

Transaction Cost Politics in the Map of the New Institutionalism

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1 Introduction

During the mid-eighties, Matthews (1986) affirmed in his presidential address to the Royal Economic Society that the economics of institutions had become one of the liveliest areas in economics. Two years prior to that, March and Olsen (1984) stated “a new institutionalism has appeared in political science” and that “it is far from coherent or consistent; it is not completely legitimate; but neither can it be entirely ignored”. Although sociology had been less responsive than political science, this was quickly changing, and the new institutionalism also became incorporated into sociology (Brinton and Nee 1998).

There has been a considerable and notable increase in research on institutions since then. The different social sciences have begun to assume that “institutions matter” and that they can be analyzed and therefore there has been an ongoing research effort both at the theoretical and applied levels on the subject of notion, role and change of institutions. The New Institutional Economics (NIE) has been developed in economics, based on the contributions of authors such as Ronald Coase, Douglass North, Oliver Williamson and Elinor Ostrom. In as far as political science is concerned, the literature of the new institutionalism includes political scientists such as Guy Peters, Johan Olsen, Peter Hall, Kenneth Shepsle and Barry Weingast. The new institutionalism in sociology is part of this emerging paradigm in the social

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sciences, and it includes the contributions of authors such as Paul Dimaggio, Walter Powell and Victor Nee, among others.

Thus, the “return of institutions” has become unquestionable in social sciences, and the focus on institutions as a key concept in social sciences has given rise to a variety of new institutionalist approaches (Nee 2005). This has provided a strong impetus to political economy based on new theoretical foundations thereby boosting interdisciplinary relations among the social sciences (Schofield and Caballero 2011). This modern political economy of institutions has included relevant advances in issues such as the effect of extractive political and economic institutions (Acemoglu and Robinson 2011), the modeling of the authoritarian regimes (Schofield and Levinson 2008), the study of social order (Schofield 2010) and the utilization of a higher dimensional policy space in the analysis of different political situations (Schofield et al. 2011), among others.

The different institutional arrangements have systematic effects on policy-making (North and Weingast 1989; Haggard and McCubbins 2001). But if we want to have a deeper understanding of the relationships between institutions and policy, we should view public policies as the outcome of political transactions made over time (Spiller and Tommasi 2007). Political life is characterized by exchanges, agreements and transactions, which frequently are only an attempt, therefore transaction analysis is a fundamental step for studying political interaction and institutions of governance.

The notion of transaction costs was the key concept that the NIE used to understand how institutions affected efficiency in economy. Coase (1937, 1960) and North (1990a) enabled the justification of the importance of institutions and organizations for the economic mainstream and furthermore, the notion of transaction costs surpassed the limits of economic relationships (Caballero 2001). “Modifying the standard rational choice model by incorporating transaction cost theory into it can substantially increase the explanatory power of the model” of political markets (North 1990b, p. 355). In this manner, the new transactional institutionalism has dealt with the study of political institutions and processes through the Transaction Cost Politics research program (TCP) carried out over the past twenty years (Weingast and Marshall 1988; North 1990b; Dixit 1996, 2003; Epstein and O’Halloran 1999; Williamson 1999; Spiller and Tommasi 2003, 2007).

TCP uses political transaction as the unit of analysis, and explains the evolution of political relationships in their condition as transactions and contracts, thereby highlighting the relevance of institutions in political markets, which are characterized by incomplete political rights, imperfect enforcement of agreements, bounded rationality, imperfect information, subjective mental models on the part of the actors and high transaction costs. If the presence of transaction costs decisively affects economic exchange then their relevance is even greater for the functioning of political markets. This is so not only for political transactions carried out between citizens and politicians, which both North (1990b) and Dixit (1996, 1998) emphasized, but also for those in which all participants are politicians, as dealt with by Weingast and Marshall (1988), Epstein and O’Halloran (1999) and Spiller and Tommasi (2007). In this sense, TCP allow us to make more sense out of the political markets we observe.

Transaction Cost Politics (TCP), besides considering the contract as an analysis unit, also studies the enforcement mechanism of contracts, compares the different *governance* structures and adopts the bounded rationality supposition (Epstein and O'Halloran 1999). A first approach to the theoretical bases of TCP is characterized by the following proposals: (1) The application of the transactional approach to the political field leads us to consider political interaction as a set of (implicit or explicit) contractual relations. In this sense, public policies are the outcome of transactions among policy-makers. (2) Institutions are the rules of the political game, and they determine the incentive structure of the agents, and therefore institutions affect public policy *outputs*. (3) Organizational structures of governance are quite relevant when explaining the relations between institutions and outcomes. (4) Transaction costs tend to be higher in the political field than in the economic one and therefore the design of an efficient institutional structure becomes more complex in the political world. (5) In recent times, we are witnessing the progressive vision of public policies as a result of a series of inter-temporal political transactions. (6) TCP provides a central role to the notion of credible commitment, which justifies the importance of *reputational capital* and the organizational formulae of the State.

This chapter reviews and analyzes the approach of Transaction Cost Politics as a new transactional institutionalism in political economy. Moreover, the paper places TCP within the current panorama of new institutionalism and studies the theoretical foundations and the main contributions of TCP up to the present day. When reviewing the literature, we specify the most relevant contents of the main contributions, and for the rest of references, we only mention its arguments. The main goal of the paper is searching the theoretical sources of TCP, and relates it with other approaches, both close and rivals. TCP is a positive approach of political analysis, and this paper shows the analytical characteristics of TCP in a comparative way.

Section 2 presents several approaches of new institutionalism within the social sciences. Section 3 presents the two approaches of new institutionalism that formed the fundamental basis on which Transaction Cost Politics (TCP) was constructed: Rational-Choice Institutionalism (RCI) and the New Institutional Economics (NIE). Section 4 studies the fundamental arguments and contributions of Transaction Cost Politics. Section 5 shows why transaction costs are so high in political markets. Section 6 analyzes the governance of political transactions in Congress as a case-study from TCP. Section 7 compares the TCP approach with that of Constitutional Political Economy. The conclusions are outlined at the end of the chapter.

2 New Institutionalism: An Overview into the Social Sciences

2.1 Definitions of Institutions

During the last two decades of the 20th century, institutions have reopened an agenda for research into the social sciences based on renewed theories. The new institutionalism has emerged in economics, sociology and political science, and has led to sizeable progress on how institutions are understood. Nevertheless, there is

no unique definition of institutions, and several different views of institutions can be presented. For example, Acemoglu and Robinson (2007) distinguish the efficient institutions view, the social conflict view, the ideology view and the incidental institutions view. According to Kingston and Caballero (2009), we should introduce at least the “institutions-as-rules” approach and the “institutions-as-equilibria” approach. Greif and Kingston (2011) extended that perspective: the institutions-as-rules approach focuses on a theory of how the “rules of the game” in a society are selected, while the “institutions-as-equilibria” approach emphasizes the importance of a theory of motivation and thereby endogenizes the “enforcement of the rules”.

According to the Northian approach, institutions are the rules of the game, that is to say, the humanly devised constraints that structure political, economic and social interaction. Institutions consist of formal rules, informal rules and enforcement mechanisms, and they provide the incentive structure of an economy. This approach assumes a specific reference to transaction cost theory. “In order to lower the costs of exchange, it was necessary to devise a set of institutional arrangements that would allow for exchange over space and time”, and institutions “reduce uncertainty by creating a stable structure of exchange” (North 1990b, p. 359). Institutions determine the level of efficiency of political markets and the level of efficiency “is measured by how well the market approximates a zero transaction cost results” (North 1990b, p. 360).

Following the institutions-as-rules approach, March and Olsen (1989) state that institutions are “collections of interrelated rules and routines that define appropriate actions in terms of relations between roles and situations”. Peters (1999, p. 18) further adds four key characteristics to the concept of political institution: (A) An institution constitutes a structural feature of the society and/or polity. (B) An institution shows some stability over time. (C) An institution must affect individual behavior. (D) There should be some sense of shared values and meaning among members of the institution.

The institutions-as-equilibrium approach defines institutions as equilibrium solutions of a game. Historical and Comparative Institutional Analysis (Greif 1998; Aoki et al. 2001) assumed this view of institutions, although recent theoretical developments in institutional analysis by Avner Greif (2006, p. 39) consider “institutions as systems of interrelated rules, beliefs, norms, and organizations, each of which is a man-made, nonphysical social factor”, and this definition “encompasses many of the multiple definitions of the terms institutions used in economics, political science and sociology”.

2.2 Institutional Approaches

The study of institutions can be carried out using several approaches. The new institutionalism—that has been developed on new theoretical bases during the last two decades of the 20th century—can be distinguished from the old institutional traditions in economics, political science and sociology, although there are several connection points.

- (a) The original institutionalism in economics (Thorstein Veblen, John Commons, Clarence Ayres) rejected the foundations of neoclassical analysis and adopted the methods of holism analysis. The contributions of such old institutionalists was marked by an anti-formalist nature, a tendency to argue in holistic terms and a “collectivist and behavioristic framework”, as well as their rejection to the individualist welfare criterion and their tendency towards a certain economic interventionism (Rutherford 1994). It was centered on distributive consequences of the many institutional structures and devised its theories and analysis based on the conceptualization of power.
- (b) The old institutionalism tradition in political science was made up of a set of multi-approach heterogeneous contributions and assumed certain general characteristics such as legalism, structuralism, holism, historicism and normative analysis (Peters 1999).
- (c) The earlier sociological institutionalism pioneered by Talcott Parsons (1937) assumed the existence of institutions, but it did not emphasize institutional analysis. Just as Nee (1998, p. 5) points out the tradition of comparative institutional analysis established in the classical and modern periods of sociology, provides an appropriate foundation for the new institutional approach in sociology, where Weber (1922—*Economy and Society*) is probably the best example of the traditional sociological approach to comparative institutional analysis.

On the other hand, New Institutionalism in the social sciences assumes the choice-theoretic tradition and generally presumes purposive action on the part of individuals, who act with incomplete information, inaccurate mental models and costly transactions (Nee 1998). It tends to move towards methodological individualism, the conceptualization of voluntary exchange and the study of the effects of alternative institutional frameworks on efficiency. In this manner, “new institutionalism” appears to be more formalistic, individualistic and reductionist, it is orientated to rational choice and “economizing models”, and it shows a less-interventionist character (Rutherford 1994).

In economics, Coase (1984) sustained that “if modern institutionalists had any antecedent, then we should not be looking for these in their immediate predecessors”. NIE therefore did not arise from the old institutionalism but was created thanks to a set of contributions that highlighted the relevance of institutional and organizational aspects, and these contributions arose from different scientific areas such as Property Rights Analysis, the New Economic History, the New Industrial Organization, Transaction Cost Economics, Comparative Economic Systems, and Law and Economics (Eggertsson 1990). The analytical framework of the NIE is a modification of neoclassical theory, and it preserves the basic assumptions of scarcity and competence, as well as the analytical tools of microeconomic theory, however, it modifies the assumption of rationality and further adds a time dimension (North 1994).

Nevertheless, the idea of a serious rift between the old and new institutionalist economists has been modified in recent times. For example, North (1994, 2005), Greif (2006) and Ostrom (2007) surpassed the limits of the methodological individualism and the hypothesis of rationality, going beyond the bounded rationality.

In this sense, Groenewegen et al. (1995) found some bridges between new and old institutionalism via the North's contributions, and Hodgson (1998) pointed out the evolution of the new institutionalist project towards a possible convergence with the thinking of the old economic institutionalism. In spite of the considerable concern among new economic institutionalists to differentiate themselves sharply from the old American institutionalism, some aspects of the new institutionalism are connecting back to the old institutionalism in recent years (Rutherford 2001).

Simultaneously with the consolidation of the New Institutional Economics, Hall and Taylor (1996) stated that during the eighties and nineties of the 20th century, there existed three approaches in political science and sociology, each of which called itself a "new institutionalism" as a reaction to the behavioral perspectives, these being:

- (1) Historical Institutionalism developed in response to the group theories of politics and structural functionalism, and it defines institutions as formal and informal procedures, routines, norms and conventions embedded in the organizational structure of the polity. This approach emphasizes the relevance of early decisions throughout political history: the initial political decisions determine the course of politics and consequently of any posterior political decision (Thelen and Steinmo 1992; Thelen 1999; Pierson 2000; Pierson and Skocpol 2002). This implies that there exists a "path dependence" which generates an institutional inertia, which results in the persistence of initial decisions made by government. Historical institutionalism, whose term was coined by Theda Skocpol, has Peter Hall (1986) as one of its principal precursors, however it was Steinmo, Thelen and Pierson who provided some of the main contributions to this approach.
- (2) Rational choice institutionalism (RCI) arose from the study of the American congressional behavior and it received some inputs from the "new economics of organization". This approach perceives institutions as a system of rules and incentives for behavior within which individuals try to maximize their benefit and therefore RCI sustains that behavior is a function of rules and incentives. Four of its features are as follows: (A) It employs a model of rationality when it tries to explain human behavior. (B) It tends to see politics as a series of collective action dilemmas. (C) It emphasizes the role of strategic interaction in the determination of political outcomes. (D) With respect to the origin of institutions, RCI explains the existence of the institution by reference to the value provided by those functions to the actors affected by the institutions.
- (3) Sociological institutionalism has been developed in sociology, especially in organization theory. It considered that many of the institutional forms and procedures were not adopted to gain efficiency, but instead should be considered as culturally-specific-practices. This type of institutionalism, to which Hall and Taylor (1996) incorporate the contribution of March and Olsen (1984), can be characterized in the following manner: (A) Sociological institutionalists define institutions much more broadly than political scientists do, and their definition includes a set of elements such as symbol systems, cognitive scripts and moral templates. (B) It emphasizes the highly-interactive and mutually-constitutive

nature of the relationship between institutions and individual actions. (C) In as far as the origin and change of institutions is concerned, institutions can adopt a new institutionalist practice because it enhances the social legitimacy of the organization and its participants.

A more complete map of new institutionalism in social sciences has been presented using eight approaches (Peters 1999): Normative Institutionalism, Rational Choice Institutionalism, Historical Institutionalism, Empirical Institutionalism, New Institutional Economics, Sociological Institutionalism, Interest Representation Institutionalism and International Institutionalism. Although some of the classification criteria are not clear and could be discussed or adapted, this extended map is quite useful for understanding the diversity, pluralism and complexity of the new institutionalism in social sciences.

In that map, the sociological institutionalism indicated by Hall and Taylor (1996) is divided into two approaches namely, a normative institutionalism and a truly sociological institutionalism. (A) Normative institutionalism highlights the central role assigned to norms and values within organizations for understanding how institutions function and their influence on the behavior of individuals (March and Olsen 1984, 1989). Institutions mold their own participants and supply meaning systems for those participating in politics, and therefore this approach renounces the exogeneity of preferences. (B) There has been a strong institutional analysis tradition in sociological research right from the time of classical authors such as Weber or Durkheim. Such tradition has been maintained in areas like historical sociology and organizational sociology and we can distinguish between an old and a new institutional school of thought in sociology, based on the irrational sources of institutions, the conception of relations between the institution and its environment and the molding role of politics. The new approach in sociology should be construed as an individualization process of societies.

Moreover, another approach, empirical institutionalism in politics, has been added in the map due to its lack of theoretical approach and because it emphasizes a set of traditional empirical institutional issues. This approach empirically studies certain institutional differences and their effects, and furthermore indicates that government structure conditions the politics and decisions of governments. Empirical institutionalism has been centered on the study of a group of applied issues, such as the differences between presidential and parliamentary government, the case of the “divided government”, the legislative institutionalization or the independence of central banks. Some of these contributions are descriptive and nearer to the old traditionalist approach (for examples, the contributions of Woodrow Wilson), but others imply a more advanced empirical analysis (Peters 1999).

Finally, pointing out the aim of the study, two other institutionalist approaches have been incorporated in the map. On the one hand, Interest Representation Institutionalism analyzes the structure of such “institutionalized relationships” between State and society, assuming that there are many relations in politics that are conceptualized as being less formal and highly institutionalized, such as Kickert et al. (1997) show. The interest representation institutionalism is especially centered on the analysis of the actions of political parties and interest groups. On the other hand,

the approach of International Institutionalism conceives international politics along institutional lines and highlights the role of structure when explaining the behavior of States. International institutionalism perceives regimes as international level institutions, since they generate stability and predictability, shape the behavior of States and promote a set of values. One of the relevant research lines in international institutionalism has been led by Keohane and Nye (1977).

In this sense, the views of Hall and Taylor (1996) and Peters (1999) on institutionalism are different but compatible, and we should complete the overview with the incorporation of the NIE. In order to integrate TCP within the new institutionalism, we need to first perform a detailed analysis of RCI and the NIE.

3 Rational Choice-Institutionalism and New Institutional Economics

3.1 Rational Choice Institutionalism

The program of Public Choice was the principal development of rational choice for studying politics after the Second World War. Sometime later, academic tradition of rational choice gave rise to a set of tasks that assumed the importance of institutions in political life and included political institutions into the research agenda of rational choice theory. We can therefore use the concept of RCI (Shepsle 1986, 2006; Hall and Taylor 1996; Weingast 1996, 2002; Peters 1999).

RCI emerged from the rational choice approaches that assumed methodological individualism, and it inherits the importance of basing political activity on human behavior theories that explain the nature of individuals. As against other approaches, such as normative institutionalism, which do not provide a specific theory for human behavior, rational-choice is characterized for presenting a clear and explicit model of individual behavior. However, even though Rational Choice did not attend to institutions in a relevant manner during its early stages, it did end up generating theoretical developments which incorporated the role of political institutions. In this sense, some authors have used the expression “actor-centered institutionalism” to indicate the important role bestowed to individuals by the RCI (Peters 1999).

Rational choice theory has provided a distinctive set of approaches to the study of institutions, institutional choice and long-term durability of institutions (Weingast 1996, p. 167). This approach provides a systematic treatment of institutions through the importation of the micro-foundations of institutional analysis from rational choice theory. Institutions are conceived as a set of rules and incentives that restrict the choice possibilities of political agents, who seek to maximize their preferences within such an institutional framework. According to Kiser and Ostrom (1982), institutions are rules that individuals use to determine what and who is included in decision-making situations, how the information is structured, what measures can be taken and in what sequence, and how individual actions are integrated into collective decisions. In this manner, RCI sets out the role of institutions in political activity as a means of containing the uncertainty of action and political results.

RCI considers political institutions as structures of voluntary cooperation that resolve collective action problems and benefit all concerned. Therefore, the way to resolve collective action problems through cooperation can be found in formal or informal institutions, and this permits opportunistic individuals looking for personal gains to obtain mutual benefits.

Individuals observe that institutional rules also limit the choice possibilities of competitors, and realize that rules benefit the entire group of individuals. Shepsle (1986) states that any cooperation that is too costly at the individual agent level is facilitated at the institutional level. In this manner, institutions appear as *ex-ante* agreements to facilitate cooperation structures, as claimed by Weingast (2002), when he affirms that we need institutions to obtain gains from cooperation.

RCI assumes the following three features: (1) Rational individuals that maximize personal utility are the central actors in the political process. (2) RCI has been concerned with the problem of stability of results and the problem of control of public bureaucracy. (3) Institutions are formed on a *tabula rasa* (Peters 1999).

Weingast (1996) points out four characteristic features of RCI: (A) This approach provides an explicit and systematic methodology for studying the effects of institutions, which are modeled as constraints on action. (B) The methodology is explicitly comparative, through models that compare distinct institutional constraints with their corresponding implications in behavior and outcomes and through the analysis of how behavior and outcomes change as the underlying conditions change. Moreover, this approach affords comparisons of the behavior and outcomes under related institutions within a given country and of the effects of similar institutions across countries. (C) The study of endogenous institutions yields a distinctive theory about their stability, form and survival. (D) The approach provides the micro-foundations for macro-political phenomena such as revolutions and critical election.

Two separate levels of analysis can be distinguished in the RCI (Shepsle 1986, 2006; Weingast 1996), namely; (a) A level considers institutions as fixed and exogenous, i.e., analyzes that study the effects of institutions; (b) the other level studies institutions as endogenous variables, that is to say, why institutions take particular forms (Weingast 1996).

In as far as Weingast's (1996) first level of analysis is concerned, we have to point out that work has been done on almost all democratic institutions such as constitutions, the legislative body, the executive body, bureaucracy, the courts of justice and the elections. The analysis is centered on how institutions influence results and we can verify that micro level details have a great influence on results.

With respect to Weingast's (1996) second level of analysis, it covers questions such as why institutions take one form instead of another, and why institutions are altered in some circumstances but not others. The rules of the game are provided by the players themselves; and these tend to be simple rules. Institutional arrangements are focal and may induce coordination around them (Shepsle 2006). A model of institutional stability must allow institutions to be altered by specific actors and it must show why these actors have no incentives to do so (self-enforcing institutions) (Weingast 1996).

Institutionalists of rational choice highlight the role of institutions in strategic interaction between actors and in determination of political results (Hall and Taylor

1996). However, this institutionalism does not explain the details of how institutions are created, although it recognizes the possibility that the creation of institutions is a rational action of actors who are interested in the creation of those institutions. This approach, in any case, has a functionalist content (Peters 1999) and concludes a sense of “goodness” of institutions (Moe 2005).

3.2 *New Institutional Economics*

Price theory enables us to respond to some economic matters but not to others that require a richer theoretical body. NIE does not try to replace price theory but tries to “put it in a setting that will make it vastly more fruitful” (Coase 1999b), which implies the incorporation of institutional issues. As indicated by Arrow (1987), the NIE movement consists of answering new questions that traditionally were not framed in economic mainstream.

NIE accepts orthodox neoclassical assumptions of scarcity and competition, but it rejects the neoclassical assumption of perfect information and instrumental rationality, and it considers a theoretical framework with incomplete property rights, positive transaction costs and institutions, and assumes a world where the passage of time matters (North 1994).

The theoretical framework of the New Institutional Economics combines the *coasean* notion of transaction costs with the *northian* notion of institutions, such that institutions are a medium for reducing transaction costs and obtaining a greater efficiency in economic performance. On the one hand, Coase (1937) generated a microanalytical approach of organizations which gave rise to “transaction cost economics” (Williamson 1975, 1985, 1996); while on the other hand, Coase (1960) generated a macroanalytical approach that studied the relations between institutions and economic performance, as well as institutional change processes (North 1990a). NIE incorporates both approaches, which are mutually inter-related, that is to say, NIE studies institutions and how institutions interact with organizational arrangements within economy (Menard and Shirley 2005; Ostrom 1990, 2007).

Property rights are one’s ability to exercise choices over a good. Individuals will carry out transactions, i.e., they will carry out property rights transfers, which will produce transaction costs. We can define transactions costs as the resources used to maintain and transfer property rights (Allen 1991), that is to say, “transaction costs arise when individuals try to acquire new ownership rights, defend their assets against transgressions and theft, and project their resources against opportunistic behavior in exchange relationships” (Eggertsson 2005, p. 27). Transaction costs are the sum of costs required to perform the “transaction function”. The carrying out of transactions can be understood as a contracting problem, such that transaction costs are those which are derived from the signing *ex-ante* of a contract and of its *ex-post* control and compliance (Eggertsson 1990).

In a world with zero transaction costs, the parties concerned would carry out all the transactions that would result in social efficiency gains. However, as against this

hypothetical world where negotiation does not cost anything, economic markets are characterized by the presence of positive transaction costs, and therefore no transaction is carried out whenever such costs surpass the expected gains from such transaction. The readjustment of rights will only go ahead whenever the value of production from such transactions is greater than the costs implied in producing the same (Coase 1960).

The level of transaction costs will depend on the characteristic traits of each specific transaction as well as on the nature of the institutional environment in which the transaction is being carried out. In this sense, every society will have its own “rules of the game”, which will determine the cost of carrying out transactions (North 1990a).

Understanding the relationship between institutions and economic performance requires the study of human decision-making. NIE considers that the orthodox rationality approach of human behavior is defective because: (a) individual motivations are not limited to maximizing wealth or utility: altruism and individual’s self limitations also influence behavior; (b) individuals subjectively process incomplete information of the world around them: there is need to distinguish between reality and perception (North 1990a). NIE defends that individuals act with incomplete information and models that have been subjectively deduced, and assume the model of bounded rationality, by conceiving the individual as intentionally rational but only in a limited way (Williamson 2000).

Along these lines, North (1994, p. 362) states that “history demonstrates that ideas, ideologies, myths, dogmas, and prejudices matter, and an understanding of the way they evolve is necessary”. In order to understand the behavior of individuals in decision-making within an uncertainty context, NIE considers the subjective mental models of individuals as key factors. Such mental models will be closely linked with institutions. “Mental models are the internal representations that individual cognitive systems create to interpret the environment; institutions are the external (to the mind) mechanisms individuals create to structure and order the environment” (Denzau and North 1994, p. 4).

Together with the study of mental models and human behavior, NIE assumes the importance of the passage of time to create institutions. Institutional change is characterized by increasing returns and imperfect markets with high transaction costs. In this theoretical framework, path dependence is reinforced by the externalities of the institutional matrix, by the processes of social learning and by the creation of the *shared mental models* on which individuals make decisions. Path dependence is one way of bridging the choice gap and binding the evolution of a society over time (North 1990a).

In this manner, the institutional framework not only determines the current economic results but also delimits the set of opportunities that affect our future situation. We can adopt an efficiency view when analyzing evolution of institutions, according to which relative prices are the source of institutional change, however, NIE sustains that the existence of transaction costs provokes the agents to not always coincide towards the search for a greater efficiency.

The NIE argues that the processes of institutional change are normally incremental due to the increasing returns of institutional change: (A) Institutional change is

an incremental process that is heavily weighted in favor of policies that are broadly consistent with the basic institutional framework. (B) Institutional change is characterized by a slow evolution of formal and informal limitations. (C) Individual and specific changes in formal and informal institutions can change history but will find it difficult to reverse the course of history (North 1990a, 1990b).

Positive economic analysis conclusions cannot be exported from one economy to another in the case of economies with positive transaction costs, mental models and institutional changes: “you get a different answer for every country and every historical situation. . . there is no one way better economic system because everything depends on the society you are in” (Coase 1999a, p. 5).

The NIE is a research program that continually evolves, and recent new institutional contributions incorporate relevant advances and interesting questions on institutions. Eggertsson (2005) presents a general framework to reflect on institutional failure, social technology and institutional policy. North (2005) explores the relationships among cognitive science, institutions and economic change. Acemoglu and Johnson (2005) conclude that property rights institutions have a first-order effect on long-run economic growth and investment, while contracting institutions appear to matter for financial intermediation. Acemoglu and Robinson (2008) construct a model of simultaneous change and persistence in institutions where the main idea is that equilibrium economic institutions are a result of the exercise of *de jure* and *de facto* political power. Recently, North et al. (2009) propose the theoretical foundations for understanding violence and social order in human history.

4 Transaction Cost Politics

Transaction Cost Politics has emerged as an application of the theoretical approach of the New Institutional Economics to political analysis from a *madisonian* point of view in political economy (Shepsle 1999). Understanding the foundations of TCP implies a look to Rational-Choice Institutionalism and, especially, to the New Institutional Economics:

(A) Rational-Choice Institutionalism was interested in political markets and institutions, understood political institutions as a cooperation structure and assumed a model of rationality for political behavior. According to Rational-Choice Institutionalism, TCP focuses on political institutions, and indicates that “political institutions constitute *ex ante* co-operation agreements among politicians” (North 1990b, p. 359). Furthermore, TCP coincides with Rational-Choice Institutionalism when it defends the assumption of a rationality model for economic behavior, which implies a big difference from other institutionalists traditions such as normative institutionalism or the old approaches. However, the TCP rationality model is not found in Rational-Choice Institutionalism, and Rational-Choice Institutionalism forgot the main role of transaction costs and history, and therefore we should look to the NIE.

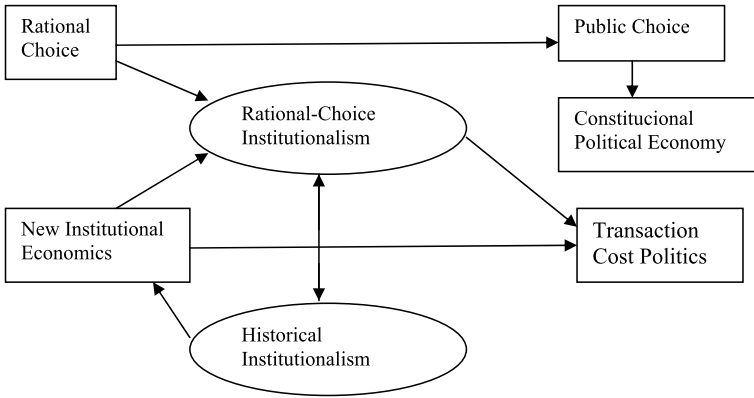


Fig. 1 Transaction Cost Politics

(B) NIE points out that the economic world is characterized by positive transaction costs and institutions. It rejects instrumental rationality by assuming the implications of bounded rationality and considers that the passage of time matters. TCP assumes these three NIE foundations when studying political transactions and institutions. “A transaction cost theory of politics is built on the assumptions of costly information, of subjective models on the part of the actors to explain their environment, and of imperfect enforcement of agreements” (North 1990b, p. 355). Moreover, TCP is interested in explaining the differential performance of polities over time, and therefore elaborates a theoretical framework where history matters.

TCP is different from RCI because TCP assumes three characteristic foundations of the NIE (bounded rationality, a transactional approach, passage of time matters). Figure 1 shows how the extension of Rational Choice theory towards political analysis allowed the emergence of Public Choice, with CPE as its main continuation, whereas the extension of the NIE towards political analysis allowed the appearance of TCP. In this sense, TCP—as an extension of the NIE—surpassed the theoretical framework of RCI in the same way that the NIE surpassed the (instrumental) rational choice approach. On the one hand, there is no direct relationship between CPE and TCP in Fig. 1 because their theoretical foundations have different origins, and on the other hand, historical institutionalism is shown as an antecedent of NIE and RCI but it has not a direct influence over TCP (the influence is indirect via NIE and RCI). Finally, we should point out that other institutionalisms, such as empirical, normative or sociological institutionalism, have not had influence on the emergence of TCP, and their references have not been incorporated in the background of TCP. Even these institutionalisms have not a fruitful dialogue with TCP nowadays.

While transactional analysis had been applied to economic and organizational interactions by a relevant tradition of literature, the approach of TCP focuses on political transactions and he considers that “public policy is a sometimes explicit, sometimes implicit agreement (or transaction) among policy makers” (Spiller and

Tommasi 2007, p. 3). In this sense, we should point out the distinction between TCP and politics of transaction costs: TCP is an analysis of diverse political processes based on the existence of positive transaction costs and the governance solutions that actors come up with in order to deal with them, whereas politics of transaction costs in its original sense would be a direct application of economic policy that takes into account the effects of positive transaction costs.

TCP assumes methodological individualism and studies political transactions from a microanalytical perspective that tries to rigorously tackle positive political analysis. TCP sustains that political institutions matter, that they can be analyzed and that their effect is to economize transaction costs. TCP likewise construes political activity as a dynamic process in evolution, which is incomplete and imperfect and which takes place in “real time”, in history (Dixit 1996, 1998).

In the pre-coasean neoclassical world where transaction costs are zero, political activity would correspond to a simple assignment of rights that would permit efficiency through transfer of rights from owners who value them less to those that value them more (no “Pareto improvement” would stay unexecuted) (North 1990b). This situation allows us to derive a macro version of Coase’s theorem according to which economic growth is not affected by the type of government of a country as long as transaction costs are zero (Eggertsson 1990). But we can go a step further in the reasoning process and conclude that in such an ideal world, the political process would not matter, since an efficient plan would always be achieved (Dixit 1996).

TCP uses political transaction as the unit of analysis and explains the evolution of political relationships as transactions and contracts. It highlights the relevance of institutions in political markets characterized by incomplete political rights, imperfect enforcement of agreements, bounded rationality, imperfect information, subjective mental models on the part of the actors and high transaction costs. The institutional structure of polity acts as a set of rules that structures incentives, determines the volume of transaction costs and biases political output.

The NIE has focused most of its efforts in demonstrating that passage of time and history matter. North (1990a) defended the relevance of path dependence in economic analysis, and the notion of path dependence has been integrated too into the organizational studies. These features are also verified for political analysis and were thus assumed by TCP (North 1990b; Dixit 1996). Therefore, such a transactional approach also assumes the importance of history and path, which in turn facilitates a greater contact with arguments of historical institutionalism. Really, historical institutionalism has exercised influence on TCP through the foundations of NIE. Literature furthermore has recently indicated the relationship between historic institutionalism and the RCI. There are authors of historic institutionalism such as Steinmo, Thelen and Longstreth, who appreciated the approaches of rational choice and moreover Katznelson and Weingast (2005) have recently indicated that historic institutionalism and RCI have many aspects in common and detect that there are points of intersection and overlap between the agendas of both institutional approaches. Furthermore, and through its connection with RCI, the TCP program has points that overlap with historic institutionalism, especially regarding the way institutions shape incentives and preferences of actors.

The other principal effort made by NIE has been to escape from strict rationality models in order to highlight the importance of cultural and cognitive factors such as beliefs, ideology and myths. In this way, the instrumental rationality approach of RCI meant that “the actors either have correct models by which to interpret the world around them or receive information feedback that will lead them to revise and correct their initially incorrect theories” (North 1990b, p. 356). Nevertheless, the NIE and TCP reject instrumental rationality and assume bounded rationality. North’s (1990b, 1994) proposal includes the idea that individuals make decisions based on subjective models, which had already been presented by Weingast (1996) as one of the challenges of RCI. In this manner, transactional institutionalism surpasses the suppositions of RCI.

This opens the possibility of indicating that history and ideology matter in order to understand politics. The novelty of this perspective is that it is justified through an institutionalism that had initially strictly assumed the following two foundations: methodological individualism and rational approach.

Regarding the main contributions of TCP, we should point out that North (1990b) and Dixit (1996, 1998) are the two fundamental contributors who provided the theoretical bases for the program, while Weingast and Marshall (1988) and North (1989) formed the two relevant precedents. An important contribution to TCP from political science has been Epstein and O’Halloran (1999), which applied the transactional perspective to the delegation of powers. It included a review of the theory of TCP, and it showed several differences and similarities between economic and political interaction. Taking some lessons from the theory of the firm, Epstein and O’Halloran analyzed the hold-up problem in political transactions.

The approach of TCP is useful for organization studies. Public bureaucracy, delegation to independent agents and political parties are three relevant issues on which TCP has significantly contributed. Firstly, TCP assumes that the adequate institutions of governance will depend on the characteristics of each type of transactions. Then, all models of governance (markets, hybrids, firms, regulation, public bureaucracy, ...) should be considered if we want to determine the best organizational structure that minimizes transaction costs so much as possible. For example, public bureaucracy is well suited to some transactions, such as the “sovereign transactions” of which foreign affairs is an example, and poorly suited to others (Williamson 1999). In this way, TCP incorporates several efforts to study governance structures and institutional design in the public sector (Estache and Martimort 1999; Gallego-Calderón 1999; Ruitter 2005). Secondly, delegation of power to independent agents—such as the central banks or supranational institutions like the European Commission—is best understood as a means of reducing political transaction costs (Majone 2001). In fact, there are empirical studies that show that in the process of the autonomization of government organizations, strictly economic aspects are less relevant than factors as bounded rationality, opportunism and social institutions (Ter Bogt 2003). Thirdly, some contributions of TCP have tried to advance towards a transaction cost theory of political parties. Jones and Hudson (1998, 2001) explored how political parties reduce voters’ information costs and they argue that if voters reduce transaction costs by relying on party signal, politicians have an

incentive to maintain party reputation. Other topics in TCP have been the design of budgeting institutions (Patashnik 1996), the countries' international institutional choices and the hierarchy in international politics (Weber 1997), the institutional design relying on separation of powers among specialized agents (Laffont and Martimort 1998) and the governance of the relationship between private investors and governments (Henisz and Zelner 2004).

5 High Transaction Costs in Political Exchange

The peculiar nature and intensity of transaction costs in political transactions convert them into an irreplaceable concept when we try to get a better understanding of politics. Several considerations are essential for understanding the relevance and characteristics of political transaction costs, and some of the most important ones must be emphasized.

Firstly, property rights are subject to strong constraints within political interactions: they are not safe nor do agents possess them in an unlimited manner. While economic competence takes place on property rights that are normally safe, political competition includes the fight for authority and this means change of rights. Therefore, politics revolves around a set of less safe rules.

Secondly, contracting parties are many and cannot be perfectly identified in many cases of political transactions. This happens especially when one of the parties is a multiple subject; furthermore, many political contracts are neither explicit nor formal and rest on verbal and even tacit agreements. Moreover, political transactions affect many agents due to the wide presence of spillover effects that enable interpretation of interaction between political agents in terms of a "common agency" relationship with multiple principals (Dixit 1996). Furthermore, the structure of agency-relation amongst political actors tends to be especially complex: an example can be the vertical agency-relation that is configured by the chain "electorate-parliament-government-bureaucracy", and yet another example can be the governance of territorial distribution of power.

Thirdly, there are huge informational problems in political transactions. The world of politics is opaque, unclear and it is difficult to observe and measure the different factors of political performance, such as the objects of political transaction (Pierson 2000). In this sense, political markets lack a measurement formula like the price system in economic markets. Even if they were explicit, political contracts clearly respond to an incomplete contract prototype, containing vague and interpretable terms. This implies that the ex-post power relations matters exceedingly: the possession of the residual rights of control is key when, for example, an uncontracted eventuality occurs. Moreover, ex-post control rights may exert strong influence over ex-ante contractual arrangements (Epstein and O'Halloran 1999). Moreover, situations of asymmetric information are particularly relevant in political transactions and the subjective models of the actors increase the amount of transaction costs even more in political markets (therefore different ideologies affect political exchange).

Fourthly, the problem of collective action characterizes a wide range of political transactions. The collective nature of politics makes the consequences of my action depend highly on actions of others, such that the relationship between effort and effect becomes quite unclear and informational problems are augmented (Pierson 2000). Moreover, the short-term horizon of political actors, who are interested in the electoral logic, contrasts with the nature of those political decisions whose implications only play out in the long run. While the economic marketplace possesses some strong mechanisms for lengthening time horizons (such as property rights and capital markets), there are no analogous mechanisms that are equally effective in politics (Pierson 2000).

Fifthly, regarding the passage of time, the choice and evolution forces in political markets are slower and weaker than in economic markets, leading to a lower efficiency and a less intense choice of organizations (Dixit 1996). That is to say, the corrective and learning mechanisms are less effective in political scenarios characterized by a path with increasing returns. Political institutions tend to establish a bias towards *status quo* which hampers change and adaptation to new situations, and there exists an institutional density that incorporates constraints based on authority. In this sense, the structure of power can hamper exchange (Pierson 2000), and the carrying out of institutional adjustments to reduce transaction costs. To the above, we must add the difficulties of designing institutions that achieve a high influence of incentives in the political process (Dixit 1996), and the incentive structures in politics are significantly weaker than those in economic markets (Vanhuysse 2002).

Sixthly, regarding the enforcement mechanisms, political action promises are a fundamental exchange unit in political contracts but such promises are typically not subject to a compliance mechanism (*third party enforcement*) and limited commitment possibilities constrain the political process. Since public policies are not spot transactions, cooperation requires striking and enforcing intertemporal political agreements, that is, agreements that should be enforced over time. The intertemporal nature of political exchanges increases transaction costs (Spiller and Tommasi 2007). This is the case of those contracts whose bills are not simultaneously considered for a vote, and the case of those with non-contemporaneous benefit flows, such as the next section will show. Moreover, public policies with more complex transaction characteristics will require more institutional safeguards to make them effective over time (Spiller and Tommasi 2007), because as Ostrom (2004) has concluded, “rules without enforcement are but words on paper”.

Based on these characteristics, among others, transaction costs tend to be systematically higher in political markets than in economic ones (North 1990b; Dixit 1996; Caballero and Arias 2003). Several case studies show that political transactions are very complicated due to the impact of high political transaction costs, such as for example Sorensen (2006) evaluated when he studied local governments consolidations in Norway. Moreover, high transaction costs issues tend to gravitate to polity from the economy (North 1990b) and political transaction costs sometimes are increased intentionally; political actors manipulate them strategically to achieve personal objectives. In this way, politically relevant transaction costs are also to a great extent endogenously determined through self-interested use of government

mechanisms. There are several ways of political transaction-cost manipulation (using informational costs, costs of negotiation, agreement or enforcement), and there are some specific conditions under which officeholders are predicted to act via manipulation of political transaction costs (Twight 1994). In this sense, for example, there is empirical evidence that shows that the enacting coalition manipulates political transaction costs in designing US administrative agencies (Wood and Bohte 2004).

In a very relevant applied work, Spiller and Tommasi (2003, 2007) have studied the institutional foundations of public policy in Argentina from TCP and they identified some key features that do not promote intertemporal political transactions in the country: “a legislature uninterested in legislative activities, a bureaucracy with no long-term objectives, a judiciary that has often been aligned with the executive, a federal system that grants provinces little incentives for fiscal responsibility, and an executive with excessive leeway for unilateral moves”. The institutional framework of each country is the key factor to make political transactions difficult or easier, and the number of players, time horizons and enforcement technologies are some of the key institutional determinants (Scartascini 2007). In this sense, the framework of Spiller and Tommasi (2007) has been extended to explain the workings of democratic institutions and political actors (Scarstacini et al. 2010). Finally, Dixit (2003) expounds that transactions costs are higher in less-developed countries, where the success of policy reform will depend on the ability to alter or adapt institutions in the desired direction and where credibly commitment to good policies without rent-seeking is difficult (Murshed 2001).

Therefore, high transaction costs in political markets imply that inefficient policies and institution can be prevalent (Acemoglu 2003). Studying the institutions of governance that structure political processes in each society is fundamental. We need to know in each scenario how political institutions and historical inheritances lead to the interrelated political behaviors that characterize the policy-making process (Spiller and Tommasi 2007).

6 A Case-Study: The Governance of Political Transactions in Congress

A case study can be useful to show the possibilities of the approach of TPC on political transactions and institutions. This section introduces the case of legislative transaction and governance as a case analysis of TCP.

Political agreement among legislators is necessary to pass bills in Congress. Legislators look for exchange and cooperation to pass those projects in which they are interested. Pre-transactional analysis was focused on vote-trading or logrolling in the tradition that was initiated by Buchanan and Tullock. But the logrolling tradition was “too simple to solve fundamental problems in legislative exchange” (North 1990b). In fact, legislative exchange has high transaction costs due to non-contemporaneous benefit flows and non-simultaneous exchanges. It implies that,

firstly, differential patterns of benefit flows can inhibit trading and, secondly, many potential legislative trades concern bills that do not come up for a vote simultaneously. The explicit market form of exchange does not resolve these problems of enforceability of legislative transactions (Weingast and Marshall 1988). It is necessary to establish an institutional structure of governance that allows the agreement among congressmen and the industrial organization of Congress should try to make legislative exchanges easier. In this sense, “political institutions constitute ex-ante agreements about cooperation among politicians” (North 1990b).

Weingast and Marshall (1988) analyzed how the Committee System of the US Congress had relatively low transaction costs. Under this system, a legislator of committee A can cede his intention to influence the selection of jurisdiction of committee B. In return the members of committee B may waive their right so as not to influence the proposals of the jurisdiction of A. The “institutionalization of rights on the agenda control” substitutes the explicit market exchange mechanism. Legislators seek a seat on those committees which are more highly valued for them, instead of trading votes. The restrictive access to the agenda constitutes a mechanism by which each committee can avoid declining the agreements ex-post. Having a position in a committee is a type of property right mechanism that reduces transaction costs and favors independent negotiations among congressmen regardless of their party affiliation.

Legislative behavior and the organization of legislative institutions are affected by political and electoral rules. It is important to distinguish between “party-centered electoral rules” and “candidate-centered electoral rules”, since it is key for the incentives of congressmen. Moreover, the institutional structure of committees is relevant for the structure of property rights of individual congressmen. Electoral rules and committee systems are two of the main institutional determinants of political property rights in legislative organization, and they determine the structure of governance of legislative organization.

While the American Congress represents a prototype model of Congress in which congressmen have strong property rights that facilitate the legislative transaction (candidate-based electoral politics, powerful committees with individual property rights), recently the industrial organization of the Spanish Congress has been characterized by party-based electoral politics, weak committees and the power of national leaders of each political party (Caballero 2011). In this sense, different models of institutional governance are presented to facilitate political transactions. The industrial organizational model of the Spanish Congress does not grant property rights to the individual deputies for their committee seats, and the head of each parliamentary group has the property rights on committees.

In this way, legislative transactions and agreements are carried out via a hierarchical system in the Spanish model. As long as the executive and the majority of the legislature represent the same political preferences, the role of the Congress is clearly reduced. On the other hand, the system of property rights regarding the US committees reduces the high transaction costs of legislative exchange, being that the United States Congress establishes a system of committees that allow transactions between congressmen in order to achieve majorities that permit changing the *status quo*. Therefore, political parties (hierarchy) in the Spanish case and committees

(decentralized system) in the American case appear as key factors in the different models of governance that facilitates decision making and transacting. Each institutional structure has different implications for policy-making (Caballero 2011).

7 Constitutional Political Economy and Transaction Cost Politics

Previously to NIE and TCP, the instrumental rationality approach constituted the main research program on madisonian political analysis from economics. Public Choice and Constitutional Political Economy (CPE) implied a rational approach to politics. Comparing CPE and TCP will show some of the characteristics of the new institutional approach with more clarity.

The Public Choice research program has been developed over half a century. Its hard core can be summarized by three presuppositions: methodological individualism, rational choice and politics-as-exchange. According to Buchanan (1966), such exchange approach is especially useful at the level of constitutional political choices, when the interests of individuals and groups are not clearly identifiable and “the great game of politics” is configured as a positive sum game. The study of this type of choice gave rise to the principal development within Public Choice: CPE.

CPE studies the efficiency of constitutional rules in their positive and normative dimension. Starting from *statu quo*, CPE indicates how the veil of uncertainty in constitutional decisions generates a cooperative attitude towards consensus, and concludes the convenience of the unanimity rule for making this type of decisions (the “*rules over rules*” system is studied).

The main contribution of Buchanan and Tullock (1962) was to impose a two-level framework on analyzes of collective action, by categorically distinguishing the level of ordinary-politics from the level of constitutional politics (Buchanan 2003). This book meant the start of the CPE, which was founded on the same methodological postulates as Public Choice. CPE studies constitutional order of democratic societies to research into the effects of such order and offer possible improvements to the same.

CPE defends a contractarian framework, both for political analysis as well as for economic theory. However, the application and analytical extension of this contractarian approach turned out to be limited: on the one hand, it was unable to expand as a methodological fundament in the economics mainstream; and on the other hand, the transactional analysis in political studies of the CPE was short and was centered on specific issues (for example around *logrolling*, or around the study of the cost of reaching constitutional agreements). On the other hand, TCP assumed the contractual or transactional approach, initially for economic analysis, and such approach was later expanded from economics to political theory. Transaction is converted into a par excellence unit for political analysis in TCP.

A notable difference between CPE and TCP resides in the human behavior model which they assume. The orthodox CPE adopts the model of substantive rationality (which has been inherited from neoclassical economy), while TCP incorporates the

model of bounded rationality (which is characteristic of NIE). These suppositions are key to understand why a greater economicism emanates from CPE that is not quite patent in TCP because TCP integrates economic and political logics on more flexible human behavioral approaches.

The theoretical framework of constitutionalists indicates that constitutional decisions are carried out behind a veil of uncertainty, thereby permitting the analysis of “the great game of politics” such as that of a positive sum game. This framework links constitutions with the notion of rule and confers a key role to constitution to understand the operation and results of economy and politics (“the constitution determines everything”), thereby making any political action irrelevant whenever it is not carried out in the constitutional decision level.

According to the TCP theoretical approach, the agents involved for making constitutional decisions will act strategically despite information problems. Dixit (1996) states that such agents are not behind a “rawlsian” veil of ignorance. Therefore, constitutions are elaborated-rules wherein not everything is a “justice criterion” but where negotiation power structure and the interests of several groups and agents also exert their influence. Furthermore, constitution is just one more element within the complex institutional framework of a society, and this framework integrates formal and informal institutions. According to TCP, constitutions are perceived as incomplete contracts due to their incapacity to foresee all future contingencies, due to the complexity of specifying rules even for foreseen contingencies and due to the difficulty to objectively observe and verify contingencies. Thus, constitutions leave many contractual terms open for future specification and one can gauge the weight of political acts, especially when some of them have long-lasting effects. In this manner, TCP defends that the distinction between rules and political acts is more a matter of level than type and furthermore that the path of institutional evolution is made up of constitutional rules and past political acts (Dixit 1996).

Works carried out within the TCP program highlight the relevance of transaction costs in political exchanges, thereby permitting us to explain the difficulties entailed in achieving a cooperative solution that leads to optimal efficiency. On the other hand, CPE does not stress the central role of transaction costs for political analysis and, in any case, it assumed a static and simplistic view of political transaction that did not incorporate elements such as intertemporality.

TCP assumes a theoretical perspective that incorporates the importance of the historic dimension in political studies and assumes the challenge of delving into cognitive matters. In this manner, history and ideologies matter in order to understand political actions. However, CPE assumes a non-historic and non-ideological perspective in positive analysis, and is reinforced in normative-philosophical theoretical developments.

8 Conclusion

North (1990b) and Dixit (1996) provided the two founding contributions to TCP. Since then, the TCP research program has indicated the importance of transaction

costs in political markets and has studied how political institutions determine the volume of transaction costs and political outcome. In this manner, political institutions become the object of study from a transaction point of view and the map of the new institutionalism in social sciences must incorporate TCP as one of its approaches.

TCP is a transactional institutionalism that studies political institutions with its own approach, and has very few common elements with the institutional approaches of normative institutionalism, empirical institutionalism, sociological institutionalism, interest-representation institutionalism and international institutionalism. On the contrary, the appearance, content and development of TCP was possible based on the institutionalist advances of the programs of RCI, NIE and historical institutionalism.

TCP coincides with RCI because both are interested in political markets and institutions, both understand political institutions as a cooperative structure and assume a model of rationality for political behavior. However, TCP is different from RCI because TCP assumes three characteristic foundations of NIE (bounded rationality, a transactional approach, passage of time matters). In this sense, TCP constitutes an extension of NIE towards an analysis of politics from a *madisonian* perspective (Shepsle 1999).

Historical institutionalism has had an important indirect influence on the TCP approach. The main influence was through NIE, which understood the importance of history for institutional analysis but eliminated any historic determinism doses and established an institutional theory based on the fundament of individual choices. This historical perspective of NIE was exported to political analysis by TCP. Likewise, there were considerable points of intersection and overlap between historical and rational choice institutionalism, and in this sense, there was an overlap with the historical institutionalist content when TCP was in contact with RCI.

TCP thus appears as a true and intrinsically institutional research program that occupies its niche in the new institutionalism map of social sciences. This program is centered on positive analysis and concludes the importance of comparative analysis in order to understand the role of the different institutions on political transactions and outcomes.

As a conclusion, we should point out some strengths, weaknesses and challenges of TCP. Three relevant strengths of TCP are the following ones: (a) political transactions are considered as the unit of analysis; (b) political transactions costs can explain the existence of inefficient institutions, therefore the governance structure matters; (c) this approach incorporates bounded rationality into the analysis. Among the weakness of TCP, three issues should be considered: (a) TCP lacks a general theory of political institutions, and possibly this general theory does not exist; (b) TCP is an approach whose contents are slightly diffuse and the limits of the approach are not always well-defined (for example, North's shared mental models goes beyond bounded rationality); (c) power and coercion are very important factor in political life but TCP has not adequately incorporated the role of coercion in political transactions (Nye 1997; Moe 2005). In any case, these three weak points of TCP are present too in the NIE.

Finally, three challenges for the future are presented: (a) TCP needs more empirical work: case-studies, institutional comparative analysis, econometrical work and experimental techniques are useful in a TCP that assumes methodological pluralism. (b) There should be more and more dialogue and exchange between the several types of institutionalisms. In this sense, Shepsle (2006) sustains that the differences between some types of institutionalisms are fewer than in the past. In order to understand the notion, role and change of institutions, we need to assess and integrate contributions coming from the different institutional approaches. (c) Transcending disciplinary institutionalism implies too that a multidisciplinary profile in social sciences is convenient when we are interested in institutions. In this sense, Coase (1999b, p. 4) defended the convenience of linking economic science with other subjects to convert it into hard science: “We have to take account of the effects of the legal system, the political system, etc., and if my impression is correct, their theories often have a stronger empirical base than is usual in economics”. North (1999) works on the hypothesis of the marriage of political and economic theory and Bates (2010) points out the relevance of politics for the new institutionalism. Coase (1999b, p. 5) likewise highlighted how “hybrid subjects are often astonishingly fertile” in science as against the scientific disciplines that remain too pure, and proposed transactional analysis as a hybrid subject prototype. The several institutionalisms should simultaneously assume a multidisciplinary vocation in social sciences.

The transactional approach born in economic analysis managed to tackle the study of politics through TCP. The search for a theory of institutions based on individual choice favors reconciliation among the different social sciences (North 1990a). According to North (1999, p. 315), “What Coase started with transaction cost approach, is well on its way to being a foundation for restructuring social science theory in general, not just political theory or economic theory”. In this sense, there is a road to the New Institutional Social Sciences.

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