = -a$.[8] On the horizontal axis the policy

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[8]The choice of legislator L_R's oversight committee member does not have an impact the equilibrium for all possible $d_R \in (2 - a, 1)$.

result of the status quo, $q + \omega$, is displayed. On the vertical axis the equilibrium policy result can be found.
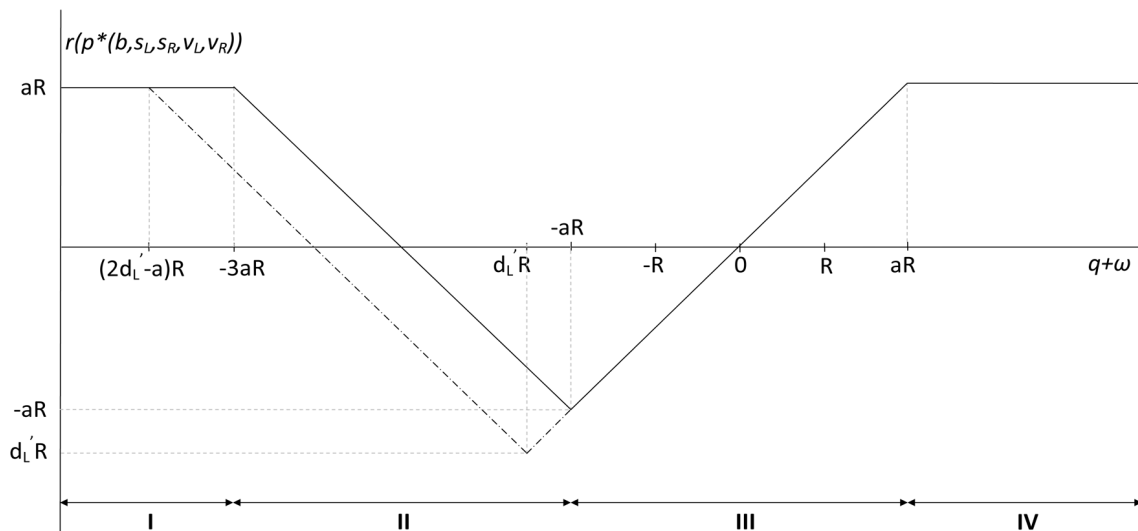

Figure 4: The equilibrium policy result with an extreme agenda setter.

For very small and very large values of ω (in intervals **I** and **IV** respectively) the agenda setter is able to obtain her ideal policy result aR. More specifically, the agenda setter successfully proposes $aR - \omega$ as policy when $\omega \geq -q + aR$ and when $\omega \leq (2d_L - a)R - q$. In those situations the oversight committee member prefers the agenda setter's ideal policy result to the status quo result. The oversight committee members then truthfully report the correct value of ω to their legislators. The legislators know that the proposal is better for them than is the status quo and vote in favor of the proposal. In interval **II**, where $(2d_L - a)R - q < \omega \leq d_L R - q$, the agenda setter cannot attract the support of both oversight committee members by proposing her ideal policy, because oversight committee member C_L prefers the result of the status quo. Therefore she seeks the support of this oversight committee member by proposing the policy that makes the oversight committee member C_L indifferent to the result of the status quo. Again, both oversight committee members then report the correct value of ω to their legislators, and these legislators vote in

favor of the proposal. For all other values of ω, in interval **III**, oversight committee member C_L is not willing to give a consistent signal because he prefers a move to the left, whereas the agenda setter desires a move to the right. The agenda setter then is unable to signal to the left legislator whether the proposal is beneficial for him. In the absence of any further information, the left legislator prefers the status quo over any proposal that the agenda setter can make. As a result the status quo prevails in interval **III**.

The broken line in Figure 4 also illustrates the equilibrium policy for a somewhat more extreme ($d'_L < -a$) oversight committee member for the left legislator. There are two important consequences of the left legislator's appointment of a more extreme oversight committee member. First, the agenda setter is able to achieve her ideal policy result for fewer status quos. In the Figure we can see this by noting that interval **I** is smaller under $d''_L < -a$ than under $d_L = -a$. This is due to the fact that in equilibrium the agenda setter needs to seek the support of the more extreme oversight committee member. She does this by offering the oversight committee member C_L a policy that is sufficiently to the left so that he will send out a consistent signal ω. This induces legislator L to accept the proposal.

Second, there is less information transmission by the left legislator's oversight committee member. He will refuse to send out a consistent signal 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 by noting that interval **III** is larger for $d'_L < -a$ than it is for $d_L = -a$.

3.2 Policy making with a moderate agenda setter

We now consider an agenda setter who is located between the two legislators ($a \in [-1, 1]$). For simplicity we continue to assume that the agenda setter is to the right of the midpoint between the two legislators. The analysis for an agenda setter to the left of the midpoint is analogous.

The equilibrium for a moderate agenda setter is similar to the equilibrium with an extreme agenda setter and is characterized in Appendix A.2. Figure 5 illustrates the equilibrium with a moderate agenda setter and with two types of oversight committee members C_L and C_R.

Let us first discuss the equilibrium by focusing on the solid line. This line represents the equilibrium with oversight committee members that are equally far away from their legislators than is the agenda setter ($d_L = -(2+a)$ and $d_R = (2-a)$). For
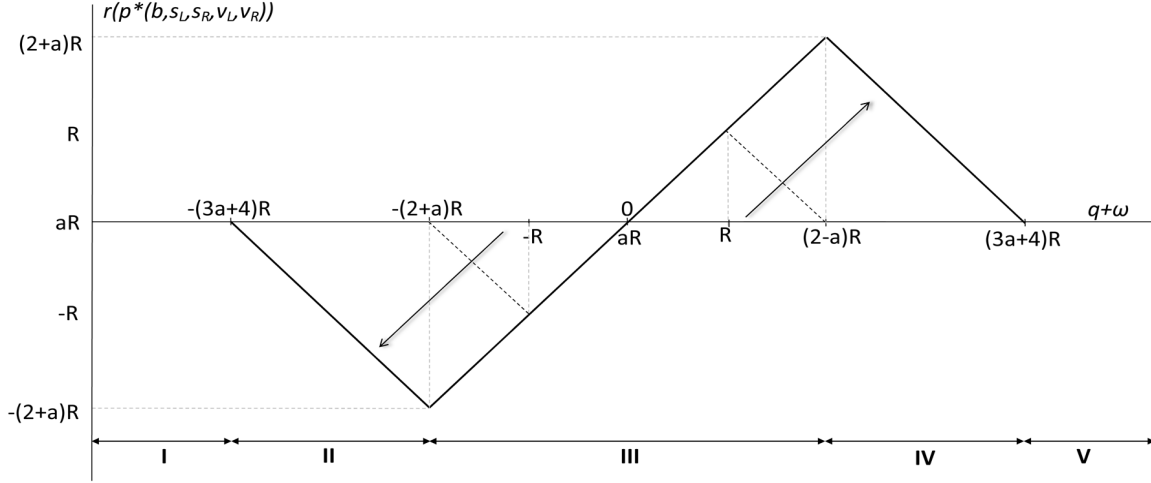
Figure 5: The equilibrium policy result with a moderate agenda setter.

very small and very large values of ω (in intervals **I** and **V** respectively) the agenda setter is able to obtain her ideal policy result aR, because the oversight committee members prefer it to the status quo result. For values of $\omega \leq (2d_L - a)R - q$ and $\omega \geq (2d_R - a)R - q$ the agenda setter's ideal policy result is attractive enough for the oversight committee members to report the correct value of ω to their legislator L. The legislators then know that the proposal is better for them than is the status quo and vote in favor of it. In interval **II**, where $(2d_L - a)R - q < \omega \leq d_L R - q$, the agenda setter cannot attract the support of oversight committee C_L by proposing her ideal policy, because oversight committee member C_L prefers the result of the status quo. Therefore she seeks the support of this oversight committee member by proposing the policy that makes the oversight committee member C_L indifferent to the result of the status quo. Both oversight committee members then send a consistent signal and the legislators approve the proposal. In interval **III** the status quo prevails. Either oversight committee member C_L or oversight committee member C_R is not willing to give a consistent signal because he prefers a move in one direction of the status quo, whereas the agenda setter desires a move to the other side. The agenda setter is unable to signal to both legislators that the proposal is beneficial for them. At least one of the legislators prefers the status quo over any proposal that the agenda setter can make and votes against. As a result the status quo prevails. Finally, in interval **IV**, when $d_R R - q < \omega \leq (2d_R - a)R - q$, the agenda setter is able to attract the support of oversight committee member C_R by proposing the policy that makes

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him indifferent to the status quo. Both oversight committee members then send a consistent signal, the legislators vote in favor of the proposal, and the proposal is adopted.

The broken line in Figure 5 represents what happens if the oversight committee members have the same preferences as their respective legislators, so $d_L = -1$ and $d_R = 1$. The Figure illustrates that as the legislators appoint more extreme oversight committee members, the equilibrium policy becomes more extreme as well.

Variables d_L and d_R influence *different* segments of the equilibrium policy result. The arrow towards the lower left corner shows how legislator L's choice of d_L influences the equilibrium policy result, whereas the arrow towards the upper right corner shows legislator R's influence by choosing d_R. In other words, the left legislator can influence the equilibrium policy results for small values of the status quo result, whereas the right legislator can influence the equilibrium policy result for larger status quos. So if legislator L appoints an extreme oversight committee member C_L with $d_L = -(2 + a)$ and legislator R appoints oversight committee member C_R with the same preferences as himself, with $d_R = 1$, the equilibrium policy result is indicated by the solid line in intervals **II** and in interval **III** up to $q + \omega = R$, and by the broken line in the remainder of interval **III**.

In the next section we discuss the optimal oversight committee member choices for the legislators.

4   The oversight committee appointment

In this section we show that it is optimal for the legislators to appoint committee members with preferences different from their own. Their distributional gains are then larger than the informational cost of appointing such oversight committee members. Contrary to what one might expect, legislators prefer not to have perfect information with regards to the consequences of policy, but to let a strategic committee member transmit this information to them.

In our model each legislator chooses his own oversight committee member, and this member's signal is only visible to the legislator who appointed him. An oversight committee member's signal thus does not have any impact on the other legislator. Therefore, the legislators appoint the same oversight committee members as they would if they were the only legislator in the policy making process.

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Let d_L^* denote legislator L's optimal choice and let d_R^* denote legislator R's optimal choice. Proposition 2 characterizes these optimal choices. The proofs can be found in Appendix A.4.

Proposition 2 *Legislators L and R choose oversight committee members C_L and C_R who are equally far away from them as is the agenda setter, but in the other direction. If the agenda setter is to a legislator's right, that legislator thus appoints an oversight committee member to his left. The optimal level of extremeness for legislator L is $d_L^* = -(2 + a)$ and the optimal level for legislator R is $d_R^* = 2 - a$.*

First we illustrate that it is indeed worthwhile for legislator L to source out monitoring to an oversight committee member who is farther away from the agenda setter.[9] The solid line in Figure 6 shows how far the equilibrium policy result is from legislator L's ideal policy as a function of the location of the status quo result, if legislator L appoints an oversight committee member with $d_L = -(2 + a)$. The horizontal axis displays the status quo result $q + \omega$. The vertical axis measures the distance between the result of the equilibrium policy $p^*(b, s_L, s_R, v_L, v_R)$ and the legislator's ideal, $|r(p^*(b, s_L, s_R, v_L, v_R)) - L|$. Legislator 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.
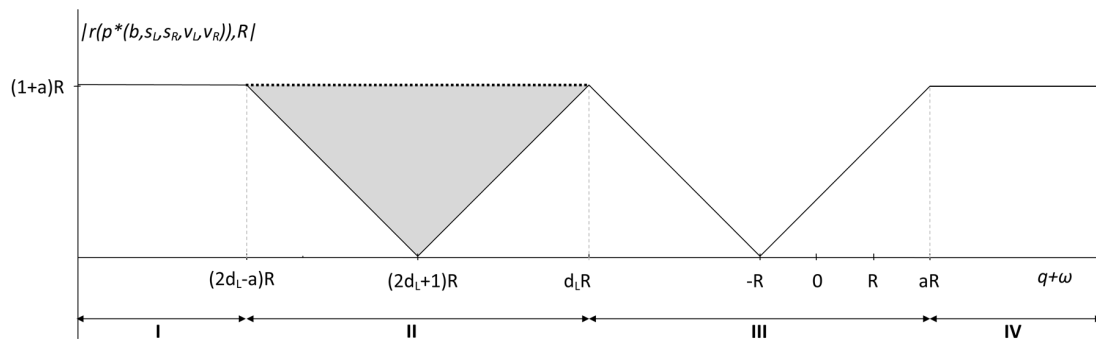

Figure 6: The gains to legislator L from outsourcing monitoring to an ideal oversight committee member with $d_L = -(2 + a)$.

For two values of the status quo result does the legislator obtain his ideal policy result: when the status quo result is equal to $(2d_L + 1)R$; and when it is equal to $-R$.

---

[9]By sourcing out monitoring, we refer to the legislators' incentives not to know the consequences of policies and appoint a committee member with different prefences.

That is, legislator L obtains his ideal policy result, when the status quo result is equal to his ideal and when the status quo result makes committee member C_L indifferent to legislator L's ideal policy result. In intervals **I** and **IV** the agenda setter gets her ideal policy result, and the distance between legislator L 's ideal policy result and the equilibrium policy result is then $(1+a)R$. In interval **II** the agenda setter attracts the support of oversight committee member C_L by proposing the policy that makes him indifferent to the status quo result. At the left end of the interval this is the agenda setter's ideal policy. As the external shock becomes larger, the agenda setter proposes a policy more to the left. At first this brings the equilibrium policy result closer to legislator L, but then it moves policy farther away again. At the right end of the interval the agenda setter proposes the status quo result. In interval **III** the status quo result prevails. Again, the distance to legislator L's ideal policy result decreases at the left end of the interval, but then increases again.

The dotted line in Figure 6 shows the equilibrium policy for an oversight committee member C_L with the same ideal policy result as legislator L ($d_L = 1$). Legislator L then has perfect information due to noiseless information transmission. The equilibrium policy is similar to the equilibrium policy when $d_L = -(2+a)$, except in interval **II**. The agenda setter only proposes a compromise when the left legislator prefers the status quo result over the ideal policy result of the agenda setter. The agenda setter knows that this is not the case and thus successfully proposes her own ideal policy result in interval **II**. So, in interval **II** the legislator prefers to source out the monitoring to an oversight committee member to his left, rather than have perfect information.

Thus, legislator L benefits from not knowing the consequences of a policy perfectly well and appointing an oversight committee member who strategically transmits information back to him. The distance between the two lines illustrates the extent of the benefits of outsourcing to an oversight committee member with $d_L = -(2+a)$. The benefits are strictly positive only in interval **II** illustrated by the shaded area. If the legislator knows the value of ω perfectly well (either by acquiring perfect information himself or by having an oversight committee with the same ideal policy), he cannot make a credible commitment to reject marginally improving offers since they provide at least the same utility as the status quo. When the oversight committee is more extreme, the agenda setter makes a proposal that is marginally attractive to the oversight committees - inducing the oversight committee to send a consistent signal. This proposal is much more attractive for the legislator than a proposal that makes him indifferent to the status quo. So by delegating the monitoring to an oversight committee member, the legislator gets a policy result closer to his ideal policy result.

We now show that it is optimal for legislator L to appoint a committee member as extreme as $d_L = -(2+a)$. This is illustrated in Figure 7. The solid line shows the equilibrium policy result for an intermediate $d_L \in (-(2+a), -1)$. Appointing a more moderate oversight committee member results in smaller gains from outsourcing than does appointing a more extreme committee member. The upper right part of the grey triangle is chipped off when $d_L > -(2+a)$. The agenda setter successfully proposes her ideal policy for a wider range of status quos. Interval **I** is larger and interval **II** is smaller than they are in Figure 6. Nonetheless, it is clear from this Figure that *any* $d \in (-2-a, -1]$ creates a credible commitment not to accept certain proposals. The benefits to legislator L are smaller than in the $d_L = -(2+a)$ case, but outsourcing to a somewhat extreme oversight committee is clearly also beneficial for him compared to having perfect information.
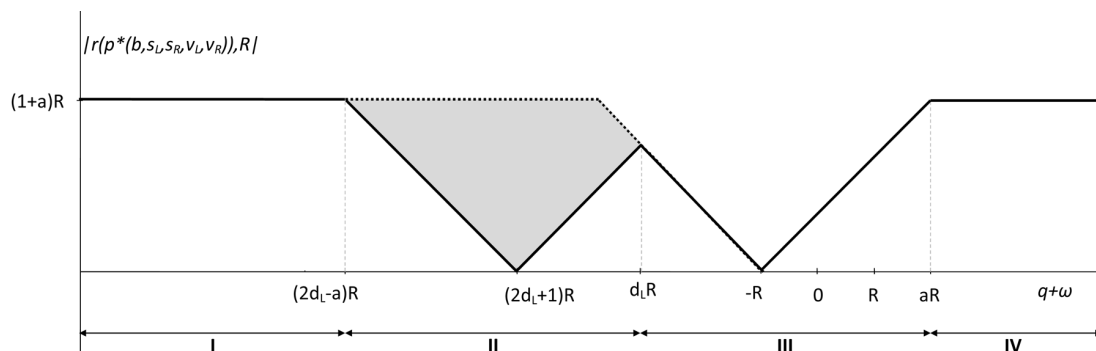

Figure 7: The gains to legislator L from outsourcing the monitoring to an oversight committee with $d_L \in (-2-a, -1)$.

Our findings extend the results of Gilligan and Krehbiel (1989). They found that if there is a cost to the agenda setter when she specializes, a closed rule procedure can be more beneficial than an open rule since it provides incentives for the agenda setter to specialize. Specialization reduces the variance for all players thus 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 agenda setter 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 agenda setter.

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

If the cost of specialization for the agenda setter is high, the legislators may not want to appoint oversight committee members as extreme as $d_L = -(2 + a)$. The legislators can look for the most efficient incentives to specialize: if the cost is really low, they use an open procedure. If the cost of specialization is above a certain threshold, they use a closed rule procedure in combination with extreme oversight committee members. As the cost increases further, the optimal locations of the oversight committee members are closer to the agenda setter.

We conclude that legislators have incentives to appoint oversight committee members who are biased *away* from the agenda setter, that is they have preferences different from their legislators in the opposite direction than is the agenda setter. What matters for the agenda setter is that she obtains the approval of legislator L, because legislator L is farthest away from the agenda setter and his approval is thus more difficult to obtain. Legislator R approves all proposals that legislator L approves. For this reason, the agenda setter's optimal proposal strategy is the same as if the left legislator is the only legislator.

A somewhat more complicated scenario occurs when the agenda setter is moderate, with $a \in [-1, 1]$. The left 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 to the left 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 legislator faces a similar situation for policy changes to the left direction.

5   Conclusions

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 mon-

itor an agenda setter. 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. In it, oversight committee members are appointed, whose function is to provide legislators with information regarding the consequences of policy. Our findings are that legislators have powerful incentives to appoint oversight committee members that have different preferences from their own. The oversight committee member that is appointed by a legislator is biased to the same extent as the agenda setter's preferences differ from the legislator's, but in the opposite direction.

In equilibrium we find that legislators only accept proposals that their respective oversight committee member prefers over the status quo. Therefore, the agenda setter wants to attract the support of the oversight committee members. When the committee members have diverging preferences, the proposal the agenda setter makes is only marginally improving over the status quo for the pivotal oversight committee member, but is much more beneficial from the viewpoint of the pivotal legislator.

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 d_L and the reason behind $d_L \geq -(2+a)$.

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 A is able to propose its ideal location.

   (a) The first place where it can do so, is if $b < q$. If A makes such a proposal, it must mean that $q + \omega > aR$. In that situation, all interest are aligned and all players should prefer the ideal point of A, which corresponds to $b = aR - \omega$, so that the result of this proposal is the ideal location of A. Since also C_L and C_R benefits from this proposal, they send out the true signal signal $s = \omega = aR - b$. Observing $b < q$ and $s_L = aR - b$ and $s_R = aR - b$, the legislators accept b.

   (b) There is also another way A could get its ideal location. C_L is the most remote player whose support the agenda setter needs to attract. Therefore, if a proposal is in the acceptance set of C_L, it is beneficial for all players. This is possible as long as C_L accepts this b over the status quo

$$
\begin{aligned}
|q + \omega, d_L R| &> |aR, d_L R| \\
d_L R - q - \omega &> aR - d L_R \\
\omega &< (2d_L - a)R - q
\end{aligned}
$$

   So if $\omega < (2d_L - a)R - q$, C_L is happy with $b = aR - \omega$ and gives a true signal $s_L = \omega = aR - b$. Also C_R prefers this proposal over the status quo, so he also sends out $s_R = aR - b$ Since $b = aR - \omega$, it is so that $\omega = aR - b$, such that if the legislators observe

$$
\begin{aligned}
aR - b &< (2d_L - a)R - q \\
b &> -2(d_L - a)R + q
\end{aligned}
$$

   and the described signal, they will accept the proposal.

2. For an ω just larger than $(2d_L - a)R - q$, all players accept C_L accept the proposal. To attract the support of C_L, the agenda setter makes a proposal C_L is indifferent over with respect to the status quo. This is only possible when $q + \omega < d_L R$ and results in the following proposal

$$
\begin{aligned}
d_L R + |q + \omega, d_L R| &= b + \omega \\
2(d_L R - \omega) - q &= b
\end{aligned}
$$

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This will be the proposal as long as C_L can accept it, so as long as $q + \omega < d_L R$, and until $b + \omega = aR$, which happens when $\omega = (2d_L - a)R - q$. Again, C_L and C_R are satisfied and they give a true signal. This is also a good thing for the legislators, so when they observe a proposal that corresponds with this situation, $b \in (q, -2(d_L - a)R + q)$ and $s_L = \frac{-(b+q)}{2} - d_L R$, or $s_R = \frac{-(b+q)}{2} - d_L R$, they accept the proposal.

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

$$
\begin{aligned}
q + \omega &> -R - |aR, -R| \\
q + \omega &> -R(2 + a) \\
\omega &> -(2 + a)R - q
\end{aligned}
$$

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

A.2 Equilibrium with moderate agenda setter

The equilibrium for a moderate agenda setter and its proof is characterized below.

Proposition 3 *The agenda setter obtains her ideal policy result, if both oversight committee members prefer it to the status quo result. By contrast, the status quo prevails, if the agenda setter and at least one oversight committee member want to move in opposite directions away from the status quo. Otherwise the policy that makes the oversight committee member that is pivotal in the direction of the policy change indifferent to the status quo is adopted. In particular, an equilibrium with an informed agenda setter and two informed oversight committee members, and a legislature that uses supermajority rule consists of the following strategies and beliefs:*

The equilibrium proposal strategy:

$$b^*(\omega) = \begin{cases} aR - \omega & \text{if } \omega \geq (2d_R - a)R - q \text{ or } \omega \leq (2d_L - a)R - q \\ 2(d_L R - \omega) - q & \text{if } (2d_L - a)R - q < \omega \leq d_L R - q \\ 2(d_R R - \omega) - q & \text{if } d_R R - q < \omega \leq (2d_R - a)R - q \\ b \in [aR - 1, aR] & \text{otherwise} \end{cases}$$

The equilibrium signalling strategies:

$$s_L^*(\omega) = \begin{cases} \omega & \text{if } \omega \leq (2d_L - a)R - q \\ \omega & \text{if } (2d_L - a)R - q < \omega \leq d_L R - q \\ \omega & \text{if } \omega \geq aR - q \\ s_L \in [0, 1] & \text{otherwise} \end{cases}$$

$$s_R^*(\omega) = \begin{cases} \omega & \text{if } \omega \geq (2d_R - a)R - q \\ \omega & \text{if } d_R R - q \leq \omega < (2d_R - a)R - q \\ \omega & \text{if } \omega \leq aR - q \\ s_R \in [0, 1] & \text{otherwise} \end{cases}$$

The equilibrium beliefs:

$$g_L^*(b, s_L) = \begin{cases} aR - b & \text{if } b \geq -2(d_L - a)R + q \\ & \text{and } s_L = aR - b \\ aR - b & \text{if } b \leq -2(d_R - a)R + q \\ & \text{and } s_L = aR - b \\ -[q + b]/2 - d_L R & \text{if } b \in (q, -2(d_L - a)R + q) \\ & \text{and } s_L = \frac{-(b+q)}{2} + d_L R \\ -[q + b]/2 - d_R R & \text{if } b \in (-2(d_R - a)R + q, q) \\ & \text{and } s_L = \frac{-(b+q)}{2} + d_R R \\ \omega \in [d_L R - q, aR - q] & \text{otherwise} \end{cases}$$

$$g_R^*(b, s_R) = \begin{cases} aR - b & \text{if } b \geq -2(d_L - a)R + q \\ & \text{and } s_R = aR - b \\ aR - b & \text{if } b \leq -2(d_R - a)R + q \\ & \text{and } s_R = aR - b \\ -[q + b]/2 - d_L R & \text{if } b \in (q, -2(d_L - a)R + q) \\ & \text{and } s_R = \frac{-(b+q)}{2} + d_L R \\ -[q + b]/2 - d_R R & \text{if } b \in (-2(d_R - a)R + q, q) \\ & \text{and } s_R = \frac{-(b+q)}{2} + d_R R \\ \omega \in [d_R R - q, aR - q] & \text{otherwise} \end{cases}$$

The equilibrium voting strategies:

$$
v_L^*(b, s) = \begin{cases}
1 & \text{if } b \geq -2(d_L - a)R + q \\
& \text{and } s_L = aR - b \\
1 & \text{if } b \leq -2(d_R - a)R + q \\
& \text{and } s_L = aR - b \\
1 & \text{if } b \in (q, -2(d_L - a)R + q) \\
& \text{and } s_L = \frac{-(b+q)}{2} + d_L R \\
1 & \text{if } b \in (-2(d_R - a)R + q, q) \\
& \text{and } s_L = \frac{-(b+q)}{2} + d_R R \\
0 & \text{otherwise}
\end{cases}
$$

$$
v_R^*(b, s) = \begin{cases}
1 & \text{if } b \geq -2(d_L - a)R + q \\
& \text{and } s_R = aR - b \\
1 & \text{if } b \leq -2(d_R - a)R + q \\
& \text{and } s_R = aR - b \\
1 & \text{if } b \in (q, -2(d_L - a)R + q) \\
& \text{and } s_R = \frac{-(b+q)}{2} + d_L R \\
1 & \text{if } b \in (-2(d_R - a)R + q, q) \\
& \text{and } s_R = \frac{-(b+q)}{2} + d_R R \\
0 & \text{otherwise}
\end{cases}
$$

And the equilibrium policy is:

$$
p^*(b, s_L, s_R, v_L, v_R) = \begin{cases}
b & \text{if } b \geq -2(d_L - a)R + q, \text{ and } s_L = s_R = aR - b \\
b & \text{if } b \geq -2(d_R - a)R + q, \text{ and } s_L = s_R = aR - b \\
b & \text{if } b \in (q, -2(d_L - a)R + q) \text{ and } s_L = s_R = \frac{-(b+q)}{2} + d_L R \\
b & \text{if } b \in (-2(d_R - a)R + q, q) \text{ and } s_L = s_R = \frac{-(b+q)}{2} + d_R R \\
q & \text{otherwise}
\end{cases}
$$

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 A is able to propose its ideal location. It can do so when it is in the acceptance set of the two extreme oversight committee members.

   (a) The first place where both oversight committee members accept it, if is the status quo result is very far to the right of C_R. Then all players prefer the agenda setter's ideal over the status quo result. This happens when

$$
\begin{aligned}
q + \omega &\geq d_R R + |aR, d_R R| \\
\omega &\geq (2d_R - a)R - q
\end{aligned}
$$

   So in that situation, $b = aR - \omega$. Since both C_L and C_R benefit from this proposal, they send out a true signal $s_L = s_R = \omega = aR - b$. When the

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legislators observe

$$aR - b \geq (2d_R - a)R - q$$
$$b \leq -2(d_R - a)R + q$$

and a signal from their respective oversight committee member as described above, they accept the proposal.

(b) The second place where both oversight committee members accept the agenda setter's ideal is if it is very far to the left of C_L. Then all players prefer the agenda setter's ideal over the status quo result. This happens when

$$q + \omega \leq d_L R - |aR, d_L R|$$
$$\omega \leq (2d_L - a)R - q$$

Since both C_L and C_R benefit from this proposal, they send out a true signal $s_L = s_R = \omega = aR - b$. When the legislators observe

$$aR - b \leq (2d_L - a)R - q$$
$$b \geq -2(d_L - a)R + q$$

and a signal from their respective oversight committee member as described above, they accept the proposal.

2. For an ω in the interval $[(2d_L - a)R - q, d_L R - q]$, oversight committee member no longer prefers the agenda setter's ideal. However, the agenda setter can attract the support of C_L by making a proposal this oversight committee member is indifferent over with respect to the status quo. This is only possible when $q + \omega \leq d_L R$ and results in the following proposal

$$d_L R + |q + \omega, d_L R| = b + \omega$$
$$2(d_L R - \omega) - q = b$$

This will be the proposal as long as C_L can accept it, so as long as $q + \omega < d_L R$, and until $b + \omega = aR$, which happens when $\omega = (2d_L - a)R - q$. Again, both oversight committee members C_L and C_R prefer this proposal over the status quo and give a true signal on ω. So when the legislators observe a proposal that corresponds with this situation, $b \in (q, -2(d_L - a)R + q)$ and $s_L = \frac{-(b+q)}{2} - d_L R$ or $s_R = \frac{-(b+q)}{2} - d_L R$ they will accept the proposal.

3. For an ω in the interval $[d_R R - q, (2d_R - a)R - q]$, oversight committee member no longer prefers the agenda setter's ideal. However, the agenda setter can attract the support of C_R by making a proposal this oversight committee member is indifferent

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over with respect to the status quo. This is only possible when $q + \omega \geq d_R R$ and results in the following proposal

$$
\begin{aligned}
d_R R - |q + \omega, d_R R| &= b + \omega \\
2(d_R R - \omega) - q &= b
\end{aligned}
$$

This will be the proposal as long as C_R can accept it, so as long as $q + \omega \geq d_L R$, and until $b + \omega = aR$, which happens when $\omega = (2d_R - a)R - q$. Again, both oversight committee members C_L and C_R prefer this proposal over the status quo and give a true signal on ω. So when the legislators observe a proposal that corresponds with this situation, $b \in (-2(d_R - a)R + q, q)$ and $s_R = \frac{-(b+q)}{2} - d_R R$ or $s_L = \frac{-(b+q)}{2} - d_R R$ they will accept the proposal.

4. The only thing left to discuss is what happens for $\omega \in (d_L R - q, d_R R - q)$. In this segment, there is either no signal given by C_L, or no signal by C_R. Therefore there is always one legislator that, in accordance to the previous proof, prefers the status quo in absence of an informative signal by his oversight committee member. Therefore the status quo prevails in those situations.

■

A.3 Proof of bounds on d_L

Proof. First we discuss the lower bound on d_L, then we discuss the upper bound.

1. We will discuss what happens in the models if $d_L < -(2 + a)$. 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 $\omega \in (-(2+a)R, -R)$. Yet it becomes possible to submit a non-fooling proposal, for $-dL_R < q + \omega < -(2+a)R$. So first we look at for which values of ω that A will want to cheat. This is when the agenda setting committee would not be able to set its ideal policy if L knew the value of ω.

$$
\begin{aligned}
q + \omega &> -R - |-R, aR| \Rightarrow q + \omega > -R - (aR + R) \\
\Leftrightarrow \omega &> -(2 + a)R - q
\end{aligned}
$$

Therefore, as we have discussed before, if $d_L < -(2 + a)$, 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 $\omega < -(2+a)R - q$. It is clear that this is when

$$
\begin{aligned}
|b + \omega, aR| \geq |q + \omega, aR| &\Rightarrow b + \omega - aR \geq aR - q - \omega \\
&\Leftrightarrow b + 2(-(2+a)R - q) \geq 2aL_R - q \\
&\Leftrightarrow b \geq 4(1 + a)R + q
\end{aligned}
$$

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 prefers to set $d_L = -(2+a)$ over any $d_L < -(2+a)$: 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.

2. We can prove that the upper bound on d_L is -1 by showing that legislator L would prefer $d_L = -1$ over all $d_L > -1$. There are four scenarios to discuss.

   - $q + \omega \leq -(2+a)R$. This is when the status quo result is so far to the left that L prefers the agenda setter's ideal over the status quo result. In this situation legislator L is indifferent between $d_L = -1$ and $d_L > -1$. In both cases the agenda setter proposes her ideal and all players accept.

   - $q + \omega \in (-(2+a)R, -R)$. This is when the status quo is to legislator L's left such that he prefers the status quo over the agenda setter's ideal. If $d_L = -1$, the legislator is perfectly informed and the agenda setter makes drafts a proposal that makes the agenda setter indifferent over it and the status quo. If $d_L > -1$, the signal by the oversight committee member is uninformative. Believing the signal of the oversight committee member C_L cannot be part of an equilibrium because then the agenda setter would make a proposal that makes committee member C_L indifferent over it and the status quo. If legislator L would then be better off to vote against it and not to follow the oversight committee member's advice. So the legislator strictly prefers to have $d_L = -1$ over $d_L > -1$.

   - $q + \omega \in (-R, d_L R)$. The legislator wants to move in a different direction away from the status quo than do his oversight committee member and the agenda setter. Therefore he cannot trust the signal of a committee member with $d_L > -1$. Therefore he strictly prefers to have $d_L = -1$ over $d_L > -1$.

   - $q + \omega \geq d_L R$. In this scenario the signal of the oversight committee member with $d_L > -1$ could be trusted. However, a signal from an oversight committee member with $d_L = -1$ would be equally trustworthy. Therefore the legislator is indifferent between $d_L = -1$ and $d_L > -1$.

   Analysis over the entire range of $q + \omega$ shows that indeed legislator L strictly prefers $d_L = -1$ over $d_L > -1$.

■

A.4 Proof of Proposition 2

Proof. We discuss what happens if there is an extreme right agenda setting committee. To calculate the optimal position of C_L from L's viewpoint, we first look at his expected utility in terms of d_L:

$$
\begin{aligned}
EU_L \;=\; & \int_0^{(2d_L-a)R-q} -((1+a)R)^2 f(\omega)d\omega \\
& + \int_{(2d_L-a)R-q}^{d_L R-q} -(2d_L R - q - \omega + R)^2 f(\omega)d\omega \\
& + \int_{d_L R-q}^{-q+aR} -(q+\omega+R)^2 f(\omega)d\omega \\
& + \int_{-q+aR}^{1} -((1+a)R)^2 f(\omega)d\omega
\end{aligned}
$$

After taking the first derivative and solving for d_L, we find that the utility maximizing d_L^* for L is $d_L^* = -(2+a)$. However, the location of the oversight committee member C_R has no influence on the expected utility. Therefore, every location of $d_R \in [1, 2-a]$ is supported as an equilibrium. We now discuss what happens if there is a moderate agenda setting committee. To calculate the optimal position of C_L from L's viewpoint, we first look at his expected utility in terms of d_L:

$$
\begin{aligned}
EU_L \;=\; & \int_0^{(2d_L-a)R-q} -(aR+R)^2 f(\omega)d\omega \\
& + \int_{(2d_L-a)R-q}^{d_L R-q} -(2d_L R - \omega - q + R)^2 f(\omega)d\omega \\
& + \int_{d_L R-q}^{d_R R-q} -(R+q+\omega)^2 f(\omega)d\omega \\
& + \int_{d_R R-q}^{(2d_R-a)R-q} -(2d_R R - q - \omega + R)^2 f(\omega)d\omega \\
& + \int_{(2d_R-a)R-q}^{1} -(aR+R)^2 f(\omega)d\omega
\end{aligned}
$$

Next we look for the value of d_L that maximizes this expression. After taking the first derivative and solving for d_L, we find that the utility maximizing d_L^* for L equals $d_L^* = -(2+a)$. To find the optimal d_R from the viewpoint of legislator R, we look at his expected

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utility function in terms of d_R:

$$
\begin{aligned}
EU_R \quad = \quad & \int_0^{(2d_L-a)R-q} -(-aR+R)^2 f(\omega)d\omega \\
& + \int_{(2d_L-a)R-q}^{d_L R-q} -(-2d_L R + \omega + q + R)^2 f(\omega)d\omega \\
& + \int_{d_L R-q}^{d_R R-q} -(R-q-\omega)^2 f(\omega)d\omega \\
& + \int_{d_R R-q}^{(2d_R-a)R-q} -(-2d_R R + q + \omega + R)^2 f(\omega)d\omega \\
& + \int_{(2d_R-a)R-q}^{1} -(-aR+R)^2 f(\omega)d\omega
\end{aligned}
$$

Next we look for the value of d_R that maximizes this expression. After taking the first derivative and solving for d_R, we find that the utility maximizing d_R^* for R equals $d_R^* = 2-a$.
∎

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