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Source: *American Journal of Sociology*, Vol. 102, No. 1 (Jul., 1996), pp. 1-33

Published by: [The University of Chicago Press](http://www.uchicago.edu)

Stable URL: <http://www.jstor.org/stable/2782186>

Accessed: 23/09/2011 12:54

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How to Make a Market: Reflections on the Attempt to Create a Single Market in the European Union¹

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Theories about institution-building episodes emphasize either rational or social and cultural elements. Our research on the Single Market Program (SMP) of the European Union (EU) shows that both elements are part of the process. When the EU was caught in a stalemate, the European Commission devised the SMP. The commission worked within the constraints of existing institutional arrangements, provided a “cultural frame,” and helped create an elite social movement. This examination of the SMP legislation, using an institutional approach to the sociology of markets, shows how the commission was able to do this by trading off the interests of important state and corporate actors.

INTRODUCTION

Sociologists have recently been exploring the historical and comparative structuring of contemporary capitalisms (Nee 1993; Stark 1992; Fligstein 1990; Hamilton and Biggart 1988; Gerlach 1992; Burawoy and Krotov 1992; Campbell, Hollingsworth, and Lindberg 1991). One important theme in this literature is how economy building in capitalist societies is part and parcel of state building (Dobbin 1994). Capitalist economies need rules made and enforced by states in order for markets to work (Steinmo, Thelen, and Longstreth 1992; Hall 1986; March and Olsen

¹ An earlier version of this article was prepared for the meeting of the European Community Studies Association in Washington, D.C., May 1993. We have benefited from comments given at a presentation at the Center for Western European Studies at Stanford University. We would also like to thank Richard Lempert, Doug McAdam, Andrew Moravcsik, and Richard Swedberg for comments. We have also been helped by comments from the *AJS* reviewers. The first author partially prepared this article while he was a fellow at the Center for Advanced Studies in the Behavioral Sciences, supported by National Science Foundation grant SBR-9022192. Direct correspondence to Neil Fligstein, Department of Sociology, University of California, Berkeley, California 94720.

1989). These rules are the outcome of complex political processes that produce shared agreements that allow economic exchange to occur and produce regulatory capacity for states.

Questions about the emergence of political and economic institutions have reappeared across the social sciences (Meyer and Rowan 1978; Powell and DiMaggio 1991; Scott and Meyer 1994; Hall 1986, 1989; Skocpol 1985; March and Olsen 1989; North 1990; Williamson 1985; Krasner 1988; Shepsle 1990). In sociology, the most prominent part of this revival is in the field of organizational theory (see the essays in Powell and DiMaggio [1991]). Here, scholars are concerned with the origin, spread, and stability of new organizational forms. The sociological theories view the process of institutionalization as the spread and maintenance of sets of meanings.

One major problem with the sociological approaches is their lack of a theory of agency and politics. DiMaggio (1989) has tried to rectify this by arguing that new institutions require institutional entrepreneurs. Institutional theory in political science and economics, on the other hand, is almost entirely focused on the problem of agency. Economic theories, used in both economics and political science, are based on rational actor models implying that actors collectively produce institutions by pursuing their own interests. Within political science, there are disagreements about the adequacy of rational actor models to explain these processes (Krasner 1988, 1991; Hall 1986; Steinmo et al. 1992; March and Olsen 1989). Scholars in this tradition explore the role of preexisting institutions in the creation of new institutional arrangements.

The purpose of this article is to use some of the themes inherent in the extant versions of institutional theory and apply them to the problem of the construction of market institutions. In order to do this, one must use theoretical elements from two literatures: one is concerned with the problem of institution building in politics and the other with a sociological approach that identifies what kind of rules are necessary to produce markets. These theoretical perspectives are used to examine the building of the Single Market Program (SMP) of the European Union (EU).²

During the 1980s, the EU engaged in three large-scale institution-building projects: the SMP ("Europe 1992"), the Single European Act, and the Treaty on European Union (the so-called Maastricht treaty). These projects represent an important context in which to understand the complex dynamics of institution and market building.

² The European Community changed its name to the European Union following the signing of the Treaty on European Union (the Maastricht treaty).

In this article, we focus on the first of these projects, the SMP, because this project took the EU from an organization in crisis to one that was able to attain some remarkable agreements. Our approach provides a framework for understanding the conditions under which the SMP was generated, where the idea for the SMP came from, and how institutional entrepreneurs within the EU used the cultural frame of the SMP to build support for it. We argue that the idea of completing the single market preceded the design of the directives (the EU's equivalent of laws) that make up the SMP. We use a sociological approach to market institutions to understand how political and economic actors constrained the ultimate shape of the SMP. We examine the directives and show that they were put together in such a way as to produce the broadest possible political coalition, while carefully avoiding issues that might potentially raise opposition.

Our results imply that a number of theoretical perspectives offer insight into the process of institution and market building. Institution-building moments occur when a social, economic, or political crisis undermines the current institutional arrangements. Under these conditions, collective strategic actors may act like institutional entrepreneurs and try to forge agreements. The most powerful existing organized actors must be convinced that the new arrangements are in their interest, even if those interests become defined or redefined in the process of negotiation. This requires a "cultural frame" that convinces actors about the general contours of new arrangements. We argue that institution-building projects can resemble social movements (albeit, elite social movements) in that actors sign on to an institutional project under a new cultural frame (Snow et al. 1986; Tarrow 1994). In the context of market building, we show the usefulness of thinking about the problem from a sociological perspective that emphasizes social institutions and the relations between states and their organized economic elites.

We begin our discussion by considering relevant approaches to institutional change. These theories cause us to focus on certain key elements (i.e., preexisting institutions, the constitution of powerful actors with different interests, and the role of institutional entrepreneurs). We then consider the events that led to the EU's SMP. We make arguments about how these events can be framed by the logic of the models of institutional change. Next, we propose an approach from the sociology of markets that considers what market institutions exist and how their negotiation reflects the differing interests of actors in firms and states. Finally, we examine how the directives that make up the SMP reflect the theoretical problem posed by the sociology of markets and the political process informed by the institutional analysis.

THE CREATION OF INSTITUTIONS

In this section, we highlight some of the theoretical discussions about institutions and how they apply to the emergence of economic institutions. It is useful to begin with the factors that institutional theories either explicitly or implicitly rely on to explain episodes of institution building and to compare cultural and rational choice theories.

Common to all institutional theories is a reliance on some form of crisis or exogenous shock as the impetus for an institution-building episode (see, e.g., Skowronek 1982; Fligstein 1990; Sandholtz and Zysman 1989; Campbell et al. 1991). In an institutionalized arena, action will proceed by a given set of rules and understandings (indeed, this is what is meant by an institution). Even in a "crisis," actors will continue to engage in action oriented by current understandings and distributions of power. These understandings only become undermined in a crisis when the dominant actors in an arena begin to fail, either because of invasion by groups from other fields or organizational failure within the field. Episodes of institution building are framed by actors' perceptions of the crisis and their reaction to that crisis. Another context in which institution building occurs is where relationships are being forged in a new, undefined, social space. There, actors proceed without established rules and attempt to stabilize their interactions by producing such rules (Stinchcombe 1965).

The real difference between rational choice and what we call "cultural frame" institutionalist arguments concerns how an institution-building episode proceeds.³ For rational choice theorists, an institution-building episode is a bargaining game (Tsebelis 1990; Shepsle 1990; Keohane 1984). Actors with fixed preferences enter into bargains over issues that foster cooperation. Crisis conditions for rational choice theorists suggest that the current arrangements are suboptimal for actors, and actors have a collective interest in finding more optimal solutions. The ability to reach agreement increases when actors have complete information about the preferences of others, when the likelihood of repeated interaction is high, and when there are a small number of players (Axelrod 1984). Ability to reach an agreement is by no means given and will require a joint "choice set" where the preferences of all parties to the agreement can be attained (Scharpf 1988).

Cultural frame institutionalists in political science and sociology emphasize a number of factors in the production of new institutions. They

³ Nonrational choice institutionalism is called "historical" institutionalism by Skocpol (1985) and Thelen and Steinmo (1992). We use the term "cultural frame" because we think that authors in this tradition stress the role of existing cultural understandings as one important feature of institution building. We think it would also be appropriate to call this perspective "organizational" institutionalism.

argue that preexisting institutions and organizations will constrain and enable actors to engage in cooperative behavior (March and Olsen 1989) and that cultural practices, rather than consciously calculated interests, dictate agreements. These practices structure what is possible in any given situation by eliminating certain possibilities and constraining what actions are “reasonable” (Dobbin 1994). The actual contours of institutions and organizations specify which actors can propose and negotiate agreements and how such negotiations are to proceed (Skocpol 1985).

This gives institution building a kind of path dependence where previous arrangements set the parameters for new negotiations and arrangements. So, for instance, in the case of the EU, the Treaty of Rome and the organizations it created form the backdrop for negotiations. They also create the social context where discussions occur about what new arrangements are possible.

Cultural frame theories also argue that actors’ interests are not fixed and that in fluid social situations, it is possible for a new conception of interests to emerge (Steinmo et al. 1992; Padgett and Ansell 1992; Fligstein 1996). In these situations, institutional entrepreneurs can manipulate cultural symbols to produce new sets of interests for actors (DiMaggio 1987; Padgett and Ansell 1992). Institution-building projects can emerge from either organized politics or social movements. When they arise from organized politics, they still also resemble social movements in that the resources and interests of groups are not fixed and the rules governing interaction are in flux. In such situations, institutional entrepreneurs can try and forge coalitions around new identities that define new role structures.

Rational choice and cultural frame theories are not necessarily in opposition. A political opportunity to create institutions may result in three outcomes: no new institutions, rationally bargained outcomes (see Scharpf 1988), or the creation of a new cultural frame under which roles and rules are redefined. Even when agreements are reached through rational bargaining, such bargaining is done in a social context of existing rules, distributions of power, and organized actors. As a result, even in pure bargaining situations, cultural frame theorists have much to add to studies of bargaining.

Where a new cultural frame is successfully negotiated, the parties to the bargain think that their general interests are being taken into account. What is new about the new cultural frame is that it produces an identity with which actors are comfortable so that they may tell themselves a story about how that frame is in their interest (White 1992). They may experience a reorganization of their preferences (in the language of rational choice), but they will not think that they have lost by agreeing to a new way of doing things.

In the case of the formation of capitalist markets, the impetus toward trying to make societal agreements comes from the emergence of new capitalist economic relations or the breakdown of existing relations (Fligstein 1990). Transitions to capitalism in each modern society have taken different trajectories because the problems presented by the emergence of capitalist economies have been met by different political, social, and cultural conditions (Fligstein and Freeland 1995; Dobbin 1994). Once in place, rules come to reflect the interests of important state and firm actors.

We have seen a growth in these kinds of institutional projects within societies (the reorganization of the former socialist societies) and across societies (North American Free Trade Agreement [NAFTA], the General Agreement on Trade and Tariff [GATT],) and the EU's SMP). The former are caused by the attempt to transform already existing socialist societies into some form of capitalist society (Burawoy and Krotov 1992; Stark 1992, 1996). The latter reflect the increasing interdependence of both industrialized and industrializing societies.

The goal of this article is to consider how the cultural approach just described helps make sense of the events in the EU in the 1980s. While the political process follows this theoretical outline, the problem of exactly what the SMP would consist of had to be negotiated as well. The EU had to find a way to specify the content of the SMP in such a way as to mobilize states and organized capitalist groups in a social-movement fashion. These groups had to be convinced that some conception of their interests was being served. In this way, the SMP of the EU is both a cultural frame and a set of specific measures that serve a broad variety of interests.

In the political science literature, there have been two perspectives on the mid-1980s rejuvenation of the EU. The neofunctionalist or integrationist argument (Haas 1958; Lindberg and Scheingold 1970, 1971; Schmitter 1992) is that supranational organizations, created by nation-states, cooperate on key issues. Over time, the existence of these organizations results in the formation of groups with transnational interests. These include the bureaucrats who run these organizations and the transnational constituencies they build, such as business people, labor, and academics. These groups put more pressure on their nation-states to expand agreements, thereby increasing the power of the supranational organization. This process is called "spillover" (Haas 1958). This perspective suggests that the interests of states will change by the existence of these groups and cooperation will move in new directions. From this view, the impetus for the 1992 SMP came from EU bureaucrats, economists, and business representatives of multinational corporations (Ludlow 1988; Calingeart 1988).

In contrast, the neorealist or intergovernmental approach argues that internal economic goals and the politics of the governing party in each society determine national interests, and this, in turn, determines how extensive cooperation among nation-states will be. This view is a version of rational choice theories of institutions. Cooperation among nations can occur only when interests coincide or when states can trade off in a series of agreements. Nation-states will jealously guard their national sovereignty and will only undertake measures that will preserve their power. From the neorealist perspective, Germany, France, and Great Britain were persuaded that the advantages of removing trade barriers of the variety involved in the SMP outweighed the potential disadvantages and that gave impetus to the SMP (Moravcsik 1991).

There is evidence to support both the neofunctionalist and the neorealist accounts of the origins of the 1992 SMP. Transnational organizations, particularly business, and organized groups in the European Commission and European Parliament did put pressure on states to support the SMP (Ludlow 1988; Calingeart 1988). States did ultimately have to agree to the SMP and decide it was sufficiently in their interest (Moravcsik 1992).

Both theories, however, miss the elements provided by the cultural frame institutional theory. Neorealist theory generally views institution-building episodes as responses to problems associated with market failure (Keohane 1984). But it is silent on where proposed responses come from and how they come to be recognized as appropriate. Put another way, why was the SMP the institution-building project that produced agreement and where did the idea come from? Neofunctionalist theories imply that institution building is a continuous process; they do not specify the conditions for an episode of institution building, that is, the conditions for spillover.

Neither the neorealist nor the neofunctionalist accounts can theorize about how actors find collective solutions in bargaining situations marked by differing and incompatible interests. Both theories are limited by the presupposition that actors know their interests and bargain for institutions in line with these interests. We argue that the EU in the early 1980s was stymied because of irreconcilable differences in preferences.

It is difficult to explain, from either the neofunctionalist or neorealist perspectives, how the SMP emerged from this sort of situation. The cultural frame perspective points out that, under the conditions of institutional crisis, one looks to existing organizational actors to devise and promote institutional projects to break through bargaining dilemmas. We suggest that the European Commission generated the alternative institutional projects and was able to get state actors to sign onto them. It is useful to consider the events in more detail.

THE STRUCTURE OF THE EU AND THE SMP

The EU has four major organizations: the European Council of Ministers, the European Commission, the European Court of Justice, and the European Parliament (Bulmer and Wessels 1987; Noel 1985; European Community 1981; Thorn 1981; Groeben 1985). The European Council, made up of ministers from each country, votes on new rules for the whole of Europe. Before 1987, most matters decided by the European Council required unanimous votes (European Community 1987; Garrett 1992). This made attaining agreements very difficult and left individual European Council members with important veto power. Once the European Council agrees to a new directive, each nation-state is obligated to make its own laws consistent with it. The permanent representatives of the states are in contact continuously in Brussels and heads of states meet semiannually to consider recent initiatives and the overall direction of the EU.

The European Commission produces legislation for the European Council to consider, either at its own initiative or upon request of the European Council. The European Commission was created to help states solve their bargaining problems. It does this by doing studies, proposing new rules, and negotiating those rules before they come to the European Council for the final vote. New rules will not be considered by the European Council unless extensive negotiations have already taken place. The European Commission is divided into directorates, each in charge of some feature of the EU. There are always a great number of proposals, large and small, floating around the commission and much political activity among directorate heads, lobbying groups (Mazey and Richardson 1993), and the European Commission president. The political game is the attempt to build coalitions in support of divergent agendas (Peters 1992).

The European Court of Justice enforces directives by adjudicating suits brought by private organizations, individuals, and states. These decisions are binding on all parties involved, including nation-states (see Weiler [1991] for a discussion of the linkages between national courts and the European Court of Justice). The European Parliament is directly elected. It sets the budget and advises the European Commission. In the context of the 1992 SMP, a complex procedure existed that gave the European Parliament the ability to comment on all directives. The European Parliament's ability to generate legislation is limited mainly to influence.

This complex mix of sovereignties can be confusing to participants and analysts. States maintain power by controlling the European Council and having the ultimate vote on all important issues. They also maintain

control over the enforcement of rules. But, with qualified majority voting, they can find themselves having to accept legislation about which they may disagree. They also abdicate executive power to the European Commission and accept the possibility that the European Court of Justice might rule against them.⁴

There are widely divergent interpretations over what the EU is and can be. Some stakeholders view it as a mere “free trade arena,” while others envision a “United States of Europe” (for debate about these competing visions, see Gatsios and Seabright [1989], Hurwitz [1983], Winters [1988], Pelkmans and Robson [1987], and Taylor [1983]). The EU is a relatively small organization employing 14,000 persons to govern a market of 340 million people. It lacks both police power and a large regulatory apparatus, although it does have a court. Given its size and scope, the EU is not much of a state, and this is intentional in the organizational design. It has a federal structure of sorts, and this means that states give up partial sovereignty because they desire political and economic coordination at the supranational level. One way to understand this is that the EU functions as a political arena in which agreements are produced and states enforce these collectively bargained rules (Keohane and Hoffman 1991).

In line with our theorizing about institution building, there can be three outcomes to political processes within the EU: no new rules, rules that fit everybody’s interests from a bargaining perspective, and new rules that redefine interests. Most of the normal activity of the EU is caught up in the first two categories. It is only under rare circumstances that new institutional projects come to the fore and get considered.

In 1985, the EU decided to complete the unification of the common market by 1992 (European Community 1985). Practically, this meant passing 281 or so directives.⁵ The general goals of the reforms were to promote trade, increase competition, and promote European-wide economies of scale and scope by eliminating nontariff trade barriers, such as differences in taxes, regulations, and health and safety standards. The directives are relatively heterogeneous in their content, scope, and importance. For instance, one directive that passed called for the elimination

⁴ One could argue that the real losers in this process are the parliaments of the individual states. It has been estimated that 40% of the laws passed across parliaments in Western Europe are directives from the EU (Schmitter 1992).

⁵ Counting the number of directives is somewhat problematic. There were 279 proposals on the original white paper, but two were subsequently added, bringing the total to 281. Some of the proposals have turned into multiple directives, and therefore there is not a one-to-one correspondence to the original proposals. Some of the other proposals have been dropped and still others have been added. In the end, 264 proposals were passed.

of a tax collected at national borders on the fuel in trucks. The argument for the tax was that truckers might have filled their tanks when leaving a low-tax country to enter a high-tax country, thereby depriving the high-tax country of revenue. This is a relatively minor agreement. On the other hand, one of the banking directives allows any bank to set up operation in another country and leaves the regulation of that bank to its home country. This agreement has the effect of opening financial service industries across Western Europe to competition from banks in all countries.

CRISIS AND THE ORIGINS OF THE SMP

All observers of the EU agree that the organization was in crisis in the early 1980s (Cameron 1992; Weiler 1991; Moravcsik 1992; Fligstein 1994; Sandholtz and Zysman 1989), which is consistent with our theorizing about institutional episodes. Indeed, there was not a single crisis but a set of crises. The European economies were growing more interdependent as trade between them increased over the decade of the 1970s. This occurred during a period of slow economic growth and high and persistent unemployment.⁶

The ability of the states to use fiscal or monetary policy independent of one another was circumscribed (Cameron 1992).⁷ State actors were no longer able to engage in independent economic action to promote their economies and were experiencing a diminution of sovereignty. Business and political leaders across Western Europe were of the opinion that the Japanese and, to a lesser degree, American corporations were more efficient and were likely to take more market share across industries (Sandholtz and Zysman 1989). There was a general sense that the European economies were experiencing what was termed "Eurosclerosis."

There were serious disagreements over the direction of the EU. Gaston Thorn became president of the European Commission in 1980. His central political project was to push forward reforms that would have altered the voting rules of the European Council and given more power to the European Commission and the European Parliament. Unanimous voting procedures made agreement on any issue difficult. These discussions were

⁶ One could argue that the states were already losing sovereignty as a result of this growing interdependence. From this perspective, the creation of the SMP was an attempt to preserve what sovereignty was left.

⁷ A pivotal event was the decision of the French government to help end the political crisis of the EU and back the SMP. Observers have attributed this change to the realization by the Mitterand government that traditional methods of stimulating the French economy (increase state spending, nationalize industry, and put up trade barriers) failed in the recession of the early 1980s (Frieden 1994; Fligstein 1993).

the focus of European Council meetings in the early 1980s (Ludlow 1989). The British were also threatening to leave the EU because they felt that they were contributing too much to the budget and not receiving enough benefits. They threatened to block any discussion of reforms until this issue was resolved.

Many of the governments were not convinced that an expansion of EU powers made any sense. Besides institutional reform, there was also a proposal to create a European monetary system. But neither of these proposals had sufficient backing (Moravcsik 1992). In December 1983, at the European Council meeting in Athens, the whole fabric of the EU threatened to come apart. Gaston Thorn declared that the crisis was the most severe since 1966, and there was discussion that the entire European Commission leadership might resign because of the impasse (Fligstein 1994).

A political and economic crisis existed, and leaders of states seemed to be caught in a classic bargaining trap: there were no obvious programs that everyone could agree to, and, therefore, some fraction of the states were blocking every potential initiative. Any observer of the EU in 1983 would have had a hard time discerning what project would produce agreement. A neorealist would have been forced to conclude that there were no bargains to be struck, while a neofunctionalist would have to observe that the actors with transnational interests could not affect the preferences of the states.

States were losing their ability to control their political economies, but they could not figure out any collective solutions to these problems. Yet, the political and economic crises across Western Europe provided a political opportunity for an active political entrepreneur to create a new set of institutions. The problem was twofold: to find an institutional project and to promote the project in order to break through the bargaining problem.

Where did the plan for the SMP come from? It is here that the European Commission played a pivotal role as a collective institutional entrepreneur. The EU had originally been founded to create a common market. The biggest problem of this idea was to define what a single market meant. The SMP initiative began as a modest project proposed by Karl Heinz Narjes, one of the European Commissioners (Directorate General III—Internal Market) in 1981. He viewed a single market as one where there were no barriers to the exchange of goods, services, and labor. His first proposal was relatively modest: he wanted to remove customs booths across Europe, level value-added taxes, and expedite the movement of goods (Fligstein 1994).

This project expanded to include 30 directives that reflected his attempt to broaden the appeal of the proposal and bring other groups

along. The European Parliament went on record as favoring the Narjes proposal in the fall of 1982. At the Copenhagen meeting of the European Council in December 1982, Narjes proposed to place the directives on a "fast track" and consider them as part of a bigger project. This proposal met opposition from the French government (Fligstein 1994).

In spite of this, the initiative began to attract attention from business groups and other organizations within the EU (Ludlow 1989; Streeck and Schmitter 1991). This resembled an elite social movement with representatives of various groups joining the bandwagon for the single market initiative. By 1984, the European Council had agreed in principle to complete the single market (Cameron 1992). The "completion of the single market" functioned as a cultural frame in the sense that its content was left unspecified and actors could read anything into it. Only 15 of the 30 original directives had been passed. Narjes began working on a plan that was even more ambitious. He wanted to include 150 directives that would aim to have the single market completed by 1987 (Fligstein 1994). This plan was a dress rehearsal for what would ultimately become the SMP.

In 1984, the SMP seemed to be a plan for institutional change that many of the states found attractive precisely because it was an overarching idea that contained few specifics and could be read as broadly consistent with everyone's interest. It had garnered support from the European Commission, European Parliament, and important business groups around Europe. It was sold as one solution to the problem of Europe's lack of competitiveness. It was a deregulatory project that appealed to supporters of Thatcherite and Reaganite economics. Businessmen liked the idea of removing rules hindering trade. States liked the idea that no supranational agency would be created to enforce new rules. It was also an initiative that did not cost any money. From the point of view of the European Commission and European Parliament, it was a way to renew discussions over the future of the EU. In sum, the idea of completing the single market was provocative and its virtue was self-evident.

The SMP was a project on the political agenda of the EU. But, the states had to agree to its provisions. Jacques Delors was the finance minister of France when he was asked to consider being the president of the European Commission in 1984. He took the job only on the condition that a large-scale project be undertaken to reinvigorate the EU. He offered the heads of states three choices: institutional reform, monetary union, or the single market. His preferred project was monetary union. The single market was the only choice that was agreeable (Moravcsik 1991).⁸

⁸ Delors, a former finance minister, preferred the option of moving forward on the monetary union, but he accepted the SMP as a place to begin moving the EU forward (Ross 1995).

The SMP was an ill-formed project at this moment. The details were forthcoming in a document prepared by Narjes's successor, a British commissioner named Lord Cockfield. His plan called for 279 directives to be passed by 1992. The white paper that outlined the SMP was a shrewd document. It made arguments that completing the single market was likely to result in great efficiencies across Europe. The directives proposed by the SMP were heterogeneous. Half of them had been floating around the EU for a number of years but were opposed by one or another of the states (Colchester and Buchan 1990; Calingeart 1988). The proposed SMP tried to insure that the largest possible coalition could be built. The project was called the "Completion of the Single Market—Europe 1992" (see Cockfield [1994] for his version of the events).

This process shows how elements of rational choice and cultural frame models inform the SMP. The organizations and institutions of the EU were set up to resolve the bargaining problems of the EU. The political and economic crisis of the early 1980s gave impetus to the production of new agreements. The SMP started out as a modest initiative and gathered political momentum, becoming a project that could be supported by all of the states. Proposals that states had been resisting for years became attractive when packaged into the SMP. The European Commission started the project, built up support for the project, and, once on the agenda, Jacques Delors and Lord Cockfield skillfully guided the project to completion. Part of the appeal of the project was its central slogans: "Completion of the Single Market" and "Europe 1992" (Cockfield 1994).

Delors's intention was to use cooperation on the SMP to build momentum toward more agreements and expansion of the EU (Ross 1994). He was able to parlay the SMP into two additional projects, the Single European Act (a version of institutional reform) and the Treaty on European Union (more institutional reform and monetary union). These two projects embodied the elements that the states had explicitly rejected earlier in the decade. The Single European Act altered the voting procedures of the European Council from unanimous voting to qualified majority voting for matters pertaining to the SMP. In this way, Delors acted strategically to link institutional reform to the SMP (Ross 1995). The Treaty on European Union pushed this momentum forward by continuing to alter the voting rules, adding additional arenas to EU purview, and giving the European Parliament more power. It also proposed monetary union that was thought necessary to complete the single market. Delors used the cultural frame of the SMP to convince leaders of the states that these projects followed logically. For instance, the Single European Act was deemed necessary to insure that the SMP legislation did not get bogged down (Ross 1995). Delors and the European Commission,

along with François Mitterrand and Helmut Kohl, were able to convince the principal state actors to realign their preferences and agree that more market and political integration was better than less.

THE INSTITUTIONAL TERRAIN OF THE SMP

The discussion so far has focused on the politics of the EU. It is important to understand the specific elements of the SMP that made it attractive to the states and allowed the commission to build it up as the project to push the EU forward. One of the main purposes of the EU was to create a single market across Western Europe. The question of what exactly a single market is presents both a theoretical and political problem.

In order to consider what kind of market was constructed, it is necessary to consider a sociology of market institutions. The sociological view of markets presented here is developed in greater detail in Fligstein (1996). A market can be defined as a social situation where trade in an item occurs and a price mechanism that determines the value of the item exists. The price mechanism implies the existence of "money" and the quantity of "money" that one might pay for an item. It does not specify how the arena for trade or the price mechanisms themselves operate nor does it suggest a structure for the social relations that will come to exist among suppliers, producers, consumers, and the state.

In order for markets to exist, elaborate social relations must appear to structure the arena of trade. At a minimum, these relations consist of property rights, governance structures, and rules of exchange.⁹ Property rights concern legal definitions of ownership. Traditionally, property rights concerned control over objects, particularly land (Friedman 1973) but as capitalism developed, the concept has come to include control over ideas, processes, and skills. Legal forms define the ability to own and dispose of property and include sole proprietorships, partnerships, and joint stock corporations. Patents and skill certification are also property rights because their holders are granted exclusive rights to practice and gain from the designations.

The constitution of property rights is a contested political process where states, employees, local communities, suppliers, and customers can affect how owners can dispose of property. For instance, workers

⁹ Different theories of markets make different distinctions between these elements. For instance, agency theory tends to collapse governance structures into property rights (Fama and Jensen 1983*a*, 1983*b*). Williamson focuses on the governance of economic transactions of firms and markets, thereby making governance the core issue (1985). Campbell and Lindberg (1990) tend to equate property rights with governance structures, although in their book (Campbell et al. 1991), they view all three institutions as relevant.

in some societies have votes on corporate boards on issues regarding investment. In all societies, local communities can confiscate property and prevent property owners from doing what they like with their property (i.e., environmental regulation and zoning laws). Professionals who injure their clients can be sanctioned by having their property rights (i.e., their license to practice) taken from them.

Governance structures refer to laws and informal practices that set the legal boundaries of competition and cooperation. Every advanced industrial society has laws that are referred to as antitrust, competition policy, and rules over what are legal and illegal forms of cooperation such as cartels, joint ventures, and mergers to control competition.¹⁰ These rules have been translated into understandings that at any given time constitute what are legal and illegal forms of cooperation and competition between firms.

Within a market, firms try to create stable social relations among themselves in order to avoid direct competition. These social relations produce “local knowledge” (Geertz 1980), or what has been called a “conception of control” (Fligstein 1990), which allows actors to interpret the behavior of others in a market. A stable market refers to a small set of firms that share such a conception of control. This mutuality allows firms to anticipate, interpret, and respond to one another’s actions in a way that promotes their own existence without compromising the other’s, that is, in a way that avoids direct competition. Finally, competition can be legally controlled by state intervention and regulation. States must explicitly or implicitly ratify the local conception of control.

Rules of exchange facilitate trade by establishing the rules under which transactions are undertaken. They define who can trade with whom and guarantee that goods will be delivered in working order and will be paid for. Thus they promote the movement of goods by making rules simpler, clearer, and less costly. Rules of exchange establish project definitions and product safety. Like the social relations we call property rights and governance structures, rules of exchange have legal backing since they provide mechanisms by which firms can get relief if conditions of trade are not met. The importance of rules of exchange relating to shipping, billing, insurance, and the exchange of money are even more salient when trade is occurring across national borders or whole societies.

These conceptual categories are linked in a number of ways. For in-

¹⁰ It is the case that merger laws also concern property rights because they define how property can be disposed. We argue that insofar as the merger laws concern competition within an industry they are about governance issues. General rules of merger including the reorganization of assets from, say, joint stock corporations to holding companies might be usefully classified as issues of property rights.

stance, forbidding foreign firms to own local firms might be construed as using property rights to control competition (i.e., governance structures). Similarly, banning products because they were thought to be unhealthy would be a way to control competition as well. We nonetheless separate these categories analytically because doing so gives us a language to understand how rules for markets are created.¹¹

From this sociological perspective, states are implicated in all features of markets because states claim to set the rules for all economic activity in their geographic boundaries. While sovereignty usually refers to a general ability to make and enforce rules in a territory, states actually vary appreciably in their ability to intervene in their economies and civil societies more generally (Krasner 1988). Sovereignty varies in terms of the number of arenas in which states intervene, and in the amount of discretion states actually have in each arena. Thus sovereignty is both multidimensional and quantitative in nature. Organized groups can contest the extension of state power and structure these arenas. Sovereignty is a claim that is contested, not an absolute given attribute of states.

There are at least three dimensions to this claim in the context of markets. First, regulating property rights and competition is more central to states' claim on sovereignty than rules of exchange. These define the relation of states to their own economic elites. The elites who own and manage firms have created stable worlds in their markets, worlds dependent on current property rights and conceptions of control. Disrupting these arrangements means that states face opposition of their best politically organized firms.

Second, states have symbolic stakes in making their own rules. Since part of the claim of a modern state is to be a nation and to represent its people, states have an interest in actively organizing life within their national borders. In negotiations with other states, states will prefer their own rules although the distinctions among choices may at times be materially inconsequential. States will resist another state's standards or rules, particularly in the sensitive areas of property rights and governance structures. Rules of exchange are less symbolically charged because they facilitate trade with others and do not undermine claims to make rules governing the organization of property.

Finally, states have a great deal of interest in maintaining their regulatory capacities. The ability to take action and use legal sanctions is at the core of what sovereignty means, and states are loathe to relinquish

¹¹ This problem has implications for our coding of directives into these categories. We try to judge whether the intention of the directive is to make exchange easier (rules of exchange), prevent nations from using rules to keep out competition (governance structures), or clarify who can own property (property rights).

this form of control. Bureaucracies, police forces, and armies are the organizations that represent the ability of state actors to act. Sovereignty is clearly diminished if these capacities are impaired.

Theoretically, a single market implies rules that (1) produce a well-defined system of property rights, (2) sanction certain forms of competition and cooperation, and, (3) minimize the cost of transactions between economic units. Some scholars might add that a single market also implies a single currency and a single regulatory structure.

The problems of creating a single market within a single country is formidable. The United States, for instance, contains many different laws and jurisdictions for property rights. These problems are even more complex across countries precisely because states and their economic elites will prefer their own rules. In the EU, the states have their own rules around property rights, governance structures, and rules of exchange. These rules involve long traditions of law. Moreover, these rules define the current relations between political and economic elites in each society. The legitimacy and sovereignty of national bureaucratic apparatuses are dependent on these traditions and keeping the allegiance of elites. There was natural resistance from many quarters including the states and firms toward the disruption of these social relations. Given that the EU had unanimous decision-making rules, it is amazing that negotiations for any kind of single market were underway.

The sociology of markets just presented can be used to consider how the SMP was negotiated. The basic problem was that the European Commission would have to mobilize existing centers of power in the European economy and states and work to prevent the mobilization of the opposition. The European Commission's ability to create a political coalition given the existing distribution of actors and institutions meant that the SMP had to cut cunningly across lines that had previously seemed unresolvable because of unanimous voting procedures.

So, what kind of single market did the Europe 1992 project create? The short answer is that it made exchange easier for firms that were already exporting, and it preserved the power of states to control property rights and governance as one might expect from the theory of market institutions just proposed. The SMP did not create new European-wide regulatory capacity, and it opened markets only in industries that could be argued to be connected to the completion of a single market: transportation, financial services, and professional and business services.

It is useful to consider which owners and managers of firms came to support the SMP. Survey data showed that managers of firms who were already involved in exporting were the most favorable toward the SMP (Fligstein and Brantley 1995). These managers felt that their costs of production would be less, their markets larger, and therefore that their

firm and country would fare better under the SMP. Managers in firms in industries with a high degree of government ownership were less positive about the effects of the SMP.

This argument can be buttressed by examining two other features of the EU. First, the organizations that most frequently complained to the EU were large multinational corporations since they were most likely to have problems in interstate trade (Fligstein 1994; Streeck and Schmitter 1991; Mazey and Richardson 1993). Second, the groups that joined the pro-SMP coalition were representatives of the largest corporations (Cameron 1992; Sandholtz and Zysman 1989; Ludlow 1989).

The practical political implication is that very few managers or owners of exporting firms were interested in reforming governance structures or property rights and indeed, some (e.g., managers of state-owned firms) would be hostile to these reforms. On the other hand, managers of firms involved in exporting were very interested in reducing restrictions around problems of trade, what we have termed rules of exchange. States would also be reticent to reorganize their property rights and governance structures because they did not want to lose that power and because they feared alienating powerful economic elites. Taken together, this implies the following hypothesis.

HYPOTHESIS 1.—*Rules regarding property rights and governance structure were not the focus of the SMP. Most of the directives were oriented toward rules of exchange.*

One of the critical problems of negotiating the SMP was finding a strategy by which negotiations could proceed. A single market could imply that one set of rules would be applied to every actor: each state would have to conform to the same standard. Since each state in general prefers to preserve its sovereignty and, in particular, has more or less already developed standards they are reluctant to abandon, negotiations can be difficult even where states agree that using a single set of standards makes sense.

Before the 1980s, negotiations over market openings were tedious processes. Agreements were extremely detailed and required years of negotiation over product definitions and standards. This changed in the 1980s with the court decision in the *Cassis de Dijon* case (Von Sydow 1988). The European Court of Justice decided that it was unnecessary for countries to move toward single standards for products. All goods and services lawfully produced in one member state should be accepted by all member states. This strategy, which is called “mutual recognition,” has the remarkable feature of simultaneously allowing countries to open trade for some good or service without yielding their own distinct definitions. The European Commission decided to use mutual recognition as a principle in market-opening negotiations (Von Sydow 1988).

The *Cassis de Dijon* decision did allow states to prevent products or services in their countries if they felt that health and safety standards were at stake. The European Commission realized that market opening would mainly have to be centered on harmonizing health and safety standards across societies. This conception, what Von Sydow (1988) calls the “new harmonization,” is the attempt to set collective standards for health, safety, or common technical standards for all nations.

This implies that in the negotiations over the SMP, the commission could invoke the new harmonization or mutual recognition. If these tactics failed, then agreements might preserve the status quo. It is useful to view these strategies of harmonization as a dependent variable and consider the conditions under which different types of harmonization were applied.

HYPOTHESIS 2.—*When the countries attempt to harmonize property rights or governance structures, they will tend to use mutual recognition, but when they negotiate rules of exchange, they will tend toward the “new harmonization.”*

When states consider negotiating property rights and governance structures, issues of national sovereignty and the rights and privileges of elites come to the fore. In order to maintain control over their national markets, states resisted conforming to a single standard and instead opted out for mutual recognition. Since changing rules of exchange will presumably aid large exporters, states were more willing to negotiate and create conditions that simplify the problems associated with interstate trade.

Another sovereignty issue concerns the enforcement mechanism for enacted legislation. Enforcement was left largely to the nation-states as a sign that ultimate sovereignty remains with them.

HYPOTHESIS 3.—*Directives will preserve national sovereignty by making their enforcement dependent upon each nation-state and not a supra-national organization. We do expect this to vary by forms of harmonization or the nature of the rule (i.e., property rights, governance structure, or rule of exchange).*

We argue that those with the most to gain from the SMP were those already involved in export activities. As we noted earlier, exporters are concentrated unevenly across industrial sectors. We think that the food, drug, chemical, machines, and transportation equipment industries will have the most directives written directly for them.¹² Rules of exchange may operate as barriers to trade by making it more difficult or expensive to enter into other nation's markets. Nation-states will try to continue protecting existing state-owned firms or firms in industries that states

¹² About half of the directives concerned agriculture. This reflects the fact that the Common Agricultural Policy is the largest program in the EU.

deem important (steel, defense, telecommunications), and we would not expect these industries to have market-opening directives.

HYPOTHESIS 4.—*Rules of exchange will be highly concentrated in export-oriented industries, such as food, chemicals, drugs, machines, and transportation vehicles and will not be written for industries like telecommunications, steel, or defense where national interests are at stake.*

HYPOTHESIS 5.—*Rules of exchange will tend to use the new harmonization as the principle by which they are negotiated.*

One of the chief problems exporters faced was that national differences in product definition and safety standards either effectively closed some markets or made it necessary to make products for specific markets. The creation of rules of exchange with the new harmonization would eliminate this problem by creating one set of standards.

HYPOTHESIS 6.—*Directives concerning property rights and governance structures will be concentrated in a few industries: transportation, professions, services, and the financial sector.*

Where will new single markets actually be created by the SMP? All of the sectors where new export markets might emerge are in arenas deemed necessary to the functioning of a single market (European Community 1985). The transportation sector is highly organized by the nation-states. In order for interstate trucking, shipping, and air travel to be expanded, new EU-wide directives were written. These were focused on governance and property rights issues. Liberalization of the financial services industry supports increased transactions across societies. The mutual recognition of diplomas across professional groups would facilitate the exchange of high-ranking personnel with specialty occupations such as accounting, engineering, and medicine.

HYPOTHESIS 7.—*In these sectors, we expect that mutual recognition will dominate the directives over harmonization and that regulation will still be left to the states.*

Nation-states are equivocal about opening up industries, even those directly concerned with creating a single market. Hence, they will maintain some control over those industries by keeping regulation to themselves and preferring mutual recognition over harmonization as a strategy to opening the markets. This means that their system of credentialing and controlling their national firms is not going to change.

ANALYSIS

The hypotheses we suggested imply three distinctive features of the SMP. First, they direct us to consider how legislation to create the SMP can be examined in terms of two features: whether or not directives change property rights, governance structures, or rules of exchange and how

TABLE 1
FREQUENCY DISTRIBUTIONS OF VARIABLES*

Variable	No. of Cases	%
Directive type:		
Rules of exchange	190	73.1
Governance structure	44	16.9
Property rights	26	10.0
Form of harmonization:†		
Harmonize	185	79.1
Mutual recognition	37	15.8
Not harmonized	12	5.1
Bodies that resolve disputes:‡		
Neither	120	58.9
Member states	65	27.0
Commission	30	12.4
Member states then commission	26	10.8

* See text for variable definitions.
† The variable “harmonization not addressed” is not included (*n* = 26).
‡ The variable “recommendations and decisions that have no enforcement potential” is not included (*n* = 22).

these changes are achieved: through harmonization, mutual recognition, or failure to reach agreement. Then we explore the issue of how enforcement will proceed. Finally, we will explore which industries are being transformed and how they break down along these dimensions.

The content coding of the directives is described in the appendix. There are two caveats to the coding procedure. First, we are treating each of the directives as equal in importance to each of the other directives. Some of the directives will have a much greater impact than others, and therefore our weighting of the cases is arbitrary. Second, we coded directives into the categories of property rights, governance structure, and rules of exchange based on our reading of what the directive was trying to do.¹³ It is possible to interpret some of the rules of exchange as rules about controlling competition, and our results might overstate the prevalence of rules of exchange. We discuss this problem in the appendix.

Table 1 presents the distribution of directives among rules of exchange, governance structures, and property rights. Among the directives, 73.1% were about rules of exchange while 16.9% concerned governance structures and only 10.0% were about property rights. This confirms our first

¹³ A listing of the directives and how they are coded as property rights and governance structures is available, upon request, from the first author.

TABLE 2
CROSS-TABULATION OF TYPE OF DIRECTIVE
BY FORM OF HARMONIZATION

FORM OF HARMONIZATION	TYPE OF DIRECTIVE		
	Rules of Exchange (%)	Governance Structure (%)	Property Rights (%)
Harmonize	150 (85.7)	22 (64.7)	13 (56.5)
Mutual recognition	16 (9.1)	11 (32.4)	8 (34.8)
Not harmonized	9 (5.1)	1 (2.9)	2 (8.7)
No. of cases	175	34	23

NOTE.— $\chi^2 = 20.9$; $df = 4$; $P = .000$.

hypothesis that the SMP was mostly about making trade easier. Table 1 also shows that 79.1% of the directives used the new harmonization principle, 14.7% used mutual recognition, and 5.1% were not harmonized.

Table 2 tests the second hypothesis. There is a statistically significant relation between the type of directive and the form of harmonization that is consistent with the hypothesis ($\chi^2 = 20.9$; $df = 4$). The column percentages reveal that 85.7% of the rules of exchange directives were harmonized. It is important to note that 64.7% of the governance-structure directives and 56.5% of the property-rights directives used the new harmonization. These figures are remarkably high. We conclude that the SMP was primarily about making exchange easier across nation-states. This process clearly benefits those who are already involved in exporting across the EU. There is evidence that directives concerning property rights and governance structures tended to use mutual recognition more than directives concerning rules of exchange thereby reflecting the preferences of states to preserve their own rules.

Only four directives out of 247 (1.6%) mention the creation of a new EU agency to deal with SMP issues. Table 1 shows that 58.9% of the directives do not mention enforcement procedures at all, 27% leave dispute resolution to the nations, and 10.8% specify that state decisions can be appealed to the EU. Only 12.4% of the directives specify the EU as the main body to resolve disputes. This is consistent with hypothesis 3.

The cross-tabulation in table 3 shows that governance-structure and property-rights directives are more likely to be mediated at the national level ($\chi^2 = 13.74$; $df = 6$; $P = .03$), thereby reinforcing state sover-

TABLE 3
CROSS-TABULATION OF ENFORCEMENT BODIES BY TYPE OF DIRECTIVE

ENFORCEMENT	TYPE OF DIRECTIVE		
	Rules of Exchange (%)	Governance Structure (%)	Property Rights (%)
No body	103 (54.2)	22 (50.0)	16 (61.5)
Member state	39 (20.5)	16 (36.4)	9 (34.6)
Commission	23 (12.1)	5 (11.4)	1 (3.8)
Member state then commission	25 (13.2)	1 (2.3)	0 (0)
No. of cases	190	44	26

NOTE.— $\chi^2 = 13.74$; $df = 6$; $P = .03$.

eighty over these issues. The forms of harmonization (table 4) were not significantly related to differences in enforcement patterns ($\chi^2 = 10.8$; $df = 6$; $P = .09$), although directives using mutual recognition were more likely to be resolved at the state level and those with harmonization were more likely to be resolved at the EU. This offers partial support for the hypothesis that preserving nation-state regulatory capability was a concern of the SMP.

It is useful to consider more closely the industries most affected by

TABLE 4
CROSS-TABULATION OF ENFORCEMENT BODIES BY FORM OF HARMONIZATION

ENFORCEMENT	FORM OF HARMONIZATION		
	Harmonize (%)	Mutual Recognition (%)	Not Harmonized (%)
No enforcement	99 (53.5)	18 (48.6)	8 (66.7)
Member state	42 (22.7)	16 (43.2)	3 (25.0)
Commission	21 (11.4)	2 (5.4)	1 (8.3)
Member state then commission	23 (12.4)	1 (2.7)	0 (0)
No. of cases	185	37	12

NOTE.— $\chi^2 = 10.80$; $df = 6$; $P = .09$.

TABLE 5
FREQUENCY DISTRIBUTION OF DIRECTIVES BY INDUSTRY

Industry	No. of Directives	%
Food, beverages, and tobacco	95	36.8
Chemicals	11	4.3
Drugs	21	8.1
Machines	11	4.3
Finance	29	11.2
Transportation	16	6.2
Transportation vehicles	10	3.9
Professions and services	16	6.2
Telecommunications	5	1.9
Other	17	6.6
No single industry	27	10.5

the SMP. Table 5 contains the marginal distribution of directives by identifiable industries. Ninety-five directives (36.8%) dealt with food, beverages, and tobacco. This reflects the fact that the activity most regulated by the EU is the agricultural sector. Only one other industry, the financial sector, had even 10% of the directives. The large export industries of drugs, chemicals, machines, and transportation equipment had a large number of directives as did the reorganized transportation, professions and services, and financial sectors. This confirms hypothesis 5.

The findings in table 6 assess hypotheses 6 and 7. These hypotheses suggested that the high-export industries would have a greater fraction of rules of exchange while the industries that service the single market would have a higher fraction of directives concerning governance structures and property rights. There is a statistically significant relation between these variables, and the percentage across the industries confirms the direction of the hypotheses ($\chi^2 = 147.1$; $df = 20$; $P = .0000$). The SMP was mostly concerned with simplifying trade in industries already marked by a great deal of trade. The only industries that appear to have attained market opening were those connected to the SMP (i.e., finance, transportation, and some services).

The last hypothesis was that, in the nonexport industries with reorganized property rights and governance structures, mutual recognition would be favored over harmonization. Indeed, table 7 shows that the negotiations were more likely to produce mutual recognition strategies for the transportation, professions and services, and financial sectors than was the case for the food, drug, or transportation equipment sectors.

The SMP was mostly concerned with making trade easier in industries

TABLE 6
CROSS-TABULATION OF INDUSTRY BY DIRECTIVE TYPE

INDUSTRY	FORM OF DIRECTIVE		
	Rules of Exchange (%)	Governance Structure (%)	Property Rights (%)
Food	88 (46.8)	3 (7.3)	3 (11.5)
Chemicals	11 (5.9)	0 (0)	0 (0)
Drugs	19 (10.1)	0 (0)	2 (7.7)
Machines	10 (5.3)	0 (0)	1 (3.8)
Finance	1 (.5)	18 (43.9)	9 (34.6)
Transportation	7 (3.7)	8 (19.5)	1 (3.8)
Transportation vehicles	10 (5.3)	0 (0)	0 (0)
Professions and services	3 (2.1)	5 (12.2)	7 (26.9)
Telecommunications	3 (1.6)	1 (2.4)	0 (0)
Other	15 (8.0)	1 (2.4)	1 (3.8)
No single industry	20 (10.6)	5 (12.2)	2 (7.7)
No. of cases	188	41	26

NOTE.— $\chi^2 = 147.1$; $df = 20$; $P = .00$.

where exports were high. New markets will be opened in only three industries: financial services, transportation, and professional and business services. Nation-states will regulate within their national borders. They have been careful to help some organized national elites (exporters) while preserving regulatory power.

CONCLUSIONS

Markets are social constructions that reflect the unique interactions of their firms and nations. The shape of the SMP very much reflects the concerns of the major organized groups across Western Europe. The European Commission developed the SMP and played a pivotal role selling the general cultural frame of "Europe 1992." The institutional mapping

TABLE 7
CROSS-TABULATION OF INDUSTRY BY FORM OF HARMONIZATION

INDUSTRY	FORMS OF HARMONIZATION		
	Harmonization (%)	Mutual Recognition (%)	No Harmony (%)
Food	74 (40.4)	6 (16.2)	2 (18.2)
Chemicals	9 (4.9)	1 (2.7)	1 (9.1)
Drugs	15 (8.2)	1 (2.7)	5 (45.5)
Machines	9 (4.9)	2 (5.4)	0 (0)
Finance	14 (7.7)	15 (40.5)	0 (0)
Transportation	9 (4.9)	0 (0)	1 (9.1)
Transportation vehicles	9 (4.9)	0 (0)	1 (9.1)
Professions and services	8 (4.4)	5 (13.5)	0 (0)
Telecommunications	4 (2.2)	1 (2.7)	0 (0)
Other	12 (6.6)	3 (8.1)	1 (9.1)
No single industry	20 (10.9)	3 (8.1)	0 (0)
No. of cases	183	37	11

NOTE.— $\chi^2 = 64.93$; $df = 20$; $P = .00$.

of the SMP shows how political compromises were undertaken under the banner of a “single market.” While this would appear to be a modest accomplishment, it must be remembered that this project was undertaken at a time when the issue of whether or not the EU would survive was at stake. In addition, at least half of the directives that comprised the SMP were already written but were languishing. The SMP brought new life to the EU and made possible subsequent institutional projects.

It is useful to explore our results in terms supplied by others who are trying to map out the trajectory of the EU. Keohane and Hoffmann (1991) have described the EU as an outcome of a set of intergovernmental bargains that have produced a pooling of sovereignty. States continue to dominate decision making and do not give up sovereignty to a central regime. Instead, they create a kind of federation that centralizes bargaining, while decentralizing enforcement.

Our results reinforce this view. The SMP is not a direct assault upon national sovereignty. It does not create centralizing regulatory mechanisms nor does it force harmonization of different national traditions in the organization of capital. Yet, it does bond the nations closer together. It allows for the freer flow of goods, services, and labor across national borders and facilitates current exporting industries. It also sets up the possibility for new institutional arrangements (the Single European Act and the Treaty on European Union). The net effect of these arrangements is to produce more cooperation at the European level.

Our results have implications for the theories of the creation of institutions, both in sociology and political science. Instead of viewing institution building as either a bargaining process of actors with fixed interests, on the one hand, or a function of existing organizations and institutions, on the other, it is important to have a more fully elaborated view of how institutions get built that takes into account the causal role of both phenomena.

Institution building requires a perception of crisis by organized actors and, often, a recognition of their interdependence. Actors may be able to resolve their problems by direct negotiation thereby giving impetus to the power of bargaining theories. But, it is often the case that part of the crisis is the inability of organized actors to find such a solution to their dilemmas. In these conditions, social gridlock can occur, but these conditions can present a political opportunity for institutional entrepreneurs.

Sociological versions of institutional theory have tended to emphasize how institutional projects are often promulgated by state actors and professionals (Powell and DiMaggio 1991; Scott and Meyer 1994). Successful institutional projects are viewed as exemplars or templates available to other actors in other organizations. One of the most powerful parts of this theory is its ability to explain how the process of institutionalization and mimicry work after rules are produced. Another powerful part is its insistence that rules—both formal rules and meanings that are taken for granted—structure what kind of agreements are possible.

The political processes that have been described here are less theorized by institutional theory in sociology. We think that our discussion of how these projects proceed provides some conceptual leverage on where institutional projects come from in the first place, thereby filling in a missing gap in sociological theories of institutions. Sociological theories should pay more attention to preexisting institutional conditions, what the alternative institutional projects are in a given situation, and the political process by which projects win out.

This also implies that the rational-choice and cultural-frame institutional theories are not necessarily inconsistent in aiding our understand-

ing of institution building and their spread. Instead they offer alternative ways in which organized groups can produce collective action. Organized actors with fixed preferences, given a set of institutions and an existing crisis, might be able to bargain new rules. However, they may not be able to do so, and this opens opportunities for institutional entrepreneurs to construct new projects. These projects are built by actors who use existing rules and meanings to reorganize existing concepts of interest.

Our results also have implications for how to analyze the many market-building projects going on in the world today: the NAFTA treaty, the recently completed GATT treaty, and the reorganizations of markets in Latin America, Asia, and the countries in Eastern Europe. These projects are not being produced in a vacuum but with the help and cooperation of organized groups with different interests in and outside of states. The production of market institutions (i.e., particular property rights, governance structures, rules of exchange, and conceptions of control) will reflect these existing centers of power and the interests they represent. Some of these bargains will be struck along explicable lines where actors with the greatest amount of resources will decide how to organize rules.

Some of the solutions, however, will reflect the creation of new cultural forms. We argue that studying the creation of the rules of the economy will give us a great deal of insight into how these state-building projects are going, where they are going, and in whose interests they are proceeding. We propose that those who study these phenomena begin by trying to understand what the possible institutional projects are, who their proponents are, and how elite social movements are being produced to push them. This will give analysts leverage on what the possible outcomes might be.

APPENDIX

The data for this project are the directives that constitute the SMP. The European Council passed 264 directives (about 95% of the original 279 proposals). The proposals that were not passed dealt mainly with issues of property rights, taxation, and the free movement of people. About 75% of the directives had been translated into national law by January 1993 (European Community 1993). Getting copies of all of the directives has proved to be a tedious task. Using an electronic database (Euroscope) that is updated weekly, we have found only 247 (about 94%) of the directives. Many are incomplete and require one to go to the *Official Journal of the European Community* to obtain the whole text.

In order to test the hypotheses we have proposed, it was necessary to content code the directives. The directives are written in a dense, sometimes opaque bureaucratic language. As a result, it was sometimes diffi-

cult to code the directives into even the simplest categories. We had spirited discussions about a small subset of the directives where multiple codings seemed appropriate.

The most important concepts to operationalize included whether the regulation pertains to property rights, governance structures, or transactions; whether the regulation proposes a single standard for all member states or uses mutual recognition of standards allowed to differ; if the regulation pertains to a particular industry or industries in general; and, what sort of enforcement mechanisms are specified.

The coding of property rights, governance structures, and rules of exchange required relatively precise definitions of these concepts. Since all of the directives were supposed to increase competition generally by decreasing trade barriers, statements to that effect would have classified all directives as governance structures. Decisions to categorize the directives into these categories had to be made on more relevant theoretical criteria. A breakdown of the directives by the three categories is available from the first author upon request.

Property rights imply any issues that pertain to issues of ownership and control. Most directives concerned with the recognition of professional credentials, the transfer or regulation of property rights, and the protection of trademarks or professions were considered to be about property rights.

Governance structures refer to efforts to regulate competitive or cooperative relations between firms. To code a directive into this category, we required that it explicitly be concerned with conditions of competition in general or in a particular industry. Directives taken to be about governance structures were often industry specific. They regulated the competitive and cooperative arrangements in the food, insurance, air transport, trucking, and banking industries by specifying pricing arrangements, market sharing, and free market access. Governance structure cases also included those directives that sought to open government procurement to competition from out-of-state firms. This is because these directives reflect attempts to change the rules of competition that have historically favored local firms.

Rules of exchange refer to efforts to control the flow of goods and services across national boundaries. A large number of directives that established or refined health standards for the production and shipment of meat and other food products were coded as rules of exchange because they explicitly dealt with standards that enabled product export. A second important class of measures concerned removing customs barriers of various kinds and are rules of exchange because they govern the movement of goods across national boundaries. A third large class of directives specified safety rules for various products such as machines, medicines,

and vehicles. Finally, the directives dealing with the harmonization of value-added taxes on many products were placed in this category.

We categorized the types of harmonization into the following categories: (1) harmonize standards, (2) mutual recognition, (3) no mutual recognition but reinforcement of national standards, (4) inapplicable. Coding into these categories depended on the types of agreements that were reached. If a single standard applied to all countries, this was considered harmonization. If countries kept their standards but agreed to accept other countries' products, this was considered mutual recognition. Finally, if no agreement was reached or the directive did not concern harmonization, these were coded as separate categories.

The issue of how to code the way in which the directives dealt with enforcement and regulation was somewhat tricky. The tactic we chose was to code the way in which directives specified how disputes over directives could be resolved. We coded four categories: (1) no resolution mechanism, (2) resolution mechanism through individual states, (3) resolution through taking disputes directly to the EU, and (4) resolution through taking disputes first to the states and then to the EU.

Industries are coded as follows: (1) food, beverage, and tobacco, (2) chemicals, (3) drugs, (4) machines and instruments, (5) telecommunications, (6) finance, (7) transportation equipment, (8) transportation, (9) professions and services, (10) other industries, (11) not industry specific. We have more detailed industry information, but small numbers of cases make this collapse of industry categories attractive. This categorization reflects our hypotheses. It offers confirmation of those hypotheses by showing that directives were written for a very small number of industries. The "other industry" category generally showed less harmonization and more concern with property rights and competition issues than the export industries. This suggests that industries in this category were fighting to protect their existing state definitions. Exemptions, both general and country-specific, were coded in order to capture equivocations in directives that may have otherwise harmonized standards. We specified whether these exemptions were temporary or permanent since temporary exemptions tended to reflect the EU's efforts to allow particular countries or businesses time to catch up to the level of the rest of the community, while permanent exemptions may reflect a more complicated political process.

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