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Globalization or European Union Politics? Harmonizing Accounting Standards Across Borders

Elliot Posner

Assistant Professor of Political Science
The George Washington University

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The GW Center for the Study of Globalization
2033 K Street, NW, Suite 230
Washington, DC 20052

Phone: (202) 994-5221
Fax: (202) 994-5284
Email: gwcsg@gwu.edu
Web: www.gwu.edu/~gwcsg

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Elliot Posner
George Washington University
eposner@gwu.edu

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ABSTRACT

This paper examines three recent efforts to harmonize accounting standards across borders. Contrary to leading explanations that point to the pivotal role of US authorities and global market forces, my argument highlights the independent effects of EU politics and argues that harmonization processes vary primarily with European regional developments. Using insights from historical institutionalism and constructivism, I contend that conflicts over accounting standards, whether at the national or supranational level, are likely to be extensions of distributional contests. Cross-border harmonization is no less dependent on politics than purely domestic cases. The most relevant context for European or transatlantic harmonization is the politics of EU integration. The argument points to the inadequacies of statist models for explaining the origins of and change in the rules governing the global economy.

Globalization or European Union Politics? Harmonizing Accounting Standards Across Borders¹

Accounting standards are central to capital market regulatory regimes. They specify what information companies must reveal about their internal finances and operations and serve as a means of communication for determining value. As for other components of financial regulation, differences among accounting standards pose significant barriers to cross-border economic integration and contribute to continued fragmentation along national lines, even in an era when capital crosses borders with ease.²

The stake are high in whether and how policymakers manage dissimilarities in accounting standards.³ On the one hand, harmonizing accounting standards promises to benefit investors, multinational firms and some financial intermediaries and governments. Multinational corporations, for example, gain when they can raise capital in multiple national markets without the extra costs of complying with more than one accounting standard, and global asset managers profit from the easy comparability of companies listed in different countries. On the other hand, seemingly small variances in standards often reverberate through an entire national political economy. The current battle in the US Congress over expensing stock options vividly demonstrates why authorities sometimes hesitate before changing domestic accounting standards. American high technology companies argue that a change in expensing rules will undermine incentives central to their industries' success.⁴ A similar contest in the EU over the reporting of financial instruments has become so controversial that heads of state recently joined the fight.⁵

As these disputes suggest, alterations in accounting standards affect not only the welfare of capital market participants but also influence the ability of governments to promote national markets and attract mobile capital, the risks savers and workers bear, the types of companies that operate in a given jurisdiction and the allocation of financial resources. The reverberations are likely to extend deeper still because of extensive complementarities between financial regulations and tax codes, property rights, corporate governance and labor regimes.

This paper examines three important recent efforts to harmonize accounting standards across borders: The first is the requirement by national stock exchanges in Europe that listed firms on their new 1990s smaller company stock markets adopt US and international accounting standards. The second is the new EU legislation mandating that listed companies on regulated markets use International Accounting Standards (IAS) by 2005.⁶ The last is the on-going convergence project between the US accounting standards setter and the International Accounting Standards Board (IASB) to make US standards and IAS completely compatible.

I structure the comparison around three questions concerning harmonization processes: Do the politics of harmonizing accounting standards follow a pattern and if so what is its logic? Who are the likely agents of change and what are their motivations? What determines outcomes? Elegantly synthesizing functionalist and realist approaches from the international relations literature, Beth Simmons recently

¹ I thank Joel Mathen for his assistance with the research. An earlier draft of this paper was delivered at the 2004 Annual Meeting of American Political Science Association, September 2 - September 5, 2004.

² This remains the case even in the European Union where regulatory integration has progressed furthest. See Commission (2004a; b).

³ For examples of the contentious debates surrounding harmonization of accounting standards, see the comments on the US Securities and Exchange Commission's concept release concerning the acceptance of International Accounting Standards in the US without reconciliation to domestic standards (Release Nos. 33-7801, 34-42430; International Series Release No. 1215; File No. S7-04-00) at <http://www.sec.gov/rules/concept/s70400.shtml>. The SEC discusses its own considerations in SEC (1997).

⁴ Waters (2004b; a).

⁵ Barber 2004; Kerrison 2004; Lex Column 2004; Norris 2004..

⁶ For reasons discussed below, International Accounting Standards (IAS) were recently renamed International Financial Reporting Standards (IFRS). Because IAS is still widely used to refer to IFRS and for reasons of readability, this paper uses IAS throughout.

addressed these questions in an ambitious study on the processes of harmonizing capital market regulations.⁷ I use her arguments as baseline hypotheses for conducting my investigation.

Simmons maintains that the degree of harmonization and whether the processes follow a political or market logic depend on two factors: decisions made by authorities representing dominant national financial markets, primarily those in the US; and the nature of the issue area. The model classifies the politics of harmonizing accounting standards as an asymmetrical game characterized by first-mover advantages and network externalities. Under conditions of deepening interdependence, it expects market forces to pressure national authorities into adopting US standards and American regulators to have little incentive to intervene politically.

I challenge Simmons' model on theoretical and empirical grounds, arguing that it misses a key causal variable – the on-going integration of national financial systems in Europe – and therefore can only offer incomplete explanations. Borrowing from historical institutionalism and constructivism, I contend that conflicts over accounting standards, whether at the national or supranational level, are likely to be extensions of distributional contests. Cross-border harmonization, moreover, is no less dependent on political context than purely national cases. For harmonization processes at the European or transatlantic levels, the most relevant political context is the deepening institutionalization of regional political space. I contend that the independent effects of regional EU politics are likely to figure significantly and harmonization processes will vary primarily with these European developments, not global market forces.

Conclusions from my empirical analysis offer reasonable support for this argument. The three instances of harmonization reveal contrasting processes that move in fairly close tandem with EU political developments. The first case began when a political intervention by EU supranational authorities, aimed to integrate another sector of European finance in the aftermath of the 1986 Single European Act, set off a competition among stock exchanges over which would become the future Nasdaq Stock Market of Europe. In the second case, the timing and extraordinary nature of the EU mandate that listed companies use IAS by 2005 are largely political spillovers of the euro's introduction. Moreover, the new EU legislation demonstrates the limits of market-driven processes. European policymakers considered the gradual adoption of US standards by European multinational corporations to be politically unacceptable, especially because it would have ceded control over the production of standards to a US authority. In my final case, EU politics also plays a critical role in the current efforts to converge IAS and USGAAP. The EU decision to put its support behind IAS and its standards setter, the IASB, altered the calculations of US authorities. US authorities shifted a long-established position and intervened politically because market forces were not sufficient to prevent IAS from becoming a rival set of standards incompatible with USGAAP. The possibility that EU authorities will not recognize US standards under the new regime has increased the incentives of American officials to negotiate. A newly empowered EU and the potential for mutually harmful rules, not market forces, explain the current project to converge accounting standards.

In all three cases, the politics of European integration was more important than market forces in accounting for the timing, the agents of change and their motivations, the logics and the outcomes of harmonization processes. Even so, the empirical record revealed differing blends of market and political dynamics in each case. Despite the limitations of a small-n study of this kind, these conclusions raise serious doubts about the theoretical utility of classifying harmonization processes by issue area. It instead shifts attention to variance in political context. For the regulation of global finance, political context can no longer be limited to state-to-state relations. As we begin the twenty-first century, the deeply institutionalized political space of the EU polity has emerged as the most important source of regulatory change, and variation in harmonization processes, like those observed in this paper, is likely to reflect its contours. More than state reactions to economic globalization, harmonizing regulations across borders is part of a broad pattern in the international political economy of adjustment to an emerging Europe.

In the following section, I develop my argument. Section three presents the three empirical cases. The conclusion offers suggestions for more future research.

II. Two Views of the Harmonization of Accounting Standards

As capital markets have increased in importance vis a vis other forms of financing, so too has the use of disclosure as a regulatory tool. Accounting standards, reporting, auditing and enforcement comprise

⁷ Simmons 2001.

central elements in financial disclosure regimes.⁸ Historically, accounting standards differed significantly across borders and could be distinguished along several dimensions.⁹ The litigious nature of the US rule-based standards, USGAAP, for example, contrasts sharply with the UK's and IAS' principle-based standards. On the European continent where most accounting rules are codified in law, tax regimes correspond closely with accounting standards, whereas in the US and the UK, quasi-private standard-setters produce accounting rules, which relate indirectly to tax codes.¹⁰ Adding the idiosyncrasies of national auditing and enforcement regimes magnifies the incongruities.

Academics who study accounting standards hold disparate views about what they are and how we should think about them. According to the economics of accounting approach, the rules of accounting and other financial regulations solve problems stemming from asymmetrical information between the owners of companies and investors, creditors, customers and other stakeholders.¹¹ Models in this tradition include three basic characteristics: uncertainty, multiperson settings with conflicts of interest, and information asymmetry. Their underlying premise is that "financial accounting and reporting is essentially a means to provide information," which solves market failure problems and allows people outside the firm to make decisions.¹²

There are obvious affinities between the economics of accounting and Simmons' assumption that the politics of harmonization can be classified a priori by issue area. Her starting point is that the problems emerging from a particular issue area create specific externalities and incentives that give rise to similar political processes regardless of context.¹³ This part of her model, like the economics approach to accounting, has roots in institutional economics via functional regime theory. States, according to the latter, create institutions to overcome the hazards of cooperation under anarchy. Institutions make possible mutually beneficial bargains that might otherwise not be made. The problems of state-to-state cooperation, Robert Keohane argues, are analogous to market failures, in which problems related to uncertainty (e.g. asymmetrical information) undermine otherwise advantageous exchange. The rules and principles of international institutions help states to redress these kinds of problems by making information more widely available.¹⁴ The premise that politics reflect specific issue areas follows logically.¹⁵ If cooperation problems are analogous to market failures, they too arise from inherent qualities in underlying assets, goods or transactions.¹⁶ Such reasoning leads Simmons and others to assume that *different instances of harmonizing accounting standards across borders are expected to follow similar political processes regardless of historical context.*

For Simmons, then, explaining processes of harmonization lies in categorizing issue areas correctly. She classifies the harmonization of accounting standards as a situation in which network externalities confer first mover advantages. For individual market participants, the relative benefits of subscribing to a particular set of accounting standards versus another increases as others subscribe to it. In this sense, accounting standards are like a language, electronic trading system or network.¹⁷ For market participants, the content of accounting standards is expected to matter less than the number of others using them. *Firm preferences for changing accounting standards are expected to rest on a calculation that weighs the costs of switching against the benefits of adopting the most widely used standards. Responding to these preferences, second-mover governments are expected to harmonize towards the leading standards to keep their respective financial centers competitive and ensure their firms have access to the hegemon's markets.*¹⁸

⁸ Other elements of financial disclosure regimes include informational intermediaries such as analysts and rating agencies, prospectus rules for listing companies, insider trading prohibitions, rules governing the frequency of reporting and ad hoc disclosures, and aspects of corporate governance. For a good overview, see Lannoo and Khachatryan (2003).

⁹ For a discussion of the differences, see SEC(2003).

¹⁰ For a discussion of the code- and common-law models, see Ball (2004).

¹¹ For a literature review of this approach, see Wagenhofer (2004).

¹² Wagenhofer 2004.

¹³ Simmons 2001.

¹⁴ Keohane, *After Hegemony*, pp.31-46 or 88-103.

¹⁵ See Aggarwal (1985) for an early example of this logic.

¹⁶ Cerny 1995; Alt, Frieden et al. 1996.

¹⁷ See Pierson (2000) for a discussion of increasing returns and path dependence.

¹⁸ Simmons 2001.

Finally, what holds Simmons' model together is the role of the financial hegemon. She argues that the concentration of global financial activity in the US imbues its regulators with relative market power. US policy preferences are exogenous to the model and assumed costlier to change than to alter the policies of the rest of the world. The US is thus a financial hegemon, an unconditional first-mover, and its incentives or lack of them ultimately shapes the course of harmonization.¹⁹ Such assumptions are a turn away from functionalist regime theory based on joint gains to the political realist tradition that highlights the role of market power in determining international outcomes.²⁰

In the case of harmonization of accounting standards and other issue areas with the same qualities, her model does not expect classic coordination games, like "Battle of the Sexes," in which national authorities consider separate standards as suboptimal and harmonization as a solution. In these traditional standardization conflicts, a problem arises because everyone wants to avoid the costs of switching and therefore prefers that its own be the new single standard.²¹ Realists argue that relative power among the players determines who has to pay the one-off switching costs. Simmons instead argues that, in the case of accounting standards, market forces drive the harmonization process forward, as described above, so that the financial hegemon need not intervene politically for others to adopt its standards or policies. The first-mover advantages of the US combine with the network externalities of accounting standards to create a different game. *Market forces are expected to pressure foreign regulators into adopting US accounting standards, leaving American regulators without a need for intervening in the process.*

An Alternative Set of Hypotheses:

By accepting alternative assumptions, derived from historical institutionalism and constructivism, I propose quite different hypotheses about the harmonization of accounting standards. First, accounting standards and other rules governing economic activity are societal institutions that embody the legacies of past political bargains about distributional issues and create complementarities with other arrangements through a complex web of incentives and relationships.²² I emphasize the political processes that shape accounting rules and practices, not informational problems and functional solutions.²³ From this perspective, the content of the rules matter because of their potential to create winners and losers. Rather than following a primarily technocratic logic, the production of accounting standards involves groups and individuals seeking changes that reflect their parochial interests. Empirical studies on the processes of creating standards show that societal groups in the US and Europe use what resources they have to influence accounting rules and the way they are reported.²⁴ Accounting rules are thus an extension of political contests.

Just as historical institutionalists might expect, accounting standards, like other societal institutions, provide increasing returns. They follow a path dependence logic because the relative benefits of existing standards vis à vis change increase over time. Once institutionalized, the bargains create a web of complementarities and incentives that link accounting standards to other societal institutions in a multitude of ways.²⁵ Accounting standards are connected to patents and trademarks, capital and assets, the allocation of financial resources, pensions, taxes and workers compensation. Small changes in accounting rules affect other parts of the web. Given these interdependencies, I expect authorities and market participants to change accounting rules infrequently and with caution, and changes in practice to lag behind those in the formal rules.

Such a political understanding of accounting standards implies a set of hypotheses about the processes of cross-border harmonization that contrast with those discussed above. First, it raises serious

¹⁹ Simmons 2001.

²⁰ Drezner ; Aggarwal 1985; Krasner 1991; Oatley and Nabors 1998; Richards 1999; Bach and Newman 2004; Posner 2004b.

²¹ See Mattli and Buthe 2003 for a recent discussion.

²² The political view of accounting, while developed independently by scholars of accounting, closely mirrors the historical institutionalism and the national systems approach to finance. On the political theory of accounting, see McLeay and Merkl 2004; McLeay, Ordeltelheide et al. 2004; Ordeltelheide 2004. On national financial systems, see Zysman 1983; Story and Walter 1997. On historical institutionalism, see Thelen and Steinmo 1992; Pierson 2000.

²³ Ordeltelheide 2004.

²⁴ McLeay and Merkl 2004; McLeay, Ordeltelheide et al. 2004; Ordeltelheide 2004

²⁵ Steinberg, Arner et al. 1999; Ordeltelheide 2004; van Hulle 2004.

doubts about the extent to which market forces will drive national authorities to adopt US accounting standards. If accounting standards are deeply embedded in broader social bargains and national styles of capitalism, the costs of switching, for at least some market actors, would likely be much higher than Simmons' model anticipates. This is because only some market participants, those who are internationally oriented, will press for the adoption of American standards. Others, who benefit from the high rents of domestic arrangements, will oppose it. For them, the increasing returns from keeping the same standards and the uncertain effects of change on underlying social bargains and interdependent institutions would raise the stakes of switching. By this logic, the increasing benefits for internationally active market actors of adopting the first-mover's standards are in opposition to the increasing returns for keeping national standards. Rather than market forces pushing in one direction, the process is more likely to be a contentious battle between potential losers and winners.²⁶

A political approach to accounting standards suggests a second reason why market forces are unlikely to pressure national authorities toward harmonization. If changes in national accounting standards reverberate throughout a domestic financial system and alter the allocation of resources at home and the potential for national firms to compete abroad, domestic authorities would be expected to consider control over their production to be a critical issue of national sovereignty. *I expect control over standard setting, not just the costs of switching relative to the benefits of adopting leading standards, to figure highly in the goals of national authorities when considering harmonization.* These additional considerations not only problematize the relationship between market forces and cross-border harmonization but also complicate expectations about a single type of harmonization process. The decisions of market participants and government officials are likely to flow from multiple goals and pressures that alternate in intensity and emerge from particular environments, and therefore *the processes of harmonization are likely to vary by political context.*

The Global Political Context:

For Simmons and others in the statist traditions of international relations, political context in world politics is reducible, at least for theoretical purposes, to relations among states. In this image, institutionalized political space is bundled into domestic units. International institutions solve problems for states and do not have independent status as autonomous political actors. Market participants might be expected to shape government preferences, in these approaches, but global politics is depicted as state-to-state interactions.

Following the constructivist challenge, I relax the statist assumptions and instead envision supranational clusters of institutionalized political space populated by an array of actors of which states are often the most important.²⁷ A constructivist view of the global political economy is a complex picture of economic activity embedded in formal and informal interdependent institutions. Arguably, the densest area of supranational institutionalization is the EU polity, especially in the domain of economic regulations.²⁸ Models that exclude the possibility of independent EU effects a priori will likely fail to explain global regulatory change.

The regionalization of national financial regulation in Europe is the political context in which harmonization of accounting standards is taking place. It affects not only processes that include only EU member countries but also those involving European and other countries.

EU Financial Regulatory Integration:²⁹

Plans for a single financial system in Europe can be traced to the Treaties of Rome, but regulatory integration in the sector has followed an incremental path interrupted by two periods of intensified effort. The first started in the 1980s following the launch of the Single Market Programme and the Single European Act.³⁰ Among the most important pieces of EC legislation produced during this period were

²⁶ The second-image-reversed arguments draw a different conclusion in part because they fail to understand that existing arrangements may provide increasing returns. See for example Laurence (2001). Rogowski (2003) mirrors the above logic.

²⁷ Sikkink 1993; Finnemore 1996; Wendt 1999; McNamara 2001.

²⁸ Stone Sweet, Fligstein et al. 2001.

²⁹ Parts of this section were derived from Posner (2004b).

³⁰ For contrasting views, see Sandholtz and Zysman 1989; Moravcsik 1991; Fligstein and Mara-Drita 1996.

directives liberalizing the movement of capital and extending the principle of mutual recognition to banks, insurance companies and investment service providers. These formal pieces of legislation had only uneven effects on overcoming differences in national regulatory systems and integrating real financial activity,³¹ but, as I show below, they created opportunities for activist supranational bureaucrats in the European Commission and innovative financial firms.

The second began in the immediate aftermath of the euro's 1999 introduction. Facing relatively sluggish economic performance and high levels of structural unemployment, analysts and policymakers in EU countries sought ways to reap the full benefits of the new currency. The Financial Services Action Plan, proposed in May 1999 and endorsed by the European Council in March 2000, provides the formal content of the renewed effort – the EC legislation deemed necessary to integrate national financial services industries – and an ambitious timetable.³² The FSAP originally had 42 measures (the number has since grown) that covered nearly every area of financial regulation. As of May 2004, EU policymakers had almost completed the original list, which includes legislation covering company statutes, money laundering, UCITS (mutual funds), accounting standards, market abuse, occupational pensions and prospectuses.

Policymakers, regulators and financiers have now turned to detailed regulations, implementation, enforcement and enhancement of poorly performing legislation. These are the core of the Lamfalussy Process, the new formal decision-making procedures for expediting the creation of EC legislation for insurance, banking and investment services and coordinating implementation and enforcement.³³ The new rule-making procedures also created new European-level bodies like the Committee of European Securities Regulators (CESR), which has formalized the coordination of implementation and enforcement of new EU laws.

While a single European financial system remains a far-off goal,³⁴ there are two good reasons to expect immediate and far-reaching implications for accounting standards harmonization. First, accounting standards, central to regulating modern financial systems, are likely to be a core measure in any integration effort. Second, the centralization of authority in Europe is likely to reverberate within Europe and in other parts of the world. This runs counter to widely held ideas reflected in Simmons' model that equate the relative size of a national market with relative market power.³⁵ Simmons focuses on the actions of US regulators because American markets attract the most financial activity and are the biggest by standard measures. The EU as a polity lacks integrated markets and no single European financial center, even London, matches American markets. Her model therefore does not expect EU regulators to have first-mover advantages. Its actions are certainly not expected to affect decisions of US authorities.

I argue that Simmons overlooks a key source of relative market power: the degree to which foreign firms participate in and rely on a regulator's jurisdiction. This is what has changed in the EU. By incorporating in London or Luxembourg, firms had been able to use the principle of mutual recognition to gain access to national markets in Europe and play one national authority off against another. New EU laws or actions by its supranational authorities create a single set of rules for financial activity taking place in all twenty-five national jurisdictions. The FSAP and the Lamfalussy Process concentrate new authorities in supranational processes and actors and thereby vastly increase the potential for new EU-level developments. This shift in authority has altered rules and incentives for firms operating in the region – regardless of the degree of market integration or level of financial activity. American firms that formerly operated under several national jurisdictions are increasingly subject to a single set of rules and have become more active in enlisting US politicians to ensure that Europe's new laws do not harm their

³¹ Story and Walter 1997; Steil 1998; Deeg and Perez 2000.

³² This is a classic case of spillover. Taking advantage of the UK's interest in deeper financial integration, the European Commission bundled together a wish-list of proposals for financial legislation, some traceable to the 1960s and '70s. They used the "euro" issue to win the support of Ecofin, arguing that the lack of integration in financial services prevented the Europe from reaping the full benefits of a single currency. Interview with European Commission official, Delegation of the European Commission, Washington DC, May 5, 2004.

³³ Originally, the Lamfalussy Process only included the securities industry. It now includes banking and insurance as well.

³⁴ For a recent example, see Commission (2004a; b).

³⁵ Drezner ; Aggarwal 1985; Oatley and Nabors 1998; Richards 1999.

businesses. Thus, the FSAP and Lamfalussy not only shifted relative powers from member state governments to the supranational level but also empowered the EU in its dealings with the US.³⁶

The emerging EU regulatory regime in finance is likely to shape cross-border harmonization processes in three ways. *First, because of the centrality of disclosure regimes to the regulation of finance, efforts to harmonize European accounting standards will likely accompany broad EU efforts to create a single financial market, such as those following the SEA and the euro's introduction. Second, supranational authorities charged with deepening European integration will likely take advantage of such historical moments to pursue activist harmonization projects.*³⁷ *Finally, harmonization in Europe is likely to alter the calculations of US authorities. The combination of pressure from US firms and the potential of a rival set of accounting standards incompatible with US GAAP may prompt them to intervene.*

III. Three Cases of Cross-Border Harmonization

Copying the Nasdaq Stock Market in Europe:³⁸

Background:

Between 1995 and 2003 stock exchanges in nine western European countries created more than a dozen new stock markets. Most were explicitly modeled on the US-based Nasdaq Stock Market, and several, like the Nouveau Marché, Techmark and the now-defunct Neuer Markt, became household names during the 1995-2000 international stock market cycle. The new markets differed from earlier experimental ones which also aimed at expanding financing options for smaller companies. Between 1977 and 1995, Europe's exchanges created some thirty smaller company markets that had lower barriers to listing (such as requirements that companies post profits for several years), but kept national accounting and other disclosure standards at the traditional minimum levels for smaller companies; in the case of the Nasdaq copies, companies without a track record that wanted capital and were willing to sell shares to the public could do so if they revealed high levels of financial information in accordance with international accounting standards.

In most cases (Frankfurt, Paris, Brussels, Amsterdam and London), the exchanges' requirements went well beyond the minimum national standards. Frankfurt's Deutsche Boerse went the furthest, requiring companies on the Neuer Markt to provide all public information in English, supply quarterly reports, and accounts in US GAAP, IAS or national standards with reconciliation. At the time, not even the most established companies listed on the main stock markets had to follow such high standards.³⁹ The Paris bourse and the London Stock Exchange at first devised less stringent requirements but later raised their standards on the Nouveau Marché (in November 1996) and the Alternative Investment Market (in August 1997), respectively.⁴⁰ In November 1999, responding to an intensifying race to the top, the LSE created Techmark, with exceptionally high accounting and informational requirements.

The international collapse of equity prices that began in March 2000 revealed severe shortcomings in the enforcement capabilities of the exchanges and national regulators. The reaction has been to further harmonize to international standards. In 2001, Euronext, the merger of the Paris, Brussels and Amsterdam exchanges, created NextEconomy, which in requiring IAS by 2005 has converged more closely to international standards than the Nouveau Marché,⁴¹ and in 2003 the Deutsche Boerse created Prime Standard with more rigorous accounting requirements than the Neuer Markt.

Explanation:

The puzzle of this instance of international harmonization lies in the opposition of the exchanges and their national governments. In the months beforehand, many of the stock exchanges had made decisions, some in response to highly public political contests, to close or reform their earlier markets. None chose to adopt international accounting standards, and the Paris and London exchanges explicitly

³⁶ I develop my argument about the changed US-EU relationship in Posner (2004b).

³⁷ Fligstein and Mara-Drita 1996; Stone Sweet, Fligstein et al. 2001.

³⁸ For a detailed treatment of Europe's twenty-five year experimentation with smaller company stock markets, see Posner (2002; 2004a). This section is derived from these accounts.

³⁹ Fuhrmans 2000; Johnson 2000. By 2005 all publicly listed EU companies will have to report in accordance with international accounting standards (Regulation (EC) 1601/2002, July 2002).

⁴⁰ Financial Times 1996; Mandell 1997.

⁴¹ (Euronext 2001).

rejected proposals to do so. Moreover, national finance ministries and securities regulators were closely involved in these decisions. What explains the sudden shift in policy?

On the surface, this episode of cross-border harmonization of accounting standards appears consistent with the expectations of the Simmons' model. Market forces – a fierce competition for investors over which could most closely emulate the standards of the US Nasdaq Stock Market – drove the exchanges toward US and international accounting requirements, and American regulators had little to do with the process and expended no resources to assist it along.

An examination of the empirical record, however, reveals evidence that points in another direction. In 1994, when the harmonization process began, US accounting requirements for smaller companies had not changed significantly for decades. Furthermore, restrictions on the movement of capital in western Europe were already very low by the late 1980s, undermining the likelihood that under new levels of capital mobility, the exchanges would feel new market pressures – as if the US had initiated a new accounting regime.

What then set the process in motion? What altered the payoffs of the European exchanges? The answer lies in the actions of European Commission officials,⁴² who backed a 1994 proposal by venture capitalists for a pan-European Nasdaq copy. The new market mimicked the Nasdaq rulebook, including its accounting and other disclosure requirements. The Commission officials timed their intervention to coincide with the introduction of new EC legislation, the 1993 Investment Services Directive (ISD). They were motivated by a mixture of political and economic goals: the prospect of integrating yet another sector of European finance and fostering venture capitalism as a solution to unemployment in the region. The Brussels officials deliberately chose a group of venture capitalists promoting the US model because they believed it stood the best chances of overcoming opposition from national exchanges and governments.

The evidence shows that the European Commission intervention sparked the harmonization process. The proposed pan-European Nasdaq copy stoked fears of a credible rival. Stock exchanges, when they compete, strive to attract the same global investors and listing companies. The ISD, while saying nothing about accounting standards, fostered uncertainty that an upstart pan-European market might draw investors and listing companies away from national markets. The exchanges believed the best way to compete for global investors was to require smaller companies to adopt international accounting standards.

Standardization in the European Union

Background:

In July 2002, EU policymakers agreed to a regulation mandating that all companies listed on regulated markets apply International Accounting Standards (IAS)⁴³ by 2005.⁴⁴ The sweeping regulation directly affects about seven thousand companies and, depending on the decisions of individual member governments regarding unlisted companies, might also change the accounting regime for thousands of other firms. The measure calls for a special case of harmonization – standardization.⁴⁵ The member governments went beyond converging national standards to compatible levels; they instead adopted the same standards produced by an outside private body. They also agreed to coordinate implementation and enforcement through the Committee of European Securities Regulators (CESR).⁴⁶ While the regulation

⁴² The European Commission is the EU supranational bureaucracy.

⁴³ The International Accounting Standards Committee (IASC) produced the International Accounting Standards (IAS) until April 2001, when it was reconstituted as the International Accounting Standards Board (IASB). The IASB's new standards are now called International Financial Reporting Standards.

⁴⁴ Regulation (EC) No 1606/2002. The regulation applies to consolidated accounts only. In the infrequent case when a listed company is not a parent of a group, member state governments will decide whether to require the application of IAS to the annual accounts prepared by the company (van Hulle 2004).

⁴⁵ It remains an open question, which may eventually require adjudication by the European Court of Justice, as to whether member governments may add additional standards above and beyond European Commission endorsed IAS (Commission 2003). Author's communication via email with an official of EFRAG, July 2004.

⁴⁶ The Federation of European Securities Commissions (FESCO) became CESR under the new Lamfalussy regime. See below for more details.

delegates the production of accounting standards to the International Accounting Standards Board (IASB), it requires the endorsement of the European Commission, which is to base its decisions on technical and political criteria.

Explanation:

The 2002 accounting regulation is an extraordinary measure, in no small part because of the chosen legal instrument.⁴⁷ For financial legislation, European member governments and the European Parliament normally use directives, which require national authorities to integrate the measures into national law. Regulations instead are directly applicable, circumventing domestic legislators. Adding to its unusual nature, the regulation passed in a single reading, despite the European Commission's "dynamic interpretation" that it did not conflict with existing EU accounting legislation.⁴⁸

The regulation's passage is also a curious turn away from previous opposition from large member states to further accounting harmonization. In two previous EU accounting laws – the Fourth (1978) and Seventh (1983) Company Law Directives – the objectives, the consequence of difficult negotiations, were minimal harmonization and the resulting directives left a wide range of choices for national governments.⁴⁹ By the end of the 1980s Germany and the UK had abandoned the goal of further regional harmonization. In Germany resistance to increased disclosure came especially from small- and medium-sized companies, the motor of post-war economic recovery. The UK turned its back on European legislative efforts, which it found too constraining, and instead worked with the IASC and the US through the Group of 4+1 toward future compatibility among standards based on similar concepts.⁵⁰

Simmons' argument that market forces would pressure national governments to harmonize toward US or UK standards accounts for one of several catalysts for the radical shift in Europe but misses the primary causal process, the two-decade-long development of the regional financial system. The politics of European integration, not market forces stemming from US policies, shaped the EU decisions to standardize rather than harmonize, to adopt IAS instead of several other options, and to do so in 2005.

In 1990, the European Commission began to set the groundwork for future harmonization. Brussels officials recognized that an integrated financial market would require deeper harmonization of accounting standards and other disclosure rules. The short-term objective, however, was to use the momentum following the 1986 passage of the Single European Act to keep alive the idea of further accounting harmonization.⁵¹ Two political problems opened the door for a more activist role by European Commission officials to promote an integrationist agenda. First, the adoption of US GAAP in the early 1990s by some high-profile European multinational firms prompted Europeans to revisit the issue of accounting standards. The firms, as Simmons expects, were responding to market forces. They chose US standards to reduce the cost of raising capital in US financial markets.⁵² From the perspective of national governments and European Commission officials, however, the problem was more political than economic. The usage of US standards, over which Europeans had no authority, was politically unacceptable and quickly became the central issue in discussions about how to respond.

The European Commission officials considered several options. They chose IAS, rather than building on existing EU legislation, creating new European standards or adopting US GAAP, for two reasons.⁵³ First, in 1995, when the European Commission first embraced the IAS option, the IASC had just signed an agreement with International Organization of Securities Commissions (IOSCO) to carry out an improvements program.⁵⁴ Once complete, IOSCO agreed to consider recommending the standards to its

⁴⁷ van Hulle 2004.

⁴⁸ van Hulle 2004.

⁴⁹ Dewing and Russell 2004.

⁵⁰ van Hulle 2004.

⁵¹ van Hulle 2004. A number of financial directives were negotiated in the aftermath of the Single European Act of 1986.

⁵² Ball 2004.

⁵³ For discussions of the alternatives considered and reasoning behind the selection of IAS, see Commission (1995).

⁵⁴ On IOSCO, see Bach (2004).

members.⁵⁵ The European Commission had worked closely with IASC in a symbiotic relationship in which the two parties had used one another's concepts in developing laws and standards.⁵⁶ Because of the complementarities between accounting standards and other societal institutions, the connections between IAS and existing EU laws promised less painful adjustments.⁵⁷ European Commission officials believed IAS would one day represent a comprehensive set of quality accounting principles and recognized the flexibility of standards created by a private body over the law-based model. IAS were never anticipated to be the same as US GAAP, which, from a continental and British perspective, were an idiosyncratic set of largely rule-based standards designed for a highly litigious society and inappropriate for foreign soil.⁵⁸ Rather, European policymakers hoped that the IAS would be compatible enough with US GAAP to merit a mutual recognition regime and thereby mitigate the need for European firms to adopt the US standard.⁵⁹

Second, a desire by European governments and the European Commission to control the production of future standards made convergence to US GAAP politically unacceptable, however appealing and elegant in a purely economic rationale.⁶⁰ Choosing the American standards would have ceded control to the U.S. Federal Accounting Standards Board (FASB), the American standard setter.⁶¹ Simmons downplays the issue of control in the EU's decision to put its weight behind IAS. Yet in 1995 when the European Commission proposed the strategy and later when the EU created the endorsement mechanisms for approving IAS, European policymakers considered their potential influence over IASB one of its main attractions. They had several reasons to expect to have significant influence over IASB. By backing the international body, Europe became its biggest constituent. European support is what gave IAS the potential to rival US GAAP and transformed it from a forum for technical discussions into a standard setter whose decisions had wide implications. The importance of the EU to IASB's new role, the policymakers reasoned, ensured European influence over its proceedings. Although it is a private organization, moreover, many of IASB's trustees are European.⁶² Commission officials argued that a unified position combined with the endorsement mechanisms would guarantee influence, if not domination, of the board.⁶³

The second politically salient problem that created opportunities for European Commission activism followed the euro's advent. "Like snow melting," the new currency made the barriers to an integrated regional financial market explicit. At least this was the message European Commission officials wanted to convey in order to sell the FSAP in the late 1990s.⁶⁴ The radical shift towards accounting standardization, codified in the 2002 regulation, can only be grasped in the context of EU politics at the end of the 1990s. The US economy appeared to be catapulting ahead of Europe's, and the European Commission officials argued that the EU could not reap the full benefits of its response, the single currency, until the obstacles to a single financial market were removed.

This sense of urgency coalesced into a consensus among European finance ministers and the European Parliament and explains the success of the FSAP and Lamfalussy process. No one wanted to be seen as opposing it. The City of London, the UK Treasury and the French Trésor were all strong proponents. Everyone, moreover, seemed to agree that harmonization of accounting standards would be

⁵⁵ SEC 1997.

⁵⁶ Knorr and Ebberts (2001).

⁵⁷ For this same reason, the avoidance of high adjustment costs, European policymakers adopted an incremental approach to standardization that included only consolidated accounts. This avoided painful adjustments to tax systems.

⁵⁸ Author's interview with EFRAG executive, Brussels, June 7, 2004; Author's interview with European Commission official (DG Internal Market), Brussels, June 10, 2004.

⁵⁹ The European Commission and individual European governments had not been successful in convincing the US SEC to agree to mutual recognition regimes (Commission 1995; van Hulle 2004).

⁶⁰ Interview with European Commission official, Washington DC, May 5, 2004. Commission 1995; van Hulle 2004.

⁶¹ Commission 2000.

⁶² In the final years of IASC 1997-2000, five of thirteen board members chosen by country were European. The rest were Australia, Canada, India, Japan, Malaysia, Mexico, South Africa and the US. In addition, at least one and sometimes two of the industry organization members were European (Knorr and Ebberts 2001). Under the new constitution, six of nineteen IASCF trustees must be from European countries (<http://www.iasb.org>).

⁶³ It is still unclear whether their calculations were correct. See below.

⁶⁴ Author's interview with European Commission official (DG Internal Market), Brussels, June 9, 2004.

central to a regional financial market. In June 2000, just two months after the approval of the FSAP and one month after the IASC board agreed to a new constitution, the European Commission announced its radical plan to propose mandatory IAS standardization. It rolled out the official proposal in February 2001, which gained approval from the European Parliament and member state governments in June 2002.

The highly political process that led to the regulation's passage defies expectations of market-driven harmonization. As I argue below, the EU's adoption of an improved IAS has created a real rival to US GAAP, prompting US adjustments. It is thus extremely consequential that the European policymakers halted the market-driven trend of European companies applying US standards. Their decision to do so is deeply embedded in the politics of European integration. Without the SEA, the euro's advent and European Commission activism, it is unlikely European decision-makers would have taken the same path.

The Norwalk Agreement and the Efforts to Converge IAS and USGAAP:

Background:

The IASB, the new EU standard setter, and FASB, the US standard setter, are deeply engaged in a project aimed to converge US GAAP and IAS.⁶⁵ In the Norwalk Agreement, a memo of understanding dated September 2002, the FASB and the IASB pledged to make their existing standards fully compatible and to coordinate future changes.⁶⁶ In addition, because compatibility of standards lies as much in implementation and enforcement as in the similarity of principles, the SEC's Office of Chief Accountant is working closely with the European Commission to prepare for an eventual mutual recognition regime.⁶⁷

The IASB-FASB convergence project comprises six initiatives including the exchange of liaisons, research into standards incompatibility, on-going step-by-step reconciliation and a joint effort to consider both sets of standards before adopting new measures.⁶⁸ Few anticipate a level of convergence that will permit a mutual recognition regime before the advent of EU harmonization in 2005.⁶⁹ Nevertheless, the project represents extensive cooperation characterized by mutual adjustments. According to FASB's description of how the two standard setters will overcome differences, "It is expected that a high-quality solution can usually be achieved by selecting between existing U.S. GAAP and IFRS."⁷⁰

Explanation:

The conundrum of the IASB-FASB project is the shift in the SEC position. In the 1990s, Europeans proposed a mutual recognition regime, whereby EU companies with US listings would use national accounting standards and vice versa,⁷¹ but American regulators showed little interest. The SEC expected the rest of the world eventually to adopt US accounting standards.⁷² US Generally Accepted Accounting Principles (US GAAP) was already accepted by all EU regulators, and the SEC did not consider European standards and IAS to be as rigorous. Moreover, it made no new accommodations, requiring to this day that European companies listed in the US using non-US standards reconcile them with US GAAP. In a stunning turnabout, however, the SEC now embraces convergence and the ultimate goal of achieving a mutual recognition regime. "The FASB and IASB support moving toward a single conceptual framework that would be used by both Boards," said the SEC Chief Accountant in an August 2004 speech,

⁶⁵ International Financial Reporting Standards or IFRS is the new label for IAS.

⁶⁶ The text of The Norwalk Agreement is available at www.sec.gov.

⁶⁷ Tafara 2004.

⁶⁸ See www.fasb.org/intl/convergence_iasb.shtml.

⁶⁹ For the SEC Chief Accountant's views on this matter, see "11 August 2004: SEC Chief Accountant stresses global convergence", <http://www.iasplus.com/index.htm>. As recently as 2001, the European Commission appeared to believe the US would approve IAS within a short period of time. "The Commission hopes and expects that the US Securities and Exchange Commission (SEC) will accept in the near future financial statements prepared by EU issuers without requiring a reconciliation to US GAAP" (Commission 2001).

⁷⁰ See "Short-term convergence project," www.fasb.org/intl/convergence_iasb.shtml. One important example of a significant US adjustment is FASB's proposal that voluntary changes in accounting policies would be required to be applied by retrospective application rather than by cumulative effect adjustment. See FASB News release 12/15/03. I thank Joel Mathen for his assistance in interpreting the significance of particular accounting measures.

⁷¹ Commission 1995

⁷² Simmons 2001; Bach 2004; van Hulle, p. 6. In 1981, the number of foreign companies registered with the SEC was 173. By 2001 it was more than 1,300 (Accountancy Age 2002).

“The work of these two Boards, and other national standards setters involved in the IASB process, is an important part of building and maintaining an effective global financial reporting infrastructure. I support global convergence. It’s in the best interest of investors.”⁷³

Several factors contributed to the changed behavior of US regulators. Enron, Worldcom, Arthur Anderson and other corporate scandals fuelled a domestic debate about the effectiveness of the US disclosure regime and created a window of opportunity for those favoring substantial revision and undermined claims of US GAAP superiority relative to other standards. The Sarbanes-Oxley Act, the US law passed in reaction to the string of highly public corporate malfeasance cases, mandated that the SEC investigate the merits of shifting US GAAP towards a principles-based model and required that FASB consider convergence with international standards among criteria used to create new rules.⁷⁴

A second set of factors revolve around reforms within the IASB.⁷⁵ These included an entire overhaul of IASB’s predecessor, the IASC, as part of the successful mid-1990s project to improve IAS. As of 2001, the new structure retains the private status of the organization but gives the standard setting role to the fourteen board members of the new IASB, who are selected by the nineteen trustees of the International Accounting Standards Committee Foundation.⁷⁶ The presence of highly regarded international standards and the newly reformed and respected IASB provided an international alternative to US GAAP and FASB and an obvious necessary condition of the US decisions to engage in the convergence project.

Simmons, writing in 2000, argues that the IASC was a multilateral cover for “mostly U.S. standards” and that the IASC “has enjoyed little support from U.S. regulators.”⁷⁷ Her analysis, based on the premise that US market power was so overwhelming in this domain, predicts continued market pressure on national standard setters and the IASB to converge to USGAAP. She holds that IAS will have little impact without US backing.

The empirical record does not support her argument. First, the two sets of standards remain vastly different, despite efforts in the last few years to bridge some discrepancies.⁷⁸ FASB’s most recent study on the differences and similarities between the two sets of standards is a 500-page document.⁷⁹ Even if the EU and the US were to accept FASB and IASB as functional equivalents, financial analysts and investors would still need to learn two separate “language” and implementation and enforcement would remain uneven.

The primary factor that Simmons’ misses in her analysis, however, is the role of EU decisions that subsequently led to a new level of US interest and involvement in IAS. Because of a failure to consider EU developments, her model cannot account for the transformation of IAS into a rival to US GAAP or the US adjustments made in response.

In 1995, the EU announced its new strategy toward harmonization of accounting standards. Rather than adopt USGAAP or create its own standards, the EU, as discussed above, decided to put its weight behind IAS. The move began to alter the prospects for the international standards project in two ways. EU adoption of IAS had the potential to turn the Europeans into the most influential players behind the IASC and create a global rival to US GAAP and the prestige and authority that accompany it. Suddenly, the IASC initiative to improve its standards, originally encouraged by the US via IOSCO, had new meaning and potential. The adoption of IAS in Europe also had the possibility of capturing US firms listing in the EU’s fifteen member countries under a single authority. This would give the EU a credible

⁷³ Nicolaisen 2004. Also see SEC (2004).

⁷⁴ US Sarbanes-Oxley Act of 2002 (Title I, Section 108, b.1.A.v and d.) SEC, 2003 #414]. Also see MacDonald (2002) and FASB (2004). For a discussion, see Dewing and Russell (2004).

⁷⁵ For a chronology of IASC/IASB, see <http://www.iasplus.com/restruct/chrono.htm> and <http://www.iasb.org/about/history.asp>. For histories, see Steinberg, Arner et al. 1999; Knorr and Ebbers 2001.

⁷⁶ <http://www.iasb.org/about/structure.asp>.

⁷⁷ Simmons 2001.

⁷⁸ Initially, IASB made most of the concessions as it was in the process of overhauling its standards. Author’s interview with SEC staff members, August 17, 2004, Washington, DC. More recently, adjustments been more balanced. In 2003, for example, FASB has been moving toward more principles-based standards to balance the traditional rules-based approach and the SEC and Congress have encouraged it (SEC 2003). Also see MacDonald 2002; FASB 2004.

⁷⁹ FASB 1999. A summary comparison can be found on <http://www.iasplus.com/usa/ifrsus.htm>.

threat to force US companies to provide IAS reconciliation to US GAAP if the SEC refused to offer mutual recognition.⁸⁰

One of the first indications of the SEC reversal towards IAS was the IASC board's 1999 appointment of US SEC Chairman Arthur Levitt to head the selection of the first set of IASB trustees and of Paul Volcker to chair the IASC Foundation. The gesture came at Levitt's prompting and in response to new developments in Brussels. At the time, consensus was building in the EU for the European Commission's ambitious FSAP, which featured harmonization to IAS as a central measure.⁸¹ In 1998, Belgium, France, Germany and Italy had just changed their national laws to permit domestic companies to report in accordance with the international standards and, perhaps most important to the SEC, the UK was a driver behind the renewed integration of European finance. The UK is the primary rival to US dominance in financial regulation. Its turn toward the Europe was a blow to the Americans who had cultivated the US-British accounting alliance with the hope of re-centering IASC around a core group of like-minded standard setters.⁸² Levitt's involvement in the IASC was a deliberate attempt to preempt the possibility of a rival standards-setter with alternative ideas about the future character of international standards. In 2000, the same year that the European Commission proposed complete standardization, not merely harmonization, the SEC issued a concept release asking for comments on the application of IAS in the US.⁸³ In 2001, the SEC Chief Accountant endorsed the global convergence of accounting standards.

The above sequence of events shows how movements toward standardization in the EU transformed the calculations of US regulators long before the formal regulation was passed in July 2002.⁸⁴ The new law not only mandated that all listed companies apply IAS by 2005 but also set up an elaborate endorsement mechanism designed in part to counter the SEC's influence over the IASCF board members and IASB standard setters.⁸⁵ Two months after the regulation's passage, the signing of the Norwalk Agreement illustrated the changed US position.

The key variable behind the altered stance was EU progress toward standardization. It improved Europe's bargaining power vis à vis the US, in the sense that both can now do equal harm to one another's firms, and sparked a rivalry over control of international accounting standard setters. The verdict is still out as to whether the EU's endorsement mechanisms are sufficient for influencing the IASB and overcoming its "Anglo-American" bias.⁸⁶ However, perceptions, not reality, of what might emerge in Europe have fuelled the regulatory competition from the start. Indeed, progress toward an integrated financial market that rivals that of the US, pales in comparison to the creation of a legal and regulatory framework. Institutional developments, not an enlarged and deepened financial market, enhanced the relative influence of the EU.

IV. Conclusion:

The EU's adoption of IAS convinced other countries of its potential to be a truly global set of standards. By 2005, sixty-seven countries will require listed companies to report in accordance with IAS or national GAAP that are very closely modeled on IAS.⁸⁷ Given these numbers and the FASB-IASB

⁸⁰ This is indeed what the Europeans are doing today. While US officials are insisting on an accommodation for US firms raising capital on exchanges throughout the 25 EU member states, the European Commission and other EU policymakers, flexing their new muscles, have been slow to grandfather in US firms already listed, let alone extend a blanket exemption. Interview with European Commission official, Washington DC, May 5, 2004; Dam and Scott 2004. Author's notes on questions by Michael G. Oxley (Chairman, Committee on Financial Services, US House of Representatives) addressed to Alexander Schaub (Director General, Internal Market, European Commission), Hearings entitled, "US-EU Regulatory Dialogue and Its Future," May 13, 2004, Washington DC.

⁸¹ Commission 1998; 1999.

⁸² The British-US accounting alliance was the foundations of the "Group of 4 + 1" countries – the US, UK, Australia and Canada, plus an IASC representative (Simmons 2001).

⁸³ Release Nos. 33-7801, 34-42430; International Series Release No. 1215; File No. S7-04-00 at <http://www.sec.gov/rules/concept/s70400.shtml>.

⁸⁴ Regulation (EC) No 1606/2002.

⁸⁵ van Hulle 2004.

⁸⁶ Barber 2004; Kerrison 2004; Lex Column 2004; Norris 2004.

⁸⁷ Author's count based on table at <http://www.iasplus.com/country/useias.htm>. Another four countries require some types of listed companies to use IAS.

convergence project, there is a real possibility that most countries will use fully compatible accounting standards within a decade. If such a scenario were to occur, it too would very much be rooted in the same European Union developments.

My empirical findings have a single theme: The political dynamics of the twenty-year project to integrate European financial systems, not global market forces, were the primary causes behind the three cases of cross-border harmonization examined in this paper. However, contrary to the functionalist assumption that a single issue area will yield similar types of politics, the three cases did not display the same types of politics or mixes of political and market factors. Instead, they varied by the vicissitudes of EU regional politics. The European Commission's 1994 intervention and the subsequent competition among European stock exchanges that led to the Nasdaq copies was an extension of the efforts to improve financing options for smaller companies and to create a unified European market in the aftermath of the Single European Act. The EU regulation to standardize accounting standards was among the first measures to follow the emergence of a post-euro consensus for an integrated financial system. And the FASB-IASB project is very much a spillover of EU standardization. Sovereignty issues surrounding the production of accounting standards, not the costs of switching, took center stage in the EU's selection of the IAS and provided the background for the US-EU rivalry that ultimately led to the Norwalk Agreement. Finally, while a wide range of actors were involved, European Commission officials, the supranational actors who oversee the EU integration process, emerged from the empirical evidence as important agents of change in all three.

These conclusions, although based on three cases, underline the theoretical merits of pushing beyond statist assumptions in models designed to explain change in the rules governing global economic activity. The wide-ranging effects of the shift in European financial regulatory authority to the supranational level illuminate the point. The institutional change in Europe altered incentives of firms and foreign authorities and created opportunities for motivated supranational officials. It remains an open question to what degree the dense institutionalization of the EU polity makes it unique in global political space. Regardless of the answer, however, the EU is likely to remain a fulcrum for global financial change as the intensity of regulatory integration shows no signs of abating. Theories that cannot incorporate the independent supranational effects coming from the European continent are likely to miss a significant driving force of international change. Have political economists been blinded by statist models? Is it possible much of what we label globalization or Americanization may in fact be global adjustment to Europeanization?

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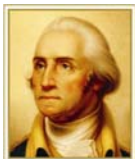
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