

Understanding institutional choice in the EU: Getting the micro-economic theories right

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1. INTRODUCTION

The 'new economics of organization' ('NEO', Moe 1984) is a branch of micro-economic theory whose main components are the theory of the firm (i.e. transaction cost economics, 'TCE') and the theory of incentives (i.e. principal-agent theory, 'PA'). Over the last thirty-five years, NEO has become prominent not only in political science and public administration (e.g. Weingast and Moran 1983, McCubbins and Schwartz 1984, Epstein and O'Halloran 1999), but also in international relations (e.g. Keohane 1984, Hawkins et al. 2006) and via that channel in European Union ('EU') studies, too (e.g. Majone 1996, Pollack 2003, Franchino 2007, Dehousse 2008, Héritier 2008, Hix and Hoyland 2011: 23ff).

Three salient characteristics of the process of European integration have made political scientists confident that NEO is an appropriate theoretical lens to analyse EU politics. First, the combination of (a) sovereign member-states with vastly distinct policy preferences, and (b) weak European political parties, means that there is little space for a winner-takes-all kind of politics. That makes the smooth functioning of the EU rely on myriad transactions. NEO's focus on transactions as the main unit of analysis makes that theoretical lens all the more appealing.

Second, and possibly as a result of the first characteristic, the process of European integration is characterized by considerable variation in institutional arrangements. Some European countries have chosen to enter the EU, while others have preferred to remain on the sidelines or to return there. Among members, some are considered 'core', while others do not participate in all initiatives (e.g. Ireland and the United Kingdom have opted out of the Schengen area; Denmark and the United Kingdom have opted out of Economic and Monetary Union; Denmark has opted out of the Common Security and Defence Policy; and Poland and the United Kingdom have opted out of the Charter of Fundamental Rights). Digging still a little deeper, not all policies are equally supranational, and not all executive functions are carried out by the European

Commission ('Commission'). To the extent that NEO deals with similar variations in business arrangements, it is thought that it can more or less readily offer explanatory hypotheses in EU studies. And third, the so-called democratic deficit of the EU can be easily interpreted as a loss of control by European electorates over EU institutions and policies. As a result, the former will be more hesitant to delegate more powers to the latter (i.e. to transact), which decreases the welfare of both. Seen under that light, NEO and its insights into how to sustain complex transactions may be useful both as hypothesis-generating framework and as an interpretative and/or diagnostic toolbox.

Naturally, the use of NEO in EU studies is supposed to do more than just add scientific semblance to a relatively underdeveloped field of study. The mainstreaming of our theories is expected to improve them by making them more general, parsimonious, and progressive.¹ Above all, it is expected to reinforce the internal consistency and the logical completeness of our theoretical speculations about the nature of European institutional arrangements.² Solid theories should lead to solid hypotheses, and on to solid empirical findings.

Against that background, this paper develops two arguments. First and foremost, not all NEO theories should be lumped together. In particular, PA and TCE differ in such important aspects that blurring their boundaries can only harm the internal consistency and logical completeness of our theories. Second, although PA models may be useful to answer many research questions pertaining to management issues in the EU, TCE should take priority at the time of investigating the big questions surrounding institutional choice in the EU.

To make those arguments the rest of the paper is organized as follows. Section 2 presents PA, first as it developed in micro-economics, then as it has been applied in political science, and then in terms of what should not be confused for PA models. Section 3 presents TCE, again first as it developed in micro-economics and then as it has been applied in political science. Section 4 describes the way EU scholars have, perhaps inadvertently, blurred the borders between PA and TCE, thereby sacrificing logical completeness and internal consistency, and thus decreasing the necessity and/or the appeal of using NEO. Section 5 concludes by summarizing the argument according to which TCE is more likely than PA to bring useful hypotheses to the big questions surrounding institutional choice in the EU.

¹ On the criteria for evaluating theories, see Moore 2001.

² A theory is internally consistent when its assumptions, and the statements which compose it, are not contradictory with each other. It is logically complete when the resulting hypotheses can be shown to follow logically from the assumptions.