

Introduction: Political economy and European integration

Erik Jones and Amy Verdun

There is something odd about celebrating political economy approaches to the study of European integration at a time when non-economic factors appear to hold sway over popular attention. The 'war against terrorism', enlargement, the European Convention, and European identity are currently among the most prominent issues of public debate. Meanwhile, conversation is more muted in relation to trade, industrial policy and economic and monetary union (at least inside the eurozone). European priorities were not always arrayed in this manner.

Many authors from different points of departure have stressed the economic basis for European integration. Ernst Haas's original study of European integration assumed mostly economic policies to be at the core of the integration process (Haas 1958). Fritz Scharpf (1996) relaunched the concepts of negative and positive integration, which typically refer to taking away rules and regulations that obstruct economic integration, and the creation of common rules and policies (which are usually in the area of economic policies). Andrew Moravcsik (1998) famously (and controversially) argued that economics and economic interests lie at the heart of integration in the European Union (EU) culminating in the Treaty on European Union signed in Maastricht in 1992. These and many other contributions have shaped our understanding of the European integration process. But how far can such emphasis on the political economy carry us in our understanding of contemporary developments in Europe?

Of course, any answer to the question depends on how the 'emphasis' is structured and what we mean by 'political economy'. The argument that unites this collection of essays is that how we study the EU is as important as what we choose to analyse. Throughout, what is at issue is not just the political economy, but also the political economy approach. The aim here is to provide the student of European integration with a framework for inquiry that can be more general than one which merely analyses an individual case study of one aspect of European integration. In a sense, we may also show the influence of

work by Haas, Moravcsik and Scharpf as well as many others who are cited in the articles which follow. We do not pretend to be original in positing this argument but we do hope to illustrate and to persuade that such an understanding of the relevance of political economy has merit. In particular we hope to offer a bridge between more specific accounts of European integration and the more general approaches, with political economy representing the broader literature.

The juxtaposition of methodological and substantive considerations makes for a difficult division of labour. When we originally conceived of this collection, we sought to get two representatives from international political economy and two from comparative. For each subdivision, we asked for one paper on agentic approaches and one on more structural or institutional accounts. Almost immediately, however, the Cartesian elegance of that division foundered on the more complicated reality of the methods and the subject we hoped to analyse. We simply could not do justice to a comprehensive survey of the existing literature of what might be categorized as political economy approaches to the study of European integration and nor did we really want to try.

The resulting papers offer extended illustrations of the more general point we hope to make. 'Political economy' offers a useful lens for studying European integration not just because it focuses attention on the intersection between politics and economics but also, and more broadly, because it provides a range of tools for analysing European integration issues. We claim that political economy would offer useful tools both in the typical political economy fields of study (trade, industrial policy, monetary integration) as well as in areas of study where the political and economic overlap is less apparent (for example, foreign policy, social policy, the construction of Europe, and European identity). Rather than outlining political economy approaches as a whole, we focus more narrowly on the nature of methodological divisions (Verdun), on the importance of omitted variables (Cowles), on the analysis of institutionalized relationships (Kassim and Menon), and on the implications of particular notions of causality (Jones). At the same time, we touch on a range of substantive concerns relating to analysis, decision-making, constitutional design, and popular support.

The intended audience for these papers is not limited to students and scholars of political economy. Although we hope to make some contribution to debates that are taking place in the literature, our larger objective is to provide a theoretical lens through which non-political economists can view and hence understand and participate in these debates. Thus the literature reviews in the following papers have a clear agenda which is to establish points of departure for opening up the debate. We leave it to the reader to judge the merits of this stylistic choice.

These papers constitute the first formal activity of the EU political economy interest section of the European Union Studies Association (EUSA) in the United States. The papers were all originally presented in draft form at the

May 2001 Biennial ECSA-USA Conference in Madison, Wisconsin.¹ The discussion of these papers was lively and the benefits derived by the authors have been considerable. Our ambition is that this activity will be the first in a long series of similar events. As editors, we would like to thank Jeremy Richardson and our eight anonymous referees for their support and attention throughout the review process. We would also like to thank our three other contributors, Maria Green Cowles, Hussein Kassim and Anand Menon, for participating and for agreeing to abide by our numerous requests. What lies in front of you is a collection of papers which aim to start a dialogue on political economy and European integration. We hope for a fruitful debate in the years to come.

Addresses for correspondence: Erik Jones, Johns Hopkins Bologna Center, via Belmeloro 11, 40126 Bologna, Italy. Tel: +39 051 291 7833. Fax: +39 051 228 505. email: ejones@dnsville.com. Amy Verdun, Department of Political Science, University of Victoria, PO Box 3050, Victoria, BC, V8W 3P5, Canada. Tel: +1 250 721 7491 or 7486. Fax: +1 250 721 7485. email: averdun@uvic.ca

NOTE

1 EUSA was called the European Community Studies Association (ECSA)-USA until and including that conference. It changed its name immediately thereafter.

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An American/European divide in European integration studies: bridging the gap with international political economy

Amy Verdun¹



ABSTRACT There appears to be a divide in the literature between American and European approaches to European integration studies. This article discusses the differences between the two types of approaches, and what problems occur from having this divide. It is argued that IPE offers a venue for dialogue between those who focus exclusively on the EU (labelled here as ‘European approaches’) and those who see the EU case to be part of more general phenomena and who seek to produce general theories (‘American approaches’). The article suggests that IPE offers a useful body of literature to narrow the gap between ‘American’ and ‘European’ studies of European integration.

KEY WORDS American and European approaches; critical theory; European integration theories; European Union; institutionalism; international political economy; international relations; neorealism; social constructivism.

INTRODUCTION

The field of European integration studies has gone through a turbulent fifteen years in terms of its scholarly analysis and its implications for European integration theory. Whereas the origins of European integration theory can be traced back to American international relations (IR) literature, present day theories are inspired by a wide range of approaches and case studies produced on both sides of the Atlantic. Though we see many fascinating theoretical approaches in the literature, the relationship between the empirical case studies and theory is not always clear. Some scholars are mainly interested in describing the phenomenon in which they are interested. They want to reflect on the theoretical approaches available in order to place matters in perspective, but are not necessarily interested in developing or improving existing theories. Others use the case of European integration and policy-making in the European Union (EU) as a way to develop new theoretical approaches or to amend existing theories. As a result there appears to be a gap between these case study-oriented and theory-oriented approaches. Furthermore, it seems to be

that the former often comes out of European schools whereas the latter proliferates in the United States. Thus, one could provocatively claim that there is a split between European and American scholarship, which is characterized by how theory and empirics are treated.

This article examines why there is a gap between the more theory-oriented American and case study-oriented European scholarship in the field of European integration/EU studies and how the gap can be narrowed. It suggests that the international political economy (IPE) literature can serve as a vehicle to bridge the gap. To develop this argument the article is structured as follows. The first section offers an analysis of the split between American and European scholarship in the field of European integration/EU studies. The second introduces the field of IPE and reviews four of its schools of thought: neorealism, institutionalism, social constructivism and a collection of approaches critical of the status quo referred to here as the critical school. Section three discusses how IPE can contribute to bridging the gap between the two approaches in the field of European integration. The last section draws some conclusions.

THE EU AS A *SUI GENERIS* CASE? VIEWS FROM BOTH SIDES OF THE ATLANTIC

The developments in European integration theory mirror the rapid changes that have occurred in contemporary Europe, in particular those that have taken place since the late 1980s. In Europe this sea change has led scholars to being interested in understanding this process, which to many observers seems excessively complex and not easily comparable with other political processes at the national level, or indeed elsewhere in the world. Frustrated with the inability of the traditional integration theories to explain, predict or clarify the outcome of the European integration process, numerous scholars have moved to focusing more narrowly on the EU as a unique case and developing specific theories about the European integration process (for a review of European integration theories, see Verdun 2002).

It has long been questioned whether the European integration process should be considered a *sui generis* case or a case that resembles others (cf. Wallace 1983). A number of scholars – usually Europeans – tend to treat it as the former (see *inter alia* Shaw 1999). These scholars argue that the integration process is sufficiently distinct that it merits being conceptualized differently and requires specific theories. In doing so, they offer explanations that are often exclusively applicable to the EU. Others do not argue the case quite as forcefully, but argue instead that the European integration process is in between a *sui generis* case and a case like many others (see *inter alia* Kohler-Koch 1997). Scholars on the other side of the Atlantic, however, tend to focus on the European integration process as an example of a process of institution building and policy-making not dissimilar to those in other parts of the world (see, for example, the debate in a 1997 issue of *ECSA Review*, i.e. Caporaso *et al.*

1997). They see the European integration process as a reaction to pressures that many countries, also those outside Europe, are facing (see also Cohen 1998; Mattli 1999). Countries in some parts of the world may make different choices from those in other parts, and hence do not proceed towards regional integration in the way that Europe has done. These scholars would argue that the EU is not fundamentally different from other forms of governance. It is just in a different stage of institutionalization (see also Jupille and Caporaso 1999).

In terms of their contribution to the literature, the studies that adopt a *sui generis* approach of the study of the EU tend to move away from contributing to the wider political science literature.² Instead, they develop theoretical approaches that are derived from European integration studies, and typically assume that their approaches are not necessarily applicable to studies beyond those related to the EU. Even though there are notable exceptions, this development has had the effect, in particular in American circles, of making European integration studies less important because the connection between it and the broader political science literature has become less obvious. As Simon Bulmer has put it: 'The *sui generis* assumptions of some political integration theory and the lack of interdisciplinary dialogue have risked confining European integration to an intellectual "ghetto" within the social sciences' (Bulmer 1997: 8).

As a result of their view of the European integration process as being comparable to processes going on elsewhere, 'American scholars' tend to place their study of the EU within a broader framework of theoretical approaches that are of a more general nature. Their aim typically is to show that the European integration process is yet another case with which they can show that a particular theoretical approach can be proven to be right or wrong. In other words, their aim is to contribute to the general theoretical literature using the case of the EU.

By contrast, many 'European scholars' seem more inclined to invent a new *ad hoc* approach, or label, to signal their specific approach, which they have derived from their exclusive study of the European integration process. These European scholars often aim at making a new contribution to the more narrow literature on European integration. In doing so they do not concern themselves too much with questions regarding what European integration studies can contribute to the overall political science literature.

The categories 'American' and 'European', mentioned above, are introduced here for purely analytical reasons and also to be provocative. The terms 'American approach' and 'European approach' (or 'American scholar' versus 'European scholar') should be seen as terms that are used to capture a group of scholars who fit broadly into these categories. In this article we understand a 'European approach' to be aiming at examining the European integration process as separate from processes in other parts of the world. In the extreme case this approach considers Europe to be a *sui generis* case. The theoretical contribution to the literature that this approach makes applies only to the case

of Europe. It does not aim at taking the integration process to be an example of a phenomenon that exists outside Europe. In turn, the 'American approach', as we use it here, aims at fitting into the broader approaches of political science literature. According to this approach, the European integration process is only one case, and hence one should examine other cases as well. These studies aim at contributing to the wider political science literature.

Though the dichotomy is clearly artificial and provocative, the names of these categories are selected to reflect the apparent cultural differences in academia on both sides of the Atlantic. There are, of course, Americans who contribute to the European approach (Peterson 2001), and Europeans who apply an American approach (Hix 2002).³ Furthermore, let us be clear that there are indeed European integration scholars who adopt approaches that speak to the general political science approaches and/or who make broader comparisons in their studies (*inter alia* Börzel and Risse 2002; Hix 1994; Knill and Lenschow 2001; Majone 1997, 2001a, 2001b; Scharpf 1997). Likewise, there are numerous American trained scholars who have a keen interest in European integration as such and who have incorporated European scholarship in their research (*inter alia* Ingebritsen 1998; Mattli 1999; McNamara 1998; Moravcsik 1998; Pierson 1996; Pollack 2001).

The above mentioned two trends – to examine European integration merely from either a European perspective or an American perspective, i.e. too much specificity or too much examining Europe as just another case study – are each unrewarding. A criticism of the American approach is that these scholars are so busy trying to prove to their fellow (American) political scientists that they are eager to make a contribution to the general literature that they are unable to appreciate the complexity, diversity and uniqueness of the European integration process. Also, they often choose their case studies in such a way that they can contribute most easily to that literature, rather than being necessarily genuinely interested in the European integration process as such. They shy away from the fact-finding, descriptive, explorative research or research with inductive methodologies designed to gather information about the integration process. By contrast, one can criticize the European approach for being overly inward-looking or for reinventing the wheel. One sometimes wonders to what extent the new approach is really all that new or significantly different from what more general approaches offer. Furthermore, it is often unclear how these theoretical approaches can be falsified or tested, as it is not clear that they could apply to other cases. In fact, the authors of these approaches often state that it is not their intention or ambition that their theories be generalizable beyond the scope of the EU.

So why would authors stick to one or the other trend? Sometimes it appears that scholars are merely signalling to one another to what body of literature they belong rather than fully engaging with one another in a scholarly debate. The process that seems to be going on is one in which debates are happening in distinct academic territories. This behaviour can be found in the way the research problem is identified, the literature to which one wants to make a

contribution, the academic references cited, and the theoretical and methodological approaches chosen. It may be that this territorial divide is logical if one takes into consideration the academic criteria in both Europe and North America. In Europe it is broadly felt that one needs to contribute to the overall literature, and preferably find a label/approach that will be associated with one's name, thus contributing to one's fame in the field. In North America one's reputation depends on how well known one is in the general field study, e.g. political science. In North America the field journals are typically rated lower than general journals (i.e. *American Political Science Review* is considered to be a 'higher ranked' journal than *International Organization*). More importantly, contributing to regional studies is considered even of less scholarly value than contributing to a general field journal (i.e. a publication in *IO* is considered to be of higher scholarly value than a publication in a regional journal, such as *Journal of Common Market Studies*).

The divide in European integration studies seems to have also been taking place in the area of IPE. Scholars in this field study the processes that lie in the broad intersection of international politics and economics. IPE deals with questions such as why actors (states, sub-state actors and international institutions) collaborate. Research questions include regional integration, financial market integration, regulation (deregulation and re-regulation), transfer of sovereignty, multilateralism and so on. We shall argue below that IPE offers a venue for dialogue between those who focus exclusively on the EU and those who see the EU case to be part of more general phenomena. It is, of course, not the intention to profess that IPE is the only body of literature that can be of use to studies of European integration, or that others would be less valuable. Rather the aim is to address how we can make sure that the various approaches continue to have a dialogue together. IPE is seen as 'one' route to get there. Let us now turn to a brief introduction of that literature.⁴

THE FIELD OF IPE

The IPE literature has typically been composed of work by authors at the crossroads of international politics and international economics, and as such the field contributed importantly to the understanding of the integration process (Lawton *et al.* 2000). Throughout the early post-war period IPE had not yet been developed as a field of study of political science, but was occupied by scholars in the economics discipline. With the increasing quantification of the economics discipline and the increasing use of mathematics and formal models in that discipline, the study of the intersection of international politics and economics slowly became abandoned by economists and increasingly occupied by political scientists. They included in particular scholars who studied the realm of international trade, finance and regional economic cooperation. Among the early scholarly work we find Baldwin (1971), Cooper (1968), Kindleberger (1970), Keohane and Nye (1972) and Strange (1970, 1971, 1972).⁵ IPE continued to grow particularly as the world experienced

global recession and hyperinflation in the 1970s, the debt crisis, and increasing international interdependence. Before the word 'globalization' had gained popularity, IPE scholars were already studying the effects of increasing interconnectedness of international economics and politics (Gilpin 1987). Topics that remained of interest to IPE scholars were in particular international finance, monetary policy, exchange rate policy, trade, economic co-operation, regional economic integration and so on.

In the 1980s IPE became more attractive as a field owing to the eagerness of scholars to understand prominent processes in the international domain: the debt crises, increasing interdependence, policy learning, and slowly but surely regional integration, and changes in policy-making signalled, for example, by the prominence of neoliberal politics and its accompanying processes of liberalization, deregulation and financial market integration. The growth of financial markets was another important characteristic that had taken off in the 1970s and continued to influence world politics throughout the 1980s and beyond. In the 1990s, after the end of the Cold War and with the rise of 'globalization', IPE obtained yet more popularity amongst political scientists. The concept of globalization emerged even though it is often argued that the world may not be quite as globalized as it was in the late nineteenth and early twentieth centuries. Though the concept is often not carefully defined, it is generally accepted that it includes three things: (1) internationalization, (2) the information and technological revolution, and (3) liberalization. States, markets and non-state actors reacted to these phenomena in a number of ways. Increasingly, national governments have been moving towards further opening up of their economies to selected other countries and markets, while at the same time not wanting to open up completely. The easiest way to open up while protecting is by creating an institutional framework which includes some states and/or markets, but excludes others. Non-state actors, such as large corporations, have also gained importance in recent years. They too have been keen to have an institutional framework of this nature (see Cowles 1995; this issue). IPE deals with these topics, and the European integration process is a typical example of a response to these challenges posed by globalization and financial market integration. But before IPE started to take off in European integration studies it was the field of IR that made the first major contribution to the theorizing about the European integration process.

As is well known, IR theories, developed by scholars in the United States, lay at the heart of the two most widely cited traditional integration theories: neofunctionalism (Haas 1958, 1964, 1968) and intergovernmentalism (Hoffmann 1966). Neofunctionalism tried to offer an alternative to the realist school of thought. It saw the European integration process as a direct response to functional needs of states. It also foresaw that domestic, transnational and supranational actors would engage in regional integration to improve their efficiency in governance given their relative close proximity and the various possibilities for collaboration. In studying the European integration process, it had in mind comparisons with other parts of the world. Ernst Haas's

neofunctionalist approach was soon challenged by Stanley Hoffmann's intergovernmentalism. This approach, in contrast to neofunctionalism, belonged to the realist school. It argued that the European integration process could only be understood if one examined the interests and power positions of various national state leaders and their interests. The obstructive behaviour of the French President Charles de Gaulle in particular lay at the basis of Hoffmann's work. Another theoretical approach promoted in this period was an approach developed by Karl Deutsch. He examined groups of élites, and the communication amongst them (Deutsch *et al.* 1957, 1967). Deutsch's approach did not attract the attention that neofunctionalism and intergovernmentalism did. However, it has been argued that constructivism, which gained popularity from the 1980s onwards, in fact follows in the footsteps of Deutsch. The two dominant integration theories lost their appeal in the 1970s (Haas 1975, 1976; Webb 1983).

In their overview of IPE literature since the 1950s Katzenstein *et al.* (1998) argue that European integration theory was strongly influenced by American scholars until the early 1980s. Since then American scholars have been less inclined to create their own general theories of European integration based on their own research, but rather have relied on the empirical work conducted by the Europeans (Katzenstein *et al.* 1998: 655). Though fewer in number, contributions to the European integration literature by American scholars have been quite prominent, such as Moravcsik (1998), Pierson (1996), Tsebelis (1994). Numerous publications, in fact, have come out in the IPE flagship journal *International Organization* (*inter alia* Moravcsik 1991; Pollack 1997; Sandholtz 1993). Since the early 1990s, both European and American scholars have published scholarly pieces on European integration that have adopted theoretical approaches which borrowed concepts and insights from comparative politics, public policy, but also from IPE.

Four schools of thought in IPE

Although IPE scholars have traditionally been subdivided into three schools, liberalism, mercantilism and Marxism (Woods 2001), this article will focus on the schools of thought (and divisions amongst them) that have become more dominant in the past decade. Based on the ongoing debates in the IPE journals, such as *International Organization*, one could say that it is fairly common to subdivide the IPE approaches into four categories: neorealism, neoliberal institutionalism, social constructivism and the critical approaches.

Neorealism

The neorealist approaches are among the IPE approaches that take the state as the dominant actor in determining the outcome of international politics. The seminal work by Waltz (1979) argues that the international system can only be understood by looking at the actions of states. They act in their own

self-interest, and try to maximize their interests based on fixed *ex ante* preferences. The outside world is perceived as being in a state of chaos in which anarchy prevails. At times a major player can impose order on this chaos. But that state will only do so when it is in the interest of that major player. The original work by Waltz did not allow for any role for domestic politics or international organizations. However, in reply to its critics neorealism opened up to the possibility of domestic forces possibly affecting state preferences and perceived interests (Keohane 1986). Yet, for the outcome of international bargaining and co-operation the locus of attention remained the state. Realist approaches have found their way into the study of the EU, especially in explaining the behaviour of inter-state bargaining (Garrett 1993; Grieco 1995).

Neoliberal institutionalism

The neoliberal institutionalist approaches accept that states are the primary actors in the world and thus that neorealism 'provides a good starting point for the analysis of co-operation and discord [in the international system]' (Keohane 1984: 245). However, in addition one should recognize that institutions can have an effect of their own. Institutions are defined by Keohane as 'sets of practices and expectations'. They can facilitate inter-state agreements and enable states to pursue their own interests through co-operation (Keohane 1984: 246). More recent institutionalist approaches have emphasized a larger role for institutions. They have emphasized the importance of path dependence, socialization and policy learning (Hall and Taylor 1994). Institutions, in this more recent view, set the path for the development of policies, rules and procedures. By having this historic precedent and standard operating procedures, the policy-making process is influenced. Sometimes emphasis is placed on the fact that international institutions can be more effective in imposing rules and regulations. Thus nation-states will be inclined to follow those rules and regulations more frequently, consistently and without clear direct links to self-interest, than realist accounts would lead us to believe. In recent years institutionalism has been frequently adopted in studies of European integration (*inter alia* Bulmer 1994a, 1994b; Pierson 1996).

Social constructivism

Since the second half of the 1990s the social constructivist school has gained much terrain and has appeared to be a 'new' school of thought. However, as always with so-called 'novelties', the approach had been around for quite some time. Already in the 1960s Berger and Luckmann (1966) outlined their social constructivist approach. They identified three core assumptions. The first concerns the nature of the individual. He/she is taken to be a social creature who creates and institutionalizes new knowledge about 'reality' and finds his/her personal identity based on social processes. The second assumption is that

our observation of 'reality' may be an artefact, as it is coloured by whoever observes or interprets it. The third concerns how social scientists study social action. They are involved in the process, and hence their action and previous socialization colour their findings. Social constructivism was made more prominent in IPE literature through the work of Ruggie (1975, 1998) and others (*inter alia* Checkel 1998, 1999; Finnemore 1996; Risse 2000). More recently European integration scholars have adopted the social constructivist approach in their studies (Christiansen *et al.* 1999; Diez 1997; Marcussen 2000).

Critical approaches

There is not one uniform school of thought that encompasses the so-called 'critical approaches'. Often reference is made to a number of them, such as various forms of Marxism, the British critical school (Palan 1992), the Amsterdam school (Van der Pijl 1998), the neo-Gramscians (Cox 1981, 1983, 1995), but also various forms of post-materialists, such as reflectivists (Jørgensen 1997) and post-structuralists (Walker 1989). These approaches all have in common that they criticize the traditional approaches of IPE and IR. They argue that the traditional schools focus too much on the state and fail to understand how the underlying structure divides power and wealth. They are critical in that they see the status quo as benefiting the rich and the already well-off. Moreover, they argue that the international structure widens the gap between the 'haves' and the 'have-nots'. These approaches not only criticize the traditional approaches for their normative values and their objects of study, they also criticize the academic method of rationalism and causal models with hypotheses testing. They share with the social constructivists the assumption that there is no clear 'reality out there' but that this world is to be interpreted, and that the researcher plays an important role in that process. In recent years some European integration studies have been inspired by these more critical approaches in their studies. In particular the work of European scholars has been more open to these approaches (*inter alia* Van Apeldoorn 2002).

These four approaches have in common that they focus on the questions regarding the role of the state and the interaction between the state and the system. The neorealists place most emphasis on the state. The neoliberal institutionalists add to that the importance of institutions, as either rules and regimes or more formal organizations. The social constructivists add to these elements the fact that the actors (states, policy-makers, social scientists) are all influenced and formed by their culture, education, socialization and identity, and thus these will influence the role they play in this interplay between states, institutions and the system. The critical schools underline that those interactions are not value free, and that the outcome ought to be taken into consideration when politics are made, and are studied.

IPE AND EUROPEAN INTEGRATION STUDIES

IPE approaches were a welcome addition to IR approaches. The latter typically focused on foreign policies and on the policies of states *vis-à-vis* other states. IPE offered to look at economic interactions between states which opened up the 'states' and included many more actors and factors, in particular the transnational and domestic actors (state and non-state actors). European integration theories have built on the original two integration theories in a number of ways, and in so doing have taken on important IPE characteristics.

As mentioned above, intergovernmentalists were originally pure realists. However, the most recent intergovernmental approach to European integration, by Andrew Moravcsik, gradually took on a more liberal perspective on the integration process. It incorporates the role of domestic interest groups in helping to define national state preferences. Economic factors are taken very seriously. However, even though the incorporation of domestic politics in this approach is a real innovation compared to the traditional approach, the approach still stresses that the states have ultimate influence over the process. The effects on the process of the actions of institutions, supranational actors and the like are dismissed (Moravcsik 1998). This approach is very useful in studying treaty negotiations and intergovernmental bargaining as well as examining the state preferences of EU member states. It offers scholars conceptual tools to analyse the state-specific characteristics and interests as well as the power-play that goes on among them.

The observation that EU member states have no longer felt the need to protect sovereignty at all cost has puzzled many neorealists, and in turn has given more ammunition to studies of institutionalism. Institutionalisms in all kinds of guises have been used to explain why states give up their sovereignty or 'pool their sovereignty' (Keohane and Hoffmann 1991). Regimes, sets of rules and formal organizations are able to offer services to states that they in turn would be unable to safeguard by merely focusing on national state preferences. Neofunctionalism has some similarities with neoliberal institutionalism, focuses on the degree of 'order' in society. It hypothesizes under what conditions societal actors, the state and the supranational actors would transfer their loyalties to the supranational level. It theorizes about inter-state cooperation from a functional perspective. Thus it hypothesizes the transfer of sovereignty on the basis of policy-making efficiency and effectiveness. In recent years the study of the EU by those who are broadly favourable to the claims of neofunctionalism increased dramatically (Burley and Mattli 1993; Stone Sweet and Sandholtz 1997, 1998; Tranholm-Mikkelsen 1991). Various authors, in a number of different ways, have each given persuasive accounts of the European integration process by adopting an historical institutionalist approach (*inter alia* Bulmer 1994a, 1994b; Pierson 1996; Wincott 1995). These approaches are able to examine the European integration process that continues to go on outside the grand bargaining and the intergovernmental conferences

(see in this context also the multi-level governance approaches, Hooghe and Marks 2001; Marks *et al.* 1996⁶). It offers conceptual tools to examine the role of institutions, be they actual organizations, a regime or a set of rules. The concept of path-dependence offers us insights into how some processes are influenced by decisions made in the past. It offers us an approach that is suitable for examining the ongoing policy-making process, and the role of supranational institutions in this process.

Social constructivists have further refined their object of study. They argue that the integration process falls prey to the visions and images that the politicians, policy-makers, but also social scientists have in mind. They also argue that the role of socialization, knowledge and perceived reality is helping to create the Europe of tomorrow. More recently scholars with this inclination have been arguing forcefully against some of the assumptions of rationalist approaches, in particular those of intergovernmentalism, arguing that much socialization and preference formation occur in between the moments of intergovernmental bargaining. In this view the bureaucratic politics and interdepartmental politics (for example, competition between various Directorate Generals within the Commission) are as important as the grand bargains that take place at Intergovernmental Conferences or at European Summits (Christiansen *et al.* 2002). These approaches offer conceptual tools to examine the process behind the process; that is, the subtleties within institutions, member states, and the policy-making process. It questions the capacity of the state-centric and institutionalist approaches to identify unambiguous preferences, interests, policies and so on. These approaches are inclined to consider more factors that aim at describing the process. In so doing, they want to keep open the option that ideas, culture, language, personalities, sub-entities may be of crucial importance, thus leading to different variables (often many variables) as being important.

The critical school argues that the integration process has become too much focused on economic integration within the context of a neoliberal regime. It also argues that the kind of integration created in Europe benefits the already well-off. Critical approaches aim at correcting the imbalance. They also work at conceptualizing how a fair and just Europe can be created. Critical approaches are concerned that the European integration process will weaken state–society relations. Numerous neo-Gramscian perspectives question the underlying hegemonic nature of the European integration project (Bieler and Morton 2001; Van Apeldoorn *et al.* 2002). Finally, they call for the strengthening of democratic processes in the EU and increasing the accountability, transparency and legitimacy of EU governance. These approaches are in many ways in opposition to the ‘mainstream’ approaches. They question the rationality of market forces and the ‘choice’ that it assumes. Instead they develop concepts that can assist the analysis of how the integration process may be influenced by power relations that have been built up in the course of the integration process.

Most of these IPE approaches, especially those applied to the EU, have also managed to incorporate domestic factors, something for which the field of IR

has been strongly criticized (Hix 1994; Jupille and Caporaso 1999; Kassim 1994). IPE has for that matter been able to overcome the problems that critiques have identified with 'pure' IR approaches. Each of these approaches offers analytical tools and plausible suggestions (indeed sometimes hypotheses) that social scientists interested in the integration process can reflect on. The strengths and weaknesses of these approaches are quite different from one another. But each of these approaches offers tools and concepts that are generalizable within the context of the broader IPE approaches, and as such offer a possible entry point for general discussion.

So what would be the benefit of adopting IPE approaches in European integration? First, IPE offers a range of diverse theoretical frameworks, which in turn facilitate an implicit or explicit comparison of the European integration process with other processes. Hence it offers tools for broader theorization. Second, IPE is sensitive to insights from various fields, such as comparative politics, IR, public policy literature and so on. As such it caters to the European approach, in that it is sufficiently open to the specificity of the European integration process; the specificity or uniqueness of the European integration process can be analysed and discussed with IPE approaches. To advocate IPE as a venue for debate is to aim at finding a middle ground where the debate can take place. In recent years there have been claims that IR would no longer be useful for explaining European integration (Jachtenfuchs 2001: 259). What we argue here, however, is that IPE would offer a suitable body of literature to explain European integration. In another contribution to the literature there has been a move away from the diversity set out above. It is not very useful that the debate in the literature has moved to one on the dichotomy between the so-called 'rationalists' and the 'constructivists' (Pollack 2001) or the 'rationalists' versus the 'reflectivists' (Smith 2001). Pollack argues that rationalists broadly speaking hold the same rationalist assumptions about research design:

I would argue that liberal intergovernmentalism, rational-choice institutionalist analyses and even Grieco's purportedly neorealist voice opportunities hypothesis are all part of an emerging rationalist research programme which is rapidly establishing itself as the dominant paradigm in European integration theory, at least in the United States.

(Pollack 2001: 233)

This debate obscures the fact that there are cultural differences, and fundamentally territorial divides about the theoretical culture and body of literature one wants to belong to. The rules of the game in academia on both sides of the Atlantic seem to differ, and this split does not benefit the genuine exchange of ideas. But what that dichotomy also does not emphasize is the degree to which some approaches do not reflect on the case of the EU/European integration process to be informing the literature within a broader framework rather than on the EU/European integration process alone. As we have seen in the review of the IPE literature above, the constructivists are as legitimate an IPE approach as are the rationalist approaches. What we want to argue here is that the case

of the EU is just one among many cases. We argue here that IPE offers a good body of literature for examining the integration process exactly because of its openness to rationalist and constructivist approaches, its general interest in the very thing that the integration process often deals with, i.e. international economic co-operation.

CONCLUSION: BRIDGING THE GAP

This article has argued that 'American' and 'European' scholarship on the EU and the European integration process is divided. It is argued that there is a split between the cultures of scholarship on both sides of the Atlantic. Indeed, a comparison could be made between the behaviour of scholars and that of dogs peeing to demarcate their territory. The European approach has been increasingly moving away from general theories and has been more inward-focusing, thereby only seeing the case of Europe as the one that is interesting to study because of its inherent characteristics. In order to appear on the radar of the more general political scientists as well as American scholars with an interest in EU studies, these approaches need to be more outward looking and consider how their theories can be applicable to cases other than that of Europe. The American approach by contrast has been moving toward less case specificity in favour of contributing to the more general literature in political science. The article is also critical of the American approach that is overly preoccupied with theory and with making a contribution to the general political science literature and in doing so fails to appreciate the specificities of the case of Europe. The article suggests that an IPE approach will enable American scholars to do justice to the uniqueness of the European integration process while at the same time allow them to focus on more general theorization. Overall, the article argues that IPE as a field offers useful analytical and theoretical tools for EU/European integration studies to become more visible in the eyes of the generalists, while still respecting the diversity of theoretical approaches that exist on both sides of the Atlantic.

The benefits of using IPE approaches in European integration studies are threefold. First, IPE approaches focus the research design on seeing the EU/European integration process as one case in the broader study of regional integration. They thereby transcend the *sui generis* or $N=1$ debate. Second, IPE approaches as applied to the EU have responded to the critics from comparative politics and public policy in that their focus is on many more actors than on states alone. IPE approaches allow for the study of both state and non-state actors (domestic, transnational, supranational and international actors). Third, the kinds of debate going on in the European integration literature are also present in the IPE literature. These are the ones referred to above, i.e. rationalists versus constructivists/reflectivists, but also the issue of generalizability and falsifiability of theoretical approaches. The advantage of using IPE approaches is that it continues to strive to place these debates within a broader framework, and not only focus on the case of EU/European integration. It also means that similar

theoretical discussions regarding other areas of study can have their influence on the debates taking place about the study of EU/European integration.

In conclusion, though it may be natural to be signalling to what body of literature and what academic community one belongs, it would be beneficial if the transatlantic debate remains lively. Let us hope that in the years to come the two approaches will come closer together. This article has suggested that IPE could offer a useful bridge across the emerging divide.

Address for correspondence: Amy Verdun, Department of Political Science, University of Victoria, PO Box 3050, Victoria, BC, V8W 3P5, Canada. Tel: +1 250 721 7491/7486. Fax: +1 250 721 7485. email: averdun@uvic.ca

NOTES

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- 2 This article reflects on how European integration studies contribute to the political science literature, even though academic scholarship in the area of European studies can and does contribute to interdisciplinary knowledge and thus will also contribute to other disciplines such as law, economics, public administration, environmental studies and so on.
- 3 An example of this inverse advocacy could be seen in action at a conference co-sponsored by UACES and the Central European University held in Budapest in April 2000. John Peterson (an American national) and Simon Hix (a British citizen) were each advocating the virtues of respectively 'European' and 'American' approaches. At some point it was so amusing to see them profess the benefits of the 'other' approach that the Chair of that panel, Helen Wallace, jokingly suggested that they should switch passports.
- 4 New journals have also been set up to try to bridge the gap. For example, the journal *European Union Politics* was founded with the almost exclusive aim of becoming a regional journal that will be taken seriously by mainstream American political science. Thus it seeks to include pieces that discuss research on European politics and adopt methodologies and theoretical approaches from mainstream American political science.
- 5 It is generally argued that IPE is a subfield of IR – scholars such as Strange argued that this statement should be reversed (see, for example, Strange 1988).
- 6 Note that multi-level governance approaches have much in common with these institutionalist approaches. It is the view of this author that they can also be considered IPE approaches in so far as they are aiming at a more generalizable knowledge claim.

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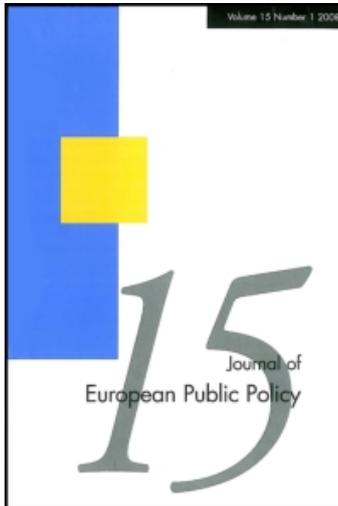
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Non-state actors and false dichotomies: reviewing IR/IPE approaches to European integration

Maria Green Cowles¹

ABSTRACT Many IR and IPE theories marginalize non-state actors in a manner inconsistent with their role in EU integration, governance, and policy-making. Yet multinational firms, NGOs, and advocacy networks are increasingly important players in today's global economy. This review article examines four theories/approaches that tend to ignore this development: neorealism, institutionalism, constructivism, and the critical school. To shed light on the literature's marginalization of non-state actors, I identify three false dichotomies: (1) the international versus domestic, (2) the public versus private, and (3) the 'good' versus 'bad'. The article provides empirical evidence to demonstrate why these dichotomies must be transcended and discusses theoretical developments that better account for non-state actors. Finally, I recognize a fourth false dichotomy between the American IR/IPE theories and the European comparative, political economy, and governance approaches. Rather than adopting one approach over another, this paper suggests that both schools of thought can benefit from one another.

KEY WORDS Advocacy networks; constructivism; critical school; dichotomies; firms; governance; institutionalism; liberal intergovernmentalism.

INTRODUCTION

There is a temptation to argue that the heyday of firms and other non-state actors in European Union (EU) integration theories and policy-making occurred during the Single Market years.² The political role of multinational firms behind the 1992 program (Cowles 1995; Sandholtz and Zysman 1989; Van Tulder and Junne 1998) and the subsequent mobilization of other interest organizations produced a flurry of writing, often in the pluralist vein, on these non-state actors (Anderson and Eliasson 1993; Coen 1997; Cowles 1996; Greenwood 1997; Greenwood *et al.* 1992; Mazey and Richardson 1993). Scholarly accounts of 'history-making events' (Peterson 1995) since the Single Market Program, however, have not involved these non-state actors to the same extent. Today, the sole focus of many international relations (IR) and/or international political economy (IPE) scholars analyzing the EU is on the

nation-state. Indeed, if one only looks at the 'historic decisions' – the Maastricht, Amsterdam, and Nice Treaties and the current convention on the future of Europe – as the summation of European integration since 1992, one might question the importance of non-state actors in our theoretical and methodological approaches to the EU today.

As Verdun notes in this issue, IR and IPE theories are crucial to our understanding of international economic co-operation and the EU integration process itself. Yet the scope of non-state actors in these IR/IPE theories and approaches remains somewhat marginalized or, more precisely, 'ghetto-ized'. There is a tendency to narrow non-state actors' functions by limiting their activity to a single level of governance, by confining certain roles to the realm of traditional state and institutional actors, by pre-assigning normative labels to them, and/or by restricting our analysis to certain kinds of policy analysis.

This ghetto-ization of non-state actors is nothing new. The role of the firm, for example, has been largely under-theorized in IR and IPE theories in general (Eden 1991; Sally 1995; Strange 1988, 1996). Yet, the increasingly global economy, the transnationalization of markets (Newman and Bach 2002a), and the role of the EU as both a promoter of and bulwark against this transnational and global economy suggest the need to incorporate firms and other non-state actors more explicitly in our political economy approaches to the EU. Indeed, while the literature on globalization is vast, one of its common strands is the recognition that global economic change creates new and different kinds of alignments of non-state actors around core issues and across borders (Weber 2001: 289).

This article reviews a specific set of IR/IPE literature in terms of its incorporation of non-state actors given their relatively new and varied roles in the EU today. There are, of course, many IPE theories and approaches that focus on state and non-state actors. Examples would include the hegemonic stability theories surrounding international monetary policy (Krasner 1976), the classic work beginning with Dunning (1958) on the impact of foreign direct investment by multinational firms, and the more recent work on transnationalism (cf. Risse 2002). My focus is on those IR/IPE theories and approaches discussed by Verdun in her article: neorealism, institutionalism, social constructivism, and the critical school. Scholars have applied all four theories and/or approaches – individually or in various pairings – to European integration and EU studies in recent years.

The purpose of the article is not to suggest that one or more of these theories/approaches are better than another, or to suggest an alternative theoretical framework (e.g. transnationalism). Rather, the purpose is to explain how this literature marginalizes non-state actors in a manner inconsistent with their roles in EU integration, governance, and policy-making today. I focus on three false or artificial dichotomies, inherent in one or more of the theories/approaches, as a mechanism to explore this 'ghetto-ization'.³ The first is the international/domestic dichotomy which appears in neorealist accounts. The second dichotomy is the public vs. private debate, upheld in the rational-

choice strand of institutionalism and its off-shoot, principal–agent theory. The third dichotomy is that of ‘good vs. bad’ found in the constructivist and critical school approaches

The article concludes with a fourth false or artificial dichotomy – the debate between IR/IPE approaches versus comparative and public political economy approaches to the EU. Many of these European governance approaches (Jachtenfuchs 2001) have made important advances in moving the study of non-state actors beyond the pluralist discussions of the 1990s. While one might be tempted to simply set aside the IR/IPE approaches in favor of the EU governance theories, I argue that such action would be premature. Indeed, this article suggests that both schools of thought can benefit from one another.

NEOREALISM AND THE INTERNATIONAL/DOMESTIC DICHOTOMY

Realists and neorealists focus their attention on states and their power to explain international co-operation. Liberal intergovernmentalism, the EU variant, argues that domestic actors, including non-state actors, inform the preferences of member states.⁴ The Putnam model of two-level games, for example, focuses on the chiefs of government (COGs) or negotiators who bargain with their foreign counterparts to reach international agreements (Moravcsik 1993a). The COGs’ ‘win-sets’ – their bargaining margin of maneuver – are determined by domestic interests alone.

Liberal intergovernmentalism makes a careful distinction between the functions of domestic and transnational interests/social groups. First, transnational interests can strengthen or undermine domestic support of a chief of government, but, unlike domestic actors, cannot impact the COGs’ bargaining positions *per se* (Moravcsik 1993a: 32; 1993b). Second, when domestic interests are not able to organize themselves effectively, transnational actors may provide support to ‘supranational entrepreneurs’ who, under certain other conditions, influence EU history-making events (Moravcsik 1999).

There are, however, two basic problems with this line of reasoning. The first problem centres on the capacity of non-state actors at the transnational level. To argue that transnationally organized interests matter only when domestic interests are disorganized is misleading. To maintain that the only role these transnational actors can then play is one of supporting supranational entrepreneurs is simply wrong. Transnationally organized interests, in fact, may have a greater incentive – and thus work to organize and represent themselves more effectively than domestic interests to encourage government co-operation. The supranational governance approach, for example, emphasizes how the firms’ transnational market activity brings about pressures for governments to co-operate – with or without the participation of supranational entrepreneurs. Firms have an interest in seeking decisions being made at the supranational (EU) as opposed to the national level (Stone Sweet and

Sandholtz 1998). Walter Mattli (1999) makes similar arguments and his political economy approach clearly suggests that the role of firms in EU co-operation and decision-making need not be limited to domestic or meso-level activity. Firms themselves may be part of the history-making phases of EU integration.

Indeed, transnationally organized actors will likely figure in the future development of European security and defense policy (ESDP). Put another way, one cannot ignore the restructuring of the European defense industry and the subsequent creation of new transnational actors when assessing the future of defense co-operation. German DaimlerChrysler Aerospace, French Aérospatiale Matra, and Spanish CASA created the European Aerospace, Defense, and Space Company (EADS) – the second largest private aerospace company in the world. While domestic constituencies like European taxpayers and lawmakers might influence COGs' decisions to 'buy European', decisions made by transnational corporate actors 'may well be the cement which will make permanent, or irreversible, the watershed decisions on defense integration' (Collester 2001: 386).

The false domestic vs. international dichotomy

A second related problem with this line of reasoning is the false dichotomy between national and transnational/international interests. What liberal inter-governmentalism does not address is that consumer groups, environmental organizations, multinational firms, and transnational advocacy groups can participate simultaneously in international and domestic politics (Cowles 1995; Keck and Sikkink 1998). To claim that domestic social groups matter but transnational interests do not misses the point that, increasingly, these two groups are one and the same. For example, as domestic regulatory issues such as beef hormones and genetically modified organisms are placed on the EU and international negotiating table, domestic consumer groups mobilize at the European level or even at the transatlantic level, i.e. the Transatlantic Consumers' Dialogue (Pollack and Shaffer 2001). EU and US businesses with extensive transatlantic investment meet in the Transatlantic Business Dialogue (TABD) to develop a 'transatlantic consensus' on key regulatory issues. This transnational consensus is, in effect, the firms' domestic consensus as well (Cowles 2001a).

To recognize this false dichotomy means to acknowledge the changing dynamics of state–society relations. In the first place, interest groups mobilize at different levels at various times in history. European multinational firms, for example, did not organize themselves in Brussels until the late 1970s to early 1980s. Thus, the creation of a group like the European Round Table of Industrialists (ERT) and its support of the Single Market Program was a watershed event (Cowles 1994). It is not surprising, therefore, that one finds no evidence of large corporations influencing 'history-making events' prior to the Single Market Program. Since then, however, companies and other non-

state actors have increasingly promoted their interests simultaneously in national, European, and international arenas.

While liberal intergovernmentalists rightly call on scholars to better specify the conditions under which non-state actors' representation matters, liberal intergovernmentalism in turn would be strengthened if it developed a more robust understanding of the multiple arenas in which non-state actors participate. This theory must also recognize that non-state actors do more than articulate their preferences or support supranational entrepreneurs. Increasingly, these actors set agendas, participate in negotiations, implement and/or have the authority to make policy in the first place. In other words, one must recognize the second false dichotomy between public vs. private actors.

INSTITUTIONALISM AND THE PUBLIC/PRIVATE DICHOTOMY

Institutionalism explains why and how formal organizations, regimes, and rules can facilitate inter-state co-operation and, at times, encourage countries to pool their sovereignty. The three strands of institutionalism – rational-choice, sociological, and historical (Steinmo *et al.* 1992; Hall and Taylor 1996) – have all been applied to the EU. As discussed later, sociological and historical institutionalism are often coupled with the constructivist approach in various EU studies, and have been incorporated into many European governance and public policy approaches. Rational-choice institutionalism remains more firmly anchored in the IR theoretical approach, and it is the institutionalist strand examined here.

Rational-choice institutionalism and its off-shoot, principal–agent theory, focus on why member states delegate powers to these supranational agents or institutions. It has been applied, for example, to explain why EU member states might confer certain powers and programs to the European Commission.⁵ Principal–agent models generally identify four key functions for which member states might delegate authority to supranational institutions: (1) to monitor member state compliance, (2) to solve problems of ‘incomplete contracting’, (3) to serve as a genuinely independent regulator, and (4) to initiate policy proposals and set the agenda for the principals (Pollack 1997). Yet nowhere in this discussion of institutionalism and the delegation of authority is there a stated role for non-state actors.

However, non-state actors – organized below and/or above the state in transnational groups or coalitions – also participate in important ways in the principal–agent model. First, non-state actors, together with institutions, can influence the calculus of principals to delegate authority, to carry out ‘incomplete contracting’, and to serve as independent regulators. As noted above, the ERT publicly supported the Commission's Single Market Program. While the companies did not influence the Single European Act negotiations *per se*, they threatened to move their operations out of Europe if member states did not support effective institutional changes to carry out the 1992 project (Cowles 1995).

Second, non-state actors also participate in the shaping of policy proposals and agendas prior to, during, or even after the delegation of authority has been conferred. Transnational coalitions and actors have been critical in shaping proposals and changing policy outcomes in East Asian economic dynamism, then-Soviet security policy, and African ivory conservationism (Risse-Kappen 1995). Multinational corporations have mobilized to shape the international agendas of international institutions such as the World Trade Organization (WTO), the World Intellectual Property Organization (WIPO), and the Organization for Economic Co-operation and Development (OECD). Key firms, for example, influenced the creation of the Trade-Related Intellectual Property Rights (TRIPs) agreement during the Uruguay Round (Sell 1995). Indeed, the TRIPs agreement would probably not have been achieved without the 'active agency' of these companies (Higgott *et al.* 2000: 8). In the EU, the ERT led efforts to promote the open method of co-ordination as part of the Lisbon European Council, and fostered the larger Lisbon goal of making the EU the most competitive and dynamic knowledge-based economy in the world (Hodson and Maher 2001; Sisson and Marginson 2001; Wallace 2001).

Third, non-state actors increasingly assume the traditional state or international institution responsibility of monitoring and enforcing international agreements (Keck and Sikkink 1998). International institutions often lack adequate monitoring and centralized enforcement mechanisms. Non-state actors can appeal to international institutions to promote compliance, serve as 'watchdogs' to report non-compliance, form transnational networks, and create global public campaigns against negligent states (Börzel 2002). The work of the International Coalition to Ban Landmines did not end with the awarding of the Nobel Peace Prize. Rather, the non-governmental organization (NGO) now monitors compliance of the treaty (Florini 2000: 213). These same actors can go before the courts to demand enforcement. Women's groups have done this rather effectively in the United Kingdom as a means to ensure that EU law is properly carried out and enforced at the national level (Mazey 1998).

Fourth, although not strictly part of the principal-agent theory, non-state actors can provide legitimacy to the supranational institutions which have received these powers. In recent years, a number of international institutions have brought in NGOs and firms to build transnational coalitions around key agenda items. The World Health Organization has forged partnerships with both NGOs and companies to promote key global public policies. In the EU where the issue of legitimacy or the democratic deficit is pronounced, the Trade Directorate General has engaged in an ambitious civil society program to shore up support for its own trade agenda (Meunier 2002).⁶ In short, non-state actors are now key players in creating global public policy (Reinicke 1998) and in participating in global governance in general (e.g. Clark 1995; Keck and Sikkink 1998; Price 1998; Ronit and Schneider 1999; Smith *et al.* 1997).

The false public vs. private dichotomy

As M.J. Peterson pointed out a decade ago, the state – and, for that matter, international institutions – do not monopolize the public sphere (Peterson 1992). Firms and other non-state actors increasingly ‘do’ what traditional public actors do. An important contribution of European governance and public policy theory in recent years is the recognition of the public and private interaction in EU policy-making (cf. Héritier 1999; Kohler-Koch 1996; Kohler-Koch and Eising 1999; Kooiman 1993). Yet, many IR institutionalist and global governance approaches persist in upholding the false dichotomy between public and private actors who are largely overlooked.⁷

State delegation of authority, however, is not only conferred on public actors (i.e. EU institutions), but on private actors as well. The work of Cutler *et al.* (1999), for example, challenges traditional IR approaches to explore how governments confer ‘private authority’ on firms and other non-state actors to set agendas, address incomplete contracting, monitor compliance, and self-regulate or co-regulate. Sometimes this takes place precisely because states and public institutions do not have the proper mechanisms to cope with globalization (Cutler *et al.* 1999: 19). While governments have yet to establish clear rules on the protection of intellectual property rights on the Internet, for example, private firms such as IBM are working with other software and hardware companies to create their own rules and inter-operable standards to promote digital intellectual property rights worldwide (Spar 1999: 40).

Standards-setting is another area where private actors play an increasingly important role (Abbott and Snidal 2001; Mattli 2002). Indeed, with the shift in regulatory policy following the Single Market Program, firms have become dominant players in the policy-making process (Egan 2001). Private rule-making is also found in the form of new trading codes – the *lex mercatoria moderna* or new merchant law – that provide ‘a set of principles and customary rules ... [guiding] economic transactions at the national and transnational level’ as well as private commercial arbitration to solve disputes (Lehmkuhl 2000; see also Mattli 2001; Stone Sweet 2002). Indeed, private forums for international commercial dispute resolution are becoming increasingly popular (Mattli 2001). For example, the Global Business Dialogue on e-commerce (GBDe), a coalition of e-commerce firms from Europe, the United States, and Asia, is developing on-line alternative dispute resolution (ADR) mechanisms and trustmark guidelines to obviate or at least lessen the need for commercial and private consumers to use national courts for redress (Cowles 2001b).

In addition to the *lex mercatoria moderna*, firms as well as other non-state actors have been a growing force behind the development of soft law in international and global governance (Abbott and Snidal 2000). Soft laws are ‘rules of conduct which, in principle, have no legally binding force but which nevertheless may have practical effect’ (Snyder 1993: 2). Soft law has been used in EU policy-making in the motor vehicle and state aid policy areas (Cini

2001). More recently, soft law, along with self-regulation, have been featured in the White Paper on European governance. The extent to which the White Paper is ultimately incorporated could revolutionize EU rule-making by promoting 'policy-making without legislation' (Héritier 2001). The result will be a greater shift from public to private policy-making in key areas such as the 'new' or the 'digital' economy.

Of course, the recognition that non-state actors are important authoritative, rule-making actors in global governance does not imply that state actors are not. Some scholars have expressed concerns, however, that the delegation of authority to private actors 'implies a decline in state capacity' (Kahler and Lake 2002: 15) or a 'hollowing out of the state' (Rhodes 1996: 661). One could argue that the reality is rather different. The effectiveness of transnational coalitions, for example, often depends on their access to 'key targets' or international institutions. Whether or not a firm or NGO has access to the domestic polity and, therefore, the means to create 'winning coalitions' may ultimately determine its success (Cram 2001; Risse-Kappen 1995). Similarly, the ability of non-state actors to monitor and enforce international agreements can vary according to the access to state legal systems (Conant 2001). Non-state actors will likely experience greater success in countries with institutions that facilitate firm and NGO access to the courts. Of course, the success of self-regulation may depend on the 'shadow of the state' – the threat of state intervention should self-regulation fail (Lehmkuhl 2000; Newman and Bach 2002b; Scharpf 1997). While firms may develop self-regulatory codes of conduct in the United States, for example, the Federal Trade Commission will intervene, enforce, and punish if unfair trade practices occur. Thus, there are limits to the roles and capacities of firms and other non-state actors. Indeed, for some scholars, state sovereignty itself sets those very limits (Clark *et al.* 1998: 33–5).

Yet the recognition of traditional state power and sovereignty in these scenarios does not relegate non-state actors to some form of subservient status. While one can readily agree that 'private governance does not stand independent of public governance' (Kahler and Lake 2002), one could also argue that public governance increasingly does not stand independent of private governance. Focusing only on the former risks pushing aside and ghetto-izing the role of non-state actors. In reality, one increasingly finds a complementary relationship between public and private actors – the existence of public *and* private management of international markets, and the development of public *and* private mechanisms to co-ordinate the global political economy. Indeed, there is a 'blurring of public–private spheres' of action (Cowles 2001a: 214). Thus, it is not merely an augmentation of public governance, but a qualitatively different kind of governance.

Higgott *et al.* suggest that this coexistence of public/private actors signifies 'a new way of sustaining capitalist accumulation in an era of global structural change' (2000). The new relationship between states, firms, and non-state actors is part and parcel of the current historical phase of political economy

(cf. Héritier 2002). The challenge remains, therefore, for rational-choice institutionalism and other IR theories to address this new reality.

CONSTRUCTIVISM, THE CRITICAL APPROACH, AND THE 'GOOD' VS. 'BAD' DICHOTOMY

Constructivism is an ontological approach to social inquiry – not a theory *per se* – that is relatively new to European integration theory. Applied to the EU, constructivism provides a rich understanding of the rules and norms in European governance, political community and identity formation in the Euro-polity, as well as discourses, communication action and the role of ideas in European integration (Christiansen *et al.* 1999).

Touted as a middle ground and not a grand theory, constructivism is based on two assumptions: '(1) the environment in which agents/states take action is social as well as material; and (2) this setting can provide agents/states with understandings of their interests (it can "constitute" them)' (Checkel 1998: 325–6). Constructivism often provides a framework in which one embeds other IR/YPE theories. Thus, its range includes radical post-modernism to near-rational choice approaches that take the formation of preferences and the role of discourse seriously. Constructivism has also been closely interwoven with the historical and sociological strands of institutionalism, thus distinguishing between the 'thin' vs. 'thick' understanding of norms and institutions in social life (Checkel 2001). Indeed, new institutionalist and constructivist approaches are sometimes the same.

Constructivist approaches are not without criticism. One is that constructivists sometimes lack a theory of agency. Checkel, for example, argues that early constructivist approaches (Finnemore 1996; Katzenstein 1996; Klotz 1995) tended to over-emphasize 'the role of social structures and norms at the expense of the agents who help create and change them in the first place' (1998: 324).

A second criticism is the tendency of early 'statist' constructivists to focus primarily if not solely on the norms and discourses of public actors, institutions, and élites – thus reinforcing the public vs. private dichotomy discussed above. In recent years, liberal constructivists have recognized private actors – or at least certain private actors – in their ontological approach (cf. Keck and Sikkink 1998). In the EU literature, while some scholars tend to look primarily at public actors (cf. Christiansen *et al.* 1999), other constructivists examine non-state actors as well (cf. Marcussen 1998; Schmidt 2001, 2002; Verdun 1996). The growing literature on EU social movements – while not explicitly constructivist – is also in this vein (cf. Imig and Tarrow 2001).

The false dichotomy between 'good' and 'bad'

A third criticism of constructivism is its relative weakness in transcending the false dichotomy between 'good' and 'bad' in the literature. This dichotomy exists in two forms: (1) the subject of inquiry (norms, discourses, ideas), and

(2) the demarcation of agents. Referring to the former, Checkel points out that constructivists need to 'give equal attention to the bad things in world [or EU] politics that are socially constructed' (Checkel 1998). There is a pattern – though changing – in the literature to only look at the 'ethically good norms'.

In terms of agents, however, there appears to be an unwritten rule to give recognition only to those who are deemed 'ethically good'. Keck and Sikkink make this clear in their own work. They distinguish between three different categories of transnational actors based on their motivations:

(1) those with essentially *instrumental goals*, especially transnational corporations and banks; (2) those motivated primarily by *shared causal ideas*, such as scientific groups or epistemic communities; and (3) those motivated primarily by *shared principled ideas or values* (transnational advocacy networks).

(Keck and Sikkink 1998: 30; italics in the original)

This classification is convenient but hardly encompassing. While multinational firms may be guided by instrumental goals, they are not devoid of shared principled ideas or values. Yet traditional constructivist theorists have generally neglected to theorize and document the role of firms in creating norms. Indeed, many constructivist scholars are leery of touching IPE in general (cf. Kirshner 2000). This neglect nonetheless implies that one group (i.e. NGOs and transnational societal groups) have values and moral authority, whereas another group (namely firms) do not. Hence, the 'good' vs. 'bad' dichotomy.

The neo-Gramscian school – also known as the transnational historical materialism approach in the critical school – brings together both the constructivist and critical elements of IR/IPE theory (Bieler and Morton 2001; Cox 1995; Gill 1993; Jørgensen 1997; Palan 1992; Van Apeldoorn 2002; Van der Pijl 1998).⁸ Indeed, neo-Gramscians such as Van Apeldoorn set themselves apart from the liberal constructivists' preoccupation with NGOs and societal groups precisely by focusing on multinational firms and their social construction of norms and discourse. Van Apeldoorn's ERT study, for example, reveals how the group's discourse production shaped EU socio-economic governance and policy-making in the 1990s (Van Apeldoorn 2002). The critical element of this approach, relating back to its Marxist roots, is the explicit assertion that the structure of society, especially in today's global capitalism, is inherently biased in favor of capitalist groups such as firms and banks. In Gramsci's terms, it is the hegemony of the firms' discourse production, the firms' ability to appeal to others, that further enables capital to dominate to the detriment of other societal actors (Bieler and Morton 2001).

Whereas neo-Gramscians implicitly refer to firms' negative impact on society, other critical school approaches are more explicit. The British critical school, the normative school (also known as the 'humane governance school'), and many post-modernists often emphasize these 'bad' non-state actors.

In the end, the inability or unwillingness of constructivists and critical

school approaches to adequately address firms and other state actors respectively results in this false dichotomy between 'good' and 'bad.' This false dichotomy becomes untenable, however, in the face of empirical observations and theoretical developments. For example, not all NGOs and transnational advocacy networks have moral authority all the time. Norms and practices may be mutually constitutive (Keck and Sikkink 1998: 35), and sometimes bad practices harm the norms which one claims to uphold. Greenpeace International, for example, suffered a normative setback in 1995 when the multi-million-dollar group lost sight of its principled ideas, worrying more about the confiscation of its high-priced ships than its anti-nuclear agenda (Johnson 2000). Similarly, anti-globalization protesters who smash windows and throw stones at police in the streets of Seattle, Göteborg, and Genoa might do more harm than good to their cause.

The false dichotomy also becomes more difficult to uphold when one recognizes that NGOs, transnational advocacy groups, and multinational firms increasingly work *together* to develop new discourse, ideas, and norms within international and EU institutions. Within the EU, for example, BP-Amoco has been an active participant in the climate change discourse with NGOs and Commission officials.

The literature on multinational firms and norms outside the critical school approach is slowly emerging in IR theory (cf. Hauffler 2000, 2001; Prakash 2000). Hauffler, for example, focuses on firms' self-regulation, arguing that these business norms structure 'the environment within which political action takes place, thus affecting both the direct participant in a business regime, and also structuring activity outside of it' (Hauffler 2000: 199–200). Recognizing that it is methodologically and theoretically possible to examine firms' social construction of norms from a liberal perspective – as opposed to solely a critical one – is important. In the past, theorists could easily pigeon-hole multinational corporations into the critical school as 'the bad guys' of IR theory. The recent work by Hauffler, Prakash and others allows one to avoid this ghetto-ization of non-state actors in the IR/IPE literature.

A FOURTH DICHOTOMY? IR/IPE VERSUS COMPARATIVE/ POLITICAL ECONOMY APPROACHES

For some scholars, the relevance in reviewing the literature on the role or non-role of non-state actors in IR/IPE theories/approaches may not be immediately apparent. A number of scholars, after all, have collapsed many of these false dichotomies in their treatment of the EU as a polity and in their application of comparative and political economy approaches (Hix 1994). The growing work on policy network analysis has added to our understanding of regulatory policy-making and the meso-level or day-to-day decision-making in the EU (Börzel 1998; Jordan and Schubert 1992; Kohler-Koch and Eising 1999). The EU 'governance' literature (cf. Jachtenfuchs 2001) has embraced the sociological and historical strands of institutionalism and developed accounts of EU policy-

making that emphasize the interaction between public and private actors (Héritier 1999; Kohler-Koch 1996). Armstrong and Bulmer, for example, convincingly argue that the Single Market Program – and the non-state actors engaged in it – matter more today than fifteen years ago (1998). Public policy theorists point out how societal, technological and scientific developments pose significant new challenges for EU governance that, in turn, necessitate new public/private dynamics (Kooiman 1993). As Beate Kohler-Koch notes, given the new actors, new strategies, and multi-levels of governance in the EU today, different theoretical approaches were needed to take into account the ‘real world’ (Kohler-Koch 1996).

What then is the value of IR/IPE theory and approaches when the governance, comparative politics, and political economy approaches have emerged as powerful alternatives, arguably more attune to the realities of EU integration and policy-making?

In examining the state of both literatures today, three arguments emerge for revisiting the role of non-state actors in IR/IPE theory and approaches. The first is that the governance literature tends to limit itself to ‘everyday’ policy-making (Héritier 1999: 13–14; see also Peterson 1995). The explanatory power for ‘high politics’ or ‘history-making decisions’ such as intergovernmental conferences is largely deferred to neorealist or liberal intergovernmentalist theoretical accounts where ‘“national preference formation and intergovernmental decisionmaking . . .” is strictly observed’ (Héritier 1999: 14). Thus, by automatically turning to this literature, the false dichotomies of international vs. domestic, public vs. private continue to be promulgated in the liberal intergovernmentalism approach.

A second argument for continuing to examine the IR/IPE literature is that the national experience – and the dominant comparative politics and public policy approaches that theorize about it – do not always correspond adequately to the European experience. EU scholars might correctly point out, for example, that the governments’ willingness to confer private authority on firms and NGOs to set agendas, monitor compliance, and self-regulate was well established by neocorporatism in the 1970s (Lehmbruch and Schmitter 1982; Schmitter 1974), and the related Organization of Business Interests project in the early 1980s (Streeck and Schmitter 1985). Yet, the make-up of many European interest groups and their relationship with EU institutions is rather different than that found in most European capitals. Indeed, the business–government relationship in Brussels is modelled on a more pluralist Anglo-Saxon model – not the neocorporatist relationship found in many continental countries (Coen 1997; Cowles 1996). It is not surprising to find, therefore, that when discussing self-governance and business associations in EU policy-making today, Knill refers to the ‘private governance’ work of Cutler *et al.* as most relevant in explaining these ‘everyday’ developments in Brussels (Knill 2001). Importantly, Knill also notes the contribution of Lehmbruch’s work on administrative interest intermediation to explain the Commission’s active support of certain business associations.

That scholars such as Knill refer to both the IR/IPE and governance literatures leads to the third argument. Just as IR/IPE approaches can benefit from a better understanding of the dynamics behind the comparative politics, political economy, and public policy approaches to EU studies, so too can this European literature learn from the evolving IR/IPE literature. After all, one can discuss the EU as a polity *and* an international actor, a process of integration *and* a policy-making body. Moreover, those who look at the two sets of literature recognize that there is a growing convergence between the two. Indeed, the two literatures often use different terminologies for similar phenomena, while still not taking sufficiently into account the contributions of other literatures.⁹

Clearly, one must move beyond this schism in the literature. Rather than setting up a false dichotomy between the IR/IPE and governance approaches, one can consult both to guide and understand one's empirical work and findings. For example, one could examine how the operation of non-state actors at various levels impacts the formation of preferences that shape government leaders' bargaining margin of maneuver. To what extent do the strategies of non-state actors differ from one level to another to define the parameters of negotiation? What are the resulting implications for those groups who do not operate at multiple levels? One could also identify the conditions under which states confer private authority at the national, European, and international levels. Are these conditions vastly different? Why or why not? One could also examine the manner in which norms are constituted at the national, European, and international levels. How do these various settings inform agents with an understanding of their interests? What does this tell us about norm creation in the EU as compared to the national level?

CONCLUSION: REFLECTING ON REALITY

This review paper identifies some of the weaknesses in the IR/IPE theory and approaches to the EU today. It does so through the identification of three false or artificial dichotomies in the IPE literature that delimit and, indeed, ghettoize non-state actors in European integration and policy-making: (1) the international vs. domestic, (2) the public vs. private, and (3) the 'good' vs. the 'bad' false dichotomies. The purpose in reviewing this literature is not to claim that firms and other non-state actors are all-powerful, all-pervasive, or all-important actors. Rather, it is to suggest that our scholarship would likely be enhanced and enriched if we became more cognizant of how these actors fit in the reality of the EU as polity and global actor today.

Of course, the governance literature that embraces comparative politics, public policy, and political economy approaches also challenges these false dichotomies. The EU governance approach incorporating historical institutionalism in particular has developed important insights into public/private interaction in the EU. While it might be tempting to forsake the IR/IPE scholarship and, in turn, embrace the governance literature, I have argued that it is not necessary to

set up yet another artificial dichotomy between the two. Indeed, by consulting both sets of literature, one can better guide and understand one's empirical work and findings and contribute to a more comprehensive understanding of how all actors influence, are constrained by, and are constituted in the national, European, and international settings in which they operate.

Address for correspondence: Maria Green Cowles, School of International Service, American University, 4400 Massachusetts Avenue, NW, Washington, DC 20016–8071, USA. Tel: +1 202 885 1819. Fax: +1 202 885 2494. email: cowles00@erols.com

NOTES

- 1 I am grateful to Jan Beyers, Tanja Börzel, Jeffrey Checkel, David Bach, Barbara Haskel, Erik Jones, Christoph Knill, Sophie Meunier, Vivien Schmidt, Mitchell Smith, Paul Taggart, Bastiaan van Apeldoorn, Amy Verdun, and two anonymous reviewers who provided comments on subsequent versions of this article. Of course, any errors or omissions are mine.
- 2 By non-state actors, I am referring to profit-oriented actors such as firms and banks, to public-interest-oriented non-governmental actors such as consumer organizations and environmental groups, and, more broadly, to social movements. I do not include intergovernmental organizations in this definition (cf. Arts *et al.* 2001).
- 3 I am not arguing that each dichotomy is found in each of the four theories/ approaches under review. Indeed, neorealist theories largely sidestep the 'good' vs. 'bad' dichotomy; the historical and sociological strands of institutionalism generally avoid the public vs. private dichotomy. The neo-Gramscian approach, by focusing on transnational agency, moves beyond both the international vs. domestic and public vs. private dichotomies.
- 4 Scholars disagree with the characterization of liberal intergovernmentalism as part of the neorealist school (cf. Pollack 2001). While liberal intergovernmentalism differs from neorealism on several accounts, it is 'realist' in terms of its focus on state sovereignty, bargaining, and power (cf. Verdun 1999).
- 5 See Kassim and Menon in this issue.
- 6 Critics point out that international institutions' performance may also suffer from the inclusion of non-state actors if the organizations are 'captured' by NGOs and firms – a criticism leveled at domestic institutions as well. Non-state actors thus can legitimize as well as delegitimize international organizations.
- 7 As noted above, the neorealist approach also promotes this artificial dichotomy by only recognizing the role of domestic non-state actors in preference formation.
- 8 As noted above, this approach transcends many of the false dichotomies found in traditional IR/IPE literature, including the public vs. private debate. The neo-Gramscian ontological primacy of transnational social forces over states, however, opens it to a different kind of criticism – namely, the failure to adequately address the role of public actors. I thank Bastiaan van Apeldoorn for his valuable comments on the neo-Gramscian approach in this article.
- 9 I thank Christoph Knill for expanding on this point. See also Knill and Lehmkuhl (2002).

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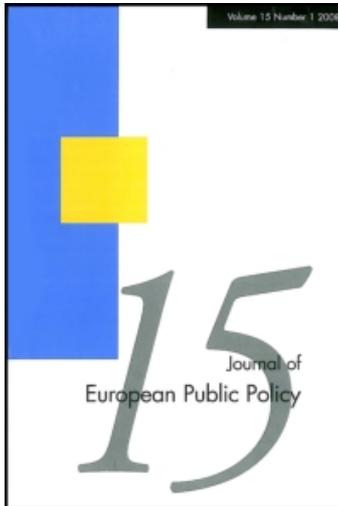
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The principal–agent approach and the study of the European Union: promise unfulfilled?

Hussein Kassim and Anand Menon¹

ABSTRACT The principal–agent model holds great promise for understanding the institutional complexities of the EU and for moving beyond the sterile debate between intergovernmentalism and neofunctionalism. As yet, however, scholars have failed to exploit the insights that this construct affords. After a brief discussion of the principal–agent model, this article offers a critical examination of the way that the principal–agent approach has been deployed by liberal intergovernmentalism, institutional intergovernmentalism, historical institutionalist supranationalism, and rational-choice supranationalism. It argues that, in all four cases, the *a priori* commitments of the theorists, in support either of the view that the member states effectively control their supranational agents and dominate EU governance or of the belief in an inevitable trend towards greater integration, led by supranational institutions, prevent them from making the most effective use of the model. It proposes alternative applications that may prove more fruitful.

KEY WORDS Agent; Commission; integration; member states; principal.

INTRODUCTION

The principal–agent model and the theory of delegation, which originated in the new economics of organization, have been increasingly applied in the study of the European Union (EU).² This article critically examines these applications. It argues that the principal–agent model holds significant promise for understanding the complex relationships and interactions that characterize the Union, not least on account of its greater institutional sensitivity over traditional theories of integration. However, its potential has as yet not been fully realized. This is due partly to the prior theoretical commitments of the EU scholars who have used these models, partly to misunderstandings of the complexity and implications of the approach.

The discussion below is divided into three parts. The first offers a brief overview of, and background to, the principal–agent model.³ The second discusses the promise that the model offers for understanding European

integration and governance, then examines in detail its deployment by authors writing from four theoretical perspectives – liberal intergovernmentalism (LI), institutional intergovernmentalism (II), historical institutionalist supranationalism (HIS) and rational-choice supranationalism (RCS).⁴ The final section discusses general weaknesses in how the principal–agent model has been applied to the EU and suggests future research possibilities.

THE PRINCIPAL–AGENT MODEL IN ECONOMICS AND POLITICAL SCIENCE

From its origins in the new economics of organization as a theoretical construct devised to examine relations within the firm (Moe 1984), the principal–agent model became the dominant framework for examining the difficulties that arise from contracting in any setting. Agency relationships are created when one party, the *principal*, enters into a contractual agreement with a second party, the *agent*, and delegates to the latter responsibility for carrying out a function or set of tasks on the principal's behalf. In the classic representation, the principal is the shareholder of a company that contracts an executive to manage the business on a day-to-day basis. However, the principal can be any individual or organization that delegates responsibility to another in order to economize on transactions costs, pursue goals that would otherwise be too costly, or secure expertise.

Difficulties arise on account of the asymmetric distribution of information that favours the agent (Kiewiet and McCubbins 1991; Holmstrom 1979), including adverse selection and moral hazard. The asymmetry of information can allow the agent to engage in opportunistic behaviour – *shirking* – that is costly to the principal, but difficult to detect. The likelihood of shirking is increased by *slippage*, when the very structure of delegation 'provides incentives for the agent to behave in ways inimical to the preferences of the principal' (Pollack 1997: 108). Assuring control and limiting shirking is the 'principal's problem' (Ross 1973). The challenge is to find ways of ensuring perfect compliance, so that agents cannot exploit the costs of measuring their characteristics and performance to act contrary to the preferences of the principal. Economists have focused on incentive structures that discourage opportunistic behaviour on the part of the agent. Contractual restrictions on the agent's operational purview (Doleys 2000) or monitoring the agent are alternative possibilities, but can be costly. Their effectiveness is limited by the extent to which the agent's actions can be observed.

The new economics of organization has been very influential in political science. Rational-choice institutionalism, in particular, has drawn from its toolkit in its explanations of how institutions emerge and interact.⁵ Scholars of US politics have used the principal–agent model to investigate the relationship between Congress and executive agencies, and the tasks performed by congressional committees.⁶ In international relations, delegation has been used to explain why sovereignty-conscious states create international organizations.⁷

The basic model has been used to assess the efficacy of mechanisms devised to ensure agent compliance, and extended, elaborated upon and adapted to take account of cases where there are multiple principals.

Why delegate?

A rich literature has explored the motivations that lead principals to delegate functions and confer authority to agents in the political world. Pollack (1997: 102) suggests that, fundamentally, delegation is a question of institutional design and that 'the question of institutional choice is functionalist': institutions are chosen or created because of their intended effects. The decision is usually motivated by a desire to minimize transaction costs.⁸ Delegation also provides a means:

- to overcome problems of collective action, where actors anticipate benefits from long-term co-operation (Axelrod 1984), but want to ensure that the transaction costs involved in monitoring compliance do not outweigh the benefits of the agreement and that the terms of the contract are respected by other parties (Keohane 1984; Shepsle 1979; Weingast and Marshall 1988);
- to deal with the problem of 'incomplete contracting' (Williamson 1985), which arises in situations where the interaction envisaged by an agreement is long term, the bargain complex, the negotiating process difficult, and 'the realization of mutual gain ... contingent upon the durability of the contract' (Doleys 2000: 535). Rather than writing a fully contingent claims contract, parties prefer a 'framing agreement' or 'incomplete contract', in which they state general goals, establish criteria for decision-making in unforeseen circumstances (Milgrom and Roberts 1992) and may create an agent that can 'fill in the details of an incomplete contract and adjudicate future disputes' (Pollack 1997: 104);
- to improve the quality of policy in technical areas by delegating responsibilities to an agent with specialist knowledge (Egan 1998);
- to overcome regulatory competition and avoid market failure where interdependent states have incentives to treat their own firms leniently (Majone 1994; Egan 1998);
- to displace responsibility for unpopular decisions (Fiorina 1977; Epstein and O'Halloran 1999);
- to 'lock in' distributional benefits. In contrast to information-based accounts, where the agent is impartial, a second perspective interprets delegation as a mechanism for 'locking in' distributional benefits. Thus, the 'industrial organization of Congress' (Weingast and Marshall 1988) is best understood as an efficient way of facilitating 'pork-barrelling' and 'log-rolling'. Members of Congress sit on committees where they are best placed to secure benefits for their constituents. Similarly, an alternative to Majone's 'search for independence' contests the view that regulators are neutral,

arguing instead that the creation of institutions is intrinsically distributive and that the choice of institutions may be motivated by the desire to institutionalize a preferred set of preferences (Stetter 2000);

- to resolve the problem of policy-making instability. The delegation of agenda-setting powers to an agent may prevent the problem of policy 'cycling' that besets systems of majoritarian decision-making (Pollack 1997; McKelvey 1976; Riker 1980).

After delegation: coping with the 'principal's problem'

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

Ex ante control typically takes the form of administrative procedures, designed 'to limit the scope of agency activity, the legal instruments available to the agency, and the procedures it must follow' (Pollack 1997: 108). They can be more or less restrictive, and altered in response to agency loss. Such restrictions come, however, at the cost of the agent's flexibility and comprehensiveness of action (McCubbins and Page 1987; McCubbins *et al.* 1987, 1989), and can diminish the effectiveness and overall capacity of the system. *Ex post* oversight falls into two broad categories (Pollack 1997): the imposition of sanctions, where principals attempt to control agency loss through budgetary restrictions, appointments or revising the agent's mandate through legislative or regulatory means; and monitoring, whereby an attempt is made to rebalance the asymmetry of information by surveillance of agent behaviour. McCubbins and Schwartz (1984) famously distinguish two strategies: 'police patrol' oversight, where the principal engages in continuous and detailed vigilance of agent action; and 'fire alarm' oversight, where the principal relies on third parties to alert it to agency transgressions. The second is less costly and imposes fewer demands on the principal than the first, but the comparison highlights a fundamental point: all methods of agency control imply costs to the principal and their cost traded-off against the benefits from limiting non-compliance (McCubbins *et al.* 1987, 1989).

The cost of monitoring is likely to be substantially higher where there are multiple principals. To the cost of co-ordination is added the risk that the imposition of sanctions will involve action that exposes long-standing differences between principals (McCubbins *et al.* 1987). A review of the literature leads Pollack (1997) to identify three factors affecting the likelihood that sanctions will be imposed: the extent to which principals' preferences converge;

the decision rules governing the application of sanctions; and the ‘default condition’ where there is no agreement among the principals. Pollack suggests that a knowing, opportunistic agent can exploit situations where these barriers are high.

A further issue concerns the type of agency behaviour that the principal is trying to control. Control can be exercised to ensure that agents stay within the remit laid out in the original contract (McCubbins *et al.* 1989). Control can be more intrusive, however, when principals are authorized to interfere in the operation of the agent, even within its contractually defined sphere of competence (Epstein and O’Halloran 1999). The choice of approach is an important decision. Specifying agency powers ‘in excruciating detail . . . leaving as little as possible to the discretionary judgment of bureaucrats’ is obviously ‘not a formula for creating effective organisations’ since ‘cumbersome, complicated, technically inappropriate structures . . . undermine their capacity to perform their jobs well’ (Moe 1990: 228). At issue, in other words, is the *effectiveness* of delegation: the choice is either minimize the risk of agency loss or allow the agent the independence to carry out its responsibilities efficiently. The use of budgetary cuts may enable principals to thwart the budget-maximizing ambitions of agents, but is likely to hinder agents in performing the tasks for which they were created (Moe 1987).

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

PRINCIPAL–AGENT APPROACHES TO THE EU

In recent years, a growing number of scholars have used the principal–agent model in the study of the EU.⁹ The principal–agent approach holds considerable promise. First, it is explicitly concerned with complex inter-institutional interactions and need not systematically privilege the role played by one institution or class of actor over others – a trap into which many theoretical approaches have fallen (Menon 2002). It can generate more nuanced hypotheses than the theories that have historically dominated the field. Pollack’s use of the model to analyse the power of the European Commission and the European Court of Justice, for example, leads him to the conclusion that the ‘autonomy of a given supranational institution depends crucially on the efficacy and

credibility of control mechanisms established by member state principals, and that these vary from institution to institution – as well as from issue-area to issue-area and over time – leading to varying patterns of supranational autonomy’ (1997: 101). This is a more subtle thesis than neofunctionalism or intergovernmentalism can provide. Indeed, Pollack explicitly attempts to ‘transcend the intergovernmentalist–neofunctionalist debate’ (Pollack 1997: 101) in this way.¹⁰ Second, the principal–agent model offers a way of grasping the institutional complexity of the EU. As Moe has argued, the model ‘cuts through the inherent complexity of organizational relationships by identifying distinct aspects of individuals and their environments that are most worthy of investigation, and it integrates these elements into a logically coherent whole’ (1984: 757). Third, the employment of theoretical constructs and models that are in more general use may enable EU scholarship to benefit from belonging to the mainstream (see Moravcsik 1998; Menon 2002).

In this section, we review four applications – LI, II, HIS and RCS – of the principal–agent approach to the EU. All four proceed from the assumption that delegation to supranational agents is grounded in the interests of member state principals, but reach different conclusions about the ability of governments to retain their control and the extent to which the Commission and the Court are willing and able to act independently. The first two approaches – LI and II – contend that the member states remain in control of European governance and integration; the third and fourth – HIS and RCS – that the influence of supranational institutions cannot be explained solely in terms of member state preferences.

Liberal intergovernmentalism

LI explains the creation of the EU’s ‘strong supranational institutions’ (Moravcsik 1993: 507) in terms of the interests of states, which, under conditions of economic interdependence, recognize the benefits of, and enter into, long-term co-operation, but need to overcome problems of collective action. Drawing on regime theory, Moravcsik argues that international institutions are ‘deliberate instruments to improve the efficiency of bargaining between states’ (p. 507) and that ‘[m]uch of the institutional structure of the EC can be readily explained by the functional theory of regimes’. He contends that member states decide on the basis of a cost–benefit analysis of the ‘stream of future substantive decisions expected to follow from alternative institutional designs’ whether to adopt qualified majority voting (QMV) or to delegate to supranational institutions (p. 509). The calculation involves trading-off efficient collective decision-making against the risk of being outvoted or overruled. He argues that member states are influenced by the ‘potential gains from co-operation’, the ‘level of uncertainty regarding the details of specific delegated or pooled decision’, and the ‘level of political risk for individual governments or interest groups with intense preferences’ (pp. 510–11). These calculations led to the delegation of agenda-setting, enforcement, and external representa-

tion. With respect to agenda-setting, Moravcsik (1993: 511) argues that the interests of the member states are served because the Commission ‘assures that [the] technical information necessary for decision is available’ and that ‘as a neutral arbiter, it provides an authoritative means of reducing the number of proposals to be considered’. In relation to enforcement, Moravcsik (1993: 511) asserts that ‘[t]he possibilities for co-operation are enhanced when neutral procedures exist to monitor, interpret and enforce compliance’.

There are, however, several difficulties with the way that LI deploys the principal–agent approach. A fundamental problem concerns the functional theory of delegation. Functional explanation is itself inherently problematic owing to its *ex post facto* attribution of motives without empirical investigation, its stress on interests that remain unelaborated, and its lack of precision in identifying the mechanism that links cause to effect.¹¹ In the case of LI, no empirical evidence is offered in support of the contention that member states engage in a cost–benefit analysis or even that the supranational institutions were created for the reasons that LI alleges. Moreover, the problems that occur with delegation (e.g. conflicting interests or agency loss) are not addressed. The possibility that member state principals and supranational agents may develop divergent preferences, that the Commission may draw on its own resources to pursue its own policy agenda, or that the Court may evolve into a more powerful institution than the original contract envisages is not contemplated.

More importantly, LI assumes that, although the supranational institutions may continue to perform the formal functions that Moravcsik identifies – itself a questionable assumption – there is no reason to suppose that the initial calculations of the original Six about the stream of substantive policy decisions still hold true decades after the Treaty of Rome was signed. Although he acknowledges that behaviour on the part of the European Court of Justice represents ‘an anomaly for the functional explanation of delegation as a deliberate means by national governments of increasing the efficiency of collective decision-making’ (Moravcsik 1993: 513),¹² and appears to endorse an explanation put forward by Burley and Mattli (1993), which explains the expansion of the role of the Court in terms of ‘a number of factors idiosyncratic to the EC [European Community]’, Moravcsik does not explain how this view might be reconciled with the key tenets of LI. Nor does he account for why supranational institutions continue to serve the interests of the member states or are kept in check by them.

The view that the member states have been able to control the direction of integration is difficult to sustain for reasons identified by Pierson (1996) (see below). There are also empirical grounds for challenging this assumption. The monitoring capacities of the national administrations are frequently overstated. Recent research on the national co-ordination of EU policy (Kassim *et al.* 2000, 2001) reveals considerable differences in the ambitions and administrative resources of member states, as well as evidence of ‘bureaucratic politics’ and problems in constructing coherent action. In this light, the image of ever-vigilant principals is difficult to uphold.

Turning to the supranational agents, LI underestimates the Commission's ability to act as a policy entrepreneur. Although the Commission is small and fragmented, it has significant resources at its disposal. As well as its formal monopoly over policy initiation, the Commission has accumulated considerable expertise, technical and legal,¹³ occupies a strategic location at the heart of Community decision-making as 'process manager' (Eichener 1993), and enjoys access to information that would be difficult for even the best organized and most motivated national administrations to gather (Kassim 2000). A Commission official in a functional Directorate-General might not know more about a sector in a member state than a civil servant from that state, but he or she may well know more about the sector across fifteen member states than any national official.

Finally, it does not follow from the assumption that the member states prefer an independent supranational body to a randomly chosen national government (Moravcsik 1993: 512) that the Commission will in practice act neutrally.¹⁴ In theory, the Commission embodies the interest of the Community – one could debate whether this represents, in Rousseauian terms, the general interest, the sum of the particular interests of the member states, or the average interest – but in practice, in seeking to implement the treaties, it acts as a 'purposeful opportunist' (Cram 1993). This often involves partisan behaviour, favouring, for example, free market solutions over protectionist policies, or more Europe rather than less. In several policy areas, including telecommunications and air transport, the Commission has forced the introduction of policy at the European level against some, or even a majority of the, member states by using its competition powers. In other areas, for example, environmental policy, the Commission has actively constructed coalitions with like-minded member states to press a particular agenda. Action of this type is hard to reconcile with the view that it acts as a neutral arbiter.¹⁵ LI adopts an information-based approach to delegation, ignoring ways in which delegation can produce distributive gains for some member states at the expense of others, thus serving to 'institutionalize partiality' (Menon 2002).

Institutional intergovernmentalism

II (Garrett 1992; Garrett and Weingast 1993), by contrast, directly addresses the distributive implications of delegation. Though it also deploys the functional theory of delegation to explain the EU's institutional arrangements (see, e.g., Garrett 1992: 533–4), it takes a more critical approach. Garrett (1992: 534–5) argues that functional theory overemphasizes the informational advantages of co-operation and thereby disregards the distributional consequences of the institutions chosen by the member states, when it is precisely these latter considerations that account for why one equilibrium position is selected among the many that are possible.¹⁶ Functional theory takes the view that institutions are constructed as 'informational clearing houses', not as 'governing structures', but the nature of the post-1992 institutions agreed by the member

states does more than simply provide the information that allows the states to further their own interests. They challenge nation-state sovereignty and alter the ‘political structure of the international system’. The adoption of QMV in the Council abolishes the national veto, while the constitutionalization of the founding treaties by the European Court of Justice has wrought a legal system (Garrett 1992: 535–6).

These changes have not compromised member state control over the EU, according to II, since governments play a decisive role in the legislative process,¹⁷ and the Court does not threaten state autonomy. Indeed, the interests of the Court and the member states coincide. Governments have delegated the task of monitoring compliance and resolved the problem of incomplete contracting by empowering the Court to apply the rules of the Treaty in specific areas (Garrett 1992: 557–8). As an agent, the Court has not struck out independently, aware, like all courts, that its powers are subject to revision by elected politicians and conscious of its particular vulnerability, given that ‘its position is not explicitly supported by a written constitution’ (Garrett 1992: 558). Evidence of the Court’s quiescence can be found in its jurisprudence. II claims that the Court’s decisions are ‘consistent with the preferences of France and Germany’ (1992: 558, 589). Should a Court ruling go against a particular state, moreover, II contends that that government is likely not to comply (Garrett 1992: 555–6).

II presents a more sophisticated account of institutional arrangements at the European level than LI,¹⁸ but is similarly afflicted by tension between its *a priori* commitment to member state primacy and the potential problems that arise from principal–agent relationships. Like LI, II discounts the possibility of agency loss, but on different grounds. While recognizing its influence in decision-making, II emphasizes that the Commission ultimately depends on the member states among whom it must find a majority, and stresses the Council’s decisive influence as last mover.¹⁹ Though, on the one hand, II stresses the uniqueness of the Community’s legal system, on the other, it posits the subservience of the Court to the member states – a somewhat blatant contradiction. It provides neither an adequate account of the constitutionalization process, nor convincing evidence that Court jurisprudence is congruent with the interests of France and Germany. It fails to show how the Court serves the interests of the member states by ensuring compliance with the Treaty, while at the same time favouring two of its number in its jurisprudence.²⁰ Moreover, II has not answered satisfactorily the objection of legal theorists that member states are unlikely to defy the Court on account of the damage that their reputations would suffer (Burley and Mattli 1993).

A historical institutionalist approach

The influence of the principal–agent approach is evident in HIS’s critique of intergovernmentalism, even if the terminology is not always used explicitly.²¹ In an account that ‘stresses the difficulties of subjecting institutional evolution

to tight control', HIS argues that the intergovernmentalist approach to integration is flawed, because 'the current functioning of institutions cannot be derived from the aspirations of the original designers' (Pierson 1996: 126–7).

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

- the 'autonomous actions of European institutional actors': EC institutions are new actors, with their own interests, which are likely to 'diverge from those of [their] creators', and have significant resources – 'expertise and delegated authority' (Moe 1990: 121) – of their own;
- the 'restricted time horizons of national decision-makers': politicians in the member states are likely to give greater priority to the short term (Pierson 1996: 136) owing to the demands of the electoral cycle and their relatively short periods in office compared to the long-term missions of the supranational institutions;
- the potential for unintended consequences: issue density in the European context generates 'overload' and 'spillover', producing 'interaction effects' that lead to outcomes that are unlikely to have been anticipated at the outset (Pierson 1996: 136–9);
- shifts in the policy preferences of national governments: the institutional and policy preferences of the member states change over time, while successive enlargements alter policy coalitions.

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

Although HIS reveals important weaknesses in the intergovernmentalist approach, it is not without its problems. First, HIS's account of why member state control cannot be sustained over the long term needs qualification. While governments may have short-term horizons, it does not follow that they neglect developments at the European level. Member states have established specialist mechanisms to co-ordinate their European policies and to manage their inputs into EU decision-making (Kassim *et al.* 2000; Kassim *et al.* 2001). With respect to unintended consequences, though issue densities and overload may make spillover possible, national administrations are present at key stages of the policy process, enabling them to intervene to defend their interests (Kassim and Wright 1991; Kassim 2003; Dogan 1997). In addition, the European policies of the member states do not betray the kind of instability that HIS suggests. On the contrary, the outlook of many member states at the polity and policy level has been remarkably stable.

On the other hand, HIS overstates the inability of the member states to reassert their control. The supranational institutions certainly do not control the EU's constitutional agenda, as the European Commission and the European Parliament have discovered at successive intergovernmental conferences (IGCs). Even the power of the Court should not be exaggerated. The Barber Protocol,

agreed by member governments at Maastricht, was specifically aimed at limiting the impact of a Court decision. In addition, the institutional barriers to member state directed reform are often not insurmountable. At Maastricht, Amsterdam and Nice, member state principals have reined in the Commission and Court in European monetary union, in the common foreign and security policy, in the development of the European security and defence policy, and in the third pillar. The Lisbon Process and the 'open method of co-ordination' further limit the influence of the Commission. These are powerful counter-examples to the claim that the member states are unable to re-assert their control (Menon 2002; Kassim and Menon 2003).

Finally, Pierson's sunk-costs argument is not altogether persuasive in that he underestimates the extent to which radical revision of even established policy is impossible. Reform in preparation for the accession of countries from Central and Eastern Europe within the rubric of Agenda 2000, for example, has brought about significant reform in the budget, structural policy and the common agricultural policy. Moreover, the way in which 'lock in' operates is not adequately elaborated. HI needs to explain specifically how the member states are constrained by domestic actors and 'societal adaptations'.

Rational-choice supranationalism

Arguably, RCS makes the most sophisticated use of the principal-agent model in the EU literature in its exploration of the conditions under which 'supranational institutions will be delegated authority and will enjoy autonomy from and exert influence on the member governments of the Community' (Pollack 1997: 100–1).²² Pollack's test of the functional theory of delegation leads him to the conclusion that it can explain the functions attributed to the Commission and the Court – monitoring compliance and enforcing treaty provision, solving problems of incomplete contracting, independent regulation and agenda-setting – if not the Parliament. He challenges the theory's assumptions that 'the institutions adopted are those that most efficiently perform the tasks set out for them' (1997: 107) and argues that institutions can assume roles that were not originally anticipated.

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

- comitology (a form of police patrol monitoring), whereby the member states monitor and control the exercise by the Commission of its executive function, but where effectiveness depends on which of the three committee types is in place;
- fire alarm oversight, involving the EC legal system, the European Parliament's power of dismissal, and the European Court of Auditors, which are designed to enforce Commission accountability;
- *ex post* sanctions, including cutting the budget – costly to member states, since it may have adverse effects on their domestic constituencies; the

power of appointment – relatively ineffective, since it can only be exercised every five years (Commission) or six years (judges in the Court); the introduction of new legislation – costly, because it requires mustering a winning majority under QMV or the support of all other member states, where the unanimity rule applies; and unilateral non-compliance – too costly to a member state's reputation.

- revising an agent's mandate through revision of the treaty – 'the "nuclear option" – exceedingly effective, but difficult to use – and ... therefore a relatively ineffective and noncredible means of member state control' (Pollack 1997: 118–19).

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

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

Despite its subtlety and sensitivity, in particular, to agent- and sector-specific variation, RCS's deployment of the principal–agent model is problematic. There is, for example, no place for 'learning' on the part of the member states, even though, since Maastricht, governments have found various ways of limiting the influence of the Commission and the Court. The frequency of IGCs, moreover, contradicts the view that re-contracting is a 'nuclear option'. Most importantly, these developments tend to counter the subtext of Pollack's analysis – that the trend towards further integration is inevitable.

A second point concerns Pollack's reading of comitology, which he sees as a site for a struggle over competence. There is an alternative view, however, which holds that the participants in these committees engage, not in a political battle about the appropriate locus of decision-making, but in problem-solving discussion about technical points.

Finally, Pollack's emphasis on the conditions under which supranational

agents can elude member state control leads him to overlook the resources that these institutions command. Studies of EU policy emphasize, for example, the leverage that the Commission can exert by using its competition powers to prise open sectors where national governments prefer a protectionist status quo. Paradoxically, Pollack also overstates the inclination and ability of the member states to control their supranational agents (see above). RCS does not, in other words, accurately represent the respective powers and resources of principals and agents.

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

The four approaches considered above use delegation theory and, in the case of II and two versions of supranationalism, the principal-agent model to present a more sophisticated analysis of European integration than their intellectual forebears, intergovernmentalism and neofunctionalism. These constructs offer greater leverage in understanding the motivation of the member states in creating the European Communities and their preparedness to entrust supranational institutions with key responsibilities, and provide a valuable heuristic for approaching the relationship between governments and those institutions, as well as for assessing the extent to which the Commission and Court have developed independent interests and a capacity for action.

Yet the above discussion draws attention to particular weaknesses in the four accounts. An important difficulty with LI and II, for example, lies in the tension between recognizing the fact of delegation and commitment to a belief in continued member state control. HIS, by contrast, tends to overstate the power of the Commission, while underestimating the ability of the member states to assert influence in European integration and governance. More generally, though, there are weaknesses in the way that these insights have been applied that lead us to conclude that the promise of the principal-agent model in the study of the EU has not yet been fulfilled.

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

More problematic is the inclination to give a linear reading of integration. LI and II privilege the role of national governments, while HIS and RCS stress the influence of the Commission and Court and emphasize the inability of the member states to assert their control. The danger is that subtleties of analysis

promised by the principal–agent model are lost when a prior commitment is made to a view that either national or supranational actors are likely to predominate in the long term. The danger is not only a collapse into the intergovernmentalism–neofunctionalism rivalry, but that intergovernmentalists will continue to disregard evidence that the organizational capacities of national governments are less than perfect, while supranationalists will overlook member state abilities to ‘learn’, re-contract and restrict the Court and Commission, and both will construe the relationship between member states and supranational institutions in conflictual terms – a view that neglects the policy dimension and asserts the transfer of sovereignty is always the central issue (Menon 2002) and disregards the image of EU decision-making, increasingly championed by scholars and practitioners, as co-operative (Wessels 1996; Lewis 1998, 1999) and consensual (Mazey and Richardson 1995).

A second problem is what theorists ignore when they apply the principal–agent approach. The limited focus – on the Commission and the Court of Justice, and to a lesser extent, the Parliament, but not the Court of Auditors or European agencies – is one illustration. The issues that arise from the existence of multiple principals is, similarly, not fully explored – a major failing given the importance of the question of the extent to which EU membership circumscribes the autonomy of individual states.²³ Only Garrett addresses the question of multiple agents and how they interact. Nor does discussion of principal drift – or what Sokolowski has called (in another context) ‘the opportunist principal’ (2001)²⁴ – figure in the approaches discussed above, despite the relevance of *principal* drift to agency efficiency and independence. The extent to which the efficiency of the Commission is diminished by comitology or its neutrality threatened by infiltration by national officials, typically, at the level of the *cabinets*, also merits closer attention. However, the approaches surveyed above have been more concerned with agency discretion than they have with agency efficiency.²⁵

Moreover, the approaches surveyed above – II excepted – are biased towards an interpretation of delegation and principal–agent that focuses on informational aspects. The distributional consequences of institutional design tend to be overlooked. The problem here is that distribution is a far more important aspect of European integration and the EU – indeed of all institutional structures (Knight 1992) – than is generally appreciated. Member states are inclined to support the transfer of competences to the EU or back the Commission, for example, when they are likely to win, but distribution also has implications for continued willingness on the part of principals to delegate significant power. Garrett and Weingast (1993: 186) observe that the influence of an informal agenda-setter should be greatest when the distributional consequences of the policy are small. However, the scope, and importance, of Community action has expanded dramatically since 1991 with clear implications, according to such reasoning, for the potential influence of the Commission. Indeed, the sheer longevity of the EC/EU itself poses a serious problem for those interested in utilizing the principal–agent model to explain

its development and functioning. Since 1957, various functions have been delegated to Community institutions and the degree of autonomy from member state control varies significantly between different policy fields and functions. Inevitably, there are tensions between these various roles, and hence attempting to utilize one specific form of principal-agent approach – for instance, information based – is likely to provide at best only a partial explanation.

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

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

Addresses for correspondence: Hussein Kassim, School of Politics and Sociology, Birkbeck College, University of London, Malet Street, London WC1E 7HX, UK. Tel: +44 (0) 20 7631 6788. Fax: +44 (0) 20 7631 6787. email: h.kassim@bbk.ac.uk. Anand Menon, The European Research Institute, University of Birmingham, Edgbaston, Birmingham B15 2TT, UK. Tel: +44 (0) 121 414 4058. email: a.menon@bham.ac.uk

NOTES

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- 2 See, for example, Egan (1998); Franchino (2001); Garrett (1992); Garrett and Weingast (1993); Menon (2002); Moravcsik (1993 1998); Pierson (1996); Pollack (1996, 1997); Stetter (2000).
- 3 Space constraints permit no more than a cursory treatment. Useful discussions are to be found in Moe (1984) and Kassim and Menon (2002).

- 4 We follow Doleys' distinction between approaches that emphasize the influence of supranational institutions on EU decision-making ('supranationalism') and neofunctionalism, which makes additional claims about the process of integration and the inevitability of integration (2000: note 4).
- 5 See Hall and Taylor (1996).
- 6 See Moe (1987) for a critical overview.
- 7 See Keohane (1984). For application in European politics, see Bergman *et al.* (2000); Thatcher and Stone Sweet (2002).
- 8 See also Hall and Taylor (1996: 945–6).
- 9 See above, note 2.
- 10 This debate has, in recent years, generated more heat than light and has imposed a straitjacket on theoretical inquiry (Schmidt 1996; Branch and Øhrgaard 1999).
- 11 See Sandholtz (1996) for a discussion of this problem in relation to LI.
- 12 Quite unanticipated by the member states, the ECJ has constitutionalized the Treaty of Rome, built alliances with domestic courts and interest groups, pre-empted national law in important cases, and opened new avenues for Commission initiative, as in cases like *ERTA* in common commercial policy, and *Cassis de Dijon* in technical harmonization' (Moravcsik 1993: 513).
- 13 We owe this point to Damian Chalmers.
- 14 Exactly the reverse is true in the case of the Council Presidency, where the incumbent member state is expected to play the role of 'honest broker'.
- 15 See Hooghe (2002) on the orientation of Commission officials.
- 16 Moravcsik acknowledges this point when he argues that member states take into account the likelihood that future streams of substantive decisions resulting from the pooling or delegation of sovereignty will be to their benefit when deciding on institutional design, but does not discuss the tension between information-based and distributional consequence views.
- 17 See Garrett (1992, 1995a, 1995b); Garrett and Tsebelis (1996); Tsebelis and Garrett (2001).
- 18 See note 17.
- 19 See note 17.
- 20 We owe these points to Damian Chalmers.
- 21 In fact, in the first section of his article, Pierson (1996) takes the view that the projection of supranational institutions as agents implies their subservience to the member states. However, he later uses a more familiar construal where asymmetric information enables agents to escape the control of the principal (p. 139).
- 22 Our reading of Pollack as a supranationalist reflects the position he adopts in his theoretical writings. Although his empirical work (e.g. 2000) highlights the power of the member states, it is not grounded in the perspective elaborated in his theoretical writings.
- 23 Although Pollack (1997) discusses how divergent interests between the member states enable supranational agents to behave opportunistically, he does not explain how and under what conditions this might occur, and he certainly does not address the question, raised by Marks *et al.* (1996), of the impact of European integration on individual, as opposed to collective, sovereignty of the member states.
- 24 We thank Bill Tompson for drawing this concept to our attention.
- 25 Though Pollack (1997: 115) does make a passing reference to this issue.

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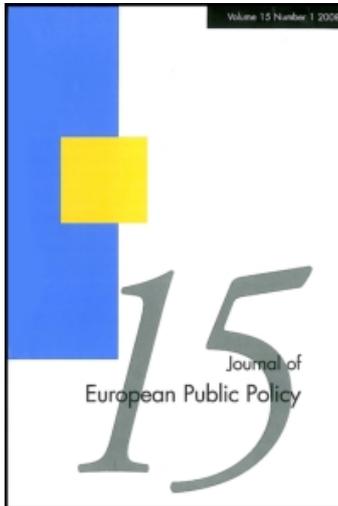
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Idiosyncrasy and integration: suggestions from comparative political economy

Erik Jones¹

ABSTRACT There is a growing consensus in comparative political economy that ‘globalization’ is not eliminating the distinctive character of specific nation-states. Even in Europe, where formal integration between countries is most profound, nation-states remain idiosyncratic. Starting from this consensus, the questions I ask are: (a) how can we explain the coincidence of national idiosyncrasy and international integration; (b) what does our explanation tell us about processes of European integration? The answers, I argue, lie in two theoretical traditions – one stemming from Karl Polanyi’s (1957) insistence on the social embeddedness of market institutions and the other from Gunnar Myrdal’s (1956) interpretation of the cumulative causality behind integration at the national and international levels. Although well received in other areas, neither tradition has played much of a role in the study of the European Union. The article concludes by suggesting a research program that could develop from the interface between idiosyncrasy and integration.

KEY WORDS Convergence; divergence; globalization; integration; Myrdal; Polanyi.

INTRODUCTION

Students of comparative political economy have reached a consensus that the world’s advanced industrial societies are not growing any more alike – at least not necessarily. Globalization, technological development, de-industrialization, demographic change, and a host of other factors all press upon welfare states and social institutions. Nevertheless, the result of this pressure is little or no necessary convergence on some common set of norms, institutions, or practices across countries.² Of course, parallels do emerge from one case to the next. Yet these are more incidental than indicative in nature. The subtitle of Scharpf and Schmidt (2000b) captures the essence of the argument: ‘diverse responses to common challenges.’

The absence of necessary convergence is nowhere more surprising than in Europe, where the remarkable development of the European Union (EU) must

be added to the list of exogenous and endogenous challenges to national distinctiveness. The countries of Europe nevertheless provide the richest source of empirical support for the persistence of differences. For comparative political economists this juxtaposition of European integration and national distinctiveness underscores the relative importance of other causal factors affecting the varieties of capitalism in evidence. For students of European integration, the confluence of factors is more fundamentally significant: if integration in Europe does not coincide with some form of necessary convergence between the member states, then what does 'integration' really mean?

The purpose of this article is to reflect the consensus in comparative political economy against the backdrop of European integration. My goal is not to survey the application of new institutionalist approaches to the study of the EU; nor is it to provide some deep methodological critique of the competing frameworks used for analysis. Such arguments have already been pursued comprehensively by authors like Aspinwall and Schneider (2000) and Peterson (2001). In contrast with these authors' efforts to survey the breadth of the literature, my ambitions are limited more to illustrating some of the principal causal mechanisms at work and to suggesting some of the implications of focusing attention on those mechanisms. The questions I ask are two: How can we explain the persistence of national diversity within the common institutional framework of the EU? What does the explanation tell us about the process of European integration? The answer to the first question conforms closely to the consensus view (albeit in simplified form): using Karl Polanyi's (1957) analysis of the 'double movement' behind the social embeddedness of market institutions it is possible to suggest both why countries differ and how European unity might contribute to national diversity.

The answer to the second question represents a departure from the existing consensus in comparative political economy. Rather than bracketing national diversity as something to be explained, it opens up the possibility that the idiosyncratic character of this diversity may be part of the explanation for the pattern of integration witnessed in Europe. The challenge is to develop a framework for analyzing the interaction between idiosyncrasy and integration. Gunnar Myrdal's (1956) interpretation of the cumulative causal forces behind integration at the national and international level offers one possible solution. More important, Myrdal's analytic framework provides a basis for research on Europe that is different from the canon of integration theory and yet consistent with the consensus view in comparative political economy.

The article is developed in five sections. The first surveys the comparative political economy consensus in order to explain the idiosyncratic nature of national diversity. The second demonstrates the use of Polanyi's 'double movement' in explaining the causality that runs from integration to idiosyncrasy. The third introduces Myrdal's cumulative causality as a means of bringing idiosyncrasy and integration into dynamic interaction. The fourth suggests a research program that could develop at the interface between idiosyncrasy and integration. The fifth section concludes.

FROM DIVERSITY TO IDIOSYNCRASY

The consensus among comparative political economists is at the same time deep and eclectic. It is deep insofar as most comparative political economists agree that countries have remained distinctive despite the many common forces acting upon them. Yet it is eclectic in the sense that different authors tend to highlight different areas of distinctiveness. Hence any broad survey of the literature would turn up a host of resilient 'differences' between countries that are important to economic performance, international competitiveness, institutional adaptiveness, or democratic stability.

The variety is most easily evident when viewed in terms of horizontal strata. Wage-bargaining institutions, monetary authorities (including central banks), distributive policies, tax regimes, political ideologies, and patterns of party-political competition constitute the focus of concern for macro-analysis. Corporate governance, supply networks, infrastructure, labor organization, labor market regulations, and skills development provide a meso-layer for attention. Social capital, interpersonal trust, popular values, and the economics of the family lie at the micro-layer.

The vertical concerns cutting across these strata are less immediately tangible and yet fundamentally no less diverse. For example, prevailing conceptions of distributive justice and patterns of distributive conflict necessarily stretch from the micro- to the macro-level of aggregation. Yet how are we meant to translate 'the spirit of co-operation' or 'the notion of fairness' or even 'social democracy' from one national context to the next without pointing to specific combinations of stratified characteristics – this type of family, this level of interpersonal trust, this pattern of industrialization, this form of corporate governance, these skills, this infrastructure, these policies, these policy institutions, and so forth? The easy answer is to invoke some essential characteristic – Asian values, German inflation aversion, Dutch consensus, and the American work ethic. The more difficult (and yet fortunately more common) answer is to bracket a set of necessary or indicative features for analyzing particular problems. Wage bargaining and unemployment, central banks and inflation, social capital and democratic stability, and so forth. Such work has undoubtedly enriched our understanding of why difference matters. Yet it has also had the inadvertent effect of creating a set of functionally specific vertical pillars that are every bit as diverse in content as the horizontal strata they intersect.

The eclecticism at the heart of the comparative political economy consensus derives not from the observation that countries are diverse but from the reality that this diversity is idiosyncratic. It is possible to connect a particular structure of the family with a particular form of corporate governance and a particular pattern of party-political competition – as is often done in studies of French industrialization during the Third Republic. Yet the connections are historically contingent or, more generally, sensitively dependent upon initial conditions. So, for example, if we hoped to recreate French bourgeois capitalism in one of the transition countries in Central Europe, we would have to control for much

more than the structure of the family, the form of corporate governance, or the pattern of party-political competition. Indeed, we would have to control for so many factors that inevitably the effort would prove futile. This was the lesson learned by Soviet economists in Central Europe during the 1950s and rediscovered by Western economists in Central Europe during the 1990s. Countries will develop idiosyncratically or not at all.

The use of the term idiosyncrasy in this context is deliberate. My point is not simply that countries are different in certain respects. Rather it is that even similarities across countries are likely to have arisen for different reasons, along differing trajectories, and with different implications or effects. The scale of these differences need not be tremendous and in metaphorical terms it is easy to imagine that countries will bear family resemblances. However, the significance of the family metaphor should not be overestimated. Even two countries with a long heritage in common – such as Belgium and the Netherlands – should not be expected to resemble one another or even to hold common features – such as consociational democracy – for the same or similar reasons.

The idiosyncratic basis of national distinctiveness is unsurprising insofar as it reflects another deep and yet eclectic consensus in comparative political economy (and elsewhere) known broadly as the ‘new institutionalism’.³ The consensus is that institutions matter. The eclecticism lies in how institutions matter and why. Without digressing too far, suffice it to say that the new institutionalism constitutes a cross-hatch of direct and circular causal mechanisms implicating institutions both in particular outcomes and in their own reproduction. Moreover, this cross-hatch of causal mechanisms is every bit as complicated as the horizontal strata and vertical pillars for national difference suggested above. Institutions matter in ways and for reasons that both reflect and impact upon their broader environment including actors, other institutions, and themselves.

The link between the new institutionalism and the consensus on resilient national distinctiveness is analytic and not accidental. Countries remain different *because* institutions matter. And national differences are idiosyncratic because institutions matter for reasons and in ways that are sensitively dependent upon initial conditions, on context, on timing, and on the beliefs or attitudes of the actors that interact through them or within them. At a macro-level this explains why the notion of diverse responses to common challenges has such appeal. The alternative would be inconsistent with the new institutionalist consensus. In order to anticipate that common challenges should engender common responses, it would be necessary to assume that any response to globalization, demographic change, and so forth, could be fashioned as though differences in institutional context (and therefore institutions) do not matter.

The implications here extend beyond the notion of diverse responses to common challenges and encompass the correlation between institutional form and institutional function. In order to insist that only one institutional

configuration can guarantee a particular economic outcome it would be necessary to assume that some institutions matter and yet others do not. For example, an equivalent assertion might be that a politically independent central bank can guarantee price stability no matter how politics or markets may be organized. Even the framers of Europe's economic and monetary union could not make that leap of faith and so invested considerable resources in flanking the European Central Bank with a variety of institutional and procedural supports.

The link between the consensus on national diversity and the consensus that institutions matter extends all the way down to the micro-motivational or cultural level as well. In order to regress any type of performance – such as economic growth or political stability – back to some prior or fundamental characteristic – such as interpersonal trust – it would be necessary to assume that institutions matter in some areas but not in others: continuing with the same example, institutions can reflect or channel interpersonal trust but they cannot shape it, create it, or diminish it.

The reason for highlighting the interconnections between the consensus on resilient distinctiveness and the consensus on the new institutionalism is not to suggest that countries are idiosyncratic and therefore there is no basis for a comparative analysis of institutions, performance, or the link between the two. Nor can my argument be read in any way as some comprehensive survey of new institutionalism and the convergence–divergence debate in comparative political economy. Rather my goal is to suggest only that idiosyncrasy matters as a persistent feature for analysis both in its own right and with reference to the impact it has on institutional arrangements which cross national boundaries. Recognition of idiosyncrasy offers insights both as an effect and as a cause.

IDIOSYNCRASY AND POLANYI'S 'DOUBLE MOVEMENT'

In order to illustrate the analytic significance of national idiosyncrasy, I need first to resuscitate Polanyi's (1957) 'double movement' as an explanation for the emergence of distinctively national political economies. The reason for going back to Polanyi is that his analysis of *The Great Transformation* which ushered in the welfare state has had a seminal influence on the study of comparative political economy generally and on the development of institutionalism in particular. Not every comparative political economist agrees with Polanyi in every detail and few regard him as holding the last word. Nevertheless, Polanyi's argument lies at the foundation of the current consensus. Hence, for example, Hollingsworth and Boyer (1997) dedicate their collection of essays to Polanyi, while Scharpf and Schmidt (2000a) invoke his argument in the first sentence of their introduction. In this sense, Polanyi's 'double movement' is a greatest common denominator among comparative political economists who might otherwise differ on the specifics of how they believe the welfare state has developed subsequently or what they hold to be the most important explanatory mechanisms behind that development.

As an empirical claim, Polanyi's 'double movement' is descriptive and refers to the observation that:

While on the one hand markets spread all over the globe [during the nineteenth century] and the amount of goods involved grew to unbelievable proportions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the actions of the market relative to labor, land, and money.

(Polanyi 1957: 76)

The vast spread of markets was the globalization of the nineteenth century. The emergence of the welfare state was the response. And, in this cause-effect relationship, the paradox for Polanyi (p. 141) was that: 'while laissez faire economy was the product of deliberate state action, subsequent restrictions on laissez faire started in a spontaneous way.' To paraphrase closely (but anachronistically) the next sentence in Polanyi's argument, the globalization of markets was planned but the structure and functioning of the welfare state was not. From an empirical standpoint, then, it is possible to anticipate the idiosyncratic origins of the welfare states as a prior expression of Scharpf and Schmidt's 'diverse responses to common challenges'. The point to note, however, is that to some extent at least the common challenges were a result of state action.

But Polanyi's 'double movement' is more than just an empirical claim. It is also a theoretical proposition about the politics of economic adjustment. The mechanism at work behind the double movement develops from the logic of distributive politics. Any economic adjustment imposes costs as well as providing benefits. And the distribution of costs and benefits is often inequitable across different groups in society. Hence we should anticipate that groups adversely affected by a change will mobilize in search of redress. As Polanyi explains:

Sectional interests are thus the natural vehicle of social and political change. Whether the source of change be war or trade, startling inventions or shifts in natural conditions, the various sections in society will stand for different methods of adjustment (including forcible ones) and adjust their interests in a different way from those of other groups to whom they may seek to give a lead; hence only when one can point to the group or groups that effect a change is it explained *how* that change came about.

(Polanyi 1957: 152)

Moreover, Polanyi is insistent that the motives of these sectional groups cannot be reduced to some objective economic calculation. Rather distributive politics takes place within cultural and institutional environments wherein the values attached to particular strategies or outcomes have a strong subjective component. 'To employ a metaphor, the facts of the economy were originally embedded in situations that were not in themselves of an economic nature, neither the ends nor the means being primarily material' (Dalton 1968: 120).

The implication of Polanyi's argument is that sectional interests necessarily

reflect at least some of the idiosyncrasy of their local environment. '[In] any given case, the societal effects of individual behavior depend on the presence of definite individual conditions, these conditions do not for that reason result from the personal behavior in question' (Dalton 1968: 150). In this way, Polanyi's argument does not collapse into a tautology within which societal difference is the necessary product of its own creation. Rather it suggests only that environmental factors influence any calculation of 'rationality'. The more diverse these factors are from one context to the next, the more likely we should expect differences to emerge in separately 'rational' responses to common challenges. Of course there is an element of path dependence leading from difference in one time period to difference in another as the institutionalized responses to one challenge influence the calculation of rationality in responding to another. However, the mechanism behind this path dependence derives from calculations (and understandings) of rationality and not from history *per se*.⁴

History matters for our interpretation of Polanyi more in the structure of the argument than in its content or implications. The force of Polanyi's claim about the strong subjective component of sectional motivation lies in opposition to the 'class-based interests' that predominated in the Marxist political economy of his day. His assertion that sectional interests are the natural vehicle of social and political change underscores that class interests are not. Crucially, the distinction between a 'section' and a 'class' lies in the sensitive dependence of sectional interests on local institutional, social, and cultural factors. Where Marxists might claim that class structures transcend national boundaries, Polanyi would counter that sectional interests resist strong categorical aggregation or extrapolation from one context to the next.

The politics of economic adjustment working behind the double movement is distributive, and yet the rationality at its basis is contextually specific. Moreover, the context of distributive politics encompasses more than market institutions to include a range of institutions without explicit economic rationale. In this way, Polanyi not only explains the institutional reaction to the emergence of world markets but also the growing diversity of responses to the common challenges that world markets represent. In Polanyi's empirical account, this diversity ultimately spells the demise of world markets and so ushers in the Great Depression. And, in turn, the collapse of the world economy facilitated the 'rise of a variety of new societies' (Polanyi 1957: 252).

However, that great transformation that culminated in the 1930s was but a transitory phase in history. In Polanyi's theoretical account, the diversity of national institutional environments constitutes the defining characteristic of political economics. 'Nothing is more obvious to the student of social anthropology than the variety of institutions found to be compatible with practically identical instruments of production' (Dalton 1968: 71). Moreover, the ubiquity of such variety constitutes the link for Polanyi between idiosyncrasy and integration. The problem of integration is not to ensure a strong form of mechanistic determinism in the form of comprehensive market rules

or laws of economic behavior, nor is it to impose institutional conformism around a single set of structures or principles. Rather Polanyi invokes the term 'integration' to describe the use of institutions to structure patterns of behavior so as to create a sustainable and self-propagating balance between collective interdependence and individual freedom in a given context (Dalton 1968: 139–74). Moreover, his use of the term is explicitly normative and contingent: political actors *should* strive to strike a balance between interdependence and freedom; they should do so in full awareness of the contextual specificity within which they operate; and they should accept that it is possible to fail.

Polanyi's empirical claim about the origins of the welfare state clearly antedates the process of European integration. However, Polanyi's theoretical argument has both positive and normative implications for our understanding of the integration process. In positive terms, European integration lies behind a new double movement for Europe's welfare states. It is a common impetus to which the countries of Europe should be expected to respond differently, contingently, even idiosyncratically. Hence from Polanyi's perspective, the consensus among comparative political economists concerning the resilience of national differences is unsurprising. Indeed, the link between integration and idiosyncrasy in Europe is causal.

In normative terms, Polanyi's theoretical argument suggests that European integration *should* result in the achievement of some dynamic and yet sustainable balance between interdependence and freedom for the participating member states. Once Europe's heads of state and government accept the social embeddedness of institutions (including market institutions), they must also accept variation across societies as a necessary constraint on the use of power to 'ensure . . . that measure of conformity which is needed for the survival of the group' (Polanyi 1957: 258).

The challenge for theorists of European integration is to reconcile the tension between the positive and normative implications of Polanyi's argument. If the effect of integration is to encourage diversity, and the effect of diversity is to constrain the inducement of that measure of conformity which is necessary for the survival of the group as a group, then how is the dynamic balance at the heart of 'integration' to be achieved? Moreover, what will be the impact of efforts to balance integration at the European level (which is not actually the focus for Polanyi's analysis) on efforts to balance integration at the national or societal level (which is)? These are not questions for which Polanyi has a clear answer. The answers are not manifest in the comparative political economy consensus on resilient diversity or on the new institutionalism. And the answers are almost entirely absent from the theoretical canon concerning European integration. Almost.

INTEGRATION AND MYRDAL'S 'CUMULATIVE CAUSALITY'

One theorist who has addressed the dynamic balance implicit in Polanyi's conception of integration both generally and in relation to Europe is Gunnar

Myrdal (1956). In his book, *An International Economy: Problems and Prospects*, Myrdal sets out a framework for analyzing integration as a process that is at the same time cumulative, causal, multi-level, and reversible. Moreover, Myrdal's framework builds explicitly upon the normative contrast between conformity and diversity that is analyzed by Polanyi. The tension between conformity and diversity exists and the goal of integration is to move toward a particular understanding of balance between these competing forces.⁵

The complementarity between Polanyi and Myrdal is as much analytic and empirical as normative. Both writers are institutionalists who accord a central role in all accounts of social development and political reform to the interaction between individual values and collective institutions. And both predicate much of their analysis on the overwhelming significance of the Great Depression of the 1930s as an episode of international disintegration. The difference between them is that where Polanyi posits the Great Depression at the end of his narrative account, Myrdal places it at the beginning. Both agree that the development of national economic institutions fragmented world markets. Polanyi's focus is on how this came about. Myrdal's is on what should be the appropriate response. Hence where Polanyi reserves his normative arguments until the end of *The Great Transformation*, Myrdal posits his normative emphasis up front. Economic integration, he asserts, is 'the realization of the old Western ideal of equality of opportunity', and "international economic integration" is the realization of the same ideal of equality of opportunity in the relations between peoples of different nations' (Myrdal 1956: 11, 13).

The overtly normative emphasis in Myrdal's conception of integration is likely to put off many contemporary analysts of Europe. Nevertheless, it is important not to be distracted by Myrdal's own insistence on the normative or ideological basis of his claim. In the context of more contemporary analysis, the force of Myrdal's normative claim derives from his analytic dependence on the interaction between values and institutions. For Myrdal, institutional reform cannot have effect unless it is somehow accompanied (or even preceded) by a change in values. Hence it makes little sense to analyze processes of institutional development – like integration – without identifying the normative framework within which they are embedded. The resonance here between Myrdal and Polanyi is acute.

Nevertheless, readers familiar with Polanyi and not with Myrdal may anticipate a contradiction in their respective normative frameworks. As a further point of introduction, therefore, it is useful to note that Myrdal's reliance on 'equality of opportunity' and classical Western liberalism does not contradict Polanyi's own rejection of liberal market ideology. Indeed, the similarities between the two authors are striking – particularly given the absence of cross-reference. Myrdal (1956: 25) suggests that 'a purely liberal – i.e. nondiscriminatory and "impartial" – national community is almost a contradiction in terms'; that 'in all advanced countries the secular trend has been away from a free market economy governed by the interplay of market forces'; and that:

It is a paradox that only a well-integrated community can abide by the rules of economic competition; but that an integrated community will modify the rules if changes in prices impose too drastic a decline in the income of any one sector, or require too sudden shifts of resources or, more generally, if the community favors a course of economic development other than the one that would result from the free play of market forces.

(Myrdal 1956: 25)

Indeed, Myrdal (1956: 32–3) even has his own version of Polanyi's double movement, within which a principal (though not exclusive) stimulus for the elaboration of many of the institutions of the welfare state can be found in the reaction of social groups within national communities to the risks and adjustments implied by world market forces. For Myrdal as for Polanyi, the result is that 'cultural differences between populations on different sides of state boundaries, which were originally minor, are steadily accentuated as interests are focused on national issues and increasingly institutionalized within the state framework' (1956: 35).

The value that Myrdal adds to Polanyi's argument lies in his elaboration of the 'cumulative causation' behind processes of integration and disintegration. As already indicated, much of the causal force in the argument derives from the relationship between values and institutions. In turn, this linkage is underpinned by Myrdal's assessment of the structure of distributive conflict within conditions of relative scarcity and relative surplus. And, it is in the assembly of institutional, attitudinal, and economic forces that the utility of Myrdal's liberal emphasis becomes apparent.⁶

The origins of integration for Myrdal are predominantly attitudinal. Actors choose to equalize opportunities within a group through the elimination of barriers, the redistribution of resources, or (more usually) some combination of the two. The choice may be motivated by collective or complementary self-interest, and yet it must also be underpinned by some more general commitment to the virtues of collective action (in what readers may recognize as an early form of the argument for social capital [p. 22]). Once the choice for equalization becomes institutionalized, the success of the reform measure is contingent upon an identification with the institutions and a willingness to abide by the new rules they imply – two factors which Myrdal describes as comprising 'solidarity' within the given context. Actors must accept to participate in a competitive market and they must agree to contribute to redistribution.

Beyond this point, Myrdal's emphasis shifts from attitudes and institutions to economics and back again. The economic effect of the equalization of opportunity within a group should be welfare enhancing – this is the liberal premise. In turn, the effect of welfare enhancement should be to mitigate the obstacles to a further extension of equality of opportunity while at the same time reinforcing the appeal of engaging in collective institution-building. Distributive conflict is less disruptive and collective action is more attractive

in conditions of relative surplus. This is how Myrdal closes the cycle for cumulation. However, given the central significance of attitudes and institutions in the process, the end result is idiosyncratic and not economically (or ideologically) predetermined: 'From this point of view of their cumulative effects upon attitudes and, therefore, possibilities for further advance, even small institutional accomplishments become potentially important' (Myrdal 1956: 55). Processes of integration are path dependent.

A similar cumulation lies behind processes of disintegration. However, the origins of disintegration are predominantly economic rather than attitudinal. Unexpected economic hardship or dislocation undermines the willingness of groups to engage in institutional commitments to equality of opportunity and heightens the significance of distributive conflict. Instead of solidarity, different groups come to struggle over the control of institutions, whether in the form of markets or redistributed resources. Such conflict in turn impacts upon aggregate welfare and accentuates the unwillingness of groups to commit to equality of opportunity. Here too the process manifests institutionally and so exhibits idiosyncratic path dependence.

The cumulative element of these processes is only part of the story. The other part is the fact that the process of integration and disintegration can exist independently in different areas of institutional activity and that it can play out across many different levels of aggregation at the same time. Within a given level of analysis – an individual welfare state, for example – the existence of an institutional arrangement that integrates some members of society while disintegrating others presents no necessary paradox. There may be a normative contradiction between the equalization of opportunities to one group simultaneous to the exclusion of another, but there is no logical or empirical obstacle to such coincidence. The same is true across levels of analysis. A trade union may integrate its own members even if this has adverse implications for other workers outside. And the elaboration of the welfare state can disrupt the functioning of the world economy. Indeed, for Myrdal as for Polanyi that is precisely the point. As Myrdal explains:

I do not imply the existence of logical elements in conflict between the ideals of national and international integration. I am more convinced than ever that, on the contrary, national economic progress can reach the highest possible levels only in a well-integrated world. But in the severely disintegrated world in which we actually live, there is an obvious lack of institutional balance that works forcefully against international solutions that would satisfy people's cravings for economic progress, equality, and security.

(Myrdal 1956: 33)

The locus for this tension between integration at the national and international levels lies in the interaction between economic institutions – macroeconomic, regulatory, and market. As different social groups have turned to the state in defense of their welfare, the result has been to elaborate a wide variety of

different institutional structures in response to specific problems. And given the territorial boundaries of the state, these institutions have tended to operate only at the national level. Internationally, the effect of these various regimes has been to create obstacles to interaction and to exchange – both institutional and attitudinal – regardless as to the explicit intentions behind the original institutional design. Hence the problem is not nationalism or protectionism per se. Rather it is the idiosyncratic manner in which national political communities have addressed shared and complementary values. Hence, ‘the ordinary citizen is apt to believe – and very largely with good reason – that the national policies by which [national integration] has been brought about are good, even if they are exactly those which are here pictured as the causes of international disintegration’ (Myrdal 1956: 44).

Resolution of the tension between integration at the national and international levels depends upon the reconciliation of institutional regimes and the preservation of values. In this way, ‘international integration becomes . . . a matter of coordination’, wherein ‘[what] is needed is *an internationalization of these national policy structures themselves, preserving the essential values they represent to the several nations*’ (Myrdal 1956: 50; italics in original). In this way, Myrdal anticipates the ‘new approach’ to voluntary industrial standards that operates at the heart of the internal market program of the late 1980s as well as the ‘open method of co-ordination’ around which the Lisbon European Council built its strategy for welfare state reform in the late 1990s (Hodson and Maher 2001). For Myrdal, such developments should not constitute a departure from the pattern of international integration – they are the pattern, at least insofar as integration is identified with the equalization of opportunity between the member states. Some measure of conformity may be essential, but a wide element of diversity cannot be avoided.

The next phase in Myrdal’s analysis of *An International Economy* uses this understanding of integration to explain why efforts to unite Europe during the early to mid-1950s failed to yield the desired result. For Myrdal, the tension between national and international integration was only part of the problem. The other part lay in the excessive ambition of his contemporaries in their efforts to force the pace of integration ahead of the development of popular attitudes and beyond the reconciliation of institutional regimes. Such efforts, he suggests, were doomed to failure. Only a more specific, practical, and incremental project could hope to succeed.

With the benefit of hindsight we might be tempted to agree. The dramatic proposal of a European defense community and its concomitant European political community could never hope to overcome the attitudinal and institutional obstacles that were present during the first decade of the Cold War. By contrast, a more specific, practical, and incremental pursuit of economic integration might, however, succeed. And it did. But we do not need to appeal to Myrdal to know that. The evidence of the success of European economic integration is all around us. What Myrdal adds to this empirical record is an understanding of the coincidence between the progress

of European economic integration and the persistence of national distinctiveness. For Myrdal, the one could not have been possible without the other.

IDIOSYNCRASY AND INTEGRATION

The insights taken from Polanyi and Myrdal can be drawn together in a research program that complements the existing work on European integration by emphasizing some of the analytic strengths of comparative political economy – strengths related to the analysis of institutional effects, distributive coalitions, and dynamic systems. The purpose of this section is to suggest how such a research program could come about and it is organized along some of the guiding themes suggested in the work by Polanyi and Myrdal.⁷

From Polanyi, the emphasis in the research program can be summarized in terms of reactive diversity and distributive politics. When examining any particular facet of European integration, the first step is to look where reactions differ across member states and the second is to attempt to analyze plausible distributive accounts for these differences in reaction. The point is not that integration and idiosyncrasy covary in some direct or linear sense. Rather it is that any aspect of integration may give rise to reactions that differ from one member state to the next for distributive reasons which are strongly influenced by the local structural environment.

Consider, for example, the effects of capital market integration and monetary integration. The predominant expectation in the literature is that these will have a strongly convergent influence on Europe's member states. However, the implications of Polanyi's double movement are that the effect will be divergent and will depend upon domestic distributive politics. In part, this line of reasoning is already well documented in Garrett (1995, 1998), who analyzes the flexibility afforded to left-wing political groups under conditions of high capital mobility. What Garrett (2000) has tended to avoid is the impact of monetary integration, which he concedes will have a convergent influence on fiscal policy.

By contrast, Jones (2003) finds the differential responses to monetary integration anticipated in the logic of Polanyi's 'double movement' in comparative national performance on international current accounts. Simply, the variation in current account performance across countries increases first with capital market integration and again with monetary integration. In turn, this variation in current account performance can be explained with reference to the adoption of differing macroeconomic policy mixes which are possible only under conditions of capital market liberalization and which are reinforced (rather than undermined) by monetary unification. Finally, these differing macroeconomic policy mixes have important distributive consequences which can be traced back to underlying policy coalitions. In the language of Polanyi, we can regress this story about diverse reactions to capital market integration and monetary union through the macroeconomic data and back into those sectional interests that are the natural vehicles for social and political change.

The identification of diverse reactions to common policies or common institutions should not be taken as a challenge to assertions of 'commonality'. With the previous example, my point is not that capital market integration and monetary union have no convergent impact. Rather it is to suggest that they have divergent implications as well. This change in emphasis is important to help round out debates about European integration. For example, where the predominant emphasis in discussions of capital market integration and monetary union is on the convergent features of these policies, the addition of rules governing fiscal behavior as in the Stability and Growth Pact can only be viewed as an added constraint. When the emphasis shifts to focus on divergent reactions – and so highlights, for example, the fact that Portugal has run a current account deficit of approximately 8 percent of gross domestic product for each of the past five years on top of a consistent run of deficits stretching back to the late 1980s – the importance of agreeing standards for fiscal performance increases.

In Polanyi's analysis, distributive politics is mediated not only by institutions but also by ideas. Moreover, the ideational influences on distributive politics are at least partially endogenous insofar as they change over time and as a result of the evolution of political competition. This point is slightly complicated but can be illustrated in the contrast between two prominent accounts of the role of ideas and preferences in the process of European monetary integration. In McNamara's (1998) account, preferences converge across countries under the influence of capital market liberalization. States (or governments) become aware of the implications of high capital mobility for monetary policy autonomy and so come to accept the inevitability (in structural terms) of a neoliberal turn in macroeconomic policy-making. In Moravcsik's (1998) account, the result is much the same and yet the process is more highly contested in the form of distributive negotiations between countries and between competing interest groups within countries. Viewed together, these two accounts suggest differing degrees of endogenous influence and therefore differing degrees of convergence across countries: McNamara's account is dominated more fully by the lessons learned from the collapse of Keynesianism; Moravcsik's account incorporates a series of smaller lessons learned by individual countries or groups within countries from myriad events that take place throughout the integration process including the process of negotiating over institutional design.

If we follow the path of contestation to its logical conclusion, multiplying the actors involved and increasing the endogenous influences of past conflicts on current perspectives, it is possible to restructure much of our understanding of the stability of monetary integration. The predominant assumption in the theory of optimal currency areas is that the choices for entering and leaving a monetary union are symmetrical. Countries (or governments) opt for irrevocably fixed exchange rates when the distributive consequences are favorable – as when trading relations between prospective members are preponderant. But countries (or governments) may also choose to leave the monetary union and

opt for flexible exchange rates when the distributive consequences of membership become unfavorable – as under the influence of an asymmetric exogenous demand shock. Assuming that Polanyi is correct in his analysis of the ‘double movement’, however, this expectation of symmetry in the choices to join and to leave a monetary union should not hold.

Joining a monetary union represents the choice for an exchange rate regime with important consequences for monetary policy. Leaving the monetary union represents a choice for monetary policy with important consequences for the exchange rate regime. The distinction is more than just a semantic one for three reasons implicit in the ‘double movement’: First, domestic actors will have changed their institutional environments in order to adapt to the consequences of participation in the monetary union. Second, these actors will have reordered their prioritization of policy instruments by ease of use, with efforts to seek fiscal redress always proving easier than efforts to reestablish a national currency. And third, actors will face a completely different set of distributive calculations – although still difficult, it is far easier to establish the distributive consequences of changing the exchange rate regime than to identify the distributive consequences of changing either the direction or character of monetary policy. Each of these three reasons is endogenous to the process of monetary integration. And what is important is not only recognizing the precise mechanisms for this endogenous influence of integration on institutions and ideas, but also recognizing the implications of its existence for our understanding of integration as a process.

This discussion of endogenous influences helps to move the research program from Polanyi to Myrdal, and from the distributive politics of institutionally bounded arenas (like national politics) to the distributive implications of interactions across levels of analysis. What Myrdal emphasizes is the importance of the competition between national and international forms of integration. In practical terms, we should look for this competition to play out in the interaction between systems. As policy-making competencies become institutionalized at the European level, what is the impact on national performance?

One example of research posited in answer to a question like this can be found in Peter Hall’s analysis of the implications of monetary integration for German price stability. Hall’s (1994) argument is that German price stability during the post-war period is not solely a result of policies of the German central bank – the Bundesbank – but rather results from the complex signaling between the Bundesbank and those actors engaged in wage bargaining. The force of this claim is that price stability derives not from some readily identifiable institutional attribute like political independence, but rather from a more ambiguous distributive equilibrium between powerful forces in German society, namely labor and capital. By implication, Hall speculates as to whether attempts to replace the Bundesbank with a European central bank would somehow eliminate the signaling between monetary authorities and those actors engaged in wage bargaining and thereby disrupt the distributive equilib-

rium behind Germany's stable prices (Hall 1994: 17). In turn, such speculation has fed into a well-spring of analyses that have looked at the implications of monetary integration for domestic patterns of distributive conflict, policy-making and policy adjustment both in Germany and elsewhere.⁸ As Hall and Franzese (1998: 526–30) point out, such analysis holds the key to understanding the future of European economic integration.

Myrdal's emphasis on the dynamic interactions between levels of analysis provides a useful window for analyzing the relationship between unity and diversity. Not only does it highlight systemic interdependence – such as between the stability of an exchange-rate or monetary regime and the interaction between domestic institutions – but it also suggests the importance of identifying operational constraints. As the pattern of European integration adapts to accommodate ever greater diversity among its member states, the importance of such constraints can only be expected to grow. Hence, for example, it is not enough to acknowledge that enlargement will take place on the basis of a 'principle of differentiation', that welfare state reform will be undertaken within an 'open method of co-ordination', or that the EU may evolve along lines of 'enhanced co-operation' between subsets of participants. What is also required is more general analysis of where differentiation ceases to facilitate progress, where open co-ordination ceases to encourage reform, and where enhanced co-operation exacerbates conflict rather than mitigating it (Jones 2001). These are the types of questions which Myrdal encourages us to analyze, and in ways that retain our focus on the importance of distributive conflict as influenced by domestic political and economic institutions.

SUGGESTIONS FROM COMPARATIVE POLITICAL ECONOMY

Students of comparative political economy have arrived at something of a consensus that national economic institutions are embedded in complex and interdependent networks which differ both historically and constitutionally from one country to the next. Moreover, even though countries are integrating within the world economy and within regional groupings such as the EU, such integration does not entail that the countries themselves are necessarily becoming less distinctive. Existing research on European integration (and globalization more generally) has focused on the conditions within which convergence does take place, on the institutional features that underwrite specific forms of distinctiveness, and on the conditional nature of convergence across national systems. Such research has added much to our understanding of integration in Europe. However, taken as a whole, this body of research also highlights the idiosyncratic character of national political economies.

The persistence of national idiosyncrasy forces us to reconsider processes of integration, particularly within the context of the EU. Using the insights of authors like Karl Polanyi and Gunnar Myrdal it is possible to construct an interpretation of events in Europe within which idiosyncrasy and integration are two elements in the same larger process of interaction. The great virtue of

such an interpretation is that it focuses attention on the diverse reactions of groups within countries to common features at the European level. The interpretation suggested by Polanyi and Myrdal highlights the significance of distributive politics to understanding the forces behind Europe and it underscores the role of specific environmental factors in shaping this distributive politics. Finally, this interpretation signals the need to analyze the complementarity between levels of integration and it does so in a manner which should allow us to structure case studies that will not only answer discrete questions but that can be relied upon to inform future research. These focal points are all present in the existing research and yet they are not unified within a common understanding of the basic causal mechanisms at work. The suggestions I draw from comparative political economy are about how such insights can be unified and researched on the basis of the standard causal patterns described by Polanyi and Myrdal.

The vice of this interpretation of the political economy of European integration is that any acceptance of idiosyncrasy invites complexity into the analysis. For most comparative political economists this tension between parsimony and complexity is a longstanding feature of research design. And there is no reason why it should not be the same for students of integration. Indeed if we accept the framework posited here, there is a certain poetic justice to the plight of the analyst. For analysis, as for integration, the challenge is to ensure that conformity necessary for survival without sacrificing the diversity which is manifest in the world around us.

Address for correspondence: Erik Jones, Johns Hopkins Bologna Center, via Belmeloro 11, 40126 Bologna, Italy. Tel: +39 051 291 7833. Fax: +39 051 228 505. email: ejones@dnsville.com

NOTES

- 1 A preliminary version of this paper was presented at the European Research Institute of the University of Birmingham. There and elsewhere I was grateful to receive constructive feedback from Robert Elgie, Paul Heywood, Dave Marsh, Anand Menon, Jonathon Moses, Amy Verdun, and two anonymous referees. The usual disclaimer applies.
- 2 See, for example, Berger and Dore (1996); Esping-Andersen (1999); Hall and Soskice (2001); Hollingsworth and Boyer (1997); Kitschelt *et al.* (1999); Scharpf and Schmidt (2000a, 2000b).
- 3 See, for example, Goodin (1996); March and Olsen (1989); Peters (1999); Weaver and Rockman (1993).
- 4 Note here the contrast between Polanyi and Pierson (2000: 264–5).
- 5 Note here the contrast with Puchala (1975) who argued that the concept of ‘integration’ should be understood explicitly in terms of harmonization.
- 6 See particularly Myrdal (1957: 1–55).
- 7 See also Jones (2002).
- 8 See, for example, Franzese (2002); Iversen (1998, 1999); McNamara and Jones (1996); Soskice and Iversen (1998).

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