When Do Supranational Actors Intervene?
The European Commission and the Rules Governing Finance

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Abstract

I investigate a 1994 European Commission intervention that led to the adoption of new rules governing the allocation of financial resources in western Europe. These rules are embodied in new stock markets, modeled on the US-based Nasdaq Stock Market and designed to supply relatively inexpensive capital for young, entrepreneurial firms. I seek an explanation for a ten-year pattern in which commission officials, despite considering interventions throughout the 1980s, only intervened in 1994. The empirical evidence shows that leading explanations from rational institutionalism, by emphasizing formal relations between the commission and member state governments, identify an important set of enabling and constraining conditions. They do not, however, capture the primary causal process responsible for variation in commission activism in financial services during this period. I argue the causes instead lie primarily in the inner workings of the European Commission – the internal structure of subdivisions with different subcultures, its interactions with a multidimensional external environment, and an ability, under the right conditions, to reshape the world in which it operates. The decisions by commission officials to intervene and the timing and effectiveness of the interventions depended on conditions largely of their making. While rational institutionalist approaches explain the autonomy of supranational institutions in terms of delegated functions, formal rules and control regimes, I shift the focus onto the actor itself, its inner structure and workings, and its interpretations and creative manipulation of its social and political world.

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We at the Commission, and particularly in Directorate General XXIII, the enterprise policy DG which I head, are very happy to see EASDAQ being launched, because it will fill a very real gap in the financing of European Small and Medium-sized Enterprises, or SMEs. It represents one of the fruits of the Commission's policy in this area, and I hope you will forgive me a small touch of pride when I say that had it not been for the Commission's original initiative, we might not all be here today. The proposal would have got off the ground, because it satisfies a market need, but much much later, and with greater uncertainty (von Moltke 1996).

Heinrich von Moltke, Director General, DGXXIII, in a speech at an EASDAQ conference in June 1996.

I. **Introduction**:

In this paper I investigate a European Commission intervention that led to the adoption of new rules governing the allocation of financial resources in western Europe.[1] These rules are embodied in new stock markets, modeled on the US-based Nasdaq Stock Market and designed to supply relatively inexpensive capital for young, entrepreneurial firms. (See Appendix 1 for the list of new stock markets.) I seek an explanation for a ten-year pattern in which commission officials, despite considering interventions throughout the 1980s, only intervened in 1994. Through an open-controlled comparative analysis, I test hypotheses developed by Europeanists to explain variation in autonomy of supranational institutions. The empirical evidence shows that leading explanations from

[1] I thank Maryam Zarnegar Deloffre for her assistance in carrying out the research for this paper and the Institute for European, Russian and Eurasian Studies at the George Washington University's Elliott School for International Affairs for its generous research support.

rational institutionalism, by emphasizing formal relations between the commission and member state governments, identify an important set of enabling and constraining conditions. They do not, however, capture the primary causal process responsible for variation in commission activism in financial services during this period.

I argue the causes instead lie primarily in the inner workings of the European Commission – the internal structure of subdivisions with different subcultures, their interactions with a multidimensional external environment, and the ability, under the right conditions, to reshape the world in which they operate. Incrementally, over the course of a decade, a subdivision within the commission developed an interpretation of Europe's economic and social problems and how to solve them. The decisions by commission officials to intervene and the timing and effectiveness of the interventions depended on conditions largely created by those officials themselves. They created new "independent" political actors, fostered a political discourse that connected Europe's problems to their preferred solutions and provided a new constructed focal point for the rules governing entrepreneurial finance. While rational institutionalist approaches explain the autonomy of supranational institutions in terms of delegated functions, formal rules and control regimes, I shift the focus onto the actor itself, its inner structure and workings, and its interpretations and creative manipulation of its social and political world. Drawing from sociological theories of organizations, I suggest in the conclusion that the pattern of European Commission activism is consistent in several respects with how we might expect bureaucracies to behave in general.

A European Commission Intervention

A 1994 European Commission intervention sparked a burst of institutional innovation in west European finance. In giving indispensable support for the creation of EASDAQ, a pan-European stock market deliberately modeled on the Nasdaq Stock Market in the US, the commission set off a chain reaction that changed the rules governing which types of companies could have access to relatively cheap financing through capital markets. The key innovation was the adoption of the principle that companies willing to reveal high levels of financial information could raise capital by selling shares to the public through an established exchange. The Nasdaq rules, since their 1971 debut in the US, have permitted untested entrepreneurial companies, especially in high-technology sectors, to raise relatively inexpensive capital. In Europe, by contrast, stock exchange rules had largely limited this financing option to large, established firms – an arrangement many have held as a competitive disadvantage, a source of Europe's relatively lackluster entrepreneurial activity, sluggish competitiveness in cutting-edge technologies and high levels of unemployment.

National stock exchanges in Europe and their respective governments have long believed there existed a smaller company financing problem. But they had opposed and blocked the introduction of the Nasdaq form, fearing it would favor American financial services firms with expertise in entrepreneurial finance, and instead had experimented with smaller company stock markets with alternative sets of rules that would not challenge protected national financial services industries. In Appendix 2, I illustrate the pattern. Before 1994, the national exchanges created marketplaces based on protectionist forms. Once the European Commission intervened, all of the major stock exchanges raced to create a national Nasdaq copy of their own. Unwilling to watch a new entrepreneurial financial sector migrate to EASDAQ, the established exchanges, with support from their respective governments, engaged in a fierce competition over who would supply the future Nasdaq for Europe.

By 2002, the exchanges created twelve new national and transnational Nasdaq copies. Some of the individual new marketplaces have not survived. But the new rules providing access for entrepreneurial companies to capital markets have.[2] A large body of social science literature highlights the political and social importance of changes in the rules governing the distribution of capital. Political scientists have established associations between the way societies organize the allocation of finance, on the one hand, and economic performance and a government's ability to carry out an effective industrial policy and economic performance, on the other (Gerschenkron 1962; Zysman 1983). Students of comparative politics, in particular, have identified national financial systems as one of the core sets of microinstitutions that distinguish one variety of capitalism from another (Coleman 1996; Deeg and Perez 2000; Vogel 1996) (add Verdier).[3] IPE and IR scholars, moreover, include the presence of deep and liquid financial markets as an advantage in the competition among states and one of three or four key indicators of relative power (Strange 1995). Scholars often list financial services among the strategic sectors governments seek to promote for reasons of international competitiveness (Lutz 1998; Moran 1991). Finally, social scientists across several disciplines have debated fiercely the role of venture capital, including the

[2] In Germany, for instance, the Deutsche Boerse has announced the strengthening of the new rules regime – making the rules even more like those of the Nasdaq – in its replacement for the Neuer Markt. (Put in FT article.)

existence of the Nasdaq, in the success of Silicon Valley and the potential for its imitators across the globe.[4]

Less than a decade after their introduction, the Nasdaq copies have given rise to several discernable trends over the course of the recent economic cycle.[5] These include an unprecedented inflow of venture capital into Europe,[6] the availability in the boom years of abundant and cheap capital for entrepreneurial companies,[7] the exposure to European households of new risks and losses,[8] and an additional impetus to the formation of new interests and political coalitions, such as groups interested in reforming shareholder rights, company and labor laws and pension systems.

My Study and Findings

My earlier research established the European Commission's central and autonomous causal role in the creation of the European Nasdaq copies and thereby in the adoption of new rules governing company access to financial markets. I have also investigated why the commission's 1994 intervention proved so influential.[9] In this

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[3] While many have pointed to the differences between credit-based and market-based financial systems, I am not aware of other studies that recognize the distributional effects of different rules among stock markets.

[4] (Put in citations for AnnaLee Saxenian and Scott Wallsten's work.)

[5] I elaborate on these trends in Chapter 1 of my dissertation (Posner 2002).

[6] European venture capital statistics are produced and published by the European Venture Capital Association in annual reports. For evaluations of the statistics see (Posner 2000)and (Bottazzi and Da Rin 2002b).

[7] See Chapter 1 of my dissertation, (Posner 2002), and (Bottazzi and Da Rin 2002a).

[8] In both Germany and France, households have been among the biggest losers in the recent market downturn (Posner 2002).

[9] Steven Weber and I first investigated the causes of EASDAQ's origins. After evaluating several globalization hypotheses for institutional isomorphism, we concluded that the evidence strongly pointed to European Union political processes and, in particular, the role of the European Commission (Weber and Posner 2000). I later explored the creation of the 12 national Nasdaq copies in my dissertation. The empirical evidence only mildly supported hypotheses featuring both international and national sources of financial change. Instead, the evidence again traced the new marketplaces to EU processes and the European Commission. I then did a follow-up study to address the concerns of Europeanists, especially, P-A theorists, that member state governments or economic actors may have used the commission as a vehicle

paper, I investigate the causal factors behind the commission's decision to intervene, a decision that went far beyond its formally delegated authorities.

Europeanists have developed the literature on supranational autonomy precisely to explain instances such as the European Commission's 1994 intervention in European finance. Contributions in the last few years have focused on external factors that constrain and enable commission influence. In the leading approach, rational institutionalists, deriving hypotheses from Principal-Agent Theory, have emphasized the formal relationship between member state governments and the supranational institutions. The functions delegated by and controls available to the member state governments are expected to determine the likelihood of autonomous influence by the European Commission. The likelihood of commission influence would, by this logic, vary as the formal delegation of functions change (Pollack 1997b; Tallberg 2000; Thatcher and Stone Sweet 2002).

In this article, I designed an open-controlled comparative study to evaluate plausible empirical expectations generated from Principal-Agent Theory and recent responses to it.[10] I compared the 1994 intervention to five earlier instances in which commission officials considered financial market rule changes. (See Appendix 3 for an illustration of the study's design.) Only in 1994 did the officials intervene. The study was designed to find an explanation for this empirical pattern of commission intervention. The key question was why did the European Commission intervene or not intervene in each of the cases. I generated the five testable empirical expectations by

for achieving their own goals. The evidence confirmed the Commission's independent motivations and autonomous behavior.

[10] See Pollack 1997 for a good example of how some rational institutionalists have moved beyond the original P-A emphasis on formally delegated functions.

asking how the leading hypotheses would respond to my questions and then compared these expectations to the answers I found in the historical record.[11]

My findings echo those of a growing number of scholars working inside and outside the rational institutionalist tradition (Barnett and Finnemore 1999; McNamara 2001; Sandholtz 1992; Sandholtz 1998; Smyrl 1998; Zysman 1983). The empirical expectations of the rational institutionalism did not do particularly well against the evidence. The evidence was sometimes consistent with one or more of the expectations. Yet, as a whole, my study revealed that the expectations derived from P-A theory and other rational institutionalist hypotheses largely missed the primary causal process behind the commission's pattern of intervention in the rules governing the distribution of financial resources. This was in part because the evidence shows important variation *within* a largely stable delegation and control regime – a pattern of variation P-A Theory is poorly suited to explain. The fundamental reasons, however, are that the rational institutionalist approach paints an overly stark distinction between supranational actor and the external institutional context, underestimates the causal importance of factors and resources inside the actor itself, and cannot offer a theoretical foundation for why supranational actors do what they do.

Rather than in the delegation and control regime or any other external institutional arrangements, I found that the primary causal factors responsible for the variation in supranational activism lie within the European Commission itself and, in particular, in the

[11] My primary sources were: The financial press, private sector reports, and interviews and archival research I conducted in eight western European countries. I interviewed stock exchange executives, national government and European Commission officials, investment bankers, venture capitalists and executives at the European Venture Capital Association (EVCA) in Zaventem, the International Federation of Stock Exchanges (FIBV) in Paris, the City Group for Smaller Companies (CISCO) in London, and the European Association of Securities Dealers (EASD) in Brussels. All four of the latter organizations gave me access to their historical archives and libraries.

way its subdivisions relate to their external environment. The historical record reveals a process in which subunits within the commission, in pursuit of particular interpretations of a policy goal, took advantage of control structures and crafted more permissive external conditions. So while the commission's environment, including member government-imposed constraints, was important, a focus on external factors, or a single set of external conditions, diverts attention away from the commission's central causal role as the agent of change.

Beginning in the early 1980s, DG13 (Innovation), sought to improve incentives for European venture capitalists by creating a pan-European Nasdaq copy as means for redressing a perceived lack of entrepreneurial activity and high levels of unemployment. The linkage between these economic problems and financial markets meant DG13 and later DG23 (SMEs) were interested in using spending programs under their discretion for interventions in a policy domain in which the commission did not traditionally have a great deal of autonomy. While national economic and finance ministers kept a tight leash on DG15 (Financial Markets) activities, however, they were less attuned to the activities of DG13 and DG23, who normally reported to the research and industry ministers. Crossing over into financial policy gave DG13 and DG23 a degree of autonomy DG15 did not enjoy.

In the 1980s, officials from DG13 and later DG23 considered an intervention on at least three occasions. But in each instance they considered opposition from Ecofin and DG15 too formidable. All the while, however, they deliberately took actions to improve the likelihood that an eventual intervention would succeed. DG13 officials encouraged and supported the creation of a private-sector political voice for European venture capitalists, the European Venture Capital Association, to be a supportive constituency behind which they could cover their activism. DG13 and DG23 chose the Nasdaq rules for the proposed EASDAQ because in the early 1990s, the American financial form was perceived by financial and government actors as best practice. Finally, they deliberately framed the pan-European stock market as a solution to Europe's "jobs" problem, arguing in a stream of reports and documentation that a European Nasdaq copy was the missing link to future entrepreneurial activity. In 1993, when "unemployment" moved to the center of the European political discourse and the member governments passed a "single passport" in financial services, the officials intervened because they believed the conditions were such that a pan-European Nasdaq copy stood a good chance of surviving.

I highlight four factors that led to the effective intervention of the commission officials. First, the commission's internal structure, with a diverse set of subdivisions reporting to different groupings of national ministers, was a critical enabling condition for circumventing control mechanisms. Second, the subdivisions tended to have particular subcultures that informed interpretations of problems and appropriate solutions. These subcultures corresponded to external constituencies and subcultures, which gave commission officials a significant source of legitimacy for their interventions and thus was a second enabling condition. Third, commission officials were able to reshape the external environment by, one, giving birth to new "independent" political actors and voices in favor of their initiatives, two, contributing to a European political discourse that made the causal linkages that legitimized its initiatives, and, three, constructing a new focal point around the Nasdaq rules. Finally, and perhaps most important, the incremental accumulation of these enabling conditions convinced commission officials that in 1994 an intervention would effectively shake up the European entrepreneurial sector.

In the following section, I elaborate on the design of my study and the alternative empirical expectations I tested. In section three, I provide a historical narrative of the five cases. Finally, in the paper's conclusion, I discuss how my findings are in many ways consistent with approaches from the sociology of bureaucracies. Rather than emphasizing the conditions set by principals that constrain the autonomy of bureaucratic agents, some sociological approaches to bureaucracies offer a theoretical foundation for understanding why and how bureaucracies might get around them. I use these theoretical insights to develop a set of hypotheses about the conditions under which we might expect effective interventions by the European Commission.

II. <u>The Study</u>:

I demonstrated elsewhere that in supporting a pan-European Nasdaq copy in 1994 and thereby fostering the creation of new rules governing company access to capital markets, the European Commission had independent motivations and acted autonomously (Posner 2002; Weber and Posner 2000). The empirical evidence showed that neither member governments nor private sector actors merely used the commission as a vehicle for achieving their respective goals. The purpose of this paper is to find an explanation for the European Commission's causal role in this important instance of financial change. The commission has not typically been the primary actor in shaping financial institutions. I wanted to know what was different about 1994 and how unusual it was.

In order to improve my ability to draw causal inferences, I created a study that would place the 1994 intervention in comparative perspective. I uncovered five other cases from the 1980s in which commission officials considered intervening in support of a proposal for a pan-European Nasdaq copy. Each of the earlier proposals was almost identical to the one the officials supported in 1994. For each case, I set out to answer the same question: Why did the European Commission decide to support or not to support the proposal?

My question about European Commission behavior falls under the larger set of questions about the conditions under which international organizations are likely to exercise policymaking autonomy. In the European Union context, my questions belong to the particular debates about the relative power of the European Commission and other supranational institutions in the European Union polity. Over the last five to seven years, a set of hypotheses, developed by theorists largely borrowing from Principal-Agent Theory, have moved to the center of these debates.

Rational Institutionalism and EU Supranational Institutions

Rational institutionalists point to the formal and informal institutional context to explain variation in the influence of EU supranational actors. Europeanists employing the P-A approach envision supranational autonomy as a delegation and control problem in which the member state governments, the principals, have delegated authorities to supranational institutions, the agents, and use control mechanisms to ensure the latter's behavior is consistent with the former's preferences. The delegated functions determine both the authorities and controls (Pollack 1997b; Pollack 1998; Tallberg 2000; Thatcher and Stone Sweet 2002; Tsebelis and Garrett 2001). In the P-A approach, the European Commission and other supranational institutions are expected to have a "zone of discretion" in which they can pursue their own goals (exercise autonomy). Because the zone varies by delegated function, levels of supranational influence are expected to remain constant so long as official functions remain constant (Thatcher and Stone Sweet 2002, 5). Supranational institutional influence, according this logic, will vary in accordance with the nature of delegated functions – which determine the vested authorities and the member government controls available to monitor and sanction. The emphasis has been on variation in the commission's "right of initiative," formal agenda setting powers and oversight regimes.

By specifying conditions under which we might expect autonomous behavior of supranational institutions, the rational institutionalist hypotheses mark a theoretical advance away from the either-or, supranationalist-intergovernmentalist debates. Nevertheless, a growing body of empirical evidence has pointed to the inadequacy of formal institutions and the importance of "informal" sources of influence in explaining commission activism. Scholars from the rational institutionalist and other traditions have advanced a growing list of alternative propositions that specify sources of commission autonomy rooted in the informal relations between member governments and the commission as well other societal actors and other external factors.[12] These include propositions about informational asymmetries that favor commission officials, the presence of transnational networks that can legitimize preferences of commission

[12] From the rational institutionalist tradition, the work of Mark Pollack has been especially important (Pollack 1997a; Pollack 1997b; Pollack 1998). From other traditions, see (McNamara 2001; Sandholtz 1992; Sandholtz 1998; Sandholtz and Stone Sweet 1998; Smyrl 1998).

officials and empower them vis a vis member state governments, and an uneven degree of patience that favors commission officials over national governments (Pollack 1997b).

From these leading hypotheses, I generated six discrete sets of empirical expectations about the European Commission's decisions regarding the six proposals for a pan-European Nasdaq copy. Each set is a response to my question. It tells us what we would have expected, if the hypothesis were valid.

Empirical Expectations:

1. Formally Delegated Functions: There are at least two possible expectations here. I derived both from P-A theory, as they expect commission activism to vary with the preferences of the member state governments. First, the commission's willingness to intervene and ability to influence in 1994 but not in the 1980s would reflect a change in the formal relations between the member governments and the commission, as stipulated in the Maastricht Treaty. Second, the pattern of intervention reflected the adoption of new rules embodied in the 1993 Investment Services Directive or new measures in the spending programs used to support EASDAQ.

2. Density of Rules: The expectation, drawn largely from the supranationalist tradition, is that the commission becomes empowered from the passage of the 1993 ISD, not because of new powers delegated from the member governments, but rather because a new threshold of rules in the financial services sector provides ample opportunities for activist commission officials to interpret and push the rules toward their goals (Nugent 1995; Sandholtz and Stone Sweet 1998).

3. Control Regimes and Split Preferences: The expectation, also derived from P-A theory and from the more general rational institutionalist approach, is that the control mechanisms (i.e. the committees set up to oversee the spending programs used to support the EASDAQ proposal) had weakened by the 1990s because the preferences of some member governments had become more sympathetic to commission efforts to support entrepreneurial activity.

4. Informational Asymmetries: The key to this expectation lies in asymmetric information. In the first, expertise within the commission would be expected to have matured only in the 1990s. The expectation is that well-defined commission preferences in the early 1990s would empower commission officials to set the agenda and create new focal points as member state governments had not yet fully tuned into the new issue area of entrepreneurial finance.[13]

5. Transnational Constituencies: In this expectation, commission officials would be empowered in 1994 only after the emergence of a transnational network of European venture capitalists and others with an interest in creating a pan-European Nasdaq copy (Sandholtz and Stone Sweet 1998; Sandholtz and Zysman 1989).

6. Asymmetric Perseverance: The 1994 intervention would be expected to reflect a relatively stronger ability within the commission vis a vis member governments to

[13] Scholars from several traditions have pointed to the commission's role in constructing focal points (Garrett and Weingast 1993; Sandholtz 1998)(put in Ernie Haas cite).

wait for a "window of opportunity." The expectation is that commission officials during the 1980s wanted to support the proposals for a pan-European Nasdaq copy but felt that they could not overcome member government opposition at that time. Only in the 1990s would they be expected to feel a number of conditions had moved into place, making an effective intervention likely.

III. A Narrative History

The origins of an intervention: DGXIII's new interpretation

The history of the European Commission's intervention in EASDAQ began in the late 1970s. A small enclave of commission officials in DGXIII began to endorse the idea of venture capital as a solution to the widely held perception that Europe lagged behind the United States in the area of technological innovation and that this was a cause of economic problems such as high levels of unemployment, slow growth and a lack of international competitiveness.[14] The interest in innovation policy was closely tied to the Commission's role as the guardian of the European integration process. It had evolved directly from DGXIII's original mission, specified in the Treaty of Rome, to promote policies for the dissemination of information among the member countries as a means to achieve economic integration. By 1980, DGXIII's name had become "Information market and innovation" (Fligstein and McNichol 1998).

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[14] See Chapter 4 of Sandholtz (1992).

The officials developed expertise in the financing problems of European NTBFs (New Technology-Based Firms)[15] and stumbled across the venture capital solution as part of their exploration into role of finance in the innovation process. They were not alone in making these connections. The benefits of a vibrant venture capital industry had entered the European political discourse about solving the new economic problems of the 1970s and early 1980s and had roots in European perceptions of the American experience.

Indeed national government officials made many of the same linkages and began to promote venture capitalism as well (Becker and Hellmann 1999; Commission 1984). By 1979, nearly every national government in Europe was supporting a venture capital scheme of one sort or another. Despite a wide variety of approaches, however, they shared a single theme. All sought to promote national venture capital industries. In contrast, the Commission's efforts, reflecting its general integration goals, fostered a European venture capital industry.

At the time (indeed until the EASDAQ initiative), this difference between national and European approaches and whether the Commission or national government officials led the policy process seemed to matter very little. It did not appear to matter because, as a rule, policies aimed to promote venture capital largely failed everywhere in Europe. Both Commission and national initiatives consistently ran into conflicts with national financial insiders, who controlled the flow of financial resources and perceived venture capitalists as a threat to established practices and revenue streams. National governments needed their financial communities as part of their aspirations to bolster national financial capitals and national financial services industries. As a consequence,

[15] NTBF was a common term in the late 1970s and early 1980s for young firms set up to exploit patented technologies and therefore facing technological and startup risks in addition to normal commercial risks.

governments supported venture capital programs only to the extent that they did not encroach on the perceived interests of national financial insiders. The result, even in the UK, was failure to create an environment in which venture capitalists could flourish. The efforts of the DGXIII officials ran into similar obstacles. While they did not have to manage cross-cutting goals, they did face fierce opposition from national financial communities – whose views after 1980 were represented by DGXV (Financial Institutions and Taxation) and who received national government support via the economic and finance ministers to undermine Commission initiatives.

Being the Commission: Interpreting problems, selecting solutions

Why did the commission officials in DG13 choose European-level policies? The answer does not pose much of a puzzle for Europeanists and takes us to the heart of what the commission is: the supranational political actor, born to be the guardian of the European integration process.[16] Because of who they are – civil servants working in the commission – DGXIII officials saw their primary goal as deeper integration, interpreted problems in terms of fragmented national economies and saw solutions in further European integration.

A more challenging question is why DGXIII officials developed their particular interpretation that a vibrant European venture capital industry and a pan-European Nasdaq copy were a means for achieving the general commission goals and why DGXV had an opposing interpretation. The answer lies in a combination of an internal structure that matched delegated functions in specific policy domains with specialized subunits and

[16] On the European Commission, see Cini (1996); Nugent (1995); Nugent (1997); and Nugent (2001).

internal subcultures that corresponded to different contemporary political and expert discourse about what are Europe's problems and solutions.

Technological innovation developed in smaller enterprises was widely understood by the late 1970s as one of the keys to solving European economic problems. "...Tomorrow's technologies," DGXIII officials wrote, "are today's innovations – and these are often born and developed by entrepreneurs in small and medium-sized industrial firms" (Commission 1984, 12). The problem, in their eyes and those of some national government officials as well, was that industrial policies existed to help large established companies (e.g. national champions) develop showcase technologies such as computers, aircraft and nuclear power. But they had failed to devise successful policies to overcome the problems inherent in financing NTBFs – the unusually high risks investors have to accept when taking a stake in young companies developing and commercializing new technologies. Once the thinking had reached this point, the answer seemed obvious. Europe needed what the United States had: Venture capitalists willing to accept the high risks involved in investing in entrepreneurial companies.

European venture capitalist programs and the creation of EVCA

Less obvious in the late 1970s was how to foster an American-style venture capital industry in societies built largely on political bargains designed to keep this sort of high-risk activity at bay. DGXIII officials interpreted the problem as one might expect the guardians of the European-integration process: Nationally fragmented economies are too small for a flourishing venture capitalist industry. From their first proposals to their most recent, DGXIII officials have found solutions in policies designed to foster a

European institutional foundation that would support an integrated European venture capital industry. DGXIII thus pursued a European scope for its original venture capital promotion policies – but still evident 15 years later – more by default than by a calculated decision-making process. From the position of a European Commission official, it seemed like the appropriate thing to do.

The particular policy of creating a pan-European marketplace to promote venture capitalism, in contrast, evolved gradually. The DGXIII officials only saw a marketplace as possible solution to the venture capital problem after several years of incremental successes, failures and learning-by-doing. The first impulse of DGXIII officials, in the spirit of the service's interventionist reputation and in accordance with the national industry ministers to whom they were most attuned, was to mirror the industrial policies for large companies. But by 1980, with the ascending neoliberal economic ideas, the ideological tide had already ebbed away from direct interventions, at least at the European Community level where the U.K. now had a veto. DGXIII's earliest venture capital program proposals never succeeded in getting beyond Ecofin's objections.[17]

These early policy programs and the ideas they contained differed remarkably from those DGXIII and DGXXIII officials would advocate fifteen years later. They could not have contrasted more with the market-based EASDAQ initiative. The proposed schemes revolved around small grants given directly to companies. This type of commission thinking in the 1970s and early 1980s confirms how European "venture capital" in the 1970s and 1980s referred to a very different set of activities than we

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[17] For "The European Venture Capital Fund Project, " see Annex 5 of Commission (1984). For "The European Innovation Loan Fund" and a specific reference to the UK's veto in Ecofin, see Burgard (1984). For "European Venture Capital Pilot Scheme" of 1980-84, see Annex 1 in Commission (1984).

associate with the industry today.[18] This was not a case of bureaucrats out of touch with trends in the private sector. In developing the proposals, they worked closely with the leading "venture capital" firms, which during this period had roots in national government efforts to stimulate the industry (Commission 1984).

Having failed to win support for their early proposals, DGXIII gradually turned to "industrial" policies more consistent with the prevailing set of economic ideas and the shift within the commission from grand harmonizing schemes to mutual recognition. Rather than filling the venture capital gap with funds of its own, alone or in partnership with private firms, it would instead use its resources to catalyze venture capitalists to solve their own problems and to assist them in overcoming structural barriers and in creating the necessary institutional infrastructure, including new equity marketplaces.

DGXIII's creation of EVCA in 1983 was the earliest achievement. In 1979, officials from the service began to sponsor regular symposia bringing together the Community's venture capitalists (Commission 1981; Commission 1982; Commission 1983; Commission 1985). They wanted national venture capitalist firms to begin a dialogue with their cross-border counterparts, to recognize they faced similar obstacles and to think of themselves as part of a single European industry. DG13 officials also had political goals, closely associated with their bias toward interpreting problems in terms of the limitations of national economies and European integration as a solution. They were keenly aware that they could not effect change on their own. In a political climate that did not accept direct intervention, commission officials could not appear to be in the lead – especially in financial matters where the reigning stream of thought characterized political actors as obstacles to the natural harmony of market forces.

[18] I elaborate on this in Posner (2000).

To be effective, commission officials inside DG13 reasoned, their policy efforts would have to look as if the venture capitalists were in the lead. For this, venture capitalists would need a voice in the European political arena and an identifiable policy network, preferably a malleable one, which commission officials could influence and through which they could closely coordinate. This was the primary impetus behind the symposia the DG13 officials organized in the early 1980s and ultimately behind the creation of EVCA, an industry organization that could claim with a degree of legitimacy to represent the industry's aggregated interests. Commission officials a decade later would indeed use EVCA as the primary vehicle for initiating and carrying forward a proposal to create a pan-European Nasdaq copy.

A Pan-European marketplace as policy: Proposal #1, "ECU-EASD 1985"

DG13 officials learned by the events of 1985 that creating EVCA, while a significant achievement, did not automatically or even more easily transform what they considered urgent and reasonable proposals into policies. In some respects, in fact, the EVCA-creation process, because it drew little if any opposition, lulled the officials into a false sense about the prospects for future successes. This became abundantly clear in 1985, when a proposal for a pan-European Nasdaq copy, despite an endorsement by Jacques Delors, died quickly in the face of opposition from national financial insiders and because of a lack of organizational capacity inside EVCA.

The proposal began with a simple idea that occurred to an American familiar with finance in the US and the Nasdaq Stock Market in particular.[19] Observing the European

[19] This was the earliest instance I could find of a proposal for a pan-European marketplace modeled on the Nasdaq institutional form.

venture capital industry from his newly adopted home in Geneva, Eugene Schulman, a former Beverly Hills broker, arrived at what seemed to him an obvious conclusion. Europe needs a Nasdaq marketplace of its own. He enlisted a friend, Andrew Sundberg, a former Rhodes Scholar also living in Geneva, and solicited financing from a third friend, Sam Goodner, to research, write and promote an independent multiclient study (ELBAssociates and Consultex 1985).[20]

Schulman and Sundberg saw themselves as men of ideas. They were primarily concerned with getting their ideas widely circulated – a goal they met.[21] By the end of 1985, they had sold the study to European and American banks, stock exchanges and EVCA (whose chairman, Richard Onians, strongly supported the proposed marketplace in its newsletter), had visited financial communities in Paris, Frankfurt, Milan and Amsterdam, and received coverage in the financial press (Dawkins 1985; Economist 1985; Euromoney 1986; EVCA 1985; Hemain 1985; Hemp 1985).[22]

Wanting to attract Commission support for the proposal and specifically to interest its president Jacques Delors, they deliberately framed their proposed marketplace around the ECU. Not only would the Schulman-Sundberg marketplace, named "ECU-EASD," mirror the Nasdaq institutional form and function, the new marketplace would also trade company shares denominated in a single European currency, the ECU.[23] At first, the strategy seemed to work. Delors endorsed it and circulated the study within the commission and at EVCA, which quickly became one of the proposal's sponsors.

[20] Schulman and Sundberg worked through their respective companies, ELBAssociates and Consultex.
[21] They ended up selling about 30 copies and making a small profit. Author's interview with Eugene Schulman, July 12, 2000, Berkeley, CA.
[22] Author's interview with Schulman and Sundberg, May 8, 2000, Geneva.
[23] Correspondence between Eugene Schulman and Jacque Delors, President of the Commission of the European Community, January 14, 1985.

The officials in DGXIII also embraced it. From their perspective, it made eminent sense. Officials in this and other services had already identified secondary marketplaces as a key problem in financing innovation (Commission 1984. 15; Miege 1985, 96; Schmidt 1984). DGXIII adopted the pan-European marketplace idea as a policy goal that would long outlive the specific 1985 proposal. They were already aware that venture capitalists could not make profits commensurate with the high risks of the trade, if they could not sell their investments through an appropriate marketplace. Already in 1985, the national smaller company marketplaces had begun to falter and against the seemingly limitless success of the American Nasdaq in financing entrepreneurial companies, appeared no more than small puddles of capital for national firms. The proposal for a pan-European Nasdaq, in contrast, had the potential to overcome the fragmentation of the national markets and provide venture capitalists with the benefits of a much larger pool of investors. At one point, these officials, using the EVCA endorsement as cover, even indicated that they were on the brink of offering several million dollars for start-up funding.[24]

But soon afterwards, the proposal died – somewhere on the avenues in Brussels between the European Commission and EVCA offices.[25] There was opposition within the commission coming from other services, especially DG15. Since it was transformed in 1980, DG15 had become the service charged with the highly politicized task of facilitating financial integration policy. Already in 1985, national economic and finance ministers were keenly aware of the future cross-border battle over the future European financial capital and center of the highly strategic European financial services industry.

[24] Author's interview with Schulman and Sundberg, May 8, 2000, Geneva.
[25] It was officially killed on June 6, 1986 at a Commission meeting.

As the drawn-out, difficult negotiations over the 1993 Investment Services Directive would later expose, DG15 officials enjoyed little policymaking autonomy.

DGXV's constituents, moreover, included the national stock exchanges, umbrella organizations for the empowered national financial communities with strong ties to national finance ministries and treasuries. DGXV had been working closely with the stock exchanges in integration efforts of its own and gained a reputation for supporting "market-led" as opposed to interventionist integration policies. Its efforts tended to follow an intergovernmentalist logic of managed ties between separate national marketplaces, coordinated cross-border information systems and harmonized standards.[26] Not surprisingly, because an independent pan-European marketplace posed a threat to national exchanges, DGXV became the source of significant resistance to the pan-European Nasdaq idea – a role it maintained well into the 1990s.

The DGXIII officials would have liked to intervene but recognized they would not be able to overcome this opposition for two principal reasons. First, the ECU-EASD proposal had become a highly public initiative. Jacques Delors had endorsed it, from the start, and the financial press had given it broad coverage. This meant that a commission intervention would need to be carefully finessed. Financiers tend to believe that politics interferes with the natural order of financial markets. In the decade of Reagan and Thatcher, they viewed political intervention, especially by bureaucrats in Brussels, as illegitimate. To support ECU-EASD proposal, the commission would have had to have political cover. But some of the obvious sources of political cover were absent in 1985. EVCA, an industry organization, would have been the perfect political instrument. By giving EVCA a high public profile, the commission might have argued that it was merely responding to a market-led initiative spearheaded by European venture capitalists, financiers on the margins of national financial communities. But EVCA was still a new organization and suffered from low levels of organizational capacity. To overcome internal and external opposition, DGXIII officials would have had to generate broader support from other elements of national governments by linking the ECU-EASD proposal to bigger problems as articulated in the political discourse of the 1980s. Schulman and Sundberg had tried to do this by using a single currency to tie the proposal to the Single Market Project, a political strategy that still lacked resonance in 1985.[27]

The second principal reason DGXIII officials did not believe they could overcome the opposition had to do with the degree of integration in European finance. The ECU-EASD proposal simply came before its time. European integration in finance had not deepened far enough for a marketplace based on cross-border trading. This was still a year before the commission proposed an investment services directive to give financial services providers a European passport. Schulman and Sundberg were well aware of the complex array of national obstacles to cross-border financial activity and hoped the adoption of the ECU would alleviate some of these. But the immediate problem was overcoming the expected opposition from national vested interests and this would require a foundation of European-level rules to support cross-border competition in financial services, an important condition for institutional innovation that was still eight years away (Weber and Posner 2001).

[26] DGXV was most successful in harmonizing listing and prospectus standards. The relevant recommendations and directives are 77/534/EEC, 79/279/EEC, 80/390/EEC, 82/121/EEC, 85/611/EEC, 85/612/EEC.

Three more proposals in 1989: "EASDAQ I," "EOTC" and "ESM"

Four years later, in 1989, the Schulman-Sundberg proposal re-emerged. In the wake of the SEA and the run-up to a single European market, the idea of a pan-European smaller company marketplace was circulating in several corners of the European Commission.[28] The seed planted by Schulman and Sundberg had sprung roots, an unsurprising development as a pan-European marketplace corresponded well with the goals of commission officials of several DGs. This time commission officials initiated the process when they asked Schulman and Sundberg, who had by then moved on to other projects, to update their proposal and meet with commission officials about getting it off the ground. At one point in 1989, the officials had again intimated they were willing to provide millions of dollars in set-up costs.

The initiative was now coming from an Inter-DG Working Group, overseen by the European Commission's Secretariat General's office and organized to explore ways to push along the single market project.[29] Over the course of 1989, the working group solicited three separate proposals, two of which were from Schulman and Sundberg. The first was called EOTC (European Over-the-Counter Market) and merely summarized the 1985 study and proposal. On the behest of the working group, Schulman and Sundberg created a second proposal, this time teaming up with the Scottish Financial Enterprise, a

[27] That Schulman and Sundberg were non-EC citizens, Americans living in Switzerland, did not help in this regard.

[28] In 1988 Commission officials hired Deloitte Haskins and Sells to conduct a study on SME's and capital markets. I was not able to get a copy of the study, entitled "Access for SME's to the Capital Markets, particularly Junior Markets." Nor was I able to trace the service responsible. The study was coordinated by Graham Cole, a partner in Deloitte's corporate finance division in London.

[29] Representatives from six DG's participated in addition to a representative of the Secretariat General's office: DGII (Economic Affairs), DGXIII (Information and Innovation), DGXV (Financial Institutions and

group, representing the Scottish financial services industry, concerned about the decades-long centralization of British finance in London. The SFE had been working closely with DG16 (Regional Policy) and other regional industry groups and saw in a pan-European electronic over-the-counter marketplace, modeled on the Nasdaq, a means for promoting Europe's regional financial centers in places like Glascow, Lyons, Copenhagen, Bremen, Turin, etc. In this second proposal, the new consortium renamed the planned marketplace, European Securities Market (ESM), and couched it as a policy for supporting regional financial centers (ELBAssociates and Consultex 1989; ELBAssociates, Consultex, and Enterprise 1989).

The ESM, like its 1985 predecessor, failed to win commission support, largely because, at the end of the day, pro-intervention officials did not believe they could overcome external opposition, even if they could muster support within the commission. DGXIII, still interested in promoting venture capital, was again active in the process but now had new allies.[30] The newly created DG23 (Enterprise Policy, SMEs) also interpreted the financing obstacles faced by smaller enterprises as one of the biggest reasons for Europe's high unemployment rates, slow growth and innovation problems. And like their counterparts in DG13, officials in the new service believed a pan-European marketplace could solve the problem. DG16, as mentioned, supported the creation of a pan-European Nasdaq because of its potential to preserve the importance of regional financial centers (ELBAssociates, Consultex, and Enterprise 1989).[31]

Company Law), DGXVI (Regional Policy), DGXVIII (Credit and Investment), and DGXXIII (SMEs, Enterprise).

[30] SFE's notes from meeting between Sundberg, Schulman and SFE and the Commission's Inter-DG Working Group, October 11, 1989, Brussels.

[31] The Nasdaq in the US was the model here. As an electronic marketplace, financial firms throughout the US could participate on an equal basis. Being in NY mattered much less.

Opposition again came from DG15, which was working closely with national exchanges and national treasuries, trying to get negotiations underway for the delayed directive on the integration of financial services.[32] Reflecting the views of its "negotiating partners" – especially the German universal banks[33] – DG15 officials argued that if a pan-European marketplace for entrepreneurial firms were economically viable, the exchanges and other financial actors would have created one. They also voiced skepticism about the timing, arguing that a pan-European marketplace would remain premature until an investment services directive was in place, and about the institutional form, maintaining that an intergovernmental model, with a big role for national exchanges, might be better suited to the needs of smaller companies.

The reasons the pro-marketplace coalition inside the European Commission was unwilling to take on the opposition were similar in 1989 to what they had been in 1985. First, while the proposals did not make a big splash in the financial press, as in 1985, the process was highly political because it was taking place at the Inter-DG level. Each of the six participating DGs had its own constituencies, policy networks, interpretations and policy approaches. The officials favoring the marketplace were keenly aware that to succeed they would have to link the proposal to problems as articulated in the contemporary political discourse. They tried to do that with the regional financial center issue, which is why they pressured Schulman and Sundberg into teaming up with the SFE. But the issue had little bite. It lacked the kind of political salience that would generate widespread support throughout Europe. The plight of regional financial centers was unlikely to prompt acquiescence from major financial actors and their national

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[32] SFE's notes from meeting between Sundberg, Schulman and SFE and the Commission's Inter-DG Working Group, October 11, 1989, Brussels.

governments, who had been deliberately centralizing finance in the run up to the single market. The national financial insiders and their governments were primarily concerned about future cross-border competition. They believed the best way to ensure the preservation of a prominent national financial services industry in an integrated European market was through increased scale – centralizing finance in a single national financial capital that could then contend with the other national financial cities. A pan-European marketplace, promoting regional financial centers, ran against this logic and posed a threat to those, like the main national stock exchanges, with a stake in the centralization process.

The second reason that the pro-marketplace coalition decided not to intervene is that in 1989 they still lacked an institutional foundation on which cross-border trading activity could flourish. In other words, there was substantive logic to DG15's objections, in addition to sheer protectionism. Until financial services providers had a European passport, it was hard to imagine how a pan-European marketplace could operate.

[33] Author's interview with Schulman and Sundberg, May 8, 2000, Geneva.

Proposal #5 and the 1994 Intervention in Support of the EASDAQ Initiative

The belief that a pan-European marketplace for entrepreneurial companies would promote European venture capitalism and solve the financing problems of smaller companies continued to percolate inside the commission after 1989. Officials, especially inside DG13 and DG23, remained eager to see its realization but had learned lessons from the earlier failures. They believed overcoming opposition to a pan-European marketplace would require a European institutional foundation for cross-border trading and a strategy that would link a new marketplace to highly salient political problems.

A new opportunity arrived with two developments in early 1993 that formed the background to the commission intervention. The first was the member government agreement on an 1993 Investment Services Directive. Second, the unemployment problem moved to the center of European political discourse. I address them in turn.

New European-level rules in financial services:

Rational institutionalists might expect the 1994 commission intervention to be rooted in the new competition rules adopted in the ISD. This was the basis of my Expectation #1. The logic is that the member state governments would have deliberately added to the commission's delegated functions a role in fostering cross-border competition in financial services. Was the ISD the critical causal factor determining commission intervention? The evidence, I argue, demonstrates that the ISD was a necessary condition for the commission's intervention to have broad implications and was an important factor in the timing and strategic calculations of commission officials. But the ISD did not determine the commission intervention nor the creation of a pan-

European Nasdaq copy or cross-border competition in smaller company finance. An overemphasis on the rules themselves, moreover, detracts attention from the strategic ways in which the commission officials took advantage of them.

In early 1993, commission officials inside DG23 and DG13 began to perceive an end to the tough five-year negotiations over the investment services directive.[34] Although the member governments did not sign until May, commission officials as early as February had anticipated the agreement and had begun soliciting proposals among European venture capitalists at EVCA's Venice seminar for a pan-European Nasdaq-like marketplace.[35]

If the ISD were the determining causal factor behind the European Commission's intervention in EASDAQ, we would likely find three forms of empirical evidence. First, in the negotiations leading to the ISD agreement, we would find evidence of member governments' intentions to foster innovation of the sort encompassed in EASDAQ. Second, in the final document of the directive, the text would give clear license for the commission to support innovative marketplaces, if not the creation of a pan-European entrepreneurial marketplace. Finally, we would find similar types of commission intervention in other financial services subsectors that also fell under the new ISD regime.

My study yielded little if any empirical evidence for any of these. We have several accounts of the difficult and extended negotiations between 1987 and 1993 over the ISD (Steil 1996). The primary concerns and conflicts revolved around competition over trading in larger company shares. With London appearing to have a competitive

[34] 93/22/EEC.
[35] "Visit to European Commission," Francis Madden, August, 8, 1993, Report in CISCO Archives.

advantage, the British government wanted to remove national barriers protecting stock exchanges. The continental governments, not surprisingly, wanted managed competition that would allow their exchanges to catch up. Critically, creating a Nasdaq of Europe or some other smaller company marketplaces on a pan-European basis played little if any part in the discussions. I am not arguing that some member governments would not have approved of such schemes. Rather, at the time, they were not on the minds of the negotiators.

Nor does the final text suggest that the member government representatives intended the directive to spawn new marketplaces, let alone pan-European marketplaces modeled on the Nasdaq institutional form. The text instead primarily reflects the negotiators' conflict, mentioned above, over how to manage competition among *existing* marketplaces. The technology had long existed for extending electronic trading and execution systems across national borders. The big question hinged on whether the directive would give legal foundations to the practice by extending the principle of mutual recognition to 'regulated markets,' just as it did to firms providing other financial services. Such a move would purportedly have eliminated the legal foundations of *national* equity marketplaces and their traditional suppliers, national stock exchanges. The issue boiled down to whether national authorities would be obliged to permit remote monitors, computer screens located in one country that give traders direct access to an equity marketplace in another. In the final text, the negotiators left little ambiguity here. In stating that "...home Member States shall allow those host Member States' regulated markets to provide appropriate facilities [remote monitors] within the home Member

States' territories," the Council of Ministers indeed seemed to extend the mutual recognition principle to European marketplaces.[36]

The following paragraph, however, significantly hemmed in the potential for cross-border trading to spawn competition and innovation from new marketplaces like EASDAQ and instead appeared to promise the cartelization of European equity trading, whereby competition would be managed by freezing out new entrants. "This Article" the text reads, "shall not affect the Member States' right to authorise or prohibit the creation of new markets within their territories."[37] The Council of Ministers thereby granted a European passport to existing marketplaces but, in preserving the powers of national authorities to veto the presence of new marketplaces on their territories, appeared not to grant it to newcomers, like EASDAQ.

The interviews I conducted with venture capitalists and national government and Commission officials corroborate this interpretation of the ISD. Nowhere in the text does one find a blueprint for EASDAQ or any other new pan-European equity marketplace based on an alternative institutional form. These interviewees recognize the creativity needed to found EASDAQ under the ISD and agree that it pushed the limits of the directive.

Did the ISD have a similar effect in other subsectors of the financial service industry?

[Unfinished section: I will present evidence showing that there were some efforts in the commission to integrate other parts of the financial services industry after the ISD was passed. But commission officials only intervened in smaller company finance because

[36] 93/22/EEC, Title V, Article 15, Paragraphs 4.
[37] 93/22/EEC, Title V, Article 15, Paragraphs 5.

they could make an argument that a pan-European Nasdaq copy would solve Europe's problems…]

The final piece of evidence we would expect to find if the ISD the determining factor behind the intervention by DG13 and DG23 would be a similar effect in other subsectors of the financial service industry...

A political discourse about unemployment and a new constructed focal point:

In addition to the ISD, there was a second development that also gave commission officials confidence that an intervention would have influence. The problem of high levels of structural unemployment had moved to the center of the European political discourse and was now among the most salient political issues, best exemplified in Delors' 1993 x paper. (cite it) National government and a torrent of commission documents consistently held the US as the exemplar, in which entrepreneurial companies, raising capital through the Nasdaq, had become the American job-creation machine of the 1990s. The heightened discourse about jobs benefited commission services devoted to the financing problems of smaller companies in an obvious way. The Council of Ministers had increased the amount of program funding under DG13's and DG23's discretion and had begun to ask the services to investigate the feasibility of creating improved financial institutions for entrepreneurial companies.[38]

Sociological institutionalists, emphasizing the importance of political culture and discourse, might expect the 1994 commission intervention to be rooted in this salient political discourse that pushed the jobs issue to the fore. The empirical evidence strongly

[38] Council Decisions 89/286/EEC, 94/5/EC, 93/379/EEC. The language about new financial institutions for smaller companies appeared in 93/379/EEC.

supports arguments that give considerable weight to political discourse – especially with regards to the development of particular subcultures within the commission. But like the ISD, exogenous changes in the political discourse was an important enabling, but not a determining, condition for commission intervention.

First, the political discourse about jobs and how it was related to entrepreneurial finance was in part a product of the commission officials themselves. The European Commission did as much to produce it as any other European political actor (Bannock 1994; Commission 1990; Commission 1994; Commission 1995; Coopers & Lybrand 1995; EVCA 1985; EVCA 1994a; EVCA 1994b; Hayter 1994; Schmidt 1984). In this sense, as a causal factor behind commission intervention, political discourse bridges both internal and external conditions.

Second, DG23 and DG13 officials were creative and strategic in the way they used the "jobs" discourse to overcome expected opposition to a pan-European marketplace: they would only back a marketplace modeled on the Nasdaq institutional form. In that way, the officials could claim that a Nasdaq would solve the jobs problem in Europe, just as it had in the U.S. This is why, when they solicited proposals from venture capitalists, the commission officials deliberately insisted on the Nasdaq institutional form. Even though they had solicited it, the commission officials rejected a proposal, called ECASE, from a private British financial services company precisely because it was not based closely enough on the Nasdaq rules.[39]

The commission officials thus built their strategy around the imaginative manipulation of these two background developments. The ISD was to make cross-border trading of shares and therefore a pan-European marketplace feasible. The Nasdaq institutional form was to give the new marketplace legitimacy in the eyes of market participants and policy makers and make it politically difficult for national governments and stock exchanges to oppose.

The two-part strategy worked. In backing the EASDAQ initiative, DG13 and DG23 set off a process of institutional change that changed the rules that govern the allocation of capital to entrepreneurial companies and significantly altered the expectations of venture capitalists regarding the potential for making profits in western Europe. Specifically, their actions created two new constraints for and changed the expectations of the national stock exchanges. First, the EASDAQ initiative created an alternative institution to the formerly protected national marketplaces and thereby posed potential competition for the listing of new firms, for investors and for the participation of financial intermediaries. Second, the commission officials created a new focal point in the Nasdaq institutional form. Because of the original Nasdaq's record of financing American entrepreneurial companies and perceived role as the motor of U.S. job creation, the form represented best practice in the eyes of market participants and national policy makers. These two constraints presented each of the national exchanges with a new decision: The exchanges could 1) try to stop the process by undermining the EASDAQ initiative, 2) do nothing and let EASDAQ or some other national exchange become the supplier of Europe's Nasdaq or 3) become an institutional innovator and supply their own Nasdaq copies.

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[39] A secondary reason was that the commission officials did not have as much influence over the British company as they did over EVCA. I found details about the proposal in "Visit to European Commission," Francis Madden, August, 8, 1993, Report in CISCO Archives.

The commission officials did not get everything they had wanted. They would have preferred EASDAQ to become the Nasdaq of Europe. Instead, the national exchanges responded to the new constraints by creating competing Nasdaq copies, which enjoyed many advantages over EASDAQ and ultimately led to the buyout of EASDAQ by the original Nasdaq. But in the new and fierce contest over who will supply the Nasdaq of Europe, the commission officials have achieved an original goal. They have contributed much to the emerging new European entrepreneurial sector by greatly improving the financing prospects for high-risk entrepreneurial companies. They did this by improving the European-level institutional landscape for venture capitalists through the integration of a portion of the formerly fragmented smaller company financial sector.

Was there behind the scenes prompting from member state governments?

Is it possible that commission officials in DG13 and DG23 received behind-the-scenes prompting from national government representatives outside Ecofin? If this were the case, rational institutionalists could argue that split preferences in the early 1990s among the principals created new autonomous space for commission interventions that would explain why the oversight committees did not rein in commission officials, as posited in my Expectation #2. (so-called "law of anticipated reactions.") The evidence here is very clear. The commission officials did find some pockets of support from representatives of member state governments. But the causal arrows flow from the commission officials to the government officials, not vice versa, and the member government representatives who mattered in financial policy remained in opposition to the commission intervention.

Some national representatives within the Industry Council certainly supported commission schemes for a pan-European marketplace – as a means for getting around resistance to innovation at home. The evidence is clear on this point. National governments in Europe had since the early 1980s adopted programs to support SMEs and entrepreneurism because of their association with job-creation, innovation, and international competitiveness. Officials in industry and small enterprise departments gradually came to see smaller company marketplaces as an essential ingredient in solving the financing problems facing SMEs (Adelberger 2000; Becker and Hellmann 1999; Chabbal 1995; Lafitte 1994).

But the representatives of the Industry Council had little more leverage over the evolution of financial institutions in the European political arena than they had at home. The ability to influence instead rested with their counterparts at the head of treasuries, ministries of finance and central banks, working through Ecofin at the European-level, and the historical record – both before and after EASDAQ's creation – leaves little in doubt about the latters' preferences concerning the commission and financial marketplaces. Since the late 1970s and early 1980s, when commission officials in DG15 (Financial Institutions and Taxation) attempted a top-down integration of national equity marketplaces, national governments, represented by these actors, have on several occasions reiterated their objection to commission involvement (Commission 1980b; Schmidt 1977).

National stock exchanges have successfully enlisted their respective governments' support in blocking commission-backed schemes for pan-European marketplaces. The reasons lie in the crosscutting goals of governments. On the one hand, national governments were interested in institutional innovations in finance that might benefit their economies. On the other, by the late 1980s, governments were concerned about the future of their nation's financial center. They could anticipate a day when west Europe would have only one or two financial centers and saw their countries in competition over the future financial capital of Europe. Government officials therefore sought to promote innovation, but only to the extent that it supported their respective national stock exchanges. The underlying assumption was that to be Europe's financial capital meant having a strong national stock exchange (Moran 1991).

Consistent with this pattern, ministers of finance supported their respective national stock exchanges' vehement opposition to the commission's "interference" in creating EASDAQ, claiming it was an illegitimate actor in the realm of financial institutions. In the U.K., the Treasury maintained its position that private market actors alone should determine the supply of new marketplaces.[40] In France, the Treasury and the stock exchange together rallied to oppose the EASDAQ project and to create a rival national marketplace instead. As I demonstrate below, the governments and stock exchanges tried hard to thwart the EASDAQ initiative by using their leverage within the commission. The Ecofin ministers and FESE, the Federation of European Stock Exchanges, used their ally in the Commission, DG15, to help fight the battle.[41]

[40] Letters between Chancellor of the Exchequer and CISCO leader, March 1993.
[41] DGXV's and the Stock Exchanges opposition to the EASDAQ initiative came out in the open during a FIBV (International Federation of Stock Exchanges) conference in Milan on July 6 and 7, 1995. See especially Jose Fombellida, DGXV's, comments (FIBV 1995).

The Spending Programs and DG13 and DG23 Officials

In the decisions to approve the two commission spending programs eventually used to finance EASDAQ, the Industry and Research Councils, respecting the hierarchy of ministers, stayed clear of language that would have given commission officials in DG13 and DG23 license to intervene in financial markets.[42] The texts of the approved spending programs hardly discussed financial institutions at all, and when they did, the language remained extremely vague.

The funds the commission officials used to subsidize EASDAQ's venture capitalists came from two spending programs. DG13 used funds from the second phase of the Strategic Programme for Innovation and Technology Transfer, 1989-93 (SPRINT), approved by the Research Council, which then extended the program for one additional year.[43] The funds under DG23's discretion derived from a multiannual program approved by the Industry Council for small and medium-sized enterprises that ran from 1993 to 1996.[44] The language in the SPRINT decisions is especially vague on the specific actions the commission should carry out in the area of financial marketplaces. The closest reference to financial marketplaces (in the decision to extend the program for an additional year) only mentions the need to address the "financial aspects of innovation."[45] The language in the SME program addresses the question of specific actions the commission is to take with regards to the creation of new financial marketplaces. The paragraph, hidden in the details of an annex and entitled "Promoting a

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[42] As I explain below, the commission technically financed EASDAQ's political offshoot, EASD.
[43] Council Decisions 89/286/EEC and 94/5/EC. See Commission (1989) and Commission (1993).
[44] Council Decision 93/379/EEC.
[45] Council Decision 94/5/EC.

better financial environment for enterprises," reads: "Considering ways and means of facilitating SMEs access to sources of credit and guarantee, including mutual guarantee systems and risk capital; *appreciation of the opportunity and feasibility of the development of secondary markets*; facilitating SMEs' access to financial instruments provided by the Community, without involving financing of enterprises."[46]

The industry ministers, in directing the commission to assess the opportunity for and the feasibility of developing new marketplaces for SMEs, were careful to toe the line established by their Ecofin counterparts. Financial measures played only a small part in the Industry Council programs. Nowhere was the commission given leeway to intervene directly in the development of new marketplaces. According to the text of the decisions, the Industry Council intended the commission to produce studies and generate a body of knowledge. In selecting and subsidizing the creation of a particular privately owned marketplace, the commission officials went well beyond what was mandated in the Council decisions.

Monitoring of Commission behavior by the Council of Ministers

Did the Industry Council intentionally leave the language vague, implicitly encouraging commission officials to intervene directly in the proposals for new marketplaces? If this were the case, we might find evidence of implicit encouragement in the monitoring processes. The Industry Council had several mechanisms in place, including management committees, to monitor commission implementation of both spending programs.

[46] Council Decision 93/379/EEC, Annex 1, II.B. The italics are mine.

I found little evidence that the ministers of the Industry Council or its management committees reined in commission officials, an action that would have suggested that they believed the commission had overstepped its mandate. At least on the surface, the evidence appears to point in the other direction. On November 28, 1994, the management committee monitoring implementation of the SME program approved DG23's activity, which by this time included direct subsidization of EVCA's working group, which had publicly declared its plans to create EASDAQ.[47] And a month later, in granting a one-year extension of the SPRINT programme, the Council approved DG13's activities, including its subsidization of two studies designed to provide EVCA's working group an intellectual justification for creating EASDAQ (Commission 1993).[48]

A close inspection of the evidence however suggests the commission officials may have intentionally misled the ministers and their representatives in an attempt to circumvent Council monitoring. It appears that the commission officials were able to run circles around the committees largely because of a monitoring structure not able to keep tabs on officials who crossed over into the policy domain of other subunits. The interpretation of DG13 and DG23 that linked Europe's problems of low levels of entrepreneurial activity to financial markets turned out to be an important source of empowerment.

Two actions by DG13 officials appear to support this possibility that they deliberately circumvented committee oversight. In both instances, officials appear to have squeezed subsidization of EASDAQ into time slots between Council monitoring. For example, in the text of the decision to extend SPRINT, approved by the Council on

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[47] Author's written correspondence with L.D.M. Mackenzie, Director, Promotion of Entrepreneurship and SME's, DG for Enterprise, Commission of the European Union, May 8, 2001.

December 21, 1994, the commission only vaguely alluded to its support of the "financial aspects of innovation." The very next day, with new funds in hand and Council eyes no longer focused on SPRINT implementation, a DG13 official committed 200,000 ecus to subsidize EASD, knowing perfectly well the funds would be used to create EASDAQ.[49] Similarly, DG13 officials appeared to manipulate dates on the contracts for EASD funding. In backdating a contract to December 30, 1994 (even though it was signed and the funds arrived many months later), the DG13 officials appeared to slip in the funding on the very last day of the SPRINT program.[50] With the imminent dissolution of the program (and its monitoring mechanisms) and facing new jobs within the commission, the officials appeared to find a gap through which they could fund EASD with immunity as a final action in what had become a decade-long project.

DG23 officials appeared to use similar tactics to circumvent monitoring by the assigned management committee. The evidence here suggests commission officials cleverly represented the nature of their support for EASDAQ in such a way that would not draw disapproval from the management committee. In its communications, DG23 claimed that the purpose of EVCA's working group was to create a "feasibility study" that would assess the possibility of creating a European marketplace for entrepreneurial companies.[51] Support of a "feasibility study" would have fallen directly under the mandate given to DG23 for the implementation of the SME action program. (See text above.) Yet, from at least moment January 1994, everyone involved, including officials from DG23, knew that the main goal would be to create a pan-European marketplace

[48] Council Decision 94/5/EC.
[49] Letter from Janssens of DG13 to Stevens of EVCA, dated December 22, 1994.
[50] Copy of the contract. Origins withheld to protect source.
[51] COM(95)498, 7.

based on the Nasdaq institutional form. There were no secrets here. commission funding at this point comprised 45% of EVCA's budget and commission officials were present at the earliest planning meetings.

DG23 officials intended to create a pan-European marketplace, which is why when EVCA was looking for someone to head the commission-sponsored committee on smaller company stock markets, they influenced the selection of Jos Peeters, who had publicly advocated the creation of just such a marketplace. DG13, not DG23, paid for two real feasibility studies conducted by outside consultants. But the funds from the SME action program directly supported Peeters' group. By presenting EVCA's working group in terms more acceptable to the Council, the commission officials were able to support their real goal – the creation of a pan-European Nasdaq copy – while gliding through the monitoring process.

Moreover, the officials had made it seem in their reports that they were waiting for Council approval before getting involved. In fact, they acted first and asked later. Commission officials had given commitments to fund the EVCA capital markets working group and three feasibility studies in October 1993. On 10 November, when DG23 published a document on the financial problems of SMEs, commission officials were already in the process of sending out "invitations to tender" to outside consultants for carrying out the studies. The management committee for the SME program would only meet to approve of the document's proposals on November 28.[52] In December, only after it had already been agreed, EVCA officially requested commission support for the

[52] COM(93)528. Author's written correspondence with L.D.M. Mackenzie, Director, Promotion of Entrepreneurship and SME's, DG for Enterprise, Commission of the European Union, May 8, 2001.

working group. By January, it was already obvious that it would be more than a feasibility study.

The DG23 officials repeated the pattern in presenting their later subsidization of EASD. While EASD, after a rift with EASDAQ, has subsequently become a securities industry association with multiple functions, its birth in 1994 stemmed from the urgent need to create a non-profit organization through which commission funds could support the for-profit EASDAQ. DG23 officials presented their support of EASD as an attempt to create an industry-wide association and the close EASD-EASDAQ relationship as an accident of history. "The closeness of the association between EASD and EASDAQ is to some extent an accident of history," reads a DG23 communication. "At the time the EASD was formed there was only one proposal, from EASDAQ, for a pan-European market for smaller companies. As a non-profit making professional organization it will obviously have to be prepared to become involved with other projects to the extent asked for by their sponsors. It is encouraging that a director of the EASD is now also serving as a director of the French Nouveau Marché" (Commission 1995, 9).

In sum, the monitoring mechanisms of the Industry Council failed to rein in commission behavior that went well beyond original mandates stipulated in official Council decisions. Perhaps most striking about the Commission's subsidization of EASDAQ was that it continued long after November 1994 when the French exchange pulled out and enlisted its Treasury and Commissioner Edith Cresson in an intense campaign to stop the intervention. The presence of such serious member government opposition to the interventions all but eliminates the possibility that a few rogue low-level commission bureaucrats had no allies.

Politics inside the Commission

Who provided cover? DG23 and DG13 received cover from within the European Commission itself. The Commissioners in charge of enterprise policy Raniero Vanni d'Archirafi (1/93-1/95, Italy) and Christos Papoutsis (1/95-9/99, Greece) staunchly supported DG23's Director General Dr. Heinrich von Moltke (since 3/90) and the EASDAQ project. The Commissioners gave von Moltke and his staff the green light to carry out actions in support of EASDAQ, did battle with fellow Commissioner Edith Cresson at the College level, and showed very little contrition for doing so. Speaking at an EASDAQ conference in June 1996, von Moltke conveyed the sentiment of DG23 officials and the Commissioners: "We at the Commission, and particularly in Directorate General 23, the enterprise policy DG which I head, are very happy to see EASDAQ being launched, because it will fill a very real gap in the financing of European Small and Medium-sized Enterprises, or SMEs. It represents one of the fruits of the Commission's policy in this area, and I hope you will forgive me a small touch of pride when I say that had it not been for the Commission's original initiative, we might not all be here today. The proposal would have got off the ground, because it satisfies a market need, but much much later, and with greater uncertainty"(von Moltke 1996).

To conclude, the Commission's intervention in EASDAQ did not primarily reflect the goals of member state governments. One can uncover pockets of national support or opposition in any given European-level policy debate. In the case of the commission's intervention in EASDAQ, the crucial issue boils down to the position of those who mattered in financial change processes – national treasurers, ministers of finance and central bankers. Without exception, these actors supported their national stock exchanges in opposing the EASDAQ initiative and tried to roll back the clock by enlisting support inside the commission. The evidence, moreover, revealed that opposing national factions, meeting in the Industry and Research Councils, did not use the commission to intervene in EASDAQ. The evidence instead indicates that commission officials circumvented monitoring mechanisms, took advantage generous funding programs, new rules and a permissive political discourse, and received political cover from sympathetic Commissioners.

IV. Conclusion:

By comparing the expectations from several leading hypotheses to the historical record, I did not anticipate any one to explain fully the commission's pattern of interventions. But I wanted to see to what extent they could capture the primary causal factors and processes behind commission behavior.

What were the results? The empirical record suggests the emphasis of leading hypotheses on how external conditions empower or constrain supranational actors misses much of what is interesting in the causal story of commission intervention in European entrepreneurial finance. In particular, I found that the expectations derived from rational institutionalism often found some validity in the empirical record. Yet, for the most part, the formal institutions, emphasized by rational institutionalists, supplied the background to the central causal factors behind the variation in commission behavior. The evidence, for example, supports expectation #1 – about formally delegated functions – in the sense that the 1993 passage of the Investment Service Directive was a critical factor behind the timing of the commission decision to intervene and behind the belief that an intervention might be effective. Yet, it did not support the reasoning behind the rational institutionalist expectation, that the new directive would change the delegated functions of commission officials. Rather, member state governments and their respective insider financial communities continued to oppose the adoption of Nasdaq rules in Europe. By contrast, the ISD provided commission officials with a new opportunity, a "density of rules" in financial services, with which they creatively pushed the new directive in ways unintended by the member government creators. The evidence highlights the creative interpretation and manipulation of new rules by commission officials as expected by Expectation #2, not a fixed "zone of discretion" as P-A theorists expect.[53]

Again, with expectation #3, the evidence does mildly support the rational institutionalist expectation. Commission officials received some behind-the-scenes support in the early 1990s from national government representatives in the Industry Council. But the expectation misses the central causal story of highly motivated commission officials deliberately circumventing the committees that oversee their spending programs. The combination of an internal commission structure based on specialized divisions and the linkage that led DG13 and DG23 officials into the policy domain of financial services together proved an important source of empowerment for circumventing Council controls. In the case of expectation #4, informational asymmetries were not particularly important. But commission officials did indeed construct a new focal point around the Nasdaq rules. By appealing to the legitimacy of the US-based Nasdaq and the apparent role it was playing in creating jobs in the US, the

[53] The evidence is more consistent with the idea that a "density of rules" in a given sector provides the commission with new opportunities to achieve its goals (Sandholtz and Stone Sweet 1998).

officials deliberately chose the Nasdaq rules as their best option for overcoming opposition based on well formed government preferences for alternative institutional forms.[54] The new focal point did not stem so much from asymmetrical information or a multiple equilibria problem, as from a strategic calculation on the part of commission officials.

As for expectation #5, the evidence shows that the causal arrows point in the opposite direction. Commission officials, beginning in the early 1980s, constructed a European political voice for venture capitalists. They created and supported a Brussels-based pan-European industry association and lobby, that later became the main vehicle through which commission officials were able to achieve their goals. The support of the transnational network of venture capitalists greatly empowered the commission by the early 1990s. Emphasizing the network, however, cannot be separated from its origins, which lie in the deliberate actions of commission officials in the 1980s. Finally, the evidence also highlights the misplaced emphasis of expectation #6. Commission officials were persistent and displayed much patience. They did not decide to intervene until they believed conditions were propitious for overcoming expected opposition. But these characteristics had more to do with what the European Commission is, a bureaucracy, than its relations with member state governments. The persistence reflected the continuity of an internal structure based on policy specialization, while the decision to intervene in 1994 came only after a decade-long effort to foster enabling conditions that would make an intervention effective.

[54] My finding is similar to Kathleen McNamara's concerning central bank independence (McNamara 2001).

Rather than highlighting the external institutional environment, the empirical evidence points to how the decisions of commission officials reflected the inner workings of a few subdivisions, pursuing a particular interpretation of commission goals, taking advantage of new rules and oversight regimes, and reshaping external conditions to improve the chances of effective interventions. My study revealed a historical process in which the day-to-day operations inside the commission, over time, fostered external conditions that enabled and prompted an intervention that had a significant influence on the rules governing finance. That the two key DGs were able to have far-reaching influence by their seemingly normal, day-to-day execution of already approved spending programs points to the importance of "open," yet structured, empirical studies. Scholars, first from the intergovernmentalist and now from rational institutionalist traditions, tend to assess commission autonomy at a single moment in time and often in its formal policymaking capacity. My study suggests that by comparing statics, such approaches are likely to systematically underestimate the degree to which, one, cases in the EU context are interdependent and, two, the European Commission influences outcomes by incrementally shaping processes over time.

Finally, my findings suggest that the European Commission's behavior may be more a reflection of what it is, an international bureaucracy, than how it is constrained or enabled by its external environment. My study suggests two key patterns of European Commission behavior that sociologists and other social scientists have found characteristic of how bureaucracies interact with their external environments.[55] The first has to do with behaviors stemming from the continuity of internal structures. The

[55] I am taking my cues here from Barnett and Finnemore (1998) who use theoretical insights from the study of organizations to assess the behavior of international organizations.

commission's internal structure of subunits with distinct histories, subcultures, external constituencies and interpretations of goals and how to achieve them were an important determinant of commission empowerment and decisions.[56] My evidence suggests that continuity in the internal structure is likely to empower subunits and influence the way they make decisions in several ways.[57] Two propositions stand out. First, specialized subunits will, with time, likely develop new causal linkages, send them into the policy turf of other subunits and empower the first subunit to evade control mechanisms (cite Haas). Second, with continuity in the internal structure, subunits will likely develop a seasoned understanding of the external conditions necessary for achieving their goals.

The second pattern is related and has to do with the commission's role as an active shaper of the social and political world in which it operates. One of the key resources available to bureaucracies is the ability to influence and reshape the broader political and social environment. It is part and parcel of what bureaucracies do. What is important is the cumulative nature of these bureaucratic actions. Barring "exogenous shocks," by creating new political actors and voices, contributing to political discourse about what the problems are and how best to resolve them, and constructing focal points, commission officials foster conditions that increase the chances that their interventions will be effective and thereby increase the likelihood that they will intervene.

[56] Put in citations.
[57] Internal structures can also obstruct...

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Appendix 1: European Nasdaq Copies

1996	EASDAQ
1996	Nouveau Marché, Fr
1997	Euro.NM Belgium
1997	Nieuwe Markt (NMAX), Ne
1997	Neuer Markt, Ge
1999	SWX New Market, Swz
1999	Techmark, U.K.
1999	Nuovo Mercato, It
1999	SMAX, Ge
1999	Austrian Growth Market
2000	Nuevo Mercado, Sp
2001	Nasdaq Europe
2001	NextEurope

Appendix 2: Marketplaces for Smaller Companies, 1978-2001 (Failed Proposals in Italics)

Year	*Name of Marketplace*	*Created? Yes or No*	*Institutional Form?*
1977	Compartiment Spécial, Fr	Yes	French Feeder
1978	Mercato Ristretto, It	Yes	Italian Feeder
1980	Unlisted Securities Market, UK	Yes	British Feeder
1982	Bors 3, De	Yes	Danish Feeder
1982	Officiele Parallel Markt (OPM), Ne	Yes	Dutch Feeder
1982	Segundo Mercado, Barcelona	Yes	Spanish Feeder
1982	Swedish OTC Market	Yes	Swedish Feeder
1983	Second Marché I, Fr	Yes	French Feeder
1984	Stock Exchange II, Bors II, No	Yes	Norwegian Feeder
1984	Second Marché, Be	Yes	Belgian Feeder
1985	*ECU-EASD*	*No*	*Nasdaq*
1986	Segundo Mercado, Balbao	Yes	Spanish Feeder
1986	Segundo Mercado, Madrid	Yes	Spanish Feeder
1986	*Segundo Mercado, Valencia*	*No*	*Spanish Feeder*
1987	Geregelter Markt, Ge	Yes	German Feeder
1987	Third Market, UK	Yes	British Feeder
1989	*EASDAQ I, UK (Scotland)*	*No*	*British Feeder*
1989	*European OTC Market (EOTC)*	*No*	*Nasdaq*
1989	*European Securities Market (ESM)*	*No*	*Nasdaq*
1992	Dutch Participation Exchange (Parex), Ne	Yes	Alternative
1992	*European Private Equity Exchange (EPEE), UK*	*No*	*Alternative*
1992	*Mercato Locale Del Nord Ovest, It (Turin)*	*No*	*Alternative*
1993	*EASDAQ-UK*	*No*	*Nasdaq*
1993	*ECASE, UK*	*No*	*Nasdaq*
1993	*The Enterprise Market, UK*	*No*	*Nasdaq*
1993	*The National Market, UK*	*No*	*British Feeder*
1993	Second Marché II, Fr	Yes	French Feeder
1994	*MESEC, Fr*	*No*	*Nasdaq*
1994	*Mercato Telematico delle Imprese (Metim), It*	*No*	*Italian Feeder*
1995	Alternative Investment Market (AIM), UK	Yes	British Feeder
1995	*Electronic Share Interchange (ESI), UK*	*No*	*Alternative*
1995	*Mittelstandmarkt Bremen (MMB), Ge*	*No*	*Nasdaq*
1996	EASDAQ	Yes	Nasdaq
1996	Nouveau Marché, Fr	Yes	Nasdaq
1997	Euro.NM Belgium	Yes	Nasdaq
1997	Nieuwe Markt (NMAX), Ne	Yes	Nasdaq
1997	Neuer Markt, Ge	Yes	Nasdaq
1999	SWX New Market, Swz	Yes	Nasdaq
1999	Techmark, U.K.	Yes	Nasdaq
1999	Nuovo Mercato, It	Yes	Nasdaq
1999	SMAX, Ge	Yes	Nasdaq
1999	Austrian Growth Market	Yes	Nasdaq
2000	Nuevo Mercado, Sp	Yes	Nasdaq
2000	*iX-Nasdaq Merger*	*No*	*Nasdaq*
2001	Nasdaq Europe	Yes	Nasdaq
2001	NextEurope	Yes	Nasdaq

Appendix 2 (cont.)

European Marketplaces for Smaller Companies, 1978-2001
No Failed Cases Included

Year	*Name of Marketplace*	*Created? Yes or No*	*Institutional Form?*
1977	Compartiment Spécial, Fr	Yes	French Feeder
1978	Mercato Ristretto, It	Yes	Italian Feeder
1980	Unlisted Securities Market, UK	Yes	British Feeder
1982	Bors 3, De	Yes	Danish Feeder
1982	Officiele Parallel Markt (OPM), Ne	Yes	Dutch Feeder
1982	Segundo Mercado, Barcelona	Yes	Spanish Feeder
1982	Swedish OTC Market	Yes	Swedish Feeder
1983	Second Marché I, Fr	Yes	French Feeder
1984	Stock Exchange II, Bors II, No	Yes	Norwegian Feeder
1984	Second Marché, Be	Yes	Belgian Feeder
1986	Segundo Mercado, Balbao	Yes	Spanish Feeder
1986	Segundo Mercado, Madrid	Yes	Spanish Feeder
1987	Geregelter Markt, Ge	Yes	German Feeder
1987	Third Market, UK	Yes	British Feeder
1992	Dutch Participation Exchange (Parex), Ne	Yes	Alternative
1993	Second Marché II, Fr	Yes	French Feeder
1995	Alternative Investment Market (AIM), UK	Yes	British Feeder
1996	EASDAQ	Yes	Nasdaq
1996	Nouveau Marché, Fr	Yes	Nasdaq
1997	Euro.NM Belgium	Yes	Nasdaq
1997	Nieuwe Markt (NMAX), Ne	Yes	Nasdaq
1997	Neuer Markt, Ge	Yes	Nasdaq
1999	SWX New Market, Swz	Yes	Nasdaq
1999	Techmark, U.K.	Yes	Nasdaq
1999	Nuovo Mercato, It	Yes	Nasdaq
1999	SMAX, Ge	Yes	Nasdaq
1999	Austrian Growth Market	Yes	Nasdaq
2000	Nuevo Mercado, Sp	Yes	Nasdaq
2001	Nasdaq Europe	Yes	Nasdaq
2001	NextEurope	Yes	Nasdaq

Appendix 3

European Commission Officials Considered Proposals for a Pan-European Nasdaq Copy on Six Occasions

	Case Description:	Empirical pattern to be explained: Did European Commission officials decide to intervene?	What explains the decision?
ECU-EASD 1985	Two Swiss residents created proposal for a pan-European Nasdaq copy. ECU component included to lure Delors who circulated the proposal among commission officials. It found support in some corners of commission and in EVCA, a 1983 commission construction. US Nasdaq promised infrastructure assistance.	No.	
EASDAQ I 1989	Scottish proposal for pan-European Nasdaq copy to resolve the "regions" problem. Commission officials want to combine it with ECU-EASD.	No.	
EOTC 1989	Commission officials asked ECU-EASD team to submit again a proposal for a pan-European Nasdaq copy. They revise their 1985 report. But the commission then asked them to join forces with the Scottish group.	No.	
ESM 1989	In response to a commission request, a joint-proposal for a pan-European Nasdaq copy by the creators of EASDAQ I and EOTC. Some commission officials strongly wanted to support this effort.	No.	
ECASE 1993	A UK proposal for a pan-European Nasdaq copy by a private financial firm in response to commission requests for proposals.	No.	
EASDAQ 1994	**A proposal for a pan-European Nasdaq proposal put forth by a wing of EVCA with strong behind-the-scenes support from commission officials.**	**Yes.**	