

Popescu, Ionut

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INCREASING THE EFFICIENCY OF THE EUROPEAN INSTITUTIONS: A HISTORICAL PERSPECTIVE

Ionuț Popescu

“Alexandru Ioan Cuza” University of Iași

Abstract: *The view that European institutions do not operate with maximum efficiency, that they are not yet able to cope with all major economic and social problems, to fully meet the basic functions, that cannot adapt to rapidly changing world has not emerged in recent years. In this paper we try to clarify the concept of institutional efficiency, and try to follow from a chronological perspective the main events that led to the more or less efficient European institutions.*

Keywords: Institutions, efficiency, European Union

JEL Classification: N24

The problem of assessing „efficiency” in the realm of institutions stirs many controversies (note that the actual "efficiency" criterion is a controversial topic among economists). If efficiency is defined in terms of an objective value indicator, identifiable and measurable, then maximizing this indicator requires the existence of a unique arrangement of market outcomes.

This understanding is the core of the welfare economy built around the Pareto static efficiency criterion. According to Pareto, an arrangement is efficient if there are other arrangements possible that could benefit a person, without disadvantaging another. Paretian criterion for assessing the efficiency is proved, however, unrealistic and impractical in the terms of the dynamic market process, as a constantly changing reality with many changes in the expectations of participants. *In the real world, which is governed by the policies and too often subject to government intervention, it is almost impossible to conceive Pareto-optimal solutions.*

Changing institutions determine, necessarily, a change in the allocation of resources, which is equivalent to saying that individuals behave differently in a different institutional framework. Modifying the constraints and incentives within which human action takes place means changing opportunity costs and relative prices in the entire spectrum of human action.

This entails, in essence, changing the preferences and the economic and ethical nature of people. Therefore, any allocation of resources that can be classified as "effective" depends,

necessarily, on the institutional framework in which decisions on the use of resources are evaluated and adopted.

If efficiency is determined by what results from voluntary agreements, then we will have to accept the non-uniqueness set of rules and institutions that can satisfy the "criterion of efficiency."

In a set of rules and institutions, Buchanan & Tullock (1962, p. 84) states that "what is effective is the result of voluntary agreements and not vice versa." Non-reciprocity clause would mean that not every state of things resulting from voluntary exchange process is effective.

This approach is subject to the general equilibrium vision, the market situation in which, ex post, no person shall obtain suboptimal results in relation to its plans and expectations. However, only ex ante human action is always optimal.

The existence of an entrepreneurial error makes that, ex post, the state of things always be suboptimal to an ex ante economic configuration. Hülsmann (2000) shows, that the development of a realistic analysis on the 'equilibrium' and 'efficiency', starts from the comparison of every choice (action) to its counterfactual alternatives (in terms of success and failure).

The problem of institutional change makes it necessary to explain the relationship between survival of certain institutions, institutional arrangements and efficiency. As Douglass North's (1990, p. 25) states, social institutions reduce uncertainty in human interactions, which does not necessarily imply that all these institutions are effective.

In an institutional analysis, efficiency indicates the conditions and framework of constraints and incentives that will produce the highest growth.

Uncertainty reduction does not require the existence of a single institutional structure and the capacity of these institutions in facilitating similar production of material wealth. Thus, the issue of explaining the survival of institutions and institutional arrangements consistent with reduced economic performance.

Olson (1984) uses the concept of "institutional sclerosis" for the emergence and persistence of dysfunctional and ineffective institutions

The history of European integration after the Second World War was marked by phases of dynamic growth, stagnation and reorientation attempts. Successful implementation of the customs union in the period 1957 - 1968 was followed by a phase of disorientation and increased heterogeneity in the 1970s and early 1980s. Similarly, completing the single market from 1985 to 1992 was followed by a period of silence. Efforts to introduce the single currency did not lead to a new dynamic of integration.

In the early 1980s, "eurosclerosis" had two different meanings: it described the difficulty of European countries to deal with their internal problems, but also the difficulty of European states to

overcome the European integration. Two cases have resulted in overcoming the difficulties of European integration.

In 1974, the European Court of Justice decision on the „Dassonville" case, determined that all regulations acting as non-tariff trade barriers must be removed.

By this decision, the Court allowed the competition between different national rules and pointed out how Member States can overcome future barriers to the flow of production factors by mutual recognition of standards.

The second case to overcome "eurosclerosis" was the program for establishing the Common Market in 1985 in order to overcome the economic and political problems of integration. 279 proposals have been adopted for the abandonment of non-tariff barriers, protection and control of national borders.

Mutual recognition of standards, based on the minimum level of European harmonization, has been characterized as a "new approach" of the EU. Single Market Plan, aimed at reducing at the same time, hundreds of protectionist legislation in all Member States, was a success.

In the years that followed, the EEC had regained optimism and went from "eurosclerosis" to "europhoria", an ebullient optimism regarding the dynamics of integration.

The prolonged recession in the early 1990s in Western Europe and increasing unemployment to record levels, starting from the already high level since 1980, did not helped to promote a positive image of the successes of European integration. So a new discussion about eurosclerosis began.

EU institutions have also suffered from multiple sclerosis: The Commission, headed by Jacques Santer, had to resign following allegations of corruption. Commission led by Romano Prodi failed the institutional reform. Many authors believe that the Commission, as the engine of European integration, has lost its dignity as the two summits in Nice and Stockholm have shown.

Governments have dominated the agenda of these meetings and the role of the Commission to arbitrate the negotiations between the governments in antagonistic positions was played without success. At the same time, governments have done nothing to obstacles encountered in the transition to EMU.

The functioning of European institutions have made numerous faults, that have sent clear signals that mechanisms should be reviewed, made more flexible and equipped with levers that it can overcome conflict situations. Often, the Commission has not made the most appropriate proposals in connection with major decisions on the EU agenda.

The collegial nature of its operation and the autonomous decision of the Commissioners have eroded over time. Decision procedures were unduly prolonged and became cumbersome and inefficient.

Council of Ministers is defined by a sporadic character of its meetings, which have so far only found a place, in the national political agendas that allow consensus. The Parliament was in the paradox situation, of not having the mechanisms of dissolution and calling early elections, which had lessen his functionality.

Moreover, on 16 March 1999, European Commission resigned following the accusations of fraud, mismanagement and nepotism in the publication on March 15 report, by an independent Committee.

This required rapid reform of the Commission, and emphasized the general need for internal reform to make EU institutions more democratic, transparent and respectable. European Parliament and Council have been equally criticized for their lack of openness and democracy. Internal reforms have been proposed just to be able to address these short-circuits in all three institutions.

The new European institutional project (The Constitutional Treaty, Lisbon Treaty) attempted to define political and legal principles in a form "understandable" to everyone, able to guarantee - at the same time - the interests of the Union's key components:

- Members;
- People;
- Regions.

The choice would be the federal, decentralized, based on the double democratic legitimacy:

- the people versus the states and regions;
- the federal versus intergovernmental.

The Council would participate in decision-making on equal terms with the institution representative of the people (EP), the execution of decisions remaining primarily at the state level.

Let's hope that this institutional project will make the EU politically effective, economically efficient and more open with themselves and the world.

While not perfect, the Constitution and Lisbon Treaty are very important steps that increase the institutional efficiency and unlock the main themes of European integration creating also a new political model.

EU is characterized by being a reality and not a static process thus, the treaties and his reform or results should not be considered as definitive.

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