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CAN GERMANY LEARN FROM THE USA?

Some Theoretical Observations

1. INTRODUCTION

In this book, chapter for chapter we will trace the recent introduction of Anglo-Saxon-styled market mechanisms to the *Modell Deutschland*. Will we have to be modest and restrict ourselves to describing this process or can it be theorized? How does institutional transfer happen and will it work? The debate on the possibilities for institutional transfer, or “learning” from distant practices, was originally motivated by East German and Eastern European transformation processes. But the issue of institutional transfer has been raised not only with respect to the “East” but also with respect to the various national models of mature capitalist societies, that is in the “varieties of capitalism” debate (Hall & Soskice, 2001). In both debates, the terms path dependency and convergence through “natural selection” to “one best way” play a major role, albeit to differing degrees. In transformation discourse, the empirical observation that key political and economic institutions can evolve differently among countries and that these differences are related to the institutional traditions of the respective country has made the term path dependency increasingly attractive from an analytical point of view. In the discourse on competition between different forms of capitalism, the spectacular job growth under the Clinton administration and the deregulation of various product markets in Europe have lent credence to the idea that the Anglo-Saxon brand of capitalism is the “best practice”. Path dependency and competitive convergence represent two poles in the spectrum of answers to whether “learning” from other countries is possible. In its purist form, the path dependency thesis implies that a domestic institutional transformation is affected at most slightly by the perception of foreign institutions, and that learning – especially the attempt to implement what has been learned – can take place only in the framework of existing institutions. By contrast, the “one best way” thesis implies that the most efficient practice must be adopted under penalty of ruin.

Which one applies: Divergence owing to path dependency or competitive convergence owing to “one best way”? In this chapter¹ I will aim to show that this question cannot be decided on the basis of currently prevailing theories, particularly

Neoclassical economics and New Institutional Economics, primarily because they inadequately address the “how” of institutional transfer. I will instead outline an explanatory model that enriches the key insights of New Institutional Economics (which can also be traced back to other theories) with the dimensions of discursive strategy and power. The inclusion of these dimensions raises the question of what enables societal actors to convince other relevant actors of the advantages of a foreign model and to initiate the imitation of this model. In the following, this approach will be theoretically underpinned by Chantal Mouffe and Ernesto Laclau’s discourse analysis as well as by Gramscian power theory. To avoid misinterpretations, this paper will not take on the entire spectrum of transnational learning, which besides institutions encompasses mainly ideas and individual political measures. Rather, the focal point lies in discussions on the adoption of foreign institutions. First, however, the “one best way” and path dependency theses will be critically considered.

2. THE ONE BEST WAY THESIS

In Neoclassical economic theory, transnational competition leads to factor price harmonization and thus to a process of “one best way”. In the long term, only the most efficient production techniques can hold their own on the world market. This line of argumentation has also been applied to the development of economic policy institutions, such as private ownership of the means of production. According to New Institutional Economics pioneer Douglass North, private property rights endured historically because they proved to be the most efficient (North & Thomas, 1973). Today, advocates of this position with a Neoclassical or managerial mind-set (the New Institutional Economics theory has meanwhile dedicated itself to the issue of persistently inefficient institutions; see below) find that, in light of international competition, it is practically an imperative for an individual country not only to facilitate the adoption of the most productive techniques but also to orientate its own economic policy institutions on the most efficient model internationally (Siebert, 1996; Ohmae, 1990; Womack et al., 1990; Bartlett & Ghoshal, 1998). A similar line of argumentation can be found in other theories, for example, in modernization theory (Zapf, 1991) and in Marxism (Brenner, 1999).

The paucity of empirical evidence does not necessarily disprove the theory. The discrepancy between empirical data and theory may be explained on the one hand by the fact that the processes of denationalization (Zürn, 1998) and globalization were nascent. Only in the last few years have these processes made any real headway. Indeed, many observers believe that the process of convergence has recently accelerated. Transnational mergers and capital market liberalization, which lead to similar financial evaluation criteria (“shareholder value”), mean that a greater push toward standardization may be expected in the future (Boyer, 1999, pp. 12-13; Ertman, 1999; Cattero, 1999).

There is much to substantiate a dependency of the scope and speed of convergence on the degree of market growth. While companies from the manufacturing sector are quite directly at the mercy of international competition and

are therefore under enormous pressure to conform, most service sector companies are less affected by it and, despite having similar profit-driven efficiency criteria, they can deviate more from the “best practice” ideal without greatly risking their market position.

Yet this insight weakens the postulate of a world market-induced convergence of economic policy institutions. It brings into question how the firms’ pressure to conform is transferred to state institutions. The Public Choice approach, in line with this tradition of economic theory, sees competition for political office as the definitive transmission belts. Up to now, however, this approach has mostly been used to show how the creation of economically efficient institutions could be thwarted by interest groups in the electorate (the so-called “principals”) and by autonomous politicians (the so-called “agents”) (cf. Udehn, 1996, p. 67).² Without empirical evidence, one cannot safely say within this theoretical context that the firms’ pressure to conform is taken up adequately by politics. The convergence thesis thus lacks the crucial political transmission belt to explain convergence.

But also on the national stage, where markets are the most advanced, divergent corporate cultures may still be found even within the same sector (Dörrenbächer & Wortmann, 1993; Jürgens, 1992). In light of this empirical phenomenon, the Neoclassical theory reveals its failings by focusing on price as the decisive factor in market success. Market success cannot be reduced to the ability to offer goods at low prices (Porter, 1990). There are many other contributing factors, such as reliability, which leave ample maneuvering room for corporate strategies. But even when price is the sole factor in a product’s market success, market price can be enforced by myriad combinations of input factors with diverging factor endowment. The theory, based on an ideal of equilibrium, is moreover little suited to explain innovations. If all companies were oriented on “best practice”, innovations would soon come to a standstill. On the one hand, there would be no competitive edge to serve as an incentive to innovation. On the other, the combinations of factors that breed promising innovations would be severely restricted due to the homogeneity of practices. An innovative climate demands that a few firms stand apart from their competitors, with the result that they either will fail sooner or later on the market or will be unexpectedly successful (cf. Hung & Whittington, 1997, p. 553; Bikhchandani et al., 1992).³

But assuming that even more sectors were subject to market-economic logic and politics reacted quickly to the demands of their economic subjects, this would not necessarily result in convergence. According to the “theory of *comparative institutional advantages*”, as elaborated by David Soskice and his research group at the Wissenschaftszentrum Berlin, economic policy institutions can become specialized in a manner analogous to product specialization. This theory transposes Ricardo’s idea of mutual gains from world trade to the institutional level. Just as specialization emerges in traded goods, so too do individual nations undergo a specialization in institutional structure, because the product strategy pursued in each instance requires its own institutional setting. Hence German companies focus on incremental innovation because the German labor law and financial system, among other factors, guarantee the necessary long-term planning horizon. By the same token, American companies use the institutional conditions in the U.S., such as

deregulated labor relations and dynamic risk capital markets, to pursue strategies of “more radical innovations”. Therefore, Germany’s adoption of elements of the American model could only be achieved at the cost of the complete dismantling of its models for industry and innovation (Hancké & Callaghan, 1999).

Even where convergence is manifest, the impetus is not perforce the competition mechanism. Uniformity can spring from generalizations in interpretative patterns and from similarities in micropolitical strategy effects (Ortmann, 1995, p. 285; for “coercive isomorphism”, “mimetic processes”, and “normative pressures”, see also DiMaggio & Powell, 1983). In the case of management practices, a series of factors could explain alignment tendencies; for example, intercompany management discourse at the level of trade shows, trade journals, and management consultancy agencies (cf. Strang & Soule, 1998). In other words, the thesis of competition-based convergence must stand up to alternative explanations.

3. PATH DEPENDENCY

In economics, the path dependency concept stems from the attempt to explain the discrepancy between the theoretical assumption of efficient institutional development and the durability of inefficient institutions. The history of technology teaches us that suboptimal technologies can thrive for a relatively long time if they enjoy a head start. The typewriter keyboard is a notable example (Ortmann, 1995, pp. 255-261; David, 1985). For a theory based on a rationally calculating, benefit-maximizing individual, one may well ask how rationally made decisions can engender something so suboptimal. The answer lies in positive network externalities of technologies. These kinds of externalities occur when a technology application’s utility increases with the number of users or consumers. In such a case, the circumstances surrounding the first successful applications are of major significance. Path dependency is strengthened by, first, high start-up investments that lead to falling per-unit costs with increasing output; second, learning effects in technology application; and third, positive coordination and compatibility effects that proceed from the development of compatible technologies and standards (Arthur, 1994).

From the New Institutional Economics perspective, similar mechanisms come into play at institutions as well. Institutions have high start-up costs, learning effects for organizations that emerge during institutional setup, and coordination effects in the course of the mutual adaptation of formal and informal rules (Leipold, 1996, p. 97). The path, once chosen, does not lead to a destination because every decision-making situation has alternatives; the number of alternatives is however limited by the path. Therefore, it can be fully rational to hold on to a suboptimal institution. Actors break away from the path only when efficiency losses are greater than the costs for creating a new, more efficient institution (North, 1992; Weinert, 1997, p. 83; see Ruigrok & Tulder, 1995 on globalization strategies of corporations).

In transformation research, this microeconomic reasoning has been rarely employed for a theoretical foundation of path dependency (exceptions: Murrell, 1992, 1995; Poznanski, 1996). Gerhardt Lehmbruch (1994, 1995), David Stark (1997) and others who popularized this concept share neither the rationality

postulate of the New Institutional Economics nor its idea that the legacy of the past is the sole restricting power. Rather, they see the concept as an institutional resource for actors to combine and implement in different ways (see also Nielsen et al., 1995). Path dependency is therefore also characteristic for instances of institutional transformation, because in these situations actors again exploit the available institutional resources (Stark & Bruszt, 1998, p. 83). In addition, Lehmbruch underscores transmitted interpretations of situations (1995, p. 90).

This distancing from New Institutional Economics is in my opinion justified, but not for the reason proposed by Helmut Leipold. For him, an understanding of path dependency informed by technology evolution makes little sense, because in contrast to technologies, institutions are characterized by stagnating or even decreasing profits (Leipold, 1996, p. 100). For Paul Pierson, the opposite is true. He advances a number of reasons for why increasing returns to scale are applicable for "politics" (Pierson, 1997, pp. 24-36). Considerably more problematic is the New Institutional Economics assumption of objective efficiency criteria. If efficiency cannot be determined objectively for technology, as David Noble (1984) has so convincingly argued (cf. Esser et al., 1997; Ortmann, 1995, p. 260), then it certainly cannot be done so for political institutions. Efficiency ratings are driven by interests and are context dependent.

One must remember, as even path dependency advocate Paul Pierson has stressed (1998, pp. 21-26), that not every path is strewn with self-propelling sequences of events. And some sequences of events can be identified that have unintended backlashes. While in the former setting the further path is not inexorably fixed, in the latter one the path comes to an end. Accordingly, an observable path does not automatically continue into the future.

Unsurprisingly, empirical evidence is also ambiguous for the noneconomic version of the path dependency concept. Jürgen Beyer and Jan Wilgohls analyzed David Stark's thesis of path dependency for postsocialist countries. They drew the conclusion that the first free elections had a decisive impact on the future privatization policy, but that contrary to the path dependency thesis, subsequent changes in political power relations influenced the further course of privatization. In addition, their study concluded that different privatization strategies were pursued in countries that underwent similar transformations (Estonia and Lithuania), and that other countries whose transformations were unlike chose similar privatization strategies (East Germany, Estonia; Beyer & Wilgohls, 1998).

This criticism indicates a central deficiency in the path dependency concept for societal institutions; namely, the problem of its operationalization. There are manifold ideas about what the relevant time frame and key events are that determine a given path. In transformation research, some authors highlight the significance of the presocialist history for current and future developments in Eastern Europe (Janos, 1994), while others see current developments predominately influenced by the recent socialist past (Crawford & Lijphart, 1997; Jowitt, 1992).

For Lehmbruch (1998) and Stark (1996), decisions made during the system's collapse determined the further developmental path, although the legacy of the past influenced these decisions (see also Wollmann, 1996; Nielsen et al., 1995). Within the "U.S. job miracle" debate, however, Thomas Ertman finds 50 years to be too

short a time span to define the further developmental path (specifically, his argument refers to the West German system of industrial relations in comparison with European processes of state formation; 1999).

Generally speaking, in social evolution, every initial condition has a history. For this reason, the path dependency concept is faced with the problem of infinite regression.

Yet problems of operationalization plague not only the diachronic but also the synchronic perspective. How can path-critical institutions be isolated from the multitude of institutions in modern complex societies? Key factors include the following: Party apparatus institutions, cultural heritage, and informal relationships complementary to planned economy (cf. Bohle, 1999). Moreover, external factors can also be seen as path dependency elements; for example, the magnitude of accumulated foreign debt under state socialism (Bohle, 1999, p. 18; cf. Pickel & True, 1999).

4. DISCOURSE-ANALYTICAL APPROACH

This discussion of the shortcomings of the “one best way” and path dependency concepts should not be misconstrued as a denial of the driving power of competition and institutional legacy. It should however be clear that these concepts alone can only partly explain the processes of institutional transfer. Several articles have been published in the meantime that deal explicitly with the transnational diffusion of political concepts and institutions. They provide important insights into the structural prerequisites for transfer. Accordingly, political measures diffuse easier than political institutions, and the speed of transfer is accelerated by the existence of international networks and epistemic communities. These empirical works also raise the problem of proving transfer, because not just transfers alone but also endogenous processes can result in similar-looking political measures or institutions (see overview by Stone, 1999).

Power relations are rarely treated in these works, unless it's a matter of a diffusion within hierarchically structured political organs (cf. Kern, 2000). Studies on diffusion processes in the environmental field, for instance, are marked by a basically positive attitude toward innovations, thanks primarily to the so-called “California effect” (i.e. the diffusion of higher environmental standards starting in California). The “progressive” nature of the environmental policy innovations examined seems to have obviated the need for a critical analysis of the motives and implementation strategies of their protagonists (cf. Kern, 2000; Biermann & Simonis, 1998). Because the focus was on environmental measures as objects of transfer, the diffusion of defensive tactics against environmental regulation among industry lobbyists did not catch the researchers' attention. Conversely, studies on the diffusion of concepts in the social policy field, which have experienced cuts in many countries over the last decades, highlight far more frequently the power aspects of implementation strategies for these innovations (e.g. Peck, 1999; Plehwe & Walpen, 1999). However, little heed is paid in these works to structural factors; in particular, they neglect the question of compatibility between innovations driven by power

politics and the existent institutional setup. Neoinstitutional works highlight this latter aspect (Kitschelt et al., 1999; Döhler, 1991).

For a theoretical definition of both structural and actor-oriented instances of institutional transfer, I find the discourse theory developed by Ernesto Laclau and Chantal Mouffe (1985) most helpful (Scherrer, 1995). Their understanding of discourse is not limited – as most generally are – to spoken or written text, but is distinguished by an epistemological position. The substance of meaning is not determined by the essence of an object or practice, but rather by discursive articulation: “outside of any discursive context objects *do not have* being; they only have *existence*.” (Laclau & Mouffe, 1987, p. 85) Such a position theoretically underpins the suggestion by David Strang and others that mimetic models do not flow, but interpretations of these boundaries do (“Practices do not flow: Theorized models and careful framings do” Strang & Soule, 1998; cf. Lillrank, 1995).

Accordingly, Laclau and Mouffe reject the idea that societal reality could be reduced to an inevitable part of an immanent law. Nevertheless, they do not rule out the existence of structures. If these were absent, then no coherent discourse would be possible because only indeterminacy would prevail (Laclau & Mouffe, 1985, p. 112). Yet structures never achieve a completeness wherein all elements are defined, but rather are vulnerable to constant interruptions and shifts. Subjects, like structures, never attain a closed identity because this comes about only in relation to other identities. What results is the reciprocal subversion of subject and structure. The subject is the product of a shift in a structure, that is the impossibility of a structure to constitute itself fully. The structure results conversely from the impossibility of a subject to continually regenerate everything that is discursive (i.e. all verbalizations and actions, all non-verbalizations and non-actions) (ibid., p. 107).

The discourse-analytical assumption of mutual subversion of structure and subject offers a plausible approach to the analysis of institutional transfer. On the one hand, it gives access to how theorists of path dependency, such as David Stark, grasp the significance of institutions for individual and collective action. It also permits an understanding of what protagonists of the “one best way” thesis stress are inevitable instances of competition. At the same time, this discourse-analytical assumption allows an actor-oriented approach. Constant structural shifts beget constant subjects; the latter are compelled through acts of identification to accept new identities and hence to also “meaningfully” join the structures of their actions (Laclau, 1990, pp. 60-67).

These subjects can recreate meanings in the imaginary realm (i.e. a realm illegible by structures) and give structures a “new sense” too, but they cannot as individuals or as subordinate collective actors change these structures voluntarily. As the enforcement of structures is decentralized and structures are not linked with each other “essentially”, they also cannot be modified from a privileged position. Their existential conditions would first have to be undermined.

The absence of a center does not rule out the existence of centers, of hierarchies among the structures. Centers of societal practices can namely exist only as long as a structure is not completely closed. In the case of closure, each element of the structure would possess only a relational identity with all other elements (Laclau, 1990, p. 40). Specifically, this means that some practices or bundles of practices

(institutions such as the wage or commodity relations) can structurally affect other practices. The extent of this influence rests first on the type of relation they have with the other practices and second on how far they themselves are enshrined in society. Generally, the societal availability of practices is contingent on several factors, including,

- (1) how expansive they are and how long they have endured,
- (2) how self-evident they have become,
- (3) how negative the probable consequences of their change are estimated to be,
- (4) which sanctions will be imposed if attempts at change are made,
- (5) whether actors are ready to defend these practices if the previous mechanisms for maintaining them fall short,
- (6) what resources they can mobilize in comparison with actors urging change; and how they use these resources.

As applied to the question of institutional transfer, these considerations entail searching for (a) – temporarily – fixed institutions including their structural elements that either enable or restrict such a transfer, and (b) – to a limited extent – open situations where actors struggle for renewed closures and in so doing become involved in interpretational conflicts. First, with respect to structures, one must ask which institutions create a competitive situation, recognized as such, that brings about a “best practice” by “natural selection”. Second, one must analyze which institutions generate institutional legacies, which in turn are also discursively recognized. In both cases, one would need to check how much the competition or the capacity to persist is also discursively grasped and to what extent an attempt is made to modify the institutions that cause these structural effects.

Deliberations on the behavior of actors in “open situations” – elaborated to a high level of abstraction in Laclau and Mouffe – may be expanded politically with the Gramscian power theory. On the one hand, this draws attention to nongovernmental collective actors particularly in transnational relations, in the so-called “civil society” (Cox, 1987). On the other, it interprets hegemony as a relational equation between collective societal actors, whose reproduction is ensured neither by the “dull compulsion of production relations” nor by coercion, but requires other, noncoercive strategies (Scherrer, 1999, pp. 16-33). From this

perspective, coalitions must be formed, in addition to active or at least passive consensus, in order to enforce institutional transfer.

The discursive strategies of institutional transfer do not however take place in a structure- and power-free realm. One must take into account, first, the power relations among the discourse participants and, second, the aforementioned structural conditions of concrete institutional transfer.

4.1. Power Constellations

Although discourse on foreign institutions can spring from an “open situation” as regards a domestic institution (e.g. because it apparently does not fulfill the defined objective), discourse participants may still be attached to the previous political structures of asymmetrical resources and participatory options. In other words, former power positions influence the options for the discursive power of interpretation in relation to a foreign model.

If my premise is correct that the transfer process starts with interest groups or political “entrepreneurs”, then their powers in the political process should be the most important factor for a successful model transfer. Research on modernization and democratization of nations (Merkel, 1997, pp. 11-15) as well as on the postcommunist transformation processes in Eastern Europe (Offe, 1997, p. 216) supports this thesis by emphasizing the role of elites. Hart concludes his international comparison of institutional adaptation to world market pressures with the observation that “movement occurred in state-societal arrangements within the bounds established by the underlying distribution of power among major societal groupings.” (Hart, 1992, p. 289) But because elites will be neither immediately nor as a group convinced of the necessity for imitation, interest formation processes must also be taken into consideration. In the process of reaching understanding amid divergent interests, actors such as policy experts, who otherwise enjoy only limited powers, can play a larger role. This role will undoubtedly grow as preliminary decision analyses are increasingly being outsourced to independent consultants, not just in the private sector (Micklethwait & Woolridge, 1996) but in policy formulation as well (for privatization, see Strange, 1996, pp. 135-146; for pension reform, see Blomert, 2001). Moreover, it stands to reason that, if there is a discrepancy between promised and actual productivity of an institution, weaker actors will assume more power. Logically enough, the media will play a key role in disseminating proposals for institutional transfer, with their actors very likely pursuing their own interests in the process.

The transfer of one country's practices to another is also influenced by the balance of power between them. The weaker country is usually more willing to learn from the stronger one than vice versa. The stronger country's apparent success is not the only thing that makes it more attractive; its key actors can employ more resources and provide more incentives for others to adopt its institutions. These resources might include its power within international organizations, which might be based on geostrategic motives (e.g. the United States vs. postwar Germany) or on

the fear that an opposition group in another country could attain a strategic advantage (for an extreme case – reunification – see Lehmbruch, 1994, p. 29).

Yet power alone is not enough. A highhanded use of power can breed resentment and resistance. Hegemony in the Gramscian sense of furthering one's own interests by integrating those of other groups would be more conducive to model transfer.

4.2. Competition as Structure and Discourse Object

A proposal for institutional transfer is more persuasive if it is portrayed as a necessary measure for surviving a threatening competitive situation. This leads us back to the “one best way” argument. In contrast to this thesis, however, success of transfer seems to depend less on whether competition really exists and more on how much a crisis is seen as the outcome of a competitive situation. If competition is not recognized as such, then it cannot be held up as a basis for institutional change. Naturally, an actual but unrecognized competition mechanism can still have an impact; for example, it can lead to military defeat, to bankruptcy, or to high unemployment. But whether the defeat is retrospectively associated with the competition mechanism is an open question. Even if a competitive situation is recognized as such, imitating “best practice” is not the sole option for action. Recognition can lead to efforts to “outrun” the competition or, if catching up seems futile, to discontinue further efforts. Interpreting a crisis as the outcome of a competitive situation will seem more plausible if supported by everyday experience: At one extreme, by war; or in times of peaceful economic competition, by experiences in the consumer world and at the workplace.

The U.S. manufacturing industry unions, for instance, long ignored European and Japanese competition, dismissing it as a “foreign competition hoax” during the 1959 steel strike, which gave foreign steel producers a breakthrough on the U.S. market. Later, when steel industrialists concluded that it was not possible to catch up with the new competition and made cuts in the investment budget accordingly, unions successfully advocated protectionist policies, using them to obtain wage increases that were out of proportion to productivity gains (Scherrer, 1992, pp. 171-182).

In this case, there was an “objective” competitive relationship. The institutions of private ownership, trade, the GATT, and price-sensitive purchasing decisions pitted steel producers against each other in international competition. Yet this competition was not immediately recognized by those involved; once it was generally acknowledged in discourse, one of the institutions held responsible for the situation, the GATT, could, through political power, be circumvented or made ineffective by “voluntary” export restrictions. Although competition could not be fully offset in this manner (i.e. its effects were manifest in the investment behavior of U.S. firms and, years later, in a major steel crisis), its impact was limited.

4.3. Institutional Compatibility

Foreign practices are more likely to be adopted if they are compatible with existent values and institutional arrangements. This is the most common argument in the literature for the dissemination of ideas and policies and is most akin to the path dependency argument. It is justified primarily by “interaction requirements” (Scharpf, 1978, p. 363). Not one type of institution alone creates a system, “but the simultaneous existence and the pattern of interaction of a series of institutions.” (Niosi et al., 1993, p. 218) The transfer of a model representing only parts of an entire institutional configuration is therefore faced with the problem of institutional coherence. As industrial geographers Storper and Salais so forcefully argued,

“[...] the strength of any successful real world of production is precisely the way in which it is chiseled out of conventions which function together coherently and are made possible by conventions of identity and participation: These elements cannot be mixed and matched *à la carte*.” (Storper & Salais, 1997, p. 172)

Furthermore, the adoption of foreign institutions is structurally limited by procedural knowledge. Changing procedural knowledge is difficult and can only be achieved with the passage of time, because such knowledge is implicit. People learn rules without conscious knowledge of them, and these rules are stored as procedural memory. Procedural knowledge is also rooted in identities that are given by the existent categories defined by the societal division of labor (Kogut, 1997, p. 358; for transformation research insights on this topic, see Wiesenthal, 1997).

Finally, David Strang and John W. Meyer point out that culturally biased objectives, where dissimilar, can hinder institutional transfer (Strang & Meyer, 1993, pp. 490-492).

The more familiar the model institutions are, the less affected the power relations between the societal actors will be and hence the lower the resistance. If many of the existing institutions need to be changed, then the inadequately fulfilled interaction requirements with other institutions during the implementation process will increase the risk that the initial innovations will fall short of the anticipated efficiency gains or other advantages. This disappointment can cast doubt on the further implementation (see above).

Institutional restraints on adopting foreign practices will be illustrated by an example from Germany. Despite its great interest in Henry Ford's production techniques and labor relations, prewar Germany was not yet ready for Fordism. The introduction of American production methods was barred by the German industry cartel, which enabled small producers to stay in business (Berghahn, 1986, p. 22). The adoption of Taylorist concepts, many of which were indigenous to Germany, was nevertheless impeded by a societal order with institutionalized skill identities (the *Meister*, the *Facharbeiter*) upheld by political actors (Kogut, 1997, p. 360).

In 1996, the boards of directors of several German firms supported decentralized wage bargaining in line with the American model. Apart from the strength of the unions, many large industrial employers were ambivalent about this demand. As Kathleen Thelen has pointed out, they feared that, if works councils were actually to take on more of the bargaining responsibilities traditionally reserved for unions, this would in fact very likely undermine the foundations on which management's

constructive relations with their works councils were premised. This relationship rests on the works councils' inability to negotiate. Indeed, decentralized bargaining could even open possibilities for plant labor representatives to use works councils' rather significant legal rights to extract concessions from management over wages (Thelen, 1997).

Institutional or mentality restraints, however, can be overcome with the passage of time. Either the institutional setting adapts to the new practices, or these new practices are adapted to the old institutions. For Berghahn, who has studied the postwar transformation of West Germany's industrial structure, the resistance to "Americanization" subsided when a new generation assumed leadership positions (Berghahn, 1986, p. 11). The younger generation embraced American methods more readily, first and foremost because they apparently worked (see above).

Even if foreign practices are adopted, the copy is not identical with the original. For example, when Taylorism was finally introduced in Germany, it did not lead to a deskilling or to the imposition of crude incentives to the extent seen elsewhere, because the belief in sustaining the role of the skilled laborer in the production process was retained (Kogut, 1997, p. 362).

Besides the problem of adopting all supporting institutions of a foreign practice simultaneously, a principle obstacle is that a prototype is not a fixed template. There usually is ample space for disagreement about the central features of the model to be copied. For instance, many firms claim to have installed Japanese production methods. However, most of them have only adopted a fraction of what makes the Toyota system "best practice", and they usually have adapted this part to fit the surrounding practices. In these cases, transfer may lead to institutional innovations (Jürgens, 1993).

5. CONCLUSION: BEYOND PATH DEPENDENCY AND "ONE BEST WAY"

The upshot of the discussion is that neither the thesis of competition-induced "one best way" nor path dependency can adequately explain whether transnational institutional transfer is possible or not. The thesis by which, under penalty of ruin, the most efficient practice has to be adopted stands both empirically and theoretically on thin ice. Empirically, no clear trend toward convergence is discernible, price alone is not the decisive factor in competition (and identical prices could conceal very different combinations of input factors or institutional settings), and many economic activities are not subject to direct competition. According to the "theory of comparative institutional advantages", it is precisely competitive conditions that form the groundwork for the specialization of economic policy institutions.

There is likewise no clear-cut empirical evidence for the path dependency thesis, which sees the legacy of existing institutions to be a restraining factor in the possibilities for institutional transfer. In addition, the thesis can be difficult to operationalize. There are myriad contrasting ideas about the relevant time span and the major events that shape the respective path.

In summary, the spectrum between the poles of “one best way” and path dependency leaves room for a multiplicity of institutional combinations. To determine their concrete shape, I have chosen a discourse-analytical approach that, without having to deny the power of competition and institutional legacy, increases awareness of the political conflicts surrounding institutional transfer. This approach cannot provide any simple explanations, however, as it deals with the “radical contingency” of all relations between societal interests, identities, and positions.

A good starting point for a prognosis, based on the deliberations above, would be the relative power relations between advocates and opponents of institutional transfer. These relations, defined by the availability of economic, political, and media resources, represent just one approach, however. The proposal to copy a foreign model can achieve a much greater response if it is packaged as a solution to a problem deemed pressing by the majority of people. The work of persuasion can be facilitated by the following factors: Prevailing consciousness of strong competitive pressure; extensive compatibility of the envisaged policies and institutions with existent values and institutional structures; a powerful and interested model country or international organizations; and a model that lives up to the expectations of its proponents.

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NOTES

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- ² Among the Public Choice authors, Mancur Olson has dealt the most with competition between individual polities. For him, “distribution coalitions” prevent political orientation on the best practice, which leads to the ruin of the nation in question. In his eyes, “learning” does not take place (Olson, 1982).
- ³ This argumentation could be refuted by the fact that it is based on a static version of “best practice”. From a dynamic viewpoint, “best practice” will continually repeat itself – innovations will be taken up by everyone else in turn. This viewpoint implies however that the institutional transformation does not strictly orientate itself on the best model but can be influenced by other factors. But then there would be far less pressure to adopt the “best practice” and more room for a variety of practices.

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