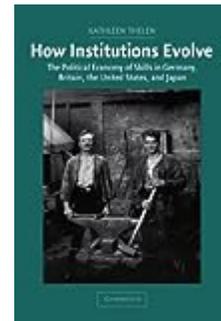


# H-Net Reviews

in the Humanities & Social Sciences

**Kathleen Thelen.** *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States and Japan.* New York: Cambridge University Press, 2004. 352 pp. \$75.00 (cloth), ISBN 978-0-521-83768-2; \$30.99 (paper), ISBN 978-0-521-54674-4.



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**Published on** H-German (January, 2006)

This is a superb work of comparative historical political economy. It makes a sound and enlightening empirical contribution to our understanding of the emergence of four quite distinct national systems of vocational training. And it makes a provocative theoretical argument about the character and process of institutional change over time. This review will deal with each of these dimensions of the book in turn.

The empirical arguments about the four national cases are synthetic and rely, for the most part, on already existing secondary sources in each of the countries. Nonetheless, the comparative causal arguments about the factors that gave rise to each of the systems are remarkably subtle, original, and very illuminating. The key actors in all four stories are large metalworking firms—big demanders of skilled labor at the beginning of the twentieth century—and trade unions. The crucial structuring difference shaping the terrain of possibility for action in all cases was the relationship between the traditional artisanate and the state.

In Germany and Japan, state policy created (or protected) a clear line between traditional artisans and skilled industrial workers, while in Britain and the United States state policy broke down that distinction. Where the line between the artisanate and industrial workers was maintained, trade unions and employers did

not struggle over issues of training (because it was the province of a different social class), and instead both focused on optimizing, supplementing or extending the artisanal system. In Germany, doing this meant extending to industry the in-plant training system developed within the artisanate, allowing industrial employers to certify skilled labor along with the artisanate and, ultimately, incorporating organized labor into the governance of the (extended) vocational system. In Japan, it meant replacing the (neo)artisanal *okayata* trainers with an in-house system of training structured by a seniority system and permanent employment and in which company unions assumed the status of stakeholders in enterprise. While none of the developments in either case occurred easily or all at once (Thelen tells very detailed stories about how each system developed), in both cases, the crucial detail is that the interests of organized labor and employers tended to run in the same direction.

In areas where the line between artisan and industry was blurred, however, unions focused on the control of skill and apprenticeship as a way to secure control over the labor market. As a result, training became a central focal point of class struggle with employers. In Britain, conflict between craft unions and employers over control of the production process profoundly shaped the evolution of training practices. Advances in training often

occurred under conditions of market shortage or governmental enthusiasm, but then were rolled back when those conditions changed. Over time, this produced a highly diluted and inconsistent training system that became weaker as the twentieth century progressed. In the United States, competition between unions and employers for control over the workplace was, if possible, even more intense than it was in Britain. But unions in the United States were weaker than their British counterparts and employers aggressively sought to uproot them from the shop floor by replacing skilled labor with automated machinery and unskilled labor. Over the long term, as in Britain, training deteriorated and never became institutionalized in any broadly effective or systematic way in the national political economy.

Crucially, Thelen shows how these different outcomes in the four cases affected the attractiveness to youth of investing in training. In Germany and Japan, where the training systems had great legitimacy and institutional robustness, becoming an apprentice and engaging in the training system was rewarding to both the apprentice and the employer. But in the United States and Britain, where there was no systematic apprenticeship system with reliable quality, youth eventually showed very little interest in investing in formal training. Due to differences in institutional structure, in other words, the content of skill, its general availability, and its social status were constructed differently in each of the political economies.

This is a very elegant institutionalist argument. Indeed, it is perhaps too elegant in that it makes the “systems” that it describes more inclusive and coherent in each of the societies than they actually were/are. In some cases, Thelen recognizes that alternative practices existed (at least in the past), but she dismisses them as exceptional or niche forms that were either absorbed or supplanted by the system she describes (pp. 49-50; 186). She tells a teleological story in which the emergence of a single system, and the actors associated with it in the present, erase the social and historical memory of alternatives to it, rather than an open ended narrative in which multiple practices reproduce themselves in greater and lesser accord with evolving formal rules and institutional design. This orientation comes back to haunt her in her discussion of the current crisis in the contemporary German vocational training system—she essentially sees crisis, but is at a loss as to conceive of possible alternative arrangements in vocational training (pp. 269-277). By eliminating the noisy alternative practices from her narrative, she has nowhere to look for experiments

about alternatives to the system in crisis.

That said, Thelen’s book will stand as an indispensable resource for anyone wishing to understand how vocational training in each of the four national systems emerged, how it works and how skill is defined, organized, monitored, and understood in dramatically different ways in the different national institutional contexts.

But Thelen is not merely interested in addressing an international community interested in vocational training. She also makes a very subtle and interesting theoretical argument about the character of institutional transformation over time. Here the argument is very ambitious, intriguing, but also, ultimately, limited in a variety of ways.

For Thelen, the issue behind the issue in her portrait of vocational training systems is the constant character of institutional change, even in periods of apparent or alleged stability. She is dissatisfied with the traditional argumentation in political science/political economy that separates the problem of institutional change from that of institutional reproduction. In that literature, change tends to be understood as something discontinuous, provoked by an exogenous shock that either wipes out institutions, or so destabilizes them that it creates the possibility for previously unforeseen agency and innovation. Reproduction, on the other hand, is what happens in those periods when there is not change. It is characterized by stable positive feedback mechanisms that sustain the integrity of institutional systems over time (path dependency).

Using the German case, Thelen shows that this hard (conceptual and temporal) dichotomy between change and reproduction really cannot be sustained. Seen over the course of nearly a century, the German case exhibits both remarkable continuity and significant change. From its inception in the 1890s, the German vocational training system has always been a “collectively managed system for monitoring how firms train their workers” (pp. 296)—this despite the experience of several significant social, economic, and political crises and breaks in the society. But the system has been governed in several different ways over that same period. Moreover, the intentions behind the construction of the initial arrangements were in many ways diametrically opposed to those that sustain very similar arrangements today. In providing the artisanate with monopoly authority to certify apprenticed training, the German state at the time hoped to bolster that petty-bourgeois class and undermine the momentum of the growing labor movement. It was an anti-

trade union, anti-social democracy measure undertaken by a conservative regime struggling to contain growing demands for representation. Yet by the mid 1990s, that same system of collective management and monitoring of skills in Germany fully incorporates the participation of labor unions and was widely viewed as a core institution in the labor-friendly German production system. Thus, despite remarkable continuity over a century, there was profound change in the system. Institutional reproduction and institutional change are deeply intertwined in this history.

How to conceptualize this type of gradual change within continuity? Thelen takes two conceptual steps to try to do this. First, she brings agency-based explanations together with structural ones. She praises, for example, the work of Peter Swenson who emphasizes the crucial role of capitalist agents in constructing institutions for domesticating market dynamics in contemporary capitalism. For Swenson, institutions represent the solutions to specific kinds of environmental problems confronting actors. Previous solutions create the conditions for choice in a subsequent round. Thelen, however, also acknowledges very favorably the criticism of Swenson's work by structuralists such as Pierson and Hacker and Stephens and Stephens who emphasize that agents do not construct institutional solutions out of whole cloth or in whatever way they choose. Rather, the very problems they confront and their sense of the range of the possible is shaped by the contours of the broader institutional and political landscape in which they are located. Referencing an idea of Pierson and Hacker, Thelen emphasizes that the background structure constrains agents by providing them with a "menu of options from which [they] are forced to choose" (p. 287). Change over time in the background context in which agents act can, moreover, remove from possibility strategies and goals that even shortly before were very much favored by actors.

Normally these two different theoretical perspectives view each other with considerable distrust: Structuralists think that agency theorists believe that institutions are infinitely plastic and that they are the direct and desired result of agent choice, when in fact choice is invariably highly constrained, actors rarely have a clear idea of what they want, and institutions, for many structural reasons, are deeply resilient. For their part, agency theorists think that structuralists overvalue constraint and underappreciate the creative role of agents in the design and change of institutions. Thelen thinks that all of this mutual mistrust is misplaced—or at least unnecessary. In fact she finds significant commonality between the Swenson per-

spective on the one hand and that of the structuralists on the other: "these analyses all highlight the need to situate the interpretation of specific choice points within a broader temporal framework that takes account of the feedback effects that have defined the conditions with which specific policy and institutional choices are being made. They highlight the way that policies initiated at one point affect which actors are around to fight the next battle, how they define their interests, and how and with whom they are likely to ally themselves subsequently" (pp. 288-89).

Both views, in other words, are historical: they think that it is indispensable to understand present action in the context of past actions. And both views understand the historical process as characterized by feedback effects (past actions shape future possibilities). In her rendering, the structuralists have the virtue of defining the historical terrain very broadly—beyond the purview of individual agents. Larger context constrains the agent by limiting the choices available. It also, however, can change in ways independent of a particular institution and its interested agents, altering the terrain on which the institution exists and the pressures that generate agent incentives. But agency theorists have the virtue of emphasizing the fact that agents create, design, and change institutions. In her language, actors have *politics*, different conceptions of the way things should be arranged. Contestation among agents with differing politics can affect the spectrum of possibilities for institutional transformation and the direction that transformation takes. The structuralist perspective helps define the resources available to actors; the agency perspective focuses on who creates and reforms institutions and in what way.

This first move makes possible a second move and that is to complicate the notion of "feedback" that is deployed in historical institutionalism. Feedback, more specifically "positive feedback", is typically a notion that is associated with path dependency and the reproduction of institutional systems, not with change. Positive feedback mechanisms create so-called "increasing returns to power" or "situations in which victors at one stage impose institutional solutions that reflect and entrench their interests, thus biasing outcomes in the next round" (p. 289). While not denying that such dynamics can be found (she suggests that her own rendering of the U.S. case has this character), Thelen draws on structuralist notions of change as well as her own notions of agency and politics to suggest that positive feedback mechanisms can be destabilized, creating the possibility for modification or reform of institutions even as they are being reproduced.

Citing the work of Paul Pierson, Thelen makes the point that institutions can fall into processes of change because “changes in the broader social environment and/or the character of the actors themselves (among other things) can, over time, produce a significant and unintended “gap“ between the goals of designers and the way institutions operate” (p. 294). The existence of such gaps (a structural effect) can lead to the destabilization of positive feedback processes by altering the alignment of interests that surround and support specific institutional designs. This, in turn, unleashes “political” contestation over the meaning, function, and design of the institution in society. Under such circumstances, she claims, the out-of-line institutions do not necessarily get abandoned or destroyed. Instead, they can be modified in various ways by coalitions of actors seeking to make them reflect their interests. Any institutional system has several dimensions of positive feedback and not all of those mechanisms become targets for change. Hence portions of the system can be reformed while other parts of it remain unchanged. The overall effect, however, can be quite significant for the institutional system—as the long durée account of the German vocational system attests.

Thelen offers two different forms of this kind of partial institutional transformation: conversion and layering. By conversion, Thelen refers to dynamics of change in which actors not originally associated with the construction or design of the institutional system—indeed, even those who were excluded from the system when it was initially designed (“losers” is her term)—find an opportunity, due to structural destabilization, to take over the institution and redirect its goals. This, she claims, is what happened to the original German artisan-controlled vocational training system in the middle of the twentieth century as the institution was appropriated and reformed by both industrial and trade union actors. Layering refers to modifications to institutional systems that are added to an existing structure, as when trade union participation in monitoring and curricula design was formally added to the German vocational system in a 1969 law.

It is not clear that Thelen wants us to believe that conversion and layering are the only ways in which change within continuity can be conceptualized. They are simply two ways that come out of her analysis of the long history of the German vocational training system. The stimulating dimension of her theoretical work, however, is that one is encouraged to think of institutional change in her way and attempt to come up with additional mechanisms for understanding the gradual character of change in institutions.

There are, however, a number of important questions about the theoretical moves that Thelen makes about which there needs to be clarity first, before we “go down her road.” Some of the questions have already been posed by some of her structuralist friends. Pierson, for example, finds the notions of layering and conversion to be very promising mechanisms for the conceptualization of institutional change, but finds them also to be exceedingly underspecified.[1] Under what conditions will layering or conversion occur (as opposed to simple reproduction or to the collapse or abandonment of the institution?). Thelen generates the actors that convert and layer out of the narrative flow of her specific German case, but she does not provide general conditions for determining when such actors will emerge, how they can be identified and why they will act to reform the institution in the way that they do. This is a problem for the development of the notions in general theoretical terms.

This same area of under-specification also leaves Thelen vulnerable to criticism from a constructivist, pragmatist point of view. Constructivists with a pragmatic bent would begin their criticism by focusing on her conceptualization of agency and its relationship to structure. Ultimately, Thelen conceives of agents, such as “capitalists” or “large metalworking firms” as entities that are very well defined and whose interests are given by the structural context in which they are located. Agents and structure are separate and typically the constitution of the structure precedes the constitution of the agent. Structure imposes constraint on certain types of action while at the same time enabling other sorts of action. Crucially, for her, this does not unambiguously determine the way that agents will act because they engage in “politics” with other interested/competing actors. The strategizing and compromising that such politics entails invariably alters the outcomes achieved from that which would have been desired by any actor individually. This interest in contingency is laudable, but it is all of a very modest kind that pays tremendous deference to the power of structure over the scope of possibilities confronting actors. Once the actors have created a new arrangement, that new structure clearly defines the interests of the actors and the array of possibilities for action that confront them.

But this privileging of structure over separate and independent agents is not the only way to conceive of this relationship. It is also possible to think of agents and structure being constituted simultaneously in the process of action. To do this, one needs to understand the imperatives imposed by structural designs to be ambiguous and the interests and even identities of actors

to be ill-defined and plastic, existing in a flow of communicative exchanges among contending actors regarding their possibilities for action and the ends desired. In this kind of social and reflexive process, institutions and background structures become not constraints, but resources for the creative reproduction of social identity and collective practice. Through the creation or modification of an institution, for example, actors define who they are and how they would like to be governed. Crucially, in so doing, they are also aware of the provisionality and contingency of their creations. Actors know that institutional arrangements may not work or adequately solve the problems they were designed to address. So they informally cultivate (retain) alternative identities and strategies for themselves at the same time that they seek to modify and optimize their own formal creations. So conceived, institutional change and institutional reproduction are permanently intertwined, as collective actors continually evaluate in the present the future viability of the habits and routines they inherit from the past. Modification of practice and recomposition of institutions is a continuous process.

The advantage in thinking of social recomposition in this historical and continuous way as opposed to the rigidly delineated structure-action way that Thelen does is that it forces one to look at the formal systems of rule

that guide action as multiple possibility creating, rather than as simply and unambiguously constraining. It also directs the eye to the informal, compensatory, experimental forms of action that all agents engage in, even as they engage in the reproduction of a particular institutional set of rules. Such alternative forms of action and relations, which also have a history and alternative social ties, constitute the conditions out of which institutional recomposition and change becomes possible. Had Thelen conceived of agency and its relationship to structure in this way, she may have been able to point to an array of potential developmental possibilities for training in Germany today, rather than simply lament the potential collapse of a century old system of practice.

*How Institutions Evolve* is thus not a perfect book. But it is so elegantly constructed and lucidly argued that it makes it possible to shift debate between structuralists, rational choice agency theorists, and constructivists on the character of change and the significance of temporality and choice in that process to a much higher and more sophisticated level.

#### Note

[1]. Paul Pierson, *Politics in Time. History, Institutions and Social Analysis* (Princeton: Princeton University Press: 2004), pp. 139-142.

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**Citation:** Gary Herrigel. Review of Thelen, Kathleen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States and Japan*. H-German, H-Net Reviews. January, 2006.

**URL:** <http://www.h-net.org/reviews/showrev.php?id=11355>

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