CHAPTER SEVEN

Ideas, Interests, and Institutions: Constructing the European Community's Internal Market

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As embodied in the signing of the Single European Act 1987 (SEA), the decision of European Community (EC) members to complete their "internal market" by the end of 1992 is one of the most important instances of multilateral cooperation in the postwar period. Its economic objective is the removal of a wide array of neoprotectionist barriers—embodied in national standards, public procurement policies, industrial subsidies, and the like—to facilitate the free movement of goods, services, people, and capital within the EC. The institutional

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1 It should be noted that the internal market had little chance of being "complete" by the end of 1992, if ever. National governments have steadfastly refused to facilitate the free movement of people within Europe, citing fears of terrorism, drug smuggling, and the like. The elaborate system of agricultural protectionism embodied in the Common Agriculture Policy has not been reformed (despite external pressures from the Uruguay Round of the GATT). Moreover, despite considerable effort on the part of the EC, it is proving very difficult effectively to eliminate trade barriers constituted by many aspects of national regulatory regimes. For an assessment of progress toward the completion of the internal market see Stephen Woolcock et al., Britain, Germany and 1992. (London: Pinter, 1991).
structures underpinning the internal market are considerably more elaborate and constraining on member states than has been the norm for international regimes. While the existing EC cannot be described as even a confederal political system, it is clear that the Community comprises at least two fundamental features normally associated with sovereign polities: majoritarian decision making and an authoritative legal system to enforce decisions so made. The SEA replaced unanimity voting in the Council of Ministers, the fundamental decision-making institution in the EC, with a qualified majority rule (article 100A). In so doing, the members of the Community agreed to overturn the “Luxembourg compromise,” which affirmed the right of any member to veto any EC decision of which it disapproved. Moreover, the internal market rules are buttressed by a legal system without precedent in international politics. The EC’s legal structure is more akin to a constitutional order than to a normal system of international treaties, in which signatories reserve the right to interpret the extent of their obligations. The European Court of Justice exercises considerable autonomy in the interpretation and application of EC law. Moreover, these laws have “direct effect” in the courts of member states and override conflicting national laws. Domestic courts frequently refer cases brought before them to the ECJ for preliminary rulings on the application of relevant EC law (pursuant to article 177 of the Treaty of Rome).

How can these attributes of the internal market be understood? A large literature seeks to explain the conditions under which cooperation may emerge between self-interested states in the anarchic international system. Collective action problems—such as the mutual opening of domestic markets—are endemic to international politics. Couched

2If the Maastricht Treaty on European Union is ratified, the amount of sovereign authority vested in the EC will increase dramatically (most importantly through the creation of a single European currency and a single European monetary policy).

3The exceptions are fiscal matters, the movement of persons, and the rights of workers. United Kingdom each have 10 votes; Spain, 8; Belgium, Greece, the Netherlands, Portugal, 5; Denmark and Eire, 3; and Luxembourg, 2. Fifty-four of the 76 votes constitute a “qualified majority.”


5Economic theory suggests that unilateral trade liberalization is always in the interest of all countries. However, there are strong domestic political reasons—emanating from the power of producer groups in relation to consumers and the short-term dislocations associated with market adaptation—for national governments to prefer to maintain the See Stephen Magee et al., *Black Hole Tariffs and Endogenous Policy Theory* (New York: Cambridge University Press, 1989).

6Ideas, Interests, and Institutions in terms of the familiar prisoner’s dilemma, these problems may be mitigated when interactions are repeated indefinitely, when the rates at which states discount the future are low, and when the value of cooperation is high. Under such conditions, states will be reluctant to free-ride on other members for fear of retaliation and loss of reputation.

7Without doubt, repeated interaction and the “long arm of the future” play large roles in enabling actors to capture the gains from cooperation. Yet the numerous instances in which cooperation fails to emerge suggest that this understanding is inadequate. Several problems stand out. All arise from fundamental difficulties associated with ambiguity. First, there are often multiple paths toward capturing the gains from cooperation and no obvious way for a set of decentralized actors to converge on one of them. Second, the informational requirements for the “evolution of cooperation” are considerable, notably because of the difficulty of identifying and verifying defection (so that transgressors may be punished) and because of problems associated with unanticipated circumstances (in which the meaning of cooperation is unclear). Many scholars argue that political institutions may play significant roles in generating the necessary information for the realization of collective gains.

This scholarship, however, suffers from a further crucial weakness. The literature can tell us why the set of cooperative arrangements that was chosen are efficient (Pareto-improving) solution to the collective action problem facing participants. But existing studies shed little light on the question why one particular cooperative solution was chosen. In keeping with the basic thrust of transactions costs economics, most studies assume that the institutional arrangements that


emerge were chosen precisely because they were uniquely efficient solutions to given problems of cooperation. The weakness of such functional reasoning is that in most interesting issues in international relations (and in the social sciences more generally) there are many stable paths to cooperation that cannot readily be differentiated in terms of their consequences for aggregate welfare.\(^{10}\)

This context provides for the potentially pivotal role of ideas. Shared beliefs may act as "focal points" around which the behavior of actors converges.\(^{11}\) Moreover, given that most agreements are likely to be incomplete (that is, provisions will not be written to cover every possible conflict between participants), shared beliefs about the spirit of agreements are essential to the maintenance of cooperation.\(^{12}\) Less prosaically, ideas, social norms, institutions, and shared expectations may influence both the way actors choose to cooperate and the stability of these arrangements over time.

Shared belief systems and focal points, however, do not always emerge without conscious efforts on the part of interested actors. Rather, they must often be constructed. In the context of multiple paths to cooperation, the realization of potential shared gains may be impeded when there is no single "natural" solution but a whole range of possible paths to cooperation. The creation of a set of institutions can fill this void. By embodying, selecting, and publicizing particular paths on which all actors are able to coordinate, institutions may provide a constructed focal point. Such institutions can also mitigate potential breakdowns in cooperation associated with ambiguity by providing the critical information about when an actor has defected and by resolving problems raised by unanticipated circumstances. Acting in this capacity, institutions not only provide individuals with critical information about defection but also help construct a shared belief system that defines for the community what actions constitute cooperation and defection.

If this assumption is correct, the widely perceived stark divide between "rationalists" and "reflectivists" is inappropriate.\(^{13}\) Pure efficiency- and interest-based approaches cannot generate unique explanations for international cooperation. They can only show ex post facto why the form of cooperation that emerged was Pareto-efficient, and hence that actors could rationally have selected it. In our view, the central concerns of reflectivists—the social and institutional bases of shared beliefs—hold the key to overcoming the deficiencies of functionalist logic.\(^{14}\)

We suggest that if we are to understand the evolution and operation of the EC's internal market, it is necessary to integrate interests and ideas. Our argument is that a cooperative agreement to complete the single market in Europe based solely on decentralized, self-interested behavior neither could have emerged in the mid-1980s nor would it be likely to sustain itself after 1992. Because the participants have—and continue to have—divergent preferences over the potential ways to organize their interactions, the lack of a natural, unique path to cooperation has been a great barrier to the realization of collective gains. Understanding how this barrier can be overcome requires analysis of the role of institutions in the broadest sense: the embodiment and propagation of coordinated expectations about the internal market (that is, the creation of a shared belief system).

The members of the EC clearly had powerful reasons to liberalize their economic relations in the mid-1980s. But the critical issues are why the particular institutional arrangements associated with the internal market were chosen and how they will work. Numerous alternative economic rules could have been used as the basis for EC trade liberalization, from pure laissez-faire to the creation of an encompassing set of EC regulations and standards. It would be difficult to argue that the choice of "mutual recognition" of national practices as the overarching organizing principle of the internal market was not influenced by the European Court of Justice's decision in Cassis de Dijon (1979).

Furthermore, the translation of the general principle of mutual recognition into detailed decisions governing the behavior of political and economic actors in the internal market relies heavily on the EC legal system. There undoubtedly are other mechanisms for implementing the internal market, such as enforcement by the EC Commission. But the fact that the principle of direct effect was firmly established pro-

\(^{10}\) The most general statement of this problem is the "folk theorem" that for repeated games with nontrivial information structure, an infinite number of strategies can be sustained in equilibrium. For a discussion see Drew Fudenberg and Eric Maskin, "The Folk Theorem with Discounting or with Incomplete Information," *Econometrica* 54 (1986): 533–54.


\(^{14}\) It is important to note, however, that ideas as focal points do not represent the only possible solution to the multiple-equilibria problem. Rather, the interests and relative power of different actors may significantly influence outcomes. See Geoffrey Garrett, "International Cooperation and Institutional Choice: The European Community's Internal Market," *International Organization* 45 (1991): 539–64; and Krasner, "Global Communications and National Power." The interaction of ideas, interests, and power are explored at length later.
provided a readily available and effective solution to the problems of incomplete information and incomplete contracting that would otherwise have hindered cooperation in the EC.

At this point, however, the limits of the impact of ideas should be carefully delineated. Mutual recognition was not merely a construction of the European Court. Rather, this principle is consistent with the desire of the major political and economic actors in Europe to liberalize trade. Furthermore, EC members maintain considerable control over the course of rulemaking through the Council of Ministers. More fundamentally, the continued legitimacy of the court and its rulings is contingent upon the support of the governments of EC members. Put simply, the implicit threat of intervention by the member states, either through decisions in the Council of Ministers or through noncompliance with court decisions, ultimately constrains judicial activism in the EC.

More generally, the force of ideas is neither random nor independent. Only certain ideas have properties that may lead to their selection by political actors and to their institutionalization and perpetuation. It is not something intrinsic to ideas that gives them their power, but their utility in helping actors achieve their desired ends under prevailing constraints. Given the complexity and uncertainty of most political economic interactions, appropriate ideas may serve as pivotal mechanisms for coordinating expectations and behavior.

The Political Economy of Cooperation: A Critique

It is now conventional to analyze the prospects for realizing mutual gains from cooperation within a group of self-interested actors—be they individuals, interest groups, or states—in terms of the prisoner's dilemma. In this familiar world, all actors would benefit from cooperating to achieve common goals, but each has substantial incentives to defect. So long as interactions are repeated indefinitely, potential gains are large, and the rates at which actors discount the future are low, the threat of retaliation against those who defect and the prospect of loss of reputation in the future provide the means for maintaining cooperation. Despite short-run temptations to defect, individuals will cooperate because they know that future benefits depend on cooperating today—and hence on not inciting retaliation and on attaining reputations as good cooperators.

Recent work has suggested, however, that such arguments break down in the context of ambiguity and incomplete information. Conventional approaches assume that members of society costlessly learn who has defected. Yet in the real world there are many situations in which it is very costly, if not impossible, for all members of a community to discern whether an actor has violated commonly agreed rules. In the medieval trading system of the “law merchant,” for example, when an individual trader cheated his partner, the latter was immediately aware that he had done so. All other traders, however, knew only that a dispute had arisen. These outsiders typically had difficulty weighing the veracity of the various claims and counterclaims made by the disputants. Disputes of this type result in uncertainty over defection and may impede the emergence of cooperation or may cause it to break down unnecessarily. If individuals do not always know when a defection has taken place, then defection will not always be punished, and thus the incentives to defect will increase.

Institutions may play an important role in overcoming the adverse effects of incomplete information. Role specialists may be created to whom authority is delegated to administer the rules of the game, to monitor the adherence of members to these rules, and most important, to identify and publicize transgressions by errant members. If institutions can provide these types of information, interactions between self-interested players may then lead to the evolution of cooperation in the manner that is conventionally envisaged (through “tit for tat” and other trigger strategies). Thus institutions need not be granted any sanctioning power to facilitate stable cooperation. Rather they need only provide the information that is required for effective decentralized punishment by members.

But even when the conventional models are augmented with these institutional arguments, they are still liable to a telling criticism. Most studies assume that a given collective action problem has a unique solution—the one that is chosen by the actors. Most interesting interactions in domestic and international politics, however, are likely to have multiple possible solutions that cannot be distinguished in Pareto terms. If there is more than one efficient path to sustainable cooperation, arguments that purport to explain cooperation in terms of efficiency logically must fail.

We can illustrate the dynamics of cooperation problems due to multiple equilibria by nesting a coordination game within the prisoner's dilemma. In the two-player rendering of this game (Figure 1), mutual defection is the dominant strategy of both actors in a given play. Any form of mutual cooperation (C1, C1 and C2, C2) is preferable to mutual defection, but, as in the simple prisoner's dilemma, each player is tempted to free-ride on the other, so both must be fearful of being

13 Milgrom et al., “Role of Institutions.”
sucked. The standard means of supporting cooperation in the prisoner's dilemma does not automatically succeed under these circumstances. Even if iteration were to make the realization of collective gains possible, the players would not necessarily be able to maximize their payoffs. Both have an interest in coordinating around C1 or C2, but these potential equilibria cannot be differentiated in terms of either efficiency or self-interest. Thus this game has no simple "rational" solution.

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Note: The payoffs to player A appear first.

Figure 1. A pure coordination game nested within the prisoner's dilemma

In this game, showing that both strategy combinations (C1, C1 and C2, C2) are efficient solutions to the dilemmas facing the actors does not explain how or why they would be able to settle on one of them. If more than one set of "rules of the game" would allow the actors to realize mutual gains and if more than one set of institutions can monitor adherence to these rules, models of cooperation need to explain why a particular set is chosen.

But even if it were possible to determine why one set of rules was initially chosen over others, a final important impediment to cooperation would remain. The analysis thus far has assumed that members of a community will be able initially to agree on an exhaustive set of rules to govern all their future interactions. It will always be very costly, however, if not impossible, for actors to construct such agreements. Thus parties will invariably make incomplete contracts that do not specify how participants should behave under all possible circumstances, but rather only sketch general codes of conduct. The standard prisoner's dilemma formulation of the problem of cooperation thus does not address this issue because it allows no room for ambiguity.

Incomplete contracts present a large challenge for studies based on the notion that institutions merely facilitate adherence to a predetermined set of rules of the game. The reason is that incomplete agreements imply that in certain circumstances, what is required by the rules of the game cannot be determined uniquely. Thus analyses of cooperation must explain how the institutions deal with unanticipated contingencies, and why members acquiesce in the decisions of these institutions as to the application of the rules of the game in specific cases.

Consider the following example of the breakdown of cooperative arrangements in the face of unexpected events. After the United States invaded and defeated Mexico in the mid-1840s, the Hidalgo Treaty established the middle of the Rio Grande as the U.S.-Mexican border. No problems arose for many decades until, early in the twentieth century, the river moved fifty miles south. The United States immediately occupied the land, and a dispute with Mexico arose over whether this action constituted a violation of the treaty. The United States, relying on the letter of the law, argued that it did not. Mexico, interpreting the spirit of the law, argued that the treaty designated the border as the middle of the river at the time of signing, regardless of where it might subsequently move.

How were third parties—critical to the efficacy of all international agreements—to arbitrate this dispute? Without any previous agreement on how to coordinate their evaluations in the face of this unexpected outcome, members of the international community could not agree about whether the United States' action constituted a violation. The critical absence of a set of shared beliefs about whether a violation had occurred proved a primary problem for decentralized coordination: the absence of agreement led to the breakdown of the community punishment mechanism. In fact, it took nearly half a century for this dispute to be settled in the absence of mechanisms for coordinating expectations about determining "fair" borders.

The Microfoundations of the Role of Ideas: Constructed Focal Points

The above discussion suggests that existing approaches to the politics of cooperation are inadequate in two related ways. First, they fail to
explain how actors settle on particular rules of the game, including the relevant organizing principles and supporting institutions, from among the many sets that are available. Second, they do not consider the impact of ambiguity and unanticipated contingencies on the role of institutions in the implementation of these rules: how institutions arbitrate disputes that are not directly covered by their mandates, and why members might adhere to their decisions.

Let us return to the question how actors settle on one solution to a cooperation problem when there are multiple sustainable equilibria with no “rational” desiderata (in terms of efficiency or self-interest) for choice. Thomas Schelling’s argument about “focal points” suggests a strong role for such factors as culture, history, ideas, and institutional legacies—things that might provide the basis of a shared belief system:

Most bargaining situations ultimately involve some range of possible outcomes within which each party would rather make a concession that fail to reach agreement at all. . . . Each party’s strategy is guided mainly by what he expects the other to accept or insist on; yet each knows that the other is guided by reciprocal thoughts. The final outcome must be a point from which neither expects the other to retreat; yet the main ingredient of this expectation is what one thinks the other expects the first to expect, and so on. . . . These infinitely reflexive expectations must somehow converge on a single point, at which each expects the other not to expect to be expected to retreat.

If we then ask what it is that can bring these expectations into convergence and bring the negotiations to a close, we might propose that it is the intrinsic magnetism of particular outcomes, especially those that enjoy prominence, uniqueness, simplicity, precedent, or some rationale that makes them qualitatively differentiable from the continuum of possible alternatives. 18

Put simply, some solutions are inherently more likely to emerge because the actors believe that others will choose them too.20 These beliefs are based not on rational calculations about strategic interests but rather on expectations that are likely to be functions of culture, past practices, existing institutions, organizational routines, and the like. 21 The potential importance of focal points is even greater in the context of incomplete contracting, as David Kreps makes clear:

. . . in many transactions, particularly ongoing ones, contingencies typically arise that were unforeseen at the time of the transaction itself. Many transactions will potentially be too costly to undertake if the participants cannot rely on efficient and equitable adaptation to those unforeseen contingencies. Note that such reliance will necessarily involve blind faith: if we cannot foresee a contingency, we cannot know in advance that we can efficiently and equitably meet it.

When we speak of adaptation to unforeseen contingencies we cannot specify, or even, how those contingencies will be met. We can at best give some sort of principle or rule that has wide (preferably universal) applicability and that is simple enough to be interpreted by all concerned. In the language of game theory, unforeseen contingencies are best met by the sort of principle that underlies what Schelling calls a focal point. 22

If focal points are so important to the resolution of coordination problems, it is important to ask: How do they arise in the first place? As Schelling emphasizes, their value is that they are “conspicuous.” Yet many situations may afford no set of actions that is sufficiently conspicuous to serve as the unique focal point; worse, in many situations there may be a multitude of conflicting solutions.

Consider a simple game of cooperation with both multiple equilibria and distributional asymmetries. This game can be illustrated by a simple permuation of the payoff matrix of Figure 1 which transforms the pure coordination game into a “battle of the sexes.” In Figure 2, players A and B are no longer indifferent about coordinating on the strategy combinations (C1, C1) and (C2, C2): A prefers the former, B favors the latter. These problems multiply as the community expands. In situations of this sort, no decentralized consensus is likely to emerge as to which of the many paths to cooperation should be utilized.

It is in such situations that institutions may play an important role in the coordination of behavior. In the absence of a natural or preexisting focal point, an institution can construct one by devising the required set of specifications (as to the nature of the agreement, and hence as to what constitutes cooperation and defection) and by making

18 Schelling, Strategy of Confict, p. 70.
20 Consider the following permutation of the infamous chicken game. Two joggers are moving toward each other on a narrow path in a dense forest. The path is sufficiently wide for both to pass without contact, but the two joggers approach each other down the middle of the path (perhaps the edges are muddy). They share a common interest in separating, but if both move in the same direction they will run into each other. How will the joggers move along the path? If both joggers are American, they might both move to their right (in accordance with American road rules). If both were British, each might instinctively move left. If one was from each country, the probability of collision would probably increase. Furthermore, even if the two joggers were to discuss their rules for engagement before they set out, national origin might still heavily influence how quickly and easily they could settle on a solution to their mutual problem. Kreps makes a similar point with respect to the reactions of foreign students to experimental games with culturally biased expectations: “Corporate Culture,” p. 121.
21 Of course, it could be argued that the weight of “the past” is determined less by the logic of focal points than by such efficiency considerations as “sunk costs.”
of interest-based approaches. Unlike these critics, however, we do not wish to engage in epistemological debates about the origins of preferences and about structure versus agency. Rather, we simply hope to show that microfoundational and ideational approaches are not mutually irreconcilable and indeed may very fruitfully be integrated.

### Ideas, Interests, and Institutions

The assertion that ideas may play important roles in the generation and perpetuation of cooperation is likely to have raised some skeptical eyebrows among those with realist and rationalist predilections, even if the inability of conventional models to deal with multiple equilibria and incomplete contracting is acknowledged. Two central charges could be made. First, constructed focal points may play important roles in the resolution of multiple equilibria problems when the actors have no preference among the potential outcomes. But when their preferences diverge, the actors’ relative capabilities or “power” will have a great bearing on outcomes. Second, if institutions are given autonomy to overcome incomplete contracting problems by interpreting the spirit of the law, there is nothing to stop them from abusing their positions to further their own ends (hence undermining the cooperative agreement). These are serious challenges that must be confronted. But it should be remembered that we wish to integrate ideas and interests rather than segregate them.

Let us begin by assessing the impact of power on choices between contesting cooperative equilibria with distributional asymmetries (recall Figure 2). There are good reasons to think that power considerations may play an important part in the choice between such equilibria. Put simply, the powerful are more likely to get what they want. There are many potential sources of power, such as formal first-mover advantages, the ability to make credible commitments, strategic

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*Figure 2.* The “battle of the sexes” game nested within the prisoner’s dilemma.

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23 Greif et al., “Coordination, Commitment, and Enforcement.”
issue linkage, the relative opportunity costs of exit, and differences in the time horizons of actors.

It is perfectly possible, however, that the logic of focal points might operate in this case as well as in the pure coordination game analyzed earlier. Indeed, Schelling explicitly asserts that the outcomes of games with asymmetrical consequences “may not be so much ... conspicuously in balance with the estimated bargaining powers (of actors) as just plain ‘conspicuous.’”

How can we evaluate the impact of constructed focal points and relative power on the resolution of such games? Rather than seek to refute the assertion that “power matters,” we suggest that the influence of focal points and shared belief systems is likely to vary significantly with the structure of given strategic interactions. The lesser the distributional asymmetries between contending cooperative equilibria and the smaller the disparities in the power resources of actors, the more important will be ideational factors. Similarly, the effects of focal points will increase with the actors’ uncertainty about the consequences of agreements or about their relative capabilities. Thus both power and ideas can be expected significantly to influence the resolution of multiple-equilibria problems, but the relative explanatory power of each is likely to vary significantly with the context.

The second concern of our rationalist skeptic pertains to potential abuses of power by institutions to which authority is delegated. We argued that institutions that embody the shared beliefs of the participants in a cooperative agreement might apply the spirit of the law to contingencies unanticipated at the formation of the agreement, and that this course would be vital to the stability of cooperative arrangements. But once authority is delegated, how can participants be sure that the institution will act in this manner, rather than abuse its authority? This problem is sufficiently important that if the relevant actors could not be sufficiently confident as to the answer to this question, it is improbable that they would delegate authority to such an institution.

To address this issue, it may be helpful to draw parallels with the recent American public law literature that analyzes the constraints on U.S. courts with high levels of formal independence of the executive.


The openness of the EC economics (exports + imports + GDP) rose from less than 40% in the mid-1960s to over 60% by the early 1980s. Moreover, intra-Community trade...
idence, the efficacy of economic strategies based on the manipulation of the domestic market and protection from external forces was significantly reduced, and all governments were forced to concentrate instead on improving the competitiveness of national goods and services in world markets and on adjusting quickly and efficiently to changing market conditions.33

Developments in the relationships between European nations and the other major players in the international economy, notably Japan and the United States, also generated incentives for regional integration. The European economies had suffered through more than ten years of industrial unrest and stagnation when the world economy began to recover from the second OPEC shock in the winter of 1982–83. The American and Japanese recoveries were swift and strong. But the European economies did not rebound so effectively.34 It came increasingly to be perceived that if European producers were to compete effectively in global markets, something had to be done to redress Europe’s trade imbalances with North America and particularly with Japan and the newly industrialized countries of eastern Asia.

In sum, there were strong functional reasons to expect that the members of the EC might seek to complete their internal market after the mid-1980s. The costs of remaining at the status quo were very high. The potential payoffs of an EC internal market were large, irrespective of whether they were viewed in terms of a “fortress Europe” of new and ingenious forms of neoprotectionism or as accruing from the logic of comparative advantage and economies of scale.

Efficiency-based reasoning also suggests that the creation of an internal market would have entailed significant delegations of authority to supranational institutions. There were, however, numerous potential paths toward cooperation. Without an explicit agreement on the path of cooperation, the nature of defection would have been ambiguous. Moreover, it would have been very difficult to monitor the behavior of all actors in the large and complex European economy even if defection were theoretically clear-cut. Finally, unforeseen contingencies were likely to be endemic.

Arguments showing that some form of institutionalized internal market was likely to emerge in Europe after the mid-1980s, however, cannot shed much light on the question of the specific form the market would assume. Numerous economic principles and supporting institutional infrastructures could, hypothetically, sustain an internal market, with scant grounds for distinguishing between them in terms of efficiency. Economically, an internal market could have been based on pervasive deregulation at the national level, with no concomitant deregulation at the EC level. Alternatively, an array of EC regulations could have been layered on top of existing national regimes. With respect to political institutions, the EC members could have supported the internal market by granting more executive power to the commission, by ceding more authority to the European Parliament, by reforming the Council of Ministers, by creating a more federal Europe (with an authoritative government and judiciary, for example), or some combination of these measures.

The point of these hypothetical scenarios is simply to show that no natural route toward cooperation existed. Thus one had to be constructed. The basic economic principle that emerged for ordering the internal market was mutual recognition: goods and services that may legally be sold in one country should have unrestricted access to other markets.35 The decision by the member governments to choose this principle in the mid-1980s postdated the assertion of the European Court of Justice in Cassis de Dijon (1979) that mutual recognition was already EC law.

This evolution accords with our argument about the need to construct focal points when they do not naturally exist. A large range of methods could have been used to underpin the move toward integration. The court’s decision did not force the members of the EC to adopt mutual recognition. The fact that they did so—in signing the SEA and in endorsing the commission’s White Paper on Completing the Internal Market—suggests that the court’s decision acted as a focal point around which EC members could coordinate their bargaining.36

It would be interesting to speculate as to what might have happened in the absence of the Cassis decision. Without such a focal point, the process of negotiation might have been more drawn out but still would

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33 As a portion of the total trade of EC members also grew in the same period from under one-half to over two-thirds. For a more detailed analysis see Per Manus Wijkman, “Patterns and Production of Trade,” in The Dynamics of European Integration, ed. William Wallace (New York: Free Press, 1990).
35 U.S. growth in 1984 was 6.3%, compared with −2.5% in 1982, whereas growth rates by 1984. More important from a political standpoint, the disparity in unemployment for the EC had changed from significant negative figures in the early 1980s only to 2.4% performance was even larger. The U.S. jobs declined from its zenith of 9.5% in 1982 to 7.1% in 1985, while EC unemployment continued to over 10% by 1985.
36 Health and safety and environmental considerations override this principle.
ultimately have arrived at the same outcome. But a stronger “ideas matter” argument can be made. What would have happened if members of the EC had in fact not approved mutual recognition and wished instead for a more highly regulated internal market, contra Cassis de Dijon? To have created such a market would have entailed repudiating both the authority of the court and, more significant, the document on which the EC was founded, the Treaty of Rome (1958), since the court asserted that the treaty’s declared objective of the “removal of all barriers to movement” necessarily implied mutual recognition. It is always extremely difficult to obtain the necessary unanimity for treaty revisions. It would have been even harder to do so if the revisions entailed rejection of the spirit of the Treaty of Rome and the letter of EC law. It was far more likely that any revisions would have been coordinated around the focal point of mutual recognition. The force of ECJ decisions is thus not necessarily limited to their legal standing. As Schelling observed more generally: “Precedent seems to exercise an influence that greatly exceeds its logical importance or legal force.... Sometimes, to be sure, there is a reason for a measure of uniformity in bargaining when it takes place in the shadow of some dramatic and conspicuous precedent.”

Lest we present a one-sided interpretation of the internal market, it is important to note at this point that mutual recognition was the preferred economic principle of the most powerful political and economic actors in Europe. The stances of the “big three” countries in the EC—Britain, France, and Germany—toward trade liberalization converged markedly in the early 1980s. Thatcher obviously supported mutual recognition in virtue of its laissez-faire connotations. The German center-right coalition also favored it because its highly competitive firms could only gain by greater freedom of access to foreign markets. The failure of François Mitterrand’s “Keynesianism in one country” experiment led him to assume a much more liberal internationalist stance from 1983 on. Furthermore, all large European companies became ever more frustrated by the barriers to their carrying on of business beyond national borders. In addition to pressuring their governments, big business lobbied the Brussels establishment directly as to the virtues of laissez-faire, and the commission was very receptive to these suggestions.

The concerns of the big three governments may also explain the primary political reform of the Single European Act—the introduction of qualified majority voting in the Council of Ministers with respect to most matters pertaining to the internal market. Historically, it had proved very difficult for the supporters of market liberalization to push measures through the council under the prevailing unanimity rule. When the big countries came to agree on the merits of liberalization, numerous initiatives were blocked by the social democratic governments of southern Europe, especially Greece. Indeed, even though Thatcher vehemently opposed circumscribing national sovereignty (as exemplified by her Bruges speech in 1988), she was prepared to support the introduction of qualified majority voting on internal market matters (so long as areas such as the social dimension were excluded). The qualified majority system significantly reduced the ability of the smaller EC members to block liberalization measures, so that Britain, France, and Germany (and their allies in the Low Countries) would often be able to push through measures.

In sum, then, (1) to say that the internal market was warranted on efficiency grounds is to take only the first step toward understanding European cooperation. To stop there is to neglect the central political questions about the precise form of European integration and the distributions of the costs and benefits. (2) Ideas—manifest in the ECJ’s mutual recognition decision—and the interests of the powerful European actors were consistent with the process that culminated in the ratification in 1987 of the Single European Act. It is thus difficult to disentangle the independent effects of these two factors.

A more clearly articulated distinction between the roles of ideas and interests can be drawn with respect to the institutional mechanisms for translating the intent of the SEA into the day-to-day operation of the internal market—the EC’s legal system.

The Court of Justice, European Law, and Implementing the Internal Market

The basic political mechanism for moving from the general objectives of the SEA to a detailed internal market can be stated briefly. The

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41 It should be noted here that the German government was the loser in Cassis. Opposition to specific court decisions, however, by no means negates the more general assertion that the German government was a strong proponent of mutual recognition.
43 Moravcsik, “Negotiating the Single European Act.”
The Council of Ministers may vote by qualified majority on whether to implement these proposals. Most decisions duly passed by the council have the status of "directives." Directives formulate guidelines for action, to be translated into domestic legislation by national governments. Once a directive becomes part of national law, it may be enforced conventionally (and hence be supported by all the sanctions available to domestic courts). If this procedure is followed—as it has been in many instances—there is no puzzle to adherence to internal market rules: they simply become part of national law.

Internal market rules, however, can be implemented in many other ways. In each the European Court of Justice plays a powerful role. Figure 3 depicts this more complex array of implementation mechanisms. To explore the intricacies of these implementation paths, it is helpful to investigate the options available to a private party that believes it has suffered from the transgression of an internal market rule (by an individual, a firm, or a national government).

As we mentioned earlier, the SEA envisaged that the council would pass a directive relevant to the grievance, that this directive would be legislated into national law, and hence that the aggrieved party could bring suit in a national court. But this sequence (the upper left corner of Figure 3) represents only a small part of the implementation game tree. All decisions are subject, through one mechanism or another, to review by the European Court.

``In keeping with the spirit of Cassis, the white paper comprised what was considered to be the minimum set of issues that needed to be harmonized to achieve a functioning single market without internal barriers. Thus the bulk of the white paper's proposals concern technical standards and health and safety provisions. The passage of internal market directives requires the participation of both the commission (which alone has the right to make proposals) and the European Parliament-making institution in the EC. For detailed analyses of the interactions of the commission, which has limited veto rights, and the European Parliament, see Garrett, "International Cooperation and Institutional Choice," and George Tsebelis, "The Power of the European Parliament as a Conditional Agenda Setter," papers presented at the Annual Meeting of the American Political Science Association, 1992.

By the middle of 1992, over three-quarters of these directives had been approved by the Council of Ministers.

The United Kingdom and Denmark have the best records for legislation implementing internal market directives. The southern European states have tended to be laggards. This pattern is a result of the fact that most directives that thus far have been passed by the council of Ministers have dealt with the elimination of barriers to free movement of goods and services rather than the creation of a more interventionist Internal market.


Individuals cannot petition the ECJ directly. The Treaty of Rome reserves this right for member states (art. 70) and the commission (art. 163). Thus, to delineate the full scope of the EC legal structure, it is better to begin with cases in national courts.
case has two basic options. It may simply apply what it believes to be EC law (the doctrine of "direct effect") or it may ask the European Court of Justice for a preliminary ruling as to the status of EC law with respect to the case at hand (pursuant to section 177 of the Treaty of Rome). If by either of these procedures the national court rules in favor of the plaintiff, EC law will effectively have dominated both the will of the national government and existing national law. This is the so-called supremacy of EC law. The aggrieved party that does not receive a favorable ruling in the national court may request that the EC Commission petition the ECJ directly. At this point, the court will make an explicit determination about the nature of EC law.

This system has been quite effective. Indeed, in numerous instances European law has constrained the behavior of members even in areas that impinge directly on the traditional authority of national governments. Two types of cases should be highlighted: those in which the legal system has upheld directives passed by the council against the opposition of national governments; and those in which domestic courts (and ultimately the ECJ) have gone even further to enforce as EC law measures that have not been approved by the council (as envisaged by the SEA).

First, in numerous cases domestic judges and the European Court have upheld directives against the wishes of national governments. The case of public procurement provides an interesting example. Preferential procurement decisions have long been important instruments of protection in the EC, allowing governments to favor domestic contractors in the granting of public contracts. In 1989–1990 the EC passed a series of directives severely limiting the scope for such preferential treatment. In light of these directives, some governments have chosen to open up public tenders to foreign firms. In 1990, for instance, a German company won the contract to build the Marseilles metro and an Italian corporation was awarded the tender to construct a road bypass around Lyon.

Furthermore, in one important instance a direct threat to bring an action before the Court of Justice led a government to alter its behavior significantly with respect to the awarding of a large public contract. After receiving numerous bids from firms in many countries, the Danish government decided in 1989 to give the contract for the building of the Great Belt Eastern Bridge, between Denmark and Sweden, to a domestic contractor. A British-French consortium believed that its tender was more competitive, and took its complaint to the EC Commis-

In 1990, after an Italian subsidiary of Du Pont had appealed to the commission, the ECJ ruled that an Italian law requiring 35% of contracts to be awarded to firms based in southern Italy violated the public procurement directive. The response of the Italian government to the ruling is not yet clear. If the government modifies the law, however, this case would represent an even greater encroachment of EC law on national polities.  

51 Stein, "Lawyers, Judges."
cannot enforce such decisions directly. The commission may fine firms that breach EC law, but not governments.

Thus the keys to the effectiveness of the EC’s legal system are the doctrine of direct effect and the willingness of national courts to refer cases to the ECJ for preliminary judgment. The vast majority of cases determined by EC law are decided either in national courts (applying existing EC law) or through preliminary judgments of the ECJ. In either case, the great force of European Court decisions is commensurate with its formal attributes.

The decisions of the ECJ have had an enormous impact on the evolution of this “constitutional” system. The mandate for the ECJ emanating from the Treaty of Rome is to enforce the provisions of the treaty, all decisions made in accordance with it (by the council and commission), and any subsequent revisions of the treaty (such as the SEA). The Treaty of Rome did not make clear, however, the status of EC law vis-à-vis national laws. So long as the domain of EC law was limited to cases brought before the Court of Justice, it was likely that national governments would view court decisions as conventional treaty obligations to be determined as they saw fit.

This situation was transformed in the path-breaking *Van Gend* case (1963). The Court of Justice ruled that to protect the rights of individuals and other private actors with respect to the Treaty of Rome, the treaty must have “direct effect” in national courts (recall that individuals do not have recourse to the ECJ). Then in *Costa v. ENEL* (1964) the court extended the principle of direct effect to the “supremacy” of EC law over national laws (irrespective of when the national law was written). Finally, in *Van Duyn* (1974) the court ruled that even directives that had not been legislated into national law became EC law as soon as they were passed by the Council of Ministers. Of course, in virtue of the two earlier cases, the court is not limited to making decisions on the basis of directives, but rather may rule that the Treaty of Rome or the SEA mandates or prescribes certain behavior even if the council has not yet passed an appropriate directive. This is precisely the thrust of the court’s ruling in *Cassis de Dijen*.

But this situation creates a puzzle: The mere assertion by the Court of Justice of the direct effect and supremacy of its rulings on EC law cannot explain the effectiveness of the European legal system. The critical question is why the sovereign nations of the EC—and particularly national governments and judiciaries—have acquiesced in the ECJ’s extraordinary restructuring of the legal system. Eric Stein contends that the ECJ was able to increase its power simply because of a lack of interest on the part of national governments.56 Lack of interest may have been part of the explanation before the signing of the SEA, but it seems far less plausible in the context of the completion of the internal market. The whole purpose of the introduction of qualified majority voting in the council was to expand the scope of the internal market. Expansion of the internal market would necessarily entail a concomitant expansion in the scope of the ECJ’s power.

Why, then, did the members of the EC not circumscribe the role of the court in the SEA? The logic of constructed focal points provides a simple and powerful answer. Reform of the Treaty of Rome is always very difficult because of the requirement of unanimity. Given the preexistence of a stable legal system, it could be considered unlikely that all the member states would have been able to agree on some alternative arrangement (especially when there was no obvious option).

It should also be pointed out, however, that the EC legal system was actually—and seemingly paradoxically, given its consequences for national sovereignty—consistent with the interests of member governments in liberalizing trade in the EC. In order to make this argument, one must view the delegation of authority to the ECJ in terms of the monitoring and incomplete contracting problems confronting EC members.

**Monitoring, Incomplete Contracting, and the Role of the European Court**

Recall that a central objective of actors wishing to engage in stable cooperation in complex environments is the construction of institutions that monitor the behavior of participants, identify transgressions, and apply the general rules of the game to myriad unanticipated contingencies. Now consider the hypothetical case of the EC’s internal market without an effective legal branch: members agreed to the general principle of the market (mutual recognition), to qualified majority decision making in the council, and to the implementation of these rules by the commission.

We expect that compliance with such rules would not be high because it would be relatively easy for disaffected parties to ignore internal market principles when there are ambiguities with respect to compliance—either in what constituted defection or in the monitoring of

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56 Ibid.
behavior.\(^{39}\) Even though the commission’s staff has grown rapidly since the mid-1980s, it is still far too small to scrutinize all economic transactions within the EC effectively. The creation of a legal system in which it is in the interests of a party that believes it has not been treated in accordance with an internal market directive to seek recourse to the courts is an effective means for dealing with this problem.

In the EC legal system, monitoring is not only decentralized but also highly efficient. To see its efficiency, let us explore how this institution inhibits potential defection by an individual government. At the apex of the system, the ECJ has no formal sanctions over national governments that ignore its decisions. Nonetheless, the existence of the EC legal system has dramatically changed the nature and consequences of violations of the mutual recognition principle. Without this legal system, it would be difficult for governments to observe defections and to evaluate their significance. Moreover, even if all governments could independently come to their own judgments on these matters, nothing ensures that they would arrive at the same decisions. Given these expectations, the incentives for any government to flout internal market rules would be substantial.

The EC legal system dramatically transforms the problem. First, it implies that if a government defects, it must do so in a very public way, much like the basketball player who must raise a hand after committing a foul. Other governments no longer need to uncover potential violations, or investigate their importance, or determine whether a particular action constitutes a transgression. Instead, they need only observe the pronouncements of the courts. The ability of aggrieved individuals to bring such behavior to the attention of the courts—and of the courts to paint scarlet letters on offenders—greatly reduces the incentives for such behavior. The loss of incentive in turn facilitates the logic of retaliation and reputation in iterated games. So long as EC members value effective participation in the internal market more highly than they do the benefits of defecting from rules that affect them adversely, it is unlikely that governments will jeopardize their positions through flagrant violations of commonly agreed rules.\(^{35}\) It should be noted,

However, that this system is far from perfect. As is well known, there still are instances in which member governments can evade court rulings—by appealing, for instance, to environmental or health and safety concerns to justify protectionist practices.\(^{36}\) Indeed, Martin Shapiro has argued that the existence of such loopholes most likely represents a lack of consensus between members on how far the free market principle should be pushed.\(^{37}\)

At this point it should also be emphasized that the combination of the Treaty of Rome, the SEA, and even the directives pertaining to the internal market do not constitute a complete contract by the EC members. The treaties only propose general guidelines for the form the completed internal market should assume. Directives are not detailed provisions that are intended to be applied directly and literally. Indeed, it is inconceivable that the members of the EC could have sought to write an exhaustive set of rules to govern the internal market. Rather, they knew that if they were to forge a cooperative agreement with any chance of longevity, they would have to do so on the basis of an incomplete contract, delegating to another institution the application of its general intent to specific cases. This is precisely the role played by the ECJ in the internal market: to uphold and interpret the doctrine of mutual recognition in all disputes that arise.

### The ECJ and Political Accountability

The last point about incomplete contracts and the delegation of authority to the ECJ brings to center stage an issue that we have thus far addressed only in passing. If this significant delegation of authority is to be in the interests of the EC’s members, the court must faithfully implement the spirit of the internal market rules to which they agreed. Given that members have not objected to the extension of the power of the EC legal system, they must be confident that the court does apply the principle of mutual recognition. Many observers have asserted that there is no basis for this confidence. According to this view, the court not only acts without close surveillance but does so in

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\(^{39}\) Roger G. Noll, “The Economics and Politics of Deregulation,” Jean Monet Chair Papers, the European Policy Unit at the European University Institute, Badia Fiesolana, Italy, 1992.

\(^{35}\) Of course, some matters are of such vital concern to member governments that the sanctions of retaliation and lost reputations will be insufficient to dissuade them from violating internal market rules. Many of these matters were anticipated in the SEA (the areas not subject to qualified majority voting). Furthermore, it is well understood that some governments on occasion simply will not be able to abide by internal market rules, and in such cases others are unlikely to punish such behavior. In these senses, the system for implementing the internal market is made even stronger by its recognition of cases in which adherence is simply out of the question.

\(^{36}\) Noll, “Economics and Politics of Deregulation.”

\(^{37}\) Martin Shapiro, “European Court of Justice” (manuscript, University of California at Berkeley, 1991).
a manner that furthers its own preferences rather than those of the member states. We believe that this conclusion is warranted.

Our logic is based on the new approach to studying the courts and especially the interaction of the courts and political officials. This approach, known as positive political theory (PPT), has been applied with considerable effect to critical issues in American public law. The arguments can readily be extended to the EC legal system.

We begin with the observation that courts in general wish to maintain their authority, legitimacy, and independence. To do so, they must strive to act in ways that elected officials do not frequently reject. Courts whose rulings are consistently overturned typically find themselves and their role in the political system weakened. As a consequence, the actions of courts are fundamentally “political” in that they must anticipate the possible reactions of other political actors in order to avoid their intervention.

The main implication of the observation is this: Embedding a legal system in a broader political structure places direct constraints on the discretion of a court, even one with as much constitutional independence as the United States Supreme Court. This conclusion holds even if the constitution makes no explicit provision for altering a court’s role. The reason is that political actors have a range of avenues through which they may alter or limit the role of the courts. Sometimes such changes require amendment of the constitution, but usually the appropriate alterations may be accomplished more directly through statute, as by alteration of the court’s jurisdiction in a way that makes it clear that continued undesired behavior will result in more radical changes.

It should be remembered that courts are made up of individual justices whose tenures are shorter than those of their institutions. The reasons why individual judges are interested in maintaining the reputation of their institutions can be derived from intergenerational models in which the tenures of judges overlap. Equilibria may evolve in such a way that the authority of older judges is supported by younger ones in exchange for the older judges’ forbearance to make decisions that will undermine the authority of the court as a whole.

This is not to say that courts are without some latitude. Indeed, one of the main objectives of PPT is to show the conditions under which the scope for autonomous behavior by judges is large and when it is small. Judges virtually always have some latitude. But a set of decisions that would provoke an explicit reaction against the court is equally possible. The principal conclusion of PPT is that the possibility of such a reaction drives a court that wishes to preserve its independence and legitimacy to remain in the area of acceptable latitude. While this proposition implies that the courts retain a degree of discretion, it also implies that their decisions are in no sense unconstrained.

The autonomy of the ECJ is clearly less entrenched than that of the Supreme Court of the United States. Its position is not explicitly supported by a constitution. One of the thirteen justices of the European Court is selected by each of the twelve member states, and their terms are renewable every six years. Many are likely to seek government employment in their home countries after they leave the ECJ. Moreover, there is no guarantee that the trend to ever greater European integration—legal or otherwise—will continue. At any moment, the opposition of a few states would be enough to derail the whole process.

This observation suggests that the European Court should be at least as sensitive as the Supreme Court to the preferences of other important political actors, and would choose not to act in ways that they would disapprove. The justices of the European Court have an interest in furthering their powers to interpret and to extend the rules of the internal market (and European law more generally). This constraint is at least as powerful for domestic judges as it is for those sitting on the ECJ bench. By following the doctrine of direct effect and by referring cases to the ECJ for preliminary rulings, judges in domestic courts can significantly increase their authority vis-à-vis their national governments. But they cannot push this activism too far; lest they provoke a backlash by their governments.

The court knows that decisions against individual states are liable not to be followed by disaffected governments if they deem the court’s rulings to violate fundamental national interests. The opprobrium of individual states, however, would be ineffective if the vast majority of members favored the court’s decision (given the logic of the preceding section). A more serious threat to the ECJ’s authority would arise if it were to incite a qualified majority in the Council of Ministers to write detailed directives that would more tightly circumscribe the court’s
autonomy, despite the efficiency costs in doing so. The ultimate threat
against the EC legal system is a revision of its treaty base. If the justices
were to act far enough outside the range of outcomes acceptable to all
members, the member states could act fundamentally to circumscribe
their powers through further amendments to the Treaty of Rome—
limiting, for instance, the extent of direct effect, or the areas in which
EC law has supremacy over domestic law.

In sum, the broader institutional structure of the EC creates strong
constraints against the court's willingness to act in ways that most mem-
bers would deem unfair. Although the European Court of Justice can,
in theory, rule a directive to be "unconstitutional," as a practical matter
it will do so only when that ruling has widespread community support.
To ignore this constraint would be to invite an explicit reaction that
would overturn a court decision (by a directive, for instance) or worse,
directly alter the scope of the court's autonomy, authority, or jurisdic-
tion. Given these implied institutional constraints, the ability of the
European Court to interpret broad directives facilitates the application
of the internal market to situations not envisaged by the council mem-
bers when they made their decisions.

Our argument about the EC legal system can be distilled to three
points. First, the system works because the courts and the member
states share a common framework about how the "internal market"
should be applied in specific cases. With the principle of mutual recog-
nition acting as a focal point, the European Court attempts faithfully
to apply this basic principle to the wide array of cases it confronts.
Second, the force of its rulings depends on acceptance by the member
states of the changes in the European market that the legal system ef-
fcts.

Our final point concerns the observation commonly made by legal
scholars that the ECJ has the last word in the operation of the internal
market. But as we have suggested, this assertion ignores a fundamental
and ongoing interaction between the court and relevant political actors.
Because a judicial decision may provoke a political reaction, the court
does not have the final say. The fact that a court's decisions are neither
overturned nor the subject of considerable controversy does not dem-
onstrate that it exercises real discretion. The opposite conclusion is also
consistent with the same observation. A court that can take decisions
that will provoke an adverse political reaction may prevent those reac-

63 Barry R. Weingast and Mark J. Moran, "Bureaucratic Discretion or Congressional
765-800.

TOWARD A THEORY OF THE ROLE OF IDEAS

The arguments we have presented have implications for a theory of
the role of ideas in politics. Much of the literature on ideas is subject
to two basic criticisms. First, ideas are a dime a dozen. For every idea
that appears to play a major role in politics, tens of thousands play no
role at all. Rarely do scholars explain why the idea they study had an
impact when so many others did not. Second, too often an argument
about the role of ideas amounts to an assertion that an idea mattered
without a persuasive explanation for why or how it had influence. Such
assertions often are entirely plausible. The problem is that invariably
the events in question can be explained in numerous other ways that
assign the ideas an ancillary role; that is, the ideas are epiphenomenal
and some other variables—such as material interests—ultimately bear
the causal weight.

Arguments about material interests should constitute the null hy-
pothesis in research into the role of ideas. Yet few scholars who argue
for the role of ideas provide persuasive evidence against the null hy-
pothesis, thus simply leaving us with plausible but unsubstantiated
assertions that the null hypothesis can be rejected.

A theory of the role of ideas must therefore go beyond the mere
assertion that ideas matter. It must explain why one particular idea
mattered, why it made a difference (that is, merits the status of inde-
pendent causal variable). This is precisely what we have sought to
achieve here. We argue that the impact of ideas with respect to coopera-
tion between players—in this case the members of the EC, but they
could equally well be any group engaged in a collective endeavor—is a
function of three interrelated phenomena: (1) the gains to be expected
from cooperation among a relevant set of players; (2) an idea that
expresses these gains from cooperation; and (3) a mechanism devised
to translate the idea into a shared belief system so as to affect expecta-
tions, and hence behavior. The mechanism may be thought of as an
"institution" comprising elements both formal (organizational) and in-

formal (shared understanding about and expectations of “fair” behavior).

Each of the three components must be taken into account if the role of ideas is to be understood. The first consists of the parties’ motivations to cooperate. The second associates the reasons for collective action with an idea. The third factor—the mechanism for translating the idea of collective action into reality—is clearly the most important. It helps explain why the idea—as implemented via a social mechanism—was necessary to capture the gains from cooperation.

The key to the success of an idea is that it be capable of being transmitted through a mechanism in a way that affects behavior in a desirable way from the standpoint of the members of a community. Our argument shows why, without the idea and its embodiment in a mechanism that changes or establishes a set of shared expectations about behavior, outcomes would be different from those we observe.

Ideas are important because they communicate the potential gains that may accrue from exchange, especially in situations in which some change in behavior must occur before these gains can be captured. Yet ideas are not self-implementing, because there are myriad ways to generate the associated gains. We have argued that decentralized attempts to cooperate by a community of agents are unlikely to succeed in these contexts. There is typically no unique path to cooperation; and for this reason and because of unanticipated events, what constitutes defection from a cooperative arrangement is unavoidably ambiguous.

In our approach, cooperation is facilitated by institutions that mitigate the problem of ambiguity in a variety of ways: by constructing a focal solution; by making declarations or judgments about what occurred in the past (on the occasion of an alleged defection, for example); and by determining what should occur from now on in the face of an unanticipated event. When such declarations are transparent, they potentially resolve problems of ambiguity.

But such mechanisms constitute only a necessary part of the solution, for the newly created role specialists must also be given the incentives to use their authority to benefit the community. Ideas here play a key role. In order to succeed, institutions must embody and perpetuate a normative system that translates the general idea for capturing the gains from cooperation into specific expectations and behaviors that make it possible to capture them. It is a normative system because it requires the institution to define what constitutes cooperation and defection, and hence good and bad behavior.

The necessity to create a successful normative system, in turn, places strong and direct bounds on the decisions and constructions issued by the institution. In the context of a set of actors voluntarily participating in an attempt to cooperate, the system must not only capture the potential gains from cooperation but distribute them in a manner that makes all better off. Otherwise, participation would fall off and the attempt would fail.

In the context of European integration, scholars have long trumpeted the importance of ideas. Most generally, the idea of a “united Europe” has for several decades animated a host of actors and focused attention on the possibility of a radical political and social organization for Europe. Our focus is not on the general process of this larger role of ideas but on the next step: how a specific idea or set of ideas translates into action. In the case of the EC, we must move beyond the notion of a united Europe to a set of institutions that have a hope of implementing the idea. In the absence of such institutions, the general inspiration underlying the idea must fail.

This problem is especially important for Europe because none of the EC institutions possesses clear sovereign authority. Participating nations remain free, in principle, to reject the system. If a sufficient portion of the participants disapproved of the set of policies and decisions, they would either reject or reconstitute the EC. This possibility in turn provides the principal incentive for the organs of the EC to create a normative system that serves the interests of the participants. Failure to do so risks the success of the entire enterprise.

In our model, ideas are important because they play a role in coordinating the expectations that are necessary to sustain cooperation among a set of players with divergent preferences. The idea must therefore squarely match its environment so that it facilitates the interaction of players to allow them to realize collective goals. Hence it is likely that the “right” idea will emerge only rarely, but that when it does, it will prove to be the catalyst that transforms politics. In this context idea and interests are intimately related; we must understand both if we are to understand how a set of individuals can overcome the impediments to cooperation.

In sum, our methodology has been to show that the null hypothesis—that the emergence and maintenance of cooperation can be explained purely in terms of self-interested behavior and the role of formal organizations—is inadequate in the case of the European internal market. We have done so by taking such arguments very seriously. Hence we
have established scientific credibility for the assertion that "something else" must be added to the explanation. In turn, we have developed a model for the role of ideas that delineates precisely how shared beliefs facilitate the effective operation of the internal market. In so doing, we hope we have addressed the two challenges that habitually are made against ideational arguments.

CHAPTER EIGHT

Structure and Ideology: Change in Parliament in Early Stuart England

JOHN FEREJOHN

Institutions are limited in the kinds of things they can do. Parliaments, as "representative" institutions having relatively little control over their memberships, generally find it difficult to organize themselves to participate actively in government. The relative equality of members makes difficult the development of internal mechanisms of coordination and control that would permit a collective body to take rapid and effective action. Not surprisingly, such institutions find it easier to specialize in legislative or deliberative activities than in administrative or governing ones. This specialization, however natural, is a matter of degree, and legislatures have played a greater governmental role in some circumstances than in others.

Historians have sometimes argued, indeed, that there is an inexorable trend in this direction: that we should see in parliamentary history a series of generally successful attempts to grasp "the initiative" from nonelective institutions.1 This view—that the democratic impulse is immanent in human history—is no longer so popular among historians as it once was, both because of the implausibility of linear theories of history in light of modern events and because of some critical failures

1These ideas were ubiquitous among English historians of earlier generations, including Wallace Nonesstein, The Winning of the Initiative by the House of Commons (1924), and S. R. Gardiner, History of England from the Accession of James I to the Outbreak of the Civil War, 10 vols. (1889–1894).
Do people's beliefs help to explain foreign policy decisions, or is political activity better understood as the self-interested behavior of key actors? The collaborative effort of a group of distinguished scholars, this volume breaks new ground in demonstrating how ideas can shape policy, even when actors are motivated by rational self-interest.

After an introduction outlining a new framework for approaching the role of ideas in foreign policy making, well-crafted case studies test the approach. Taken together, the essays establish that worldviews, principled beliefs, and causal beliefs help agents to resolve uncertainty and to coordinate their behavior. And, once institutionalized, these ideas continue to guide action. The function of ideas as "road maps" that reduce uncertainty is examined in chapters on human rights, decolonization, the creation of socialist economies in China and Eastern Europe, and the postwar Anglo-American economic settlement. Discussions of parliamentary ideas in seventeenth-century England and of the Single European Act illustrate the role of ideas in resolving problems of coordination. The process by which ideas are institutionalized is further explored in chapters on the Peace of Westphalia and on German and Japanese efforts to cope with contemporary terrorism.

*Ideas and Foreign Policy* sets a new agenda for studying the role of beliefs in the business of government. It will be essential reading for political scientists, political economists, sociologists, and historians of international relations.

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