How Institutions Evolve

The Political Economy of Skills in Germany, Britain, the United States, and Japan

The institutional arrangements governing skill formation are widely seen as constituting a key element in the institutional constellations that define distinctive “varieties of capitalism” across the developed democracies. This book explores the origins and evolution of such institutions in four countries – Germany, Britain, the United States, and Japan. It traces cross-national differences in contemporary training regimes back to the nineteenth century and, specifically, to the character of the political settlement achieved among employers in skill-intensive industries, artisans, and early trade unions. The book also tracks evolution and change in training institutions over a century of development. It uncovers important continuities through putative “breakpoints” in history, but also – more important perhaps – it provides insights into modes of institutional change that are incremental but cumulatively transformative. The study underscores the limits of the most prominent approaches to institutional change, and it identifies the political processes through which the form and functions of institutions can be radically reconfigured over time.

Kathleen Thelen is Professor of Political Science at Northwestern University. She is the author of Union of Parts: Labor Politics in Postwar Germany and co-editor of Structuring Politics: Historical Institutionalism in Comparative Analysis. Her work on labor politics and on historical institutionalism has appeared in World Politics, Comparative Political Studies, The Annual Review of Political Science, Politics & Society, and Comparative Politics. She is chair of the Council for European Studies, and she serves on the executive boards of the Comparative Politics, European Politics and Society, and Qualitative Methods sections of the American Political Science Association. She has received awards and fellowships from the Max Planck Society, the Institute for Advanced Study in Berlin, the National Science Foundation, the Alexander von Humboldt Foundation, the American Scandinavian Foundation, and the German Academic Exchange Program.
Cambridge Studies in Comparative Politics

General Editor
Margaret Levi  University of Washington, Seattle

Assistant General Editor
Stephen Hanson  University of Washington, Seattle

Associate Editors
Robert H. Bates  Harvard University
Peter Hall  Harvard University
Peter Lange  Duke University
Helen Milner  Columbia University
Frances Rosenbluth  Yale University
Susan Stokes  University of Chicago
Sidney Tarrow  Cornell University

Other Books in the Series
Lisa Baldez, Why Women Protest: Women's Movements in Chile
Mark Beissinger, Nationalist Mobilization and the Collapse of the Soviet State
Nancy Bermeo, ed., Unemployment in the New Europe
Carles Boix, Democracy and Redistribution
Carles Boix, Political Parties, Growth, and Equality: Conservative and Social Democratic Economic Strategies in the World Economy
Catherine Boone, Merchant Capital and the Roots of State Power in Senegal, 1930–1985
Catherine Boone, Political Topographies of the African State: Territorial Authority and Institutional Choice
Michael Bratton and Nicolas van de Walle, Democratic Experiments in Africa: Regime Transitions in Comparative Perspective
Valerie Bunce, Leaving Socialism and Leaving the State: The End of Yugoslavia, the Soviet Union, and Czechoslovakia
Daniele Caramani, The Nationalization of Politics: The Formation of National Electorates and Party Systems in Western Europe

Continued after the Index
How Institutions Evolve

THE POLITICAL ECONOMY OF SKILLS IN GERMANY, BRITAIN, THE UNITED STATES, AND JAPAN

KATHLEEN THELEN
Northwestern University
To Ben
Contents

Preface xi

1 THE POLITICAL ECONOMY OF SKILLS IN COMPARATIVE-HISTORICAL PERSPECTIVE 1
Skills and Skill Formation 8
The Argument in Brief 20
Theories of Institutional Genesis and Change 23
The Origins and Evolution of Institutions: Lessons from the Present Study 31
Outline for the Book 37

2 THE EVOLUTION OF SKILL FORMATION IN GERMANY 39
The Importance of the Artisanal Economy in the Evolution of Skill Formation in Germany 42
Strategies of the Large Machine and Metalworking Companies 55
Political Coalitions and the Evolution of the System 63
The Political Coalition against Reform 79

3 THE EVOLUTION OF SKILL FORMATION IN BRITAIN 92
State Policy and the Fate of the British Artisanate 93
Union and Employer Strategies in the Metalworking/Engineering Industry 104
Reform Efforts before World War I 118
The Impact of War and Its Aftermath 133
Comparisons and Conclusions 145
# Contents

4 THE EVOLUTION OF SKILL FORMATION IN JAPAN AND THE UNITED STATES 148  
   The Evolution of Skill Formation in Japan 149  
   The Role of the State and the Fate of the Japanese Artisanate 151  
   Strategies of the Large Metalworking Companies 163  
   The Evolution of the Japanese Management System 166  
   Germany and Japan Compared 174  
   The Evolution of Skill Formation in the United States 177  
5 EVOLUTION AND CHANGE IN THE GERMAN SYSTEM OF VOCATIONAL TRAINING 215  
   The Evolution of the System under National Socialism 219  
   Vocational Training in Postwar Germany 240  
   Contemporary Developments in the German Training System: Erosion through Drift? 269  
6 CONCLUSIONS, EMPIRICAL AND THEORETICAL 278  
   Cross-National Comparisons: The Origins of Divergent Skill Regimes 278  
   Institutional Complementarities 285  
   Institutional Evolution and Change 292  

Bibliography 297  
Index 323
Preface

I am well aware that vocational training is not going to strike some readers as the most scintillating of topics, but I hope they persevere long enough for me to make the case that this subject holds many valuable insights for political economy and comparative politics generally. I myself became interested in skill regimes as an offshoot of my interest in what defines and sustains different models of capitalism. Wolfgang Streeck’s pioneering work first drew my attention to the importance of training in Germany’s successful manufacturing economy in the 1980s. In the meantime, a broad consensus has emerged that skill formation is a crucial component in the institutional constellations that define distinctive “varieties of capitalism” in the developed democracies and very possibly beyond. This literature has made it very clear that different skill formation regimes have important consequences for a variety of contemporary political economic outcomes, but it had nothing to say about where these institutions had come from in the first place. This is what I wanted to find out.

The cross-national component of this book, therefore, explores the genesis of some striking institutional differences across four countries – Germany, Britain, the United States, and Japan – asking the question: “Why did these countries pursue such different trajectories with respect to skill formation and plant-based training?” My research led me back to the nineteenth century and pointed specifically to differences in the coalitional alignments among three key groups – employers in skill-intensive industries (especially metalworking), traditional artisans, and early trade unions. Along the way, I discovered how the development of skill formation in the early industrial period interacted with the development of collective bargaining institutions and nascent labor unions and employer organizations in ways that set countries on different political-economic paths. My analysis
identifies important similarities between Germany and Japan (both seen as prime examples of “coordinated” market economies in the contemporary literature) and between Britain and the United States (as “liberal” market economies). However, I also underscore and explain important differences between these pairs of cases in how training came to be organized, with enormous implications for the type of skill formation that each country institutionalized and for organized labor’s role within it.

As I worked out the historical origins of these divergent national trajectories, I became increasingly intrigued with the related but somewhat different question of how institutional arrangements such as these, which are forged in the rather distant past, actually make it to the present. This is not an idle question, it seems to me, especially given the massive transformation of the political and economic landscapes in all four countries over the late nineteenth and twentieth centuries. This observation prompted me to undertake, alongside the cross-national dimension, a parallel longitudinal analysis in which I set out to track the evolution of German training institutions over a somewhat longer time frame than the other cases, from the 1870s to the present.

This aspect of the research was organized around a somewhat different, but, I thought and think, even more compelling theoretical puzzle. In the literature on contemporary labor politics, Germany’s vocational training system has conventionally (and quite correctly) been seen as a crucial institutional support for the country’s high-skill, high-wage, high-value-added manufacturing economy. As such, the vocational training system has been viewed as a key element in a larger institutional complex that actively supports a production regime organized around a kind of “diversified quality production” that reconciles Germany’s strong unions with strong performance in world manufacturing markets. As the historical analysis of the genesis of the system had shown, however, the core institutional innovation around which the German system came to be built (in 1897) was inspired by deeply reactionary political motives and was mostly designed to weaken (definitely not strengthen and incorporate) the then-surfing organized labor movement.

The longitudinal part of the study traces the evolution of the German system from a core framework aimed mostly at defeating unions one hundred years ago, to a pillar of social partnership between labor and capital today – essentially asking the question, “how did we get from there to here?” I argue against prominent theoretical perspectives based on a strong punctuated equilibrium model that draws a sharp analytical distinction between
Preface

long periods of institutional “stasis” periodically interrupted by some sort of exogenous shock that opens things up, allowing for more or less radical innovation or reorganization. In the case of the German training regime, I found that institutional arrangements often turn out to be incredibly resilient in the face of huge exogenous shocks of the sort we might well expect to disrupt previous patterns and prompt dramatic institutional innovation. One of the most striking features of this case is the durability of core elements of the original training system through some rather large disruptions over the twentieth century, which in Germany include several regime changes (including into and out of fascism), defeat in two world wars, and foreign occupation.

Conversely, though, and as the German case also shows, more subtle and incremental changes occurring in relatively “settled” rather than “unsettled” times can in fact cumulate into significant institutional transformation. The analytic task, therefore, was to make sense of the incredible stability of some elements of the system through a series of major historic breaks, while also capturing the subtle incremental changes that, over time, had turned the system, in political and especially power-distributional terms, completely on its head. What the German case shows is that institutions do not survive through “stasis” or by standing still but rather precisely through their ongoing adaptation and renegotiation in response to shifts in the political, market, and social environments. By tracking changes in the political coalitions on which institutions are founded, this study illuminates the ways in which the form and functions of these institutions could be radically reconfigured over time.

It is a pleasure now to thank the colleagues and friends on whom I have relied in many different ways over the years in which this book was in the making. Institutional support was provided by the American Institute for Contemporary German Studies, the Kellogg Institute, the Max-Planck-Institut für Gesellschaftsforschung, Northwestern’s Institute for Policy Research, and the Wissenschaftszentrum Berlin für Sozialforschung. Separate and special thanks go to the Wissenschaftskolleg zu Berlin, which provided a most congenial setting for the final stages of writing and whose fabulous librarians and staff made the last steps in the process especially easy.

A number of colleagues and friends took time out from their own schedules to comment on various chapters. My thanks go out to Lucio Baccaro, Martin Behrens, Hartmut Berghoff, David Collier, Pepper Culpepper, Gerald Feldman, Jacob Hacker, Hal Hansen, Jeff Haydu, Peter Hayes,
Preface

Gary Herrigel, Chris Howell, Peter Katzenstein, Ira Katznelson, Desmond King, Jürgen Kocka, James Mahoney, Philip Manow, Jim Mosher, Jonas Pontusson, Sigrid Quack, Bo Rothstein, Dietrich Rueschemeyer, Theda Skocpol, Steven Vogel, Kozo Yamamura, and John Zysman. The first half of Chapter 4 is a reworked and augmented version of an article I co-authored with my colleague and friend Ikuo Kume, originally published as “The Rise of Nonliberal Training Regimes: Germany and Japan Compared,” *Journal of Japanese Studies* 25: 1 (January 1999). I thank the *Journal* for permission to use this material, and I am deeply indebted to Ikuo for opening up to me the world of Japanese labor and political economy.

I had the good fortune to be writing this book at a time when Paul Pierson was puzzling through some of the same theoretical issues explored here, and it would be hard to overestimate the influence our ongoing conversations have had on my own work and thinking about these matters. David Soskice, likewise, has provided ongoing intellectual sustenance and stimulation over the years, and he has always been receptive to my efforts to build on aspects of his work from the slightly different angle from which I approach these things. Jonathan Zeitlin has accompanied this book almost since its inception, and I have benefited tremendously from the expertise and intellectual generosity he brought to bear in reading papers and chapters along the way. I am grateful to my former Northwestern University colleagues Peter Swenson and Michael Wallerstein, with whom I have been discussing these issues for years and whose work has had a deep impact on my own, as anyone reading these pages will surely see.

There are two scholars and friends to whom I owe a special debt of gratitude. Peter Hall sets the standard for collegiality, critical engagement, and support. This particular work was much improved as a result of Peter’s extraordinary commentary on the manuscript in the final stages of writing, but his contribution to how I think about politics and political economy goes far beyond this and is hard to capture in a single turn of a phrase. Wolfgang Streeck has provided many different kinds of support for my work over the past several years. He continues to be a source of intellectual inspiration and generally keeps me thinking and learning. Wolfgang is also the one who, in response to an early paper, urged me to delve deeper into the politics of skill formation, which proved to be a very rich vein to mine.

I benefited from exceptionally good research assistance in writing this book. Helen Callaghan and Margitta Mätzke did a superb job with research assignments relating to specific chapters or arguments. Christa van Wijnbergen deserves a separate acknowledgment, as her work on this
Preface

project and her contributions to improving it went well beyond the usual bounds of research assistance. Sarah Stucky furnished expert help in preparing the index.

I extend special thanks as well to Margaret Levi for her unending and inexhaustible enthusiasm for this project and to Lewis Bateman and Cambridge University Press for all they have done to promote and improve this work. I am grateful to the SK Stiftung in Cologne, Germany, for permission to use the August Sander photograph on the cover and to Steve Krasner and Caroline Jones for pointing me in Sander’s direction in the first place.

I have a few personal debts to acknowledge. I begin with three women who immeasurably enrich my life and lives on both sides of the Atlantic – Gisela Kühne, Jessica Ticus, and Sandra Waxman. I doubt they know how incredibly centrally they have figured in sustaining me, not just through this project but generally and every single day – which is why I am writing it down. My family has also accompanied me through this process and each member has contributed in his or her own distinctive way. My wise and wisecracking teenager Andy knew when and how to inject a little levity into the mix, and Amelia’s enthusiasm for foreign adventure buoyed me up when things were difficult. My husband Ben Schneider knows exactly and very well all the ways he has contributed to my completing this work. In the unlikely event that he thinks this may have been lost on me, I dedicate the book to him.
Other Books in the Series (continued from page iii)

Kanchan Chandra, *Why Ethnic Parties Succeed: Patronage and Ethnic Head Counts in India*

Ruth Berins Collier, *Paths toward Democracy: The Working Class and Elites in Western Europe and South America*

Donatella della Porta, *Social Movements, Political Violence, and the State*

Gerald Easter, *Reconstructing the State: Personal Networks and Elite Identity*

Robert J. Franzese, Jr., *Macroeconomic Policies of Developed Democracies*

Roberto Franzosi, *The Puzzle of Strikes: Class and State Strategies in Postwar Italy*

Geoffrey Garrett, *Partisan Politics in the Global Economy*


Jeff Goodwin, *No Other Way Out: States and Revolutionary Movements, 1945–1991*

Merilee Serrill Grindle, *Changing the State*

Anna Gryzymala-Busse, *Redeeming the Communist Past: The Regeneration of Communist Parties in East Central Europe*

Frances Hagopian, *Traditional Politics and Regime Change in Brazil*

J. Rogers Hollingsworth and Robert Boyer, eds., *Contemporary Capitalism: The Embeddedness of Institutions*

John D. Huber and Charles R. Shipan, *Deliberate Discretion?: The Institutional Foundations of Bureaucratic Autonomy*

Ellen Immergut, *Health Politics: Interests and Institutions in Western Europe*

Torben Iversen, *Contested Economic Institutions*

Torben Iversen, Jonas Pontusson, and David Soskice, eds., *Unions, Employers, and Central Banks: Macroeconomic Coordination and Institutional Change in Social Market Economics*

Thomas Janoski and Alexander M. Hicks, eds., *The Comparative Political Economy of the Welfare State*

David C. Kang, *Crony Capitalism: Corruption and Capitalism in South Korea and the Philippines*

Robert O. Keohane and Helen B. Milner, eds., *Internationalization and Domestic Politics*

Herbert Kitschelt, *The Transformation of European Social Democracy*

Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens, eds., *Continuity and Change in Contemporary Capitalism*

Herbert Kitschelt, Zdenka Mansfeldova, Radek Markowski, and Gabor Toka, *Post-Communist Party Systems*

David Knoke, Franz Urban Pappi, Jeffrey Broadbent, and Yutaka Tsujinaka, eds., *Comparing Policy Networks*

Allan Kornberg and Harold D. Clarke, *Citizens and Community: Political Support in a Representative Democracy*

Amie Kreppel, *The European Parliament and the Supranational Party System*

David D. Laitin, *Language Repertories and State Construction in Africa*

Fabrice E. Lehoucq and Ivan Molina, *Stuffing the Ballot Box: Electoral Fraud, Electoral Reform, and Democratization in Costa Rica*

Mark Irving Lichbach and Alan S. Zuckerman, eds., *Comparative Politics: Rationality, Culture, and Structure*

Evan S. Lieberman, *Race and Regionalism in the Politics of Taxation in Brazil and South Africa*
Pauline Jones Luong, *Institutional Change and Political Continuity in Post-Soviet Central Asia: Power, Perception, and Pacts*
Doug McAdam, John McCarthy, and Mayer Zald, eds., *Comparative Perspectives on Social Movements*
James Mahoney and Dietrich Rueschemeyer, eds., *Historical Analysis in the Social Sciences*
Scott Mainwaring and Matthew Soberg Shugart, eds., *Presidentialism and Democracy in Latin America*
Isabela Mares, *The Politics of Social Risk: Business and Welfare State Development*
Anthony W. Marx, *Making Race, Making Nations: A Comparison of South Africa, the United States, and Brazil*
Joel S. Migdal, *State and Society: Studying How States and Societies Constitute One Another*
Joel S. Migdal, Atul Kohli, and Vivienne Shue, eds., *State Power and Social Forces: Domination and Transformation in the Third World*
Scott Morgenstern and Benito Nacif, eds., *Legislative Politics in Latin America*
Layna Mosley, *Global Capital and National Governments*
Wolfgang C. Muller and Kaare Strom, *Policy, Office, or Votes?*
Maria Victoria Murillo, *Labor Unions, Partisan Coalitions, and Market Reforms in Latin America*
Ton Notermans, *Money, Markets, and the State: Social Democratic Economic Policies since 1918*
Roger D. Petersen, *Understanding Ethnic Violence: Fear, Hatred, and Resentment in Eastern Europe*
Simona Piattoni, ed., *Clientelism, Interests, and Democratic Representation*
Paul Pierson, *Dismantling the Welfare State?: Reagan, Thatcher, and the Politics of Retrenchment*
Marino Regini, *Uncertain Boundaries: The Social and Political Construction of European Economies*
Jeffrey M. Sellers, *Governing from Below: Urban Regions and the Global Economy*
Yossi Shain and Juan Linz, eds., *Interim Governments and Democratic Transitions*
Beverly J. Silver, *Forces of Labor: Workers' Movement and Globalization since 1870*
Theda Skocpol, *Social Revolutions in the Modern World*
Richard Snyder, *Politics after Neoliberalism: Reregulation in Mexico*
David Stark and László Bruszt, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe*
Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis*
Susan C. Stokes, *Mandates and Democracy: Neoliberalism by Surprise in Latin America*
Susan C. Stokes, ed., *Public Support for Market Reform in New Democracies*
Duane Swank, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States*
Sidney Tarrow, *Power in Movement: Social Movements and Contentious Politics*
Ashutosh Varshney, *Democracy, Development, and the Countryside*
Elisabeth Jean Wood, *Forging Democracy from Below: Insurgent Transients in South Africa and El Salvador*
Elisabeth Jean Wood, *Insurgent Collective Action in El Salvador*