

Why Does Corruption Occur in the EU System?

Incentives and institutional independence

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Abstract:

Why does corruption occur in the EU system? Our principal-agent model suggests that corruption will occur when incentives are inadequate and when corruption is not monitored and efficiently fought by an independent institution. Corruption is difficult to measure in the EU at the moment due to the absence of formal regulation. Four tentative cases, however, seem to confirm that corruption is not regulated in an adequate way in the EU. Both monitoring and enforcement activities are undertaken by OLAF which, at present, is not a fully independent authority capable of adjusting incentives and fighting corruption efficiently.

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1. Introduction

The extent of corruption in the EU is unclear and data are in short supply. Back in 1997, the EU estimated that it was not possible to account for about five per cent of the budget (George and Bache 2001: 241). With a current total budget of about € 120 billions and in accordance with the EU's statement, we are dealing with an annual loss of € 6 billion. To this should be added fraud with EU funds; e.g. subsidies for fictive olive groves (Svendsen 2008).

Back in 1992, the Parliament started a debate about how to regulate lobbying and corruption problems. A self-regulatory code for proper behaviour was proposed but rejected again after heated debates during the 1990s. So, what 'started life as a debate about the regulation of lobbying in the Parliament ended as a highly politicised contest between party groupings over the declaration of members' assets and receipts of gifts', Greenwood (1997, 97).

Recently, Parliament President Jerzy Buzek stated at a meeting with representatives from the non-governmental Transparency International group that: 'Public officials who are corrupt attack the very fabric of our democracy' and that 'There should be zero tolerance for any form of corruption.' (EP 2011)

Rent-seeking activities are in general constrained by the rules of the political game and can take place in a legal form (lobbying) and in an illegal form (corruption). In the case of legal lobbying, representatives for external groups ('lobbyists') can meet and try to influence the political decision-makers. Lobbying is the practice of trying to influence political decisions through a lobbyist who acts on behalf of another person or interest group (Fouloy 2005). Thus, lobbying may take place legally for example through reports, media and professional meetings.

Rent-seeking activities may, however, also take place in the illegal form of corruption. The concept of 'corruption' is derived from Latin, *rumpere*, and means 'to break,' i.e. a rule is broken. Everyone is not equal to the law and corruption may be defined as intentional non-compliance with the so-called Arm's-Length Principle. The Arm's-Length Principle means that personal relationships should not play any role in economic decisions. All agents should be treated equally. Laws are only as good as the institutions that enforce them and high-quality formal organisations are a

necessary prerequisite for predictability in a modern market economy (which requires impersonal bureaucratic organisations of both the state and the market itself (Tanzi 1996).

The Arm's-Length Principle requires that a rule is precise and transparent, which is often not the case, especially in transition economies. Here, heavy state intervention in centrally planned economies clears the road for discretionary rules where public officials can decide outcomes of specific cases. An official holds monopoly power and can choose to grant or deny permits etc. This monopoly power is the source of corruption. Paying a bribe may not be explicit and can be well hidden. A favour today is returned in the future (Williams 2000).

The definition we will apply in our EU setting is that of political corruption which may be defined as: 'the abuse of public authority for private profit' (Doig and Theobald 2000, 3). This definition covers acceptance of money or other rewards for awarding contracts; ranging from violations of procedures to advance personal interests, including kickbacks from development programmes or multinational corporations; pay-offs for legislative support; and the diversion of public resources for private use, to overlooking illegal activities or intervening in the justice process. Forms of corruption also include nepotism, common theft, fraud, overpricing, establishing non-existing projects, payroll padding, tax collection and tax assessment frauds (ibid.).

Thus, our main research question is: Why does corruption occur in the EU system?

This question has not been adequately dealt with in the literature, first and foremost because corruption is difficult to measure due to lack of regulation and transparency (Europa, 2011). This in stark contrast to the US experience with its comprehensive and transparent legislation on lobbying (Svendsen, 2011). Furthermore, from a policy perspective, efficient regulation is crucial to eliminate corruption which means providing special advantages for a small number of people at the expense of the large crowd. The following will introduce the concept of 'corruption' in a negative sense: a harmful economic redistribution of money from consumers/tax payers to particular politicians and producer groups.

Several competing theories may explain why corruption occurs in the EU. Warner (2003), for example, presents four main hypotheses concerning the existence of corruption in EU. First, the Agency hypothesis stating that international organizations create new opportunities for economically harmful rent-seeking. Second, the 'Predatory' hypothesis argues that states and governments deliberately tolerate corruption in sectors where they could reasonably expect to derive some economic, social and even electoral benefits. Third, the Policy Networks hypothesis suggests that the EU provides multiple institutional points of access for rent seekers and that rent-seeking coalitions will develop across institutional and country boundaries. One would expect to find that current forms of corruption coalitions develop creative means for pursuing their interests. Fourth and finally, the Culture hypothesis claims that member states bring national patterns of corruption into international organizations. Consequently, most corruption in EU programmes can be expected to occur in the states with a tradition of corruption. It is extremely hard to change the status quo because the cultural bases and political institutions are stable and resistant towards anti-corruption efforts.

In the following, we have chosen to model the agency hypothesis as a first step. It is the hypothesis most clearly grounded in public choice by its strict assumption of underlying economic rationality. The other three hypotheses have weaker behavioural assumptions but deserve, of course, attention in future research too.

The formal model we apply here is inspired by Tirole (1992). Here, a supervisor is added to a traditional principal-agent relationship. The supervisor is supposed to help extracting information about the agent. Information that is valuable for the principal. In the model, incentives exist for an inefficient (in our interpretation a corrupt agent) to bribe the supervisor not to disclose information about its type. The principal must recognise this incentive structure in order to get information truthfully revealed. Our interpretation of this result is that first, there must be a clear understanding of the underlying incentive structure to combat corruption successfully, and second, the supervisor must be independent of both the principal and the agent. None of these points are clearly satisfied in the present EU institutional setup.

Therefore, the paper is structured in the following way. First, Section 2 introduces the ‘logic of corruption’ and applies this logic of collective action to understand why corruption occurs in general. Next, Section 3 develops an agency model, namely a principal-agent model. It points to wrong incentives and the lack of institutional independence among principal, agent, supervisor and client in the EU system. Section 4 gives the empirical part by presenting four tentative cases of corruption related to the Commission, Parliament and OLAF (*Office de Lutte Anti-Fraude*). In particular, the latest cash-for-amendments scandal serves as an adequate test of the model due to the presence of clear evidence. Finally, conclusion and policy recommendations are given in Section 5.

2. The Logic of Corruption

In terms of corruption, we are typically dealing with highly placed politicians or bureaucrats who exploit their public position to extract large bribes from representatives of, for example, business groups, or those who simply transfer large sums of money from the public treasury into private (usually overseas) bank accounts. If the risk of detection and punishment is low, it may pay politicians to receive bribes and become corrupt. Why is this allowed by the voters? If voters were fully informed, they should punish corrupt politicians and vote for new politicians that are capable of eliminating corruption. The answer may be that when the single voter does not have easy access to information, i.e. the political decision-making process is non-transparent then the incentive to stay fully informed about public matters is severely weakened. It simply because it is too costly compared to the individual gain from doing so (Olson, 1991; 1965). The more complicated the institutional setup is and the harder it is to get access to information, the more the incentive for voters to follow public affairs is weakened. We can illustrate this Olson logic of the collective action problem in a hypothetical example (see Table 1).

Assume that the group of voters consists of 500 million identical agents. Assume also, that each voter will earn €1 if no corruption exists, in total €500 million. If the total cost amounts to €1 million for a single voter to stay fully informed about EU policies and to use this information to

successfully lobby the EU politicians, then each individual voter will not act because the individual net gain from doing so is clearly negative. This in spite of the fact that even though the EU voter group as a whole would get a total gain from eliminating corruption worth €500 million (500 times higher than the total cost), no single EU voter will take the initiative to eliminate corruption in the absence of organisation and political mobilisation. Therefore, in this ‘large’ group, the collective good of fighting corruption will not be provided.

Table 1: Non-informed voters and corrupt politicians

	Voters	Politicians
Number	500 million	100
Individual Gain	€1	€5 million
Total Gain	€500 million	€500 million
Total Cost	€1 million	€1 million
Individual Net Gain	€1 – €1 million	€5 million – €1 million

In contrast, the smaller group of 100 corrupt politicians will fight to maintain corruption. Assume, for simplicity, that the politicians receive bribes corresponding to the amount of money that the EU voters would save from avoiding corruption. In total, the 100 identical politicians would then gain 5 million each totaling the €500 million from before. Assume also, that the cost of defending corruption matches the cost of eliminating it so that the total cost for politicians amounts to €1 million. Thus, it pays each politician to act on his or her own even in the absence of organisation with an individual net gain amounting to €2 million. Consequently, the collective good of maintaining corruption for this smaller group of politicians will be provided. This is the logic of corruption.

In the next section, we develop a principal-agent model focusing on incentives and institutional independence that are relevant to the EU system in particular.

3. Principal-Agent Model

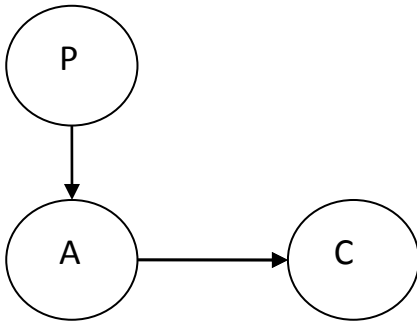
The theoretical expectation may be summarized in the following hypothesis: The higher is the risk of corruption, the less lobbying is monitored and sanctioned by an independent third party.

As mentioned, we look at the agency hypothesis (Warner, 2003), in the sense that we want to investigate the incentives that are present in the EU, in the way the EU is organized and how a supervising body, like the OLAF, should be introduced. We set up a simple principal-supervisor-model for that purpose.

The problem of motivating a party to act on behalf of another is known as ‘the principal-agent problem’. The principal-agent (PA) problem arises when a principal compensates an agent for performing certain acts that are useful to the principal and costly to the agent and when elements of the performance are costly to observe. Therefore, PA model are relevant for relationships with asymmetric information and focuses on the incentives structures of the relationships.

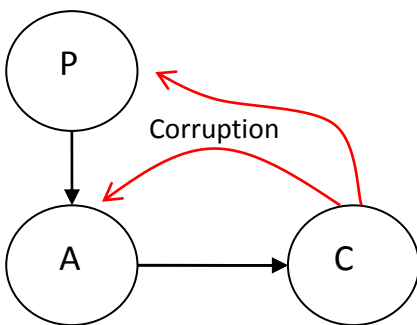
In line of the logic of corruption (Section 2), we want to identify the agent to be highly placed politicians or bureaucrats who exploit their public position to extract large bribes from the clients, which typically are representatives of, for example, business groups. The PA structure has also gained attention in the description of political structures (delegation). For a critical examination of the usefulness of applying PA model to analyse EU, see Kassim and Menon (2003) and Hodson (2009). E.g., the basic PA structure could be that the principal is the one making the rules, and the agents are the bureaucrats who implement the policy. Here we can add the clients that are the entities subject to regulation, as described in Figure 1.

Figure 1: *BASIC P-A model*



Corruption may occur at several levels. As shown in Figure 2, the client can bribe A and P.

Figure 2: *BASIC P-A corruption model*



To circumvent such behaviour, a monitoring agency can be introduced, i.e. a supervisor. This is mostly modelled as an independent supervising body, the supervisor, which monitors the entities and the transactions. Normally the principal hires the supervisor. These types of models are named principal-supervisor-agent (PSA) models. As an example, PSA models can depict the supervisor as a receiver of a signal that is helpful in designing an incentive contract for the agent. This development is shown in two versions in Figure 3a and Figure 3b.

Figure 3a: P-A – supervisor corruption model

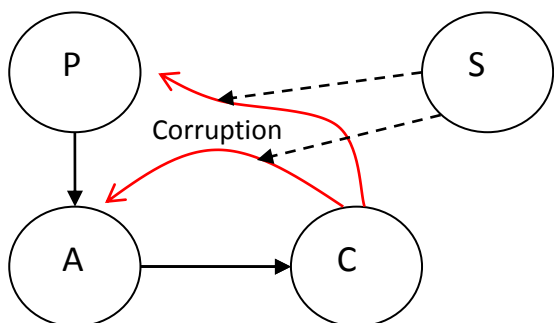
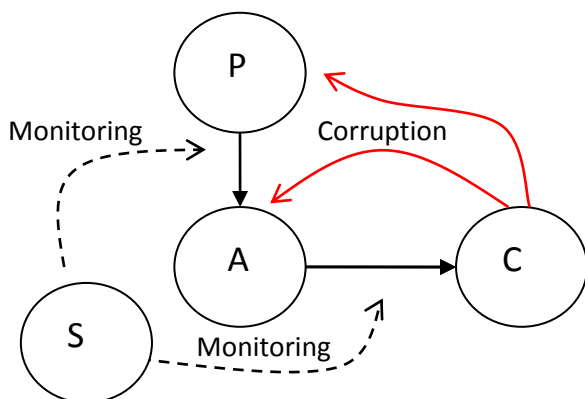


Figure 3b: Alternative: P-A – supervisor corruption model



Possible collusion between agent and supervisor has been studied. There are obviously incentives for the supervisor to misrepresent the information/signal it receives from the agent, and the agent might be willing to pay for the misinformation. The following model formalizes this problem with a supervisor and builds upon the papers of Baliga (1999) and Tirole (1992).

The principal, which could be a decision maker or policy maker needs an agent to implement its policy or decision. We assume two types of the agent, β^H and β^C with probability μ and $(1 - \mu)$.

The two types of agents can produce two types of output, let this be β^H and β^C , where the principal prefers β^H to β^C : $u^p(\beta^H) > u^p(\beta^C)$.

The principal, when observing β^C , does not know, without further information, the reason for the inefficient outcome. The reasons could be corruption or just by unlucky change. We assume that both types could produce an inefficient outcome, but it is more likely that it is the corrupt.

Assume that under full information, the 'payment' to the agent is β^H for the efficient and $\beta^C < \beta^H$ for the corrupt. It could be less resources or a fine. We assume that without additional information it is not possible for the P to screen the types, and therefore treats the two types equally, by paying both the high payment β^H . The principal will not punish the agent if it is not sure that it is corrupt.

Now, the principal hires a supervisor. The supervisor learns a signal $\sigma \in \{\beta^C, \emptyset\}$. If $\beta = \beta^C$, then the supervisor learns it with probability α and learns nothing with $(1 - \alpha)$. If $\beta = \beta^H$, then S learns nothing. The idea is that in case of corruption, there is a positive probability that the supervisor detect it. On the other hand, if the supervisor does not detect corruption, it cannot tell whether the agent is actually corrupt or not. It is further assumed that the agent can transfer money to the supervisor, at a rate $k < 1$.

Corruption here could be defined as

- 1) The agent receives a payment for special treatment.
- 2) The agent bribes the S for not telling that agent is inefficient.

In the Tirole (1992) model, the inefficient agent has an incentive to pay the S to not reveal its type. Therefore, the P has to pay more for the S to deliver the information. Information that the S provides to the P is hard: that is, if the S shows the signal $\sigma = \beta^C$, then the P knows for certain that the agent is corrupt. In this case, the P, pays β^C to the agent. That is, if it is possible to hide, the corrupt agent earns $\Delta\beta = \beta^H - \beta_L > 0$.

It is easily shown (Tirole, 1992) that the P's cost of implementing his optimum is

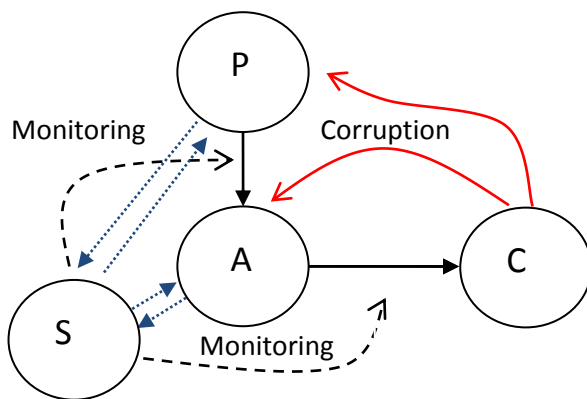
$$\mu\beta^H + (1 - \mu)[\alpha(\beta_L + k\Delta\beta) + (1 - \alpha)\beta^H]$$

This essentially says as long as $k < 1$, then the principal actually prefers the supervisor, even though in order to get honest reports, has to provide incentives to the supervisor not to be tempted to hide information.

From this basic model, we can deduce that it is important to secure that the supervising body is independent and that it is important to understand the underlying incentives.

Figure 4 shows the problem in the EU regarding the institutional independence of the supervisor, S.

Figure 4: EU P-A – supervision corruption model



Institutional complexity is at the heart of corruption problems in the EU. Who controls who? As stated by Warner, we have the conundrum that the member states, as principals, have delegated to themselves the collection and distribution of an enormous percentage of the EU budget, and have also delegated to themselves the operation of most of its regulatory structure. Thus, most of the time, the agent is also the principal. If combating corruptions involves the agents, then it is the member states which must be controlled (Warner 2003, 59).

As noted in the literature, the peculiar principal-agent structure in the EU means that we have the conundrum that the member states, as principals, have delegated to themselves the collection and

distribution of an enormous percentage of the EU's budget, and have also delegated to themselves the operation of most of its regulatory structure. Thus, much of the time, the agent, is also the principal. If combating corruption involves policing the agent, then it is the member states which must be controlled (ibid.).

One way of applying the model in the EU setting could, for example, be done as shown in Table 1.

Table 1: Principal-Agent Model for the EU.

Principal (P)	Agent (A)	Supervisor (S)	Client (C)
Commission	Parliament	OLAF	Lobbyists

4. Four Tentative Cases

4.1 The '1999 crisis'

The first example is the so-called '1999 crisis' which for the first time forced the Commission to resign. In a report from 1999, a committee of five independent experts severely criticized internal affairs of the EU system. The pressure from the report was so heavy on the chairman of the Commission, Jacques Santer of Luxembourg, and the other commissioners that the Santer-Commission chose to resign in March 1999 (George and Bache 2001).

Investigations against the Commission were initiated as a result of two events. First, the so-called 'Humanitarian Aid Office'-budget supervised by the Spanish commissioner, Manuel Marin, showed irregularities. In 1998, Marin had advanced to the position of Vice President for the EU Commission but he was not able to account for the loss of money between 1993 and 1995. Second, there were serious problems in the so-called 'LEONARDO' project headed by the French commissioner Edith Cresson, who had been Prime Minister of France in 11 months from 1991 to 1992. The purpose of the project was to introduce an automated system for knowledge evaluation all over Europe, to act as an incentive for re-training through adult education, to teach the populations a second foreign language; i.e. French for the majority of Europeans. A number of

contracting parties were invited to make project proposals, mostly French companies. By way of example, a company in Paris, Mayonic Public Relations, had entered into a contract signed by Mme Louise Recivieur. She had participated herself in the outsourcing process and had subsequently been given the tender. This was in direct conflict with the EU regulations. All contracts were given to companies in Paris or Brussels (Buitenen 2000).

Apart from lacking explanations for the application of the budget, Cresson was accused of nepotism when appointing someone to a post (George and Bache 2001: 240). In August 1998, it was revealed that René Berthelot, Edith Cresson's friend through 20 years, shared an EU apartment with her in Brussels. Furthermore, Cresson had appointed Berthelot to hold a full-time employment as AIDS researcher. Berthelot was a retired dentist from Châtellerault in Western France, where Edith Cresson had been mayor. The committee of five independent experts concluded that Berthelot did not have the necessary academic background to run the AIDS project, which also explained why the project did not lead to the required results. The most alarming fact of the entire case was that in those two incidents, and in 20 others, the 'financial controllers' of the Commission had denied to give away information or to give access to relevant documents (Doig and Theobald 2000).

During the fall of 2001, van Buitenen handed over still more wide-ranging material to the internal fraud department of the EU, but so far nothing has happened and to our knowledge neither Marin or Cresson have been punished for their actions. After the resign of the Santer-Commission, Belgian authorities made an unsuccessful attempt at suing Cresson for criminal activities in 2004. In 2006, seven years after the '1999 crisis', the EU Courts found that there had been irregularities but not that Cresson could be punished for it (Rønne and Gundersen 2006).

The committee of independent experts was established because of the Dutch accountant and EU bureaucrat Paul van Buitenen. In his book, *The Fight for Europe* (2000), he writes that a lot of good work is being done in the EU and that crystal clear corruption is fortunately an exception. By far the majority of the work is unproblematic and constructive contributions are being made to the future of Europe. However, he felt compelled to hand over information about corruption in the Commission to a member of Parliament in December 1998. From here on the case was taken up in the daily press. It was this information which about three months later led to the fall of the entire

Commission. Prior to that event, van Buitenen had tried to change the system from within by informing his superiors without luck. Then he presented the case to the Commission's anti-fraud office, UCLAF (OLAF), but nothing happened. Paradoxically, van Buitenen received no answers nor help from the office, which was established for the same purpose, even though the collected evidence was extensive and highly alarming.

The press coverage of the corruption scandals led to the establishment of the independent committee. At the publication of its first report on 15 March 1999, the political support for the Commission fell away. The independent committee confirmed that van Buitenen's information was well-documented. In the conclusion of the report, the Commission had acted irresponsibly in this connection, among other things by suspending van Buitenen for four months on half his salary, and by seriously disciplining him by hostile superiors to whom he had tried to report the irregularities in the first place (Buitenen 2000).

4.2 Eurostat

A second example concerns the statistical office of the Commission; Eurostat. Here, Danish employee Dorte Schmidt-Brown ostensibly revealed financial irregularities concerning fictive contracts with private companies in 2000 and 2001. In her understanding, officials in Eurostat deposited false amounts for contracts and subsequently used the surplus themselves as they saw fit. This practice should have been used in connection with 'reliable' contracting parties, and hence millions of euro was transferred to unofficial bank accounts out of any budgetary control. Therefore, in 2001 Dorte Schmidt-Brown called attention to the fact that the company Eurogramme had received fictive contracts from Eurostat. Eurogramme did not carry out its tasks and Schmidt-Brown complained about it to her superiors. Her objections were ignored and Eurogramme's contract was prolonged. After this, Schmidt-Brown refused to pay the bill from the company since it had not performed any tasks. Dorte Schmidt-Brown contacted staff commissioner Neil Kinnock in writing about the matter without any immediate response. Finally, in 2002 she received an answer from Neil Kinnock dismissing her complaints as 'unfounded'. Not until June 2003, the Commission finally admitted that large-scale corruption had taken place in Eurostat. Subsequently, Dorte Schmidt-Brown received an official apology from Neil Kinnock, but the commissioner in charge of Eurostat, the Spaniard Pedro Solbes, was let off (EUABC 2007a,b; Notat 2007a,b).

4.3 Accounting System

A third example concerns the Commission's chief accountant, Marta Andreasen, who was employed in 2002. She was fired in 2004 because she refused to sign the 2001 accounts. Andreasen claimed that the accounting systems concealed that fraud was taking place and that the Commission did not practise the principle about double book-keeping. Since her criticism was ignored internally, she went to the budget control committee of the EU Parliament. After this she was suspended from her job in the Commission. The notice of dismissal took place with reference to the rules for employees which among other things prescribe 'officials to perform the utmost discretion concerning information they might obtain in the execution of their tasks' (article 17). The Commission's anti-fraud department, OLAF, is not an independent unit in the opinion of Marta Andreasen, and it is not the right institution to solve the problems of corruption in the EU. Andreasen believes that the Commission has been manipulated by powerful Directors and Managing Directors who for many years have managed EU resources free of control. In her understanding, the leaders want to keep a system which renders fraud possible, and they do not want her presence because she wants to reform the system (Notat 2007c; 2007d).

Paul van Buitenen shares the understanding of Andreasen. He writes that the new OLAF is still a part of the system which it is meant to control (Buitenen 2000:194). The problem is that the employees are not allowed to go to an independent authority. According to the current rules, employees can only contact their superior about imbalances.

4.4 The "Cash-for-amendments" Scandal

Finally, a recent corruption scandal has been revealed in the European Parliament during the spring 2011. The scandal is, like the three cases above, thought-provoking and underlines the need for regulating lobbying in the EU. Journalists from the British newspaper The Sunday Times had set out to investigate how widespread corruption potentially is in the European Parliament. Pretending to be employees in a lobbying business, they sent out invitations to 60 different members of the European Parliament (MEPs). The MEPs were invited to participate in the board

as consultants for a made-up lobbying business. The salary was 100,000 euro per year. Most of the MEPs either did not reply or turned down the invitation. But 14 out of the 60 showed an interest and agreed to meet with the fictive lobbyists. The result was that four MEPs fell for the trick and agreed to suggest and work for the amendments in exchange for payment M&G (2011).

The four corrupt MEPs are as follows: Rumania's former Deputy Prime Minister Adrian Severin, Austria's former Minister of the Interior Ernst Strasser, Slovenia's former Foreign Minister Zoran Thaler, and Spanish Pablo Zalba. All four were asked by the journalists to suggest specific amendments to existing legislation in the European Parliament in exchange for payment.

Adrian Severin was asked to suggest an amendment to the Deposit Guarantee Schemes Directive. The amendment would give a bank that went bankrupt the possibility to delay payouts to the customers. This was a policy in direct opposition to Severin's social democratic group in the Parliament, since they work primarily in the interest of consumers, not the industry. The amendment was implemented in the legislation.

Zoran Thaler was asked to suggest an amendment to the Investor Compensation Schemes (ICS) Directive. The amendment would consist in reducing the sum of money that financial businesses were committed to pay out as a result of the original directive. The amendment was implemented in the legislation.

Ernst Strasser was also asked to propose an amendment to the ICS directive. The amendment consisted in giving investment bank clients a notice of minimum nine months before excluding them from the ICS. Subsequently, Strasser succeeded in having a 12-month notice implemented.

All in all, The Sunday Times spent eight months investigating the MEPs' willingness to take bribes, and the scandal was disclosed 20 March this year. Thaler and Strasser gave up their seats in the Parliament within 24 hours after the disclosure. Severin still sits in the Parliament, although as an independent. His former party, the Social Democrats, have demanded that he resigns and returns his mandate to the Social Democrats. Pablo Zalba was exposed somewhat later in the process. Zalba agreed to propose an amendment, which was later passed. He still sits in the Parliament in his group the European People's Party (EPP) (ibid.).

After the disclosure of the scandal, an internal investigation was launched in the European Parliament to check the allegations of The Sunday Times. In connection with this investigation, conflict has arisen between the Parliament, represented by President Jerzy Buzek, and the organization OLAF, which was originally formed with the purpose of investigating corruption in the Santer Commission in 1999. OLAF was not given access to the exposed MEPs' offices after the disclosure of the cash-for-amendments scandal but was later permitted to carry out investigations (EST 2011).

Moreover, a committee was formed, chaired by before-mentioned President of the Parliament Buzek, who was made in charge of reforming the MEPs' behavioral codex in relation to lobbyists (EP 2011). It seems unlikely, however, that the new behavioral codex will work effectively as long as strong sanction mechanisms are not implemented.

5. Conclusion

The model employed in this paper was supposed to structure the incentive that underlies a supervising body in the EU institutional setting. The main point is that regarding incentives, the principal must be aware of the incentives that the agent and the principal himself have to affect the supervisor. Clear rules to avoid this are needed, and more general, independence of both the supervisor and the agents is necessary. Four examples have shown that this is not necessary so.

Overall, the four tentative cases demonstrate that corruption occurs in the EU and that a stronger presence, assistance and formal sanctioning by OLAF in relation to corruption problems are highly needed. The Supervisor (OLAF) does not seem to be fully independent from the interests of the Principal (Commission) nor the Agent (Parliament). This leaves room for lobbyists and rent-seeking. In other words, the model overall demonstrates why the logic of corruption works. It is hard to eliminate corruption that has been allowed to thrive and bloom in a weak institutional set-up without efficient monitoring and enforcement by an independent third party to secure an open and democratic decision-making process.

Three of the tentative main examples of corruption in the EU system up till the present scandal have come to the public's attention because public servants have given the alarm. These 'whistleblowers' have first gone to OLAF without success after which they were forced to go to the public with information about irregularities within the institution they are employed at. The fourth case likewise came to the public's attention due to the work of journalists at the Sunday Times, not due to internal efforts by OLAF. Evidence that four members of the European Parliament have been caught in corruption, when lured by fake lobbyists, points to the fact how much power lobbyists have, and it shows the need for much clearer regulation in the area. In order to respond to similar corruption scandals in future, the important thing is to control harmful lobbying to the benefit of all citizens in the EU. But in order to do so, it will be necessary to know how many lobbyists are involved and who they are. An obligatory lobby register could be the solution. At the same time, it will give decision makers the possibility to know more about who they are dealing with.

In the logic of the PSA-framework, the access to control lobbyists is a necessity to give the principal sufficient understanding of the incentives that the institution faces regarding fraud and corruptive behavior, and will serve as input to set up a well-functioning supervising body. If not, the consequences can be as follows: The lack of joint rules for lobbyists affects both the lobbyists as a group – and obviously also consumers. If some lobbyists choose to use illegal methods such as bribes, they may be able to obtain a competitive advantage compared to lobbyists who behave properly. At the same time, this could affect European consumers and tax payers, who will have to pick up the tab when certain groups are granted subsidies and other forms of market protection.

In setting up clear rules for what lobbyists may and may not, the EU could benefit from drawing on American experiences. There is no reason to reinvent the wheel. In the US, the so-called 'Lobbying Disclosure Act' was implemented in 1995. This act replaced the 'Federal Regulation of Lobbying Act' from 1946. The purpose of implementing the 'Lobbying Disclosure Act' was to make it even more difficult to trick American tax payers and consumers.

On the basis of the American 'Lobbying Disclosure Act', the EU should first make sure that all lobbyists should register – this should be obligatory and not voluntary as is the case at the

moment in the EU. Second, the US experience suggests that lobbyists should publicly report their activities to the authorities every six months, including informing about the areas in which they perform lobbying, which bureaucrats they have contacted, the names of the employed lobbyists, and the total expenses for lobbying activities. These reports and other relevant documents should be fully available to the public on a website. It is important that everything can bear the light of day.

Third, law breakers should be punished if accurately defined rules for 'good behavior' have been broken. Here, an effective fight against bribes and corruption will diminish lobbyists' possibilities to use such strategies. In this connection, it is important to reward officials who discover corruption and 'blow the whistle', the so-called 'whistleblowers'. To sum up, there is still an acute need for regulating lobbying and correcting incentives in the EU and to strengthen the institutional independence of OLAF. Voluntary registration of lobbyists in the EU is a praiseworthy first step. But the recommendation is to complete the job and set up clear and joint rules for the lobbyists. E.g. Denmark will have the opportunity during the coming EU presidency in the first six months of 2012. Here, Denmark could make regulation of lobbying and the role of OLAF a key issue. It will obviously increase trust in the EU among citizens if it is brought into light who tries to influence European legislation and how it is done.

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