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A Market is a Market is a Market?: Institutional Conditions for the Construction of Market Mechanisms

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What's in a name? That which we call a rose
By any other name would smell as sweet.
William Shakespeare, Romeo and Juliet

A rose is a rose is a rose.
Gertrude Stein

A Market is a Market is a Market

What is colloquially known as the „post-socialist transition" comes at an opportune time for economic sociologists, for we are in the midst of developing sociological ways of thinking about economic practices and structures. We had long ceded economic institutions to economists, satisfying ourselves with explaining organizational structures (but not business practices), cultural and welfare policies (but not industrial or economic policies), religious and educational institutions (but not market institutions), and affective and normative behavior (but not rational behavior).

This has all changed in sociology. In American sociology, it changed in delayed response to the decline of the paradigm Talcott Parsons (1951; 1971) spearheaded, which divided social life into four quadrants, one for economists, one for political scientists, one sociologists, and one for anthropologists. There has been a shift, in sociology as in these other disciplines, in focus in recent decades. One way to describe the shift is that it involves rethinking how the social world is divided up. We previously divided the world up on the dependent variable, such that economists explained economic outcomes, political scientists political outcomes, and sociologists social outcomes. All three disciplines have moved toward dividing up the world on the independent variable. Thus the Nobel laureate economist Gary Becker explains marriage choices using economic variables. And sociologists explain prices and industrial policies with properly sociological variables. In so doing, all three disciplines have become imperialistic, seeking to colonize each others' outcomes with their own causes.

In this paper I discuss one line of thinking in the economic sociology of market institutions – a line that focuses on industrial policy as the progenitor of markets. Industrial policy had long been the province of political scientists, because it involves political decisions, and of economists, because it involves the economy. Economists, political scientists, and sociologists now more or less agree on the *consequences* of industrial policy – it structures markets and determines how individuals and firms behave.

Economic sociologists, however, offer new and predictably sociological explanations of the *causes* of industrial policy. The conventional economic wisdom is that industrial policies are the consequences of efforts to reinforce naturally occurring market mechanisms. In this vision, markets are universal phenomena that emerge naturally when men and women live in close proximity. Durkheim implies this when he traces how population density leads to the division of labor and the exchange of goods, but Adam Smith, in The Wealth of Nations, makes the argument in purest form. Nations interfere with these natural phenomena at their peril. When nations adopt policies that reinforce naturally occurring market mechanisms, they will prosper. When they adopt policies that interfere with those mechanisms, they will falter (sooner or, as in the case of Japan, later).

Economists mostly reject Smith's premises today, in favor of premises based in methodological individualism, but economists and laymen alike embrace the broader vision of natural selection and believe in the universality and ubiquity of markets.

Neo-institutional sociologists offer a different vision, based in ideas about culture rather than in ideas about natural selection. The first argument I will outline here is that markets themselves vary dramatically in character across countries and across industries. Markets take quite different forms, and many of their differences can be traced to differences in industrial policy. The second argument I will outline has to do with the origins of those differences. Historical institutionalists have offered an argument about structural continuity - that policy choices become institutionalized and become difficult to change. The neo-institutional sociologists whose work I will discuss below offer a wider explanation for continuity. They argue that institutions carry meaning forward - in the modern world, they carry causal, means-ends, designations. I will argue that it is meaning, and not structure alone, that causes differences in national policy styles. Ideas about causality that are embedded in existing policy arrangements, shape new policy arrangements. This has obvious implications for students of emerging markets.

History, Culture, and Market Arrangements

Neo-institutional sociologists make two assumptions that are fundamentally sociological. First, they assume that a wide range of different industrial policies and "market" arrangements can produce sustained economic growth. This assumption is sociological because it is fundamentally inductive – there is substantial historical and contemporary evidence to support it. And sociologists are fundemantally empiricists. Second, they assume that industrial policies are driven by history and culture to a large extent, and are not on a trajectory of convergence. Together, these assumptions suggest that a market is not a market is not a market.

First, I take a brief detour to make a methodological point and to illustrate with an example from my own research. The point is that sociologists have used the comparative method outlined by John Stuart Mill and Emile Durkheim to study industrial policy and its effects on markets. They have made comparisons across countries, to show that a particular industry may be organized quite differently as a consequence of different policies. And they have made comparisons over time, to show that a shift in industrial policy can lead to a shift in how an industry and market are organized. This method is unlike that used by most economists, and it yields a different set of insights.

Thus, for instance, my own work on emerging markets has focused on Britain, France, and the United States in the nineteenth century. In a book on the railway industry between about 1825 and 1900 in these countries, I show that industrial policy produced entirely different industry structures (Dobbin 1994). If we take the industry in 1900, for instance, the United States had a system of thousands of small to large firms engaging in price wars. Britain had a similar system of small to large firms, but organized in price-setting cartels that stabilized the industry. France had a handful of regional monopolies, with no small firms, no price competition, and no cartels. Each of these outcomes was produced by industrial policy. In the United States, free access to rail charters followed by anti-cartel regulations produced the pattern seen in 1900. In Britain, free access to rail charters followed by public endorsement for cartels produced the pattern. In France, limited access to charters followed by state orchestration of mergers among regional competitors produced the pattern. Where did these policy choices come from?

Is there One Best Way?

Since the time of the Enlightenment, much thinking in the social sciences has been premised on the ideas that the social world was fathomable and that a unified canon of knowledge about society would emerge through experience (Berger/Luckmann 1966). Such a unified canon could emerge only because the social world, like the natural world, was structured by a set of transcendental laws. The process of rationalization was a matter of apprehending those laws and employing them to achieve prosperity. Through rationalization, the idiosyncratic, local, relics of history would give way to fully instrumental social practices that would look substantially similar everywhere.

This approach is based on a strong version of enlightenment ideology, in which there is only one truth, only one best way. But there is more than one modern way to think about economic practices. I will contrast two alternative modes of thought, one the foundation of most formal economic theory and the other the foundation of much sociological thinking. First, the idea of optimality suggests that there is one best way to achieve any economic end, and hence that economies will converge around a very narrow set of practices and behaviors. This is the idea behind Jeffrey Sach's (1989) description of the goal of economic reform in post-socialist economies: "The long-run goals of institutional change are clear, and are found in the economic models of existing market-based economies." Second, the idea of efficiency suggests that there are more and less effective ways to achieve any economic end, but that any number of different ways may be about equally effective and hence that economies may develop a range different, stable, solutions.

Most early theories of economic development presumed that transcendental economic laws dictated optimal economic arrangements for any particular goal. Thus modernization theory derived the institutional prerequisites for economic development from the most advanced nations, suggesting that others would follow the same path (Bell 1980). The logic-of-development thesis suggested that at each stage of development, certain institutional patterns would be optimal -- though those patterns might depend on international context and the timing of development (Gerschenkron 1962). Key political outcomes, such as democracy, were themselves products of particular stages of economic development (Huntington 1968). Dependency theorists argued that a nation's location in the international economy, and internal trajectory, would predict its policy approach (O'Donnell 1973).

The singular model that underlies the conventional wisdom is based on a stylized reading of first British, and later American, economic history. That stylized reading produced a strong rhetoric, based only very loosely in reality. Britain's industrial revolution occurred, as Karl Polanyi has argued, under a strong rhetoric of laissez faire that itself emerged out of the desire of the emergent bourgeoisie to eliminate state policies that favored the landed elite over the emerging merchant and manufacturing classes (e.g., the Corn Laws). Britain adopted a series of policies during the nineteenth century that would appear to be the antithesis of what we mean today by laissez faire. The state encouraged cartelization of important industries, and set up cartels where industry was slow to do so. But the British state did this under the rhetoric of laissez faire, and the idea caught hold that laissez faire explained Britain's success.

The United States next won the mantle of the world's economic leader, and for a variety of historical reasons it too came to be defined as laissez faire. Never mind that America's industrial revolution had occurred under massive state and local investment in industry and government support for price fixing. What mattered was that by the end of the 1870s, most regional governments had eschewed public financing of industry in the wake of charges of widespread graft, and from 1897 the federal government enforced anti-trust laws that made cartels illegal. By the turn of the century it could be argued that the American economy followed certain principles of laissez faire. In fact, the "laissez faire" ideal did not win favor in the United States until the last quarter of the nineteenth century, and for most of the century America grew under policies that were decidedly interventionist (Hartz 1948; Lipset 1963; Handlin/Handlin 1947).

Economic theory and management theory were largely built on the fictionalized, laissez faire, accounts of British and American economic history. Of economic theory, Andrew Shonfield argues, "Classical economics, which was largely a British invention, converted the British experience - or rather what the British hoped would eventually emerge from the trend which they had detected in their own story - into something very like the Platonic idea of capitalism" (1965: p. 71). Of management theory, Mayer Zald argues, "Many of our major theories and theoretical schemas have in fact been conceptual abstractions from concrete historical and civilizational events and trends" (forthcoming: 8).

Most students of the economy take America's institutional structure to best approximate the free market ideal, and presume that emerging economies will develop similar institutions. Even critics of neo-classical economic theory have tended to believe the premise that there is one optimal institutional form for the modern economy, but challenge economists' arguments about what the form is. For instance Shonfield (1965) championed French planning as the most efficient institutional arrangement for the complex national economies of the future.

Comparative Capitalism

Institutional studies and the literature on „comparative capitalism" challenge the "optimality" camp, which suggested that a single optimal model of economic organization was being discovered, through trial and error in the most developed countries. According to the optimality camp, laws of natural selection ensured that „emerging markets" would follow the path of developed countries. That model of the world made studies of „comparative capitalism" superfluous. There was capitalism, and there were „backward" economic systems, and practices within systems, that were in the process of being wiped out by the forces of natural selection. Public policy did not determine markets, it was determined by them.

The literature in comparative capitalism was based in the premise that a wide range of alternative forms of capitalism might coexist, and might continue to coexist. Most contributors saw different forms of capitalism as equally viable. Many roads lead to Rome: there is more than one way to skin a cat. Business historians (Scheiber 1981; Chandler 1990), institutional economists (North 1990), sociologists, and political scientists (Lindberg/Campbell 1991) found different sets of market dynamics, created by different industrial policies, that seemed effective and stable.

Comparative studies of capitalism showed that institutional forms long heralded as optimal are not uniquely efficient. Many economies that break the rules derived from the American experience have seen unprecedented growth rates - - Singapore, Hong Kong, South Korea, Taiwan, Japan (Chiu 1992; Orrù/Biggart/Hamilton 1991). What may have most shaped the emerging debate was the realization that successful East Asian economies were, themselves, organized along very different models. East Asia did not offer a new model to the West: it challenged the idea that there could be a single model of how to organize modern economies.

The success of these economies has not stopped Milton Friedman (1962) and Jeffrey Sachs (1989) from claiming that there is one best way to organize markets. Indeed many followers of the Chicago School relished the collapse of stock markets in East Asia in 1998, precisely because the collapse seemed to vindicate the argument that economies that did not conform to the mythical American free market model could not succeed in the long run.

But the historical record still shows that quite diverse economic systems, and sets of industrial policies, can prove effective. The three kinds of economic systems I found in nineteenth century railroading remain common. Economic imperatives have not, it seems, wiped any one out. The anti-trust regime that arose in the United States, the public promotion and orchestration regime pioneered in France, and the pro-cartel regime that Britain long favored – each can be found today. The French model of public promotion of key industries and state designation of a „national champion" can be found in France, as well as in countries as disparate as South Korea, Brazil, Switzerland, and Austria (Hayward 1986; Cumings 1987; Schneider 1991; Katzenstein 1984). Second, pro-cartel regimes and cooperative market arrangements can be found in Japan and Germany today, and were popular in turn-of-the-century Britain and First-New-Deal America (Johnson 1981; Chandler 1990; Grove 1962; Dobbin 1993). Cartels were still legally enforceable throughout most of Europe at the turn of the century (Cornish 1979). Third, the antitrust/antipooling regime prevails in most American industries today, and is enforced to varying extents, in different industries, in countries as farflung as Japan, South Africa, and Australia.

The persistence of such different models of organizing economies spawned efforts to explain how policies and markets came to be so different in different countries, and why those differences persisted.

Three Institutional Arguments

In the following sections I outline institutional approaches to understanding national differences in industrial policies and market characteristics. I review three approaches; two that address continuity in national policy approaches and one that addresses cross-national diffusion of policy approaches. I first outline the new historical institutionalism that has emerged largely from the field of political science (Thelen/Steinmo 1992; Hall 1993). This approach focuses on the structural factors that contribute to continuity in national industrial policy styles. I next outline the new sociological institutionalism, which has its roots in organizational theory (Meyer/Rowan 1977; Scott 1995). This approach focuses on the logics of action embedded in existing industrial policy arrangements, and the capacity of these logics of action to shape new industrial policies that carry forward the principles of old policies. Finally, I outline neoinstitutional arguments about the transmission of policy strategies at the world system level. This approach is akin to the second, but here the focus is on processes that lead countries to copy their peers and processes that inhibit the successful implementation of foreign policy strategies.

These approaches are at the core of the new institutionalism in sociology and political science. They are founded in a view of the world in which variety will flourish as it always has, rather than being driven out by economic laws that make only one set of social arrangements possible in the long-run. The questions posed by these theories make little sense from the perspective of those who hold the strong version of the optimality argument. That argument suggests that all variation from the one best way is the consequence of the survival of inefficient social institutions from the past. Those institutions will be obliterated, sooner or later, by the one best way.

State Structure and Continuity: Historical Institutionalism in Political Science

Historical institutionalists in political science suggest that state structures that constrain policy options at time t also constrain options at time $t + 1$. The focus is on the capacities and incapacities of particular states. For instance, states with central banks have the capacity to nationalize industries, while states without central banks do not have the capacity. Thus states with central banks are more likely to nationalize problem industries than are states without central banks. Or, for instance, states with federal structures tend to pay attention to regional economic growth in a way that states with central structures do not.

Political institutionalists reacted against the behaviorist turn in their discipline, which had predominated since the 1950s, with a decidedly macro approach to understanding political outcomes. The statist version of the "new institutionalism" in political science emerged from a number of historical studies that documented continuity in national policy styles over time. The great power of these studies came from combination of historical and comparative methods. The comparative component was sometimes implicit, but these studies showed that countries tended to follow the same policy pattern over time, even when faced with very different problems (see Thelen/Steinmo 1992; Thelen forthcoming).

Thus Stephen Krasner's (1978) study of American raw materials policy demonstrated a stable preference for policies that promote international competition over policies that protect domestic firms. John Zysman (1983) found that national industrial policy strategies are remarkably consistent, across policy realms and over time, among developed countries. David Vogel (1986) found that British and American environmental policies are stable, and different, over time. Stephen Skowronek (1982) showed that over a long period of time, American policy was remarkably consistent in very different policy domains.

Conventional political and economic arguments could not account for such continuity. On the one hand, they predicted convergence across countries rather than continuity within countries. On the other hand, they predicted that immediate political concerns would prevail over longstanding preferences. These new studies challenged both predictions. A structural approach to institutions held greater promise (March/Olson 1984). Stephen Skowronek (1982) suggested that the absence of a strong administrative branch during the nineteenth century made ambitious policies impracticable in America, and led policymakers to adopt patchwork solutions to governing every realm for many decades. Theda Skocpol and Kenneth Finegold (1982) found that the National Recovery Administration failed during implementation because the American state had no experience managing industry. By contrast, the Agricultural Adjustment Administration succeeded because it was built on an existing institutional base. John Zysman (1983) argued that existing public and private financial institutions constrain nations' industrial policy options, and lead each nation to consistently adopt the same kinds of industrial policies. John Ikenberry (1988) found that America's oil policy options during the 1970s were highly circumscribed by existing institutional channels for governmental action. Peter Hall (1986) found that French and British policies were delimited not only by the institutional configurations of their states, but also of unions, capital, and the international economy.

These studies treated existing institutional arrangements as independent variables that shaped future institutional arrangements. They depended on a "branching" analogy, whereby early policy choices cause institutions to branch in one direction or another and thereby limit later policy choices. The decision to establish a national bank shaped a series of future decisions about how to finance industry, for instance. For the followers of this approach, institutional structure at the time of policy-making constrained policy options, and institutional structure at the time of implementation determined whether a policy would survive. The predictive power of this approach was substantial. Statist analysts predicted that new policies would be made in the mold of existing policies.

In some ways, the revolutionary economic changes in post-socialist societies, and to some extent in China, are ideally suited to this paradigm. Historical institutionalists are concerned with explaining continuity, rather than change, but to the extent that they have a model of change, it is a model of disruption. Change, in Krasner's "punctuated equilibrium" view, came about when crises opened up opportunities to remake institutions: "Institutional change is episodic and dramatic rather than continuous and incremental ... During periods of crisis politics becomes a struggle over the basic rules of the game rather than allocation within a given set of rules" (1984: 234). In 1984 Krasner described well what would be going on in post-socialist nations a decade hence.

Indeed, many early studies of post-socialist nations drew on the insights of historical institutionalism, as David Stark (1992a) suggests. Whereas "shock therapy" advocates suggested that Eastern Europe would be left with a void in economic institutions, in fact the remnants of old state institutions shaped the organization of the new economy. Horst Kern and Charles Sabel (1991) found that recombinations of firms were, in the former East Germany, being run by the state bureaucracy. In Poland, where trade unions and works' councils had been important before 1989, workers' organizations took the lead in privatizing and liquidating enterprises liquidation (Dabrowskin/ Federowizc/Levitas, 1991). In Hungary, Stark (1992b) argues that the legacy of semi-autonomous units within the firm is a system in which spin-offs are common. More generally, using a comparative framework Bruszt (1992) argues that factors of central importance to historical institutionalists (presidential versus parliamentary systems and systems of interest mediation) influence macroeconomic policymaking in post-socialist economies. These studies depended on many of the structural insights of historical institutionalists.

Culture and Continuity: The New Sociological Institutionalism

Another "new institutionalism" arose at about the same time, based not in political science but in organizational sociology. Political scientists developed highly structural arguments about continuity over time in public policy, in large measure because they were reacting against both behavioral reductionism and the cultural reductionism of the "national character" school in political science (Inkeles/ 1974; Inkeles 1975; Almond/ Verba 1963; Inkeles/Smith 1974; Bell 1980). Sociologists likewise reacted against behavioralism, but they did not have the second, "cultural", ghost to contend with. For the most part, students of economic transition have utilized the insights of the new "historical institutionalism" in political science, but have not used the insights of the new "sociological institutionalism".

The new institutionalism in political science did not focus on the phenomenology of social institutions. What keeps social practices going? What causes them to change? Why do individuals reproduce social institutions, or practices, over time? And more generally, how does the logic of a set of institutions find its way into new political and economic institutions?

Social phenomenologists had argued that social customs were sustained by shared meaning, even in rationalized realms of life. The new institutionalism in sociology was rooted in the phenomenology of Alfred Schutz and Peter Berger and Thomas Luckmann. Their theories reintegrated structure and culture, reversing the Parsonsian trend.

Peter Berger and Thomas Luckmann's seminal work, „The Social Construction of Reality" (1966), depicted rationalized social institutions as constitutive of meaning just as religious or mystified social institutions were. Berger and Luckmann's insight that social practices are reproduced over time *even in rationalized social systems* only insofar as they hold intersubjective meaning for actors was the foundation of the new sociological institutionalism. Clifford Geertz came to similar conclusions, if from the opposite starting point. In his study of the Balinese "Theatre-state" (1980), Geertz brought the insights of cultural anthropology to the study of state structure. In „Local Knowledge" (1983), Geertz argued, that the process by which collective meaning is formed is much the same in mystified and rationalized settings. From the vantage point of the sociology of religion, Robert Wuthnow came to similar conclusions in „Meaning and Moral Order". Wuthnow drew parallels between the institutionalization of meaning in religious and rationalized social systems in the developed West. Because social practices only persist to the extent that their meaning is collectively understood, all social structure is necessarily imbued with meaning - otherwise it would not appear with the kind of regularity that enables us to call it "structure." Rationalized social systems may be modeled more on science than are religious systems, but they are imbued with, and held together by, meaning nonetheless.

John Meyer and Brian Rowan's 1977 paper, "Institutionalized Organizations: Formal Structure as Myth and Ceremony" (1977), served as the foundation for the new approach in organizational sociology. Meyer and colleagues addressed the link between practice and meaning in developed societies, in the rationalized field of complex organizations. Existing theories treated pre-modern and modern social systems differently. They treated social practice in pre-modern societies as generating cultural frameworks of meaning. This idea is the foundation of cultural anthropology, which seeks to understand how cultural practices and meanings that vary by locale create local frames of awareness. In pre-modern social settings, intersubjective meaning was taken as evidence of a common culture. Yet when analysts of modern societies discovered intersubjective agreement about the nature of reality, they concluded not that it reflected a common culture but that it reflected reality. In rationalized domains, the intersubjectivity of meaning was taken as evidence of its ultimate truth.

Meyer and colleagues argued that the tools used to understand meaning in pre-modern social settings could be used to understand modern social settings. They argued that all social systems involve social customs that have meaning to actors, and that practices and their meanings are the components of culture. In mystified settings, culture refers to the local totem and to the practices that involve that totem. In rationalized settings, culture refers to economic and social laws and to the practices that involve those laws. Social practices thus carry meaning even when they are rationalized. This idea was carried in the subtitle of Meyer and Rowan's paper, "Formal Structure as Myth and Symbol". The social structures that historical institutionalists described were, for Meyer and Rowan, laden with meaning. For Meyer and colleagues, what sustained social institutions over time was not structural inertia, as historical institutionalists had suggested, but the means-ends designations they carried.

One of the central paradoxes Meyer and his colleagues identified was that in modern settings, means-ends designations are constructed out local experience, yet the scientific epistemology suggests that social life (like nature) is governed by universal laws. Thus in seeking to understand the social and economic world, we try to divine universal laws from experience. That process is what produces local meaning, albeit local rationalized meaning. But we couch that meaning not in terms of local and particular experience; rather we couch it in terms of uniform laws. Modernity thus produces a plethora of different local principles of social organization, all framed with great care as part of a set of universal and ubiquitous principles (Meyer 1994).

Paul DiMaggio and Walter Powell (1983; 1991) built on this model to argue that modern organizations come to resemble one another via three sorts of processes that produce isomorphism. Isomorphism in rationalized institutions is key to this system, because it provides evidence that uniform laws indeed drive economic practices. The problem for institutionalists was to explain how organizations came to look alike, *if* it was not because they were subject to a uniform set of economic or social imperatives - if those imperatives themselves were social inventions. DiMaggio and Powell argued that the Meyer and Rowan framework suggested three processes, coercive isomorphism, in which state agents encourage organizations to take similar forms, normative isomorphism, in which professional groups push particular models of order, and mimetic isomorphism, in which managers within organizations seek to copy the practices of seemingly successful peers.

The tension between the fact that social institutions are shaped by local circumstances and the imperative to explain them in terms of universal principles thus led to two different approaches, both within neoinstitutional theory and in kindred theoretical approches. One approach was to explain the origins of similarities across organizations, and this became the focus of most neoinstitutional studies of organizations. The second approach was to try to explain differences across systems, and this became a focus of the new economic sociology, and of the new sociological institutionalism as it was applied to comparative public policy. The new economic sociology, in other words, sought to explain the social construction of economic institutions in different settings. Harrison White (1981), Mark Granovetter (1985), and Viviana Zelizer (1988) treated economic principles as the outcomes of local social processes. They use terms such as "varieties of markets" and "multiple markets" (White 1988; Zelizer 1988) to depict economic institutions as sets of social practices organized through particular historical circumstances. Different varieties of markets carry different logics of economic behavior. Economic sociologists emphasize the social origins of economic behavior, and see economic behavior patterns (i.e., institutions) as based on inter-subjective understandings of economic processes and mutual expectations of the behavior of other actors.

Policy Paradigms

Students of national industrial policy came to use neo-institutional ideas about meaning and practice, in seeking to understand differences across nations. Peter Hall (1993) uses the term "policy paradigms" to refer to the institutionalized tenets of government action in the economy. Some policy paradigms, such as Keynesianism, come complete with an elaborate formal theory and a set of policy prescriptions. Other policy paradigms are less formal, more common-sensical. As Hall describes policymaking, "decision-makers are often guided by an overarching set of ideas that specify how the problems facing them are to be perceived, which goals might be attained through policy and what sorts of techniques can be used to reach those goals. Ideas about each of these matters interlock to form a relatively coherent whole that might be described as a policy paradigm. Like a gestalt, it structures the very way in which policy-makers see the world and their role within it" (1992: 91-92). Like sociological neo-institutionalists, Hall describes social practices as having embedded meanings.

I have used "industrial policy paradigms" (1993; 1994) a bit more broadly than Hall, to describe wider ideas about means and ends that are used in policymaking. In my terms, policy paradigms influence policy choices at the stage of legislative agenda-setting and at the stage of policy formulation. At the stage of agenda-setting, paradigms determine the kinds of activities that will be defined as problems that demand governmental solutions. For instance, in the United States, all forms of price-fixing are deemed inefficient and unfair, and remedies are usually sought by government agents when price-fixing is discovered. Identical industrial practices may never receive legislative attention in countries, such as Japan and France, where the industrial culture does not identify price competition as the motor of growth.

At the stage of policy formulation, policy paradigms offer specific prescriptions for problem-solving. Once a problem, such as the impending bankruptcy of a large firm, has been identified, policy paradigms offer sets of viable solutions. The solutions that are conceived may have been used in the past, or they may simply follow general principles established in previous policies. Hence when faced with the impending bankruptcy of an important firm, South Korean policymakers may propose a capital infusion and French policymakers may propose to nationalize the firm. The United States is more likely to define bankruptcy as a problem beyond the state's purview, but if it does take action it is more likely to relax antitrust laws to permit a merger with a healthy partner. In each case, the policy paradigm renders plausible only solutions that are consonent with existing ideas about the causes of economic growth.

Others have described the logics found in modern industrial systems in similar terms. Kenneth Dyson (1983) described wider "industrial cultures" embedded in a nation's policy and industrial complex. Industrial cultures are shared by entire nations. They tend to be invisible - they refer to the wider, implicit, rules for organizing industry. America's industrial culture is organized around notions of the efficiency of natural selection processes in free markets. France's depends on organic imagery in which the state plays the role of the nervous system, providing vital direction to the separate spheres of the economy. Britain's makes individual entrepreneurs, rather than market or technocrats, the agents of growth. Mary Douglas, in „How Institutions Think" (1986) similarly describes the logics of rationality embedded in modern institutions. Modern economies are organized around different principles of causality and order. Where competition and natural selection are the institutionalized principles of order, one expects to find new institutions organized with principles of competition and natural selection. Where social networks are key to the conception of order, one expects to find new institutions organized to make use of social networks.

The underlying logic of economic institutions has been taken up by economic historians as well. Taken-for-granted ideas found in modern social systems are seldom articulated as ideas, because they have the status of common sense. These taken for granted ideas are part of what Albert Hirschman, following Polanyi, calls the "tacit dimension" - "propositions and opinions shared by a group and so obvious to it that they are never fully or systematically articulated" (1977: 69). It is the fact that the efficiency of the free market is not questioned (in the United States), or that the importance of professional planning is taken for granted (in France) that makes meaning invisible in modern settings.

In short, the new sociological institutionalism differs from historical institutionalism in political science in that it emphasizes the role of meaning in creating and reproducing different institutional arrangements.

Culture and Convergence: World Political Culture

Studies of national economic systems have tended to emphasize the persistence of difference across countries, rather than convergence or commonalities, because these studies have sought to undermine the conventional wisdom that economic systems would converge toward a particular model. Yet neo-institutional theory suggests that the conventional wisdom does not adequately account for convergence, either. If convergence is driven by properly social processes, some argue, we need a full theory of how those processes operate.

The modern epistemology suggests that economic institutions *should* converge, and that epistemology itself should be a powerful force for convergence. How does it operate? Institutionalists concerned with "world political culture" look at how global notions of how to organize arise and spread across nations. Early studies focused on how global notions of how to treat individuals arose and diffused. More recent studies have focused on the diffusion of common economic models.

DiMaggio and Powell's schema is useful here, as it is at the level of the complex organizations. Coercive isomorphism plays a role, as agencies such as the World Bank, International Monetary Fund, and United Nations promote particular policy solutions and, in many cases, demand cooperation from governments as the price of international aid. Normative isomorphism is at work as well, as professional groups (economists, in particular) advocate specific policy measures and institutional arrangements (generally derived from the American experience - the scientific method might suggest that they look to recent cases of successful emerging markets instead). And mimetic isomorphism is at work as well - it was perhaps most evident in the "cargo cult" efforts of American and European firms to mimic the success of Japanese firms of the 1970s by copying random aspects of their management systems.

Analysts have sought to explain a number of kinds of convergence by examining these processes. In mass education, the models developed by advanced countries diffused relatively rapidly to underdeveloped nations, as a consequence of all three forms of isomorphism, with the United Nations and educational specialists leading the charge (Meyer/Ramirez/Soysal 1992). In macroeconomic policy-making, Keynesianism diffused across developed nations in relatively short order - a sort of normative isomorphism was a work here, with economists at the helm (Hall 1989). And in new realms such as environmental policy, strategies often spread across countries at a fairly rapid rate as developing economies seek to gain legitimacy and resources by acting modern (Strang/Meyer 1993).

Macroeconomic policy is one arena in which the developed countries have followed fads with substantial regularity. By contrast, in industrial policy countries have shown greater persistence in their traditional approaches. In the second quarter of this century, macroeconomic orthodoxy, which prescribed currency stabilization and budget-cutting in hard times, was replaced in developed countries with Keynesian neo-orthodoxy, which prescribed currency devaluation and counter-cyclical spending (Hall 1989; Gourevitch 1986). Keynesian has largely been replaced among the developed nations, and in recent years regional associations such as the European Union (Fligstein/Mara-Drita 1996) and Nafta, have successfully promoted a new economic orthodoxy favored by the Chicago School. For developing countries, the main coercive agents have been the World Bank and International Monetary Fund.

On the other hand, close studies of nations' efforts to adopt common programs often show considerable diversity in institutionalization. In studying the privatization wave among developed nations, Paul Starr (1989) found that diverse countries adopted the rhetoric of privatization, but that in practice they used it to describe entirely different kinds of activity. In practice, they used "privatization" to justify their very different, traditional approaches to industry. Similarly, while European nations have been converging on a common model of citizenship, their traditional institutions have in fact survived the shift in rhetoric in many cases (Soysal 1994).

These studies of convergence are of particular salience to students of the post-socialist transition, for they suggest that there are strong forces that encourage nations to adopt a particular economic model. They suggest that those forces are sociological in nature, and hint at where we should see their influence. Here, the metatheoretical model is the very model that drives organizational neo-institutionalism. Both approaches presume that modern settings are organized around the principle of universalism, and depend on the presumed existence of a general theory of economics akin to the general theory that physicists seek to divine from the movement of sub-atomic particles.

Studies of the post-socialist transition have uncovered some of the same sorts of resistance to economic models promoted via "coercive" measures that earlier studies found in developed nations. John Campbell's (1998) study of the implementation of neo-liberal fiscal policies in Poland, Hungary, and the Czech Republic is a superb example. Campbell shows that all three countries at first sought to go along with the tax and spending cuts and balanced budgets prescribed by the World Bank and other international organizations. Yet competitive electoral politics and union opposition made it difficult for governments to adhere to these policies. Unions had an alternative model of the role of the state to work with. Campbell is not so sanguine about the likelihood of convergence in fiscal policy, despite considerable international pressure.

Conclusion

The political scientist Kathleen McNamara describes the rise of neo-liberalism, the latest ideal toward which nations are thought to be converging, as a consequence of "the social construction of market imperatives." The free market has been socially envisioned as the driving force of change in modern societies. It is what is behind the European Union, as Neil Fligstein (Fligstein/Mara-Drita 1996) has argued. It is what is behind new economic strategies in post-socialist settings, as Campbell (1998) and many others have argued. Nations are now deliberately drawing on a particular model of fiscal and economic policy, and on a related model of industrial policy that is best captured by the term "privatization." McNamara's argument about this process follows Meyer and Rowan's arguments about rationalized organizational structure, in that she finds "Formal Structure as Myth and Ceremony." In this case, it is the myth of the free market that is at center stage.

The lessons from the new sociological institutionalism are twofold. First, the core model of the American-style free market itself is a myth produced by history. It is based on what observers believe they see in the most developed countries, the principles they have managed to divine from paradigmatic cases. And that core model will probably change over time, just as the meaning of laissez faire has changed quite dramatically since it was used to describe early nineteenth-century Britain. Second, as nations seek to embrace that model, they will inevitably create very different sorts of economic systems. They will do so because the model itself is malleable, but also because they begin from different starting points. They begin with different institutions, which contain different models of how social and economic life can and should be organized. In adopting "market" mechanisms, in adopting neoliberal fiscal policies, and in privatizing industry, these nations will produce their own versions of markets, neoliberalism, and privatization.

The subtitle of this paper, "Institutional Conditions for the Construction of Market Mechanisms," may seem to suggest that I will present a prescription. What I have tried to do is much the opposite, to suggest that there is no single prescription for the construction of market mechanisms because markets take many different forms. The new sociological institutionalism does not offer concrete industrial policy prescriptions, because it suggests that any number of alternatives may be equally effective. It does offer a ray of hope, because it suggests that nations that are finding it difficult to conform to the stylized version of the American economy that Jeffrey Sachs and Milton Friedman promote may, nonetheless, prosper. Because the United States, Britain, Germany, France, and Japan did not industrialize and come to prosper under that system, and they arguably do not operate under it today.

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