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# LEARNING FROM ABROAD: CHANCES AND LIMITATIONS OF TRANSFERRING INSTITUTIONS

WOLFGANG OCHEL \*

## Introduction

Political decision makers hope that international comparisons of institutions will give them insights that will help to improve decision making in their own country. They wish to know what institutional arrangements have been chosen by other countries and whether the arrangements chosen have yielded desirable results. The questions associated with institutional learning are discussed in the next three sections.

In addition to institutional learning, political decision-makers must decide on which regulations they wish to transfer to their own countries. These decisions will be guided by the goals of the decision-makers, by political competition and by the nature and intensity of the competition between systems that the country is exposed to. The transfer of institutions from other countries can be hindered by a country's insufficient ability to make institutional adjustments and by powerful interest groups. Both hindrances are not unalterable. Questions in connection with the transfer of institutions will be treated in the second part of this article.

## International comparison of institutions: A modern basis for political decisions

The way an economy works is determined decisively by its institutions. Institutions regulate social life. They impose limits to individual comportment and steer it into certain channels. They contribute to the stabilisation of expectations. Regulations determine the economic processes, on the other hand they themselves are expressions of basic economic and social developments. Far-reaching institutional reforms cannot be carried out without social consensus. An example is the Wassenaar

Agreement of 1983 that led to employment promoting wage and labour market policies in the Netherlands. Included among institutions are the market, the laws of the state, government regulations, and court decisions, agreements between interest groups, as well as norms, customs, and value judgements shared by the members of society (Regini 2000, p. 22). The following remarks focus on labour market regulations emanating from the state (e.g. legal dispositions regulating the termination of employment) and on agreements between interest groups (e.g. wage agreements between employers and trade unions).

Laying down institutional arrangements has always been a fundamental responsibility of the state. In fulfilling this responsibility, governments have always been aware of the arrangements prevailing in other countries. Since the beginning of the 1980s, however, so-called benchmarking has gained considerably in importance. In view of the "eurosclerosis" that has been diagnosed, a debate has begun on the advantages and disadvantages of Europe as a place to live or work or conduct a business. In this debate, great attention has been given to differences with respect to state regulation between European states, especially as compared to the United States (Tronti 1998). And in transformation economies as well, governments have been eager to adapt institutional set-ups of western countries that seem to promise success. In carrying out benchmarking studies, international organisations such as the OECD, the European Commission and the International Labour Office (ILO) have given support to individual countries.

The increasing importance of international comparisons of institutions in recent years is due to a number of factors. As a result of globalisation, locational competition is becoming more intense. State regulations are becoming increasingly more important as a locational factor for enterprises that operate internationally. Governments are thus competing against each other in an attempt to develop an institutional framework that is as attractive as possible. The growth of international integration means that increasingly 'national' economies are subject to similar shocks. This provides a better basis for evaluating the ability of national institutional arrangements to cope with such shocks. Institutional learning, which is facilitated by improvements in communications, is developing into an important foundation for political decisions (Dolowitz and Marsh 2000).

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Another reason for the increasing importance of international comparisons of institutions is to be seen in the on-going dissolution of the original ideological foundations of the modern welfare state. This means that the traditional sources of legitimisation for the state's economic policies are increasingly called into question. On the other hand, established ideological positions are less and less a hindrance to adapting other countries' ideas and institutional arrangements. A pragmatic attitude is becoming more and more common. Politicians look increasingly to those states that have the status of a role model. Wisconsin Works, for example, has attracted much attention. Other countries' successful institutional arrangements serve to legitimise institutional change in one's own country (Cox 1999).

International comparisons can trigger institutional reforms in two ways. On the one hand, the observation of weaknesses vis-à-vis comparable countries and the resulting recommendations place national decision-makers under pressure to justify their policies. On the other hand, international comparisons can offer solutions that can be pursued in a national context when designing reforms. For example, the active social policies in Denmark and the privatisation of reintegration services in Australia and in the Netherlands have influenced the Hartz legislation in Germany. This has expanded the repertoire of possible problem solutions beyond the national horizon (Eichhorst, Thode and Winter 2004, p. 58).

### **Capturing the institutional arrangements of other countries**

The first step in carrying out an international comparison of institutions is to choose the countries with which the institutions of a particular country are to be compared. A country's institutional networks are influenced by the political environment (dictatorship, democracy), by the economic system (planned, market economy), by the stage of development in which the country finds itself (developing, threshold, industrialised economy), by the prevailing culture of regulation (formal vs. informal regulation) of the country, to name only the most important influences. Institutional learning is, as a rule, only possible when the countries used for comparison exhibit similar characteristics.

In connection with the selection of comparable countries, the question arises of whether there is an individual country whose institutional arrangement is superior to all other countries with regard to the pursuit of economic-policy goals and to which special attention should thus be given. This "one-best-way" thesis has not yet been proved, and it is challenged by the thesis of a functional equivalence of institutional systems, according to which a specific goal can be achieved just as well with different institutional systems. As proof of functional equivalence, proponents give the example that both a welfare state, such as Sweden, and a liberal economic system, as that in the United States, can produce very nearly full employment (Freeman 1995). Also the job-creating successes of the Dutch Polder model can be used to support the equivalence thesis.

The next question is, what institutions should be compared. This depends, of course, on the question under discussion and on the empirically determined relevance for that question of the institutions under review. In many cases, it will prove important to ascertain the reasons and the immediate cause for the introduction of specific institutional arrangements. Only when this is known, will it be possible to determine whether the motives for the foreign arrangement are analogous to the problems at home for which one seeks a solution. The degree of congruence in the objectives pursued casts light on the question of whether the regulatory model will be of use in attaining a given goal.

In order to carry out a comparison between countries, it is often necessary to make the institutional arrangements in the different countries comparable. This may require converting qualitative information into quantitative; it may require aggregating individual indicators into a comprehensive indicator. Weighting schemes based on cluster or on factor analysis can be helpful in this connection (Nicoletti et al. 1999). A concrete example for this kind of procedure is the compression of many individual indicators into one comprehensive indicator representing the effectiveness of the measures of protection against dismissal in individual countries (OECD 1999 and 2004).

Comparisons limited to a point in time are often not sufficient to capture the differences between institutional arrangements. As a rule, such arrangements are initially introduced or later modified in the

course of reform processes extending over longer periods of time. Furthermore, institutions only bring about behavioural changes and processes of adaptation affecting the real economy when they have been applied over a certain period of time. Therefore, it is necessary to compare institutions in their development over time. But time series appropriate to this task are not always available.

One problem in carrying out international comparisons of institutions is that the texts of laws and edicts do not tell us whether they are actually applied or not. One country's strict rules may be paired with lax enforcement, whilst another country's lax provisions may be applied with great rigour. Simply comparing the text of the law would, in such cases, give a misleading picture. The application of sanctions for refusal of work by unemployed persons can serve as an example. Of the 12 OECD countries which use sanctions, Switzerland, Finland and Norway apply them relatively strictly; Japan, New Zealand, Belgium and Germany, on the other hand, apply them hardly at all (OECD 2000, p. 136). This example shows that evaluating the institutional arrangement without knowledge of its application is not satisfactory. But the information required for a well-founded evaluation is often not available either.

International comparisons of institutions should not be limited to laws and administrative orders. The establishment of norms as well as the interpretation of legal or administrative provisions by the courts are significant in many cases (Ichino et al. 2001). At the same time, attention must be paid to informal norms and customs, which are particularly important in lightly regulated countries. In the USA, for example, a high degree of external labour market flexibility resulting from scant protection against dismissal stands in contrast to a low degree of flexibility within the enterprise (Regini 2000, p. 23).

### **Evaluation of institutional arrangements**

The international comparison of institutions should not stop at the mere collection of other countries' institutional arrangements, but should proceed to the identification of those arrangements that have brought about desirable results. Those institutions that can contribute to the solution of specific problems in the researcher's own country have a claim to his special interest. The

identification of appropriate institutional arrangements requires, as a prior condition, their evaluation. This procedure must be carried out in several steps: the objectives must be defined as a basis for measuring the effectiveness of the institutions; the intensity of compliance must be examined; the effectiveness of the arrangement must be estimated and a comprehensive cost-benefit analysis must be carried out (Schmid et al. 1996, p. 5).

Labour market institutions are created in order to attain certain results by means of modifications in the behaviour or in the expectations of the participants in the labour market. Correspondingly, the immediate objective can be to influence a certain behavioural or expectational aspect, e.g. the search activity of unemployed persons, the avoidance of free rider activities, or other behaviour (Teulings and Hartog 1998, p. 110). On the other hand, the goal pursued can refer to certain labour market results, such as the position of the Beveridge curve, the equilibrium volume of unemployment, or real wage developments. From the objectives, performance indicators can be derived which can serve as a basis for assessing the institutional arrangements.

The second step in evaluation refers to the implementation of the institutional arrangement. Arrangements that only exist on paper have scant effect. In order for them to have effect, they must be applied to the persons specified and the application must be long-term. In some cases, compliance must be enforced by means of sanctions. Implementation includes not only the concrete application but also its harmonisation with complementary institutions and with discretionary economic policy measures. The behaviour of relevant actors must also be coordinated. As has been mentioned, the implementation of institutional arrangements is seldom documented. This is another obstacle to international comparisons of institutions.

The estimation of the effectiveness of institutional arrangements is affected by theoretical considerations. For quite a long time the neoclassical theory of the labour market was dominant, and since it offered no room for the role of institutions, little or no attention was paid to their role in the labour market. In the last 15 to 20 years, however, such institutions have become increasingly an object of theoretical and empirical interest. Although a self-contained theoretical construction is still not available, there are a number of individual models that

take institutional aspects into account (Blau and Kahn 1999; Nickell and Layard 1999). The effects emanating from labour market institutions are complex. One reason for this is that there are influences coming from other determinants of economic activity such as the regulation of markets for goods, the financial incentives set by the state, the composition of the participants in the labour market and their behavioural patterns. Then too, it must be borne in mind that the effects observed are quite possibly not pure effects, but only take place in connection with certain kinds of shocks (Blanchard and Wolfers 2000).

Two different methods may be used to determine the effectiveness of labour market institutions (Ochel 2004):

- Aggregate analyses of effectiveness measure the influence of labour market institutions on certain macroeconomic indicators that are defined as the performance criteria. Examples could be employment rates, unemployment rates, exits from unemployment or the level of wages. Such analyses of effectiveness are carried out at the regional or national level or as comparisons between pairs of countries. In addition, multiple comparisons have gained in importance. Here, the effects of one or more institutional arrangements in different countries are analysed. Such studies may be based on cross section analysis, or the cross sectional data are combined with time series. An advantage of aggregate analyses is that they take into account both direct and indirect effects. A disadvantage is that although effective institutions can be identified, very little light is shed on the details of the most desirable institutional arrangement.
- The last-mentioned disadvantage is less likely to attend microeconomic evaluation studies. Here the researcher attempts to estimate the effect of institutional arrangements on the market participant directly affected by means of individual data. The actual situation is compared to a counterfactual situation in which it is supposed that he or she were not affected. Of course, the same person cannot be at once affected and not affected. It is therefore necessary to form a control group, which ideally should differ from the group of persons affected only in one respect: the institutional arrangement under review does not affect them (Schmidt et al. 2001, p. 28). Social experiments of this kind have been car-

ried out above all in North America but scarcely in Europe. Microeconomic evaluation can also be based on data not obtained from experiments. This approach seeks to replace the missing control group with econometric and statistical procedures (Heckmann et al. 1999). Microeconomic evaluations capture the direct but not the indirect effects. The indirect effects arise as a result of substitution and displacement effects as well as macroeconomic circular flow effects.

Analyses of effectiveness only provide information about the effects of institutional arrangements. The effects obtained must, however, be set in relation to the cost they entail. If all direct and indirect effects and costs have been taken into account, then in effect a comprehensive cost-benefit analysis has been carried out that would form a basis for economic policy decisions.

### **International institutional transfer when there is competition between systems**

In addition to institutional learning governments have to decide on which regulations they want to transfer to their own country. These decisions will be guided among other things by the autonomy of decision-makers or in other words by the nature and intensity of systems competition that a country is exposed to. What is more, a government pursuing its own interests will decide in a different way than a benevolent government.

Although the government of an autonomous country stands in political competition, it is not subject to the conditions of systems competition. Such a government is thus not obliged to consider the effects of its policies on the locational decisions of the mobile factors of production (real capital and workers), effects which systems competition may induce. Instead, it is only obligated to its own interests or to those of its citizens. It will adopt regulations from other countries depending on these obligations.

Unlike the situation in a largely closed economy, governments in open economies must take into consideration in making their decisions that some of their economic agents have the option of cross-border solutions. With their decisions on production locations, internationally mobile factors of production can express their estimation of the attrac-



tiveness of national investment locations. In some cases, the mere announcement of shifts in location sites or only the reference to more favourable institutional systems in other countries suffice to influence their own governments. A government's scope of action in political competition is thus limited.

For systems competition to become an effective factor, some conditions must be met:

- Firstly, the factors of production must be mobile. Globalisation has made this more possible than ever before for investment capital and for skilled labour. At the same time, mobility is still limited by transaction costs, mobility costs and regulations.
- Furthermore, international differences in institutional regulations must be able to lead to shifts in production locations. This can but need not be the case. If, for example, the population of a country tends to consist of risk-averse people, they will not leave the "protective network" of their own country and go to a country whose people are less risk-averse and whose regulations are less all-encompassing. Also the utilisation of specialisation advantages could speak against the idea that an increase in international regulation differences induces enterprises to shift their locations. According to the theory of comparative institutional advantages, the specialisation of countries in specific products reflects their specialisation in particular institutional arrangements. The United States, for example, with its deregulated labour market and dynamic venture capital market, would provide advantages to enterprises that concentrate on "radical innovations" (development of completely new products, employment of new production methods). In Germany, on the other hand, a system of industrial law and corporate governance has been formed that favours incremental innovations: continuous, small improvements in products and processes (Hall and Soskice 2001). Enterprises that exploit the associated site advantages will not be motivated to change locations because of differences in institutional arrangements.
- For systems competition to take effect, a government must also be able to identify the institutional arrangements in its own country that have been major factors in shifts of location. This may be difficult because the migration of mobile factors is not selective, as a rule, with regard to indi-

vidual institutional regulations (for example, stricter protection against dismissal in an international comparison) but with regard to a whole package of institutional regulations, tax and business laws as well as other determinants.

- Finally for systems competition to take effect the political actors who are exposed to diverse influences in the collective process of opinion formation must be aware of the needs of mobile entrepreneurs and workers. Their interests and the interests of the indirectly affected immobile agents of production must be organised in order that the necessity for reform in certain regulatory areas be recognized. Interests can be most effectively pursued when there is the possibility credibly to threaten the government with sanctions in a political context (Streit and Kiwit 1999).

As has been shown, competition between systems forces politicians to take into account the reactions of the mobile factors of production. This competition can bring about different results. It can be functional and thus lead to an improvement in the institutional framework. Institutions can be suboptimal because the state has pursued the interest of political actors or of specific pressure groups and has disregarded the preferences of the citizens (Brennan and Buchanan 1980). In this case, systems competition has a controlling influence on the political actors. For example, excessively strict laws against wrongful dismissal, that a government introduced in the interests of unions, can be corrected by the locational moves of the enterprises that need reversibility with respect to their personnel decisions. But in the case of a "benevolent" state as well, the institutional framework can be improved by systems competition. Systems competition leads to a discovery process in which information is supplied on the design of institutions in other countries and their problem-solving capacity, thus contributing to the gradual correction of institutional deficits.

Systems competition can also, however, be a disturbing factor that hinders the state in its task of correcting market failures in the interest of its citizens. In this case, systems competition is dysfunctional, that is, it impairs in fact desirable regulations. This can be exemplified by looking at social welfare systems. In an open economy with the right to change the country of residence, people representing a "good risk" are inclined to leave the welfare state, whilst those representing a "bad-risk" are attracted to such a state. Factor migrations lead

to financial burdens for the welfare state. In order to reduce factor migrations, the state favours the net payers and disadvantages the net receivers by cutting their benefits. Here preference is given to regulations that have proved to be successful in countries with similar problems. The result is an erosion of the social welfare systems. A Pareto-optimal redistribution policy from a national standpoint, as represented by the establishment of a social welfare system, can suffer as a result unless countermeasures are undertaken (Sinn 2003).

### **Path dependency as a hindrance for institutional transfer**

The competition between systems, which is part of the globalisation process, has increased the pressure to reform the institutional arrangements whilst at the same time taking into account the reactions of mobile factors of production. Here it has proved to be useful to consider the experiences gained in other countries. In view of this new challenge, the question arises as to what extent national systems of institutions are capable of being modified? Is it only possible to transfer foreign institutional arrangements when they are compatible with existing values and with the existing network of institutions in the target country? Under what conditions will the interaction between the foreign institutions and the traditional set of rules be seriously disturbed (problem of institutional coherence)? To what extent will the institutional transfer make excessive demands on the procedural competence of the recipient country?

In responding to these questions the thesis of the path dependency of institutional development has gained recognition. The thesis is that institutional change at home is only influenced to a slight degree, if at all, by the perception of the evolution of foreign institutions; all attempts to learn from foreign countries, and especially all attempts to implement what has been learned, can only be successful if carried out in the context of existing institutions (Scherrer 2001, p. 1). Disturbances of institutional compatibility give rise to considerable costs, so that path dependency is associated with considerable institutional inflexibility.

On what notion of path dependency are these ideas based? According to Ackermann (2001, p. 55), path dependency is present if the process of institutional development depends on the preced-

ing path of development. A state of institutional development that has been attained tends to be self reinforcing and hence a considerable measure of institutional inflexibility is the result (Arthur 1994). It is difficult to adapt institutional arrangements to changed conditions. Therefore, there is little scope for transferring successful arrangements from foreign countries.

The inflexibility of paths of institutional development is due to positive feedbacks. Following David (1994), Ackermann (2001, chapter 3) distinguishes between three causes of positive feedbacks in institutions. They refer to the level of actions of interacting individuals, to the level of rules that structure these interactions, and to the interrelationship between the levels of actions and rules. On the action level, coordination effects arise as a result of the advantages offered by standardised patterns of behaviour. These can lead to stable rules. At the level of rules, complementary effects will arise if the interdependent relationships between institutions are of a complementary nature, i.e. if following a particular rule becomes more attractive as a result of the interdependence with other rules. Positive feedback as a result of interactions between the levels of societal rules and the level of individual behaviour, finally, result in processes of social communication in a society that lead to the convergence in its members' mental structures.

In the concept of path dependency, the feedback effects are responsible for the fact that the path of institutional development imposes narrow limits on the scope for institutional modifications. For this reason suboptimal institutions are retained. The legacy of existing institutions also sets very narrow limits to the possibilities of institutional transfer across international boundaries. The path of institutional development is only departed from when the actors consider the loss of efficiency to be greater than the costs associated with the creation of new and efficient institutions (North 1992).

A number of objections to the thesis of path dependency and institutional inflexibility may be formulated. It does not seem very plausible to see in the past development of institutions only a limiting force but not at the same time a source of experience that can be useful in carrying out the reform of institutions. At the same time, it is not at all clear that a path consists only of self-reinforcing sequences and that counter-reactions are inconceiv-

able. A further central deficiency of the notion of path dependency is that it is difficult to operationalise. What is the relevant period of time for the path? Which institutions are decisive for the path? Which events that may have influenced the path should be taken into consideration (Scherrer 2001)?

Apart from the objections to the “regularity” of institutional development, the question arises whether the necessary institutional compatibility does not also depend on the nature and extent of the institutional arrangements that are to be transferred. In this connection a differentiation must be made between global problem definitions and solution strategies, on the one hand, and particular programmes and measures, on the other (Schmid 1999; Schludi 2003). Global solution strategies (active instead of passive social policies) that are first devised in the national context as concrete reforms can be transmitted between welfare states with similar institutional structures relatively easily (Denmark, Sweden). On the other hand, the model of the liberal labour market of the United States cannot be easily transferred to a corporatistic country such as Germany with its collective bargaining arrangements. In the case of particular institutional regulations, the transfer can be much easier. They can, without a great deal of interface problems, be adapted to the national institutional structure. The adaptation requirement in the national context is relatively small, also when complementarity with other institutional regulations must be taken into consideration (Orzag and Snower 1999).

Despite these points of criticism, the empirical evidence is not entirely hostile to the idea of path dependency. The inertial energy with which many west European countries cling to their labour market institutions seems to be related to the inflexibility predicted by the thesis of path dependence. However, with respect to labour market institutions in highly developed economies it is not possible to speak of complete inflexibility. Great Britain and New Zealand are not the only countries to have successfully carried out reforms of their labour market institutions; other countries such as the Netherlands, Denmark and currently Germany have also made such reforms. What is more, the process of institutional learning has gained in importance in recent decades. And then the question arises of whether the inertia observed in many countries is really due to path dependence or

whether other factors such as the resistance of powerful interest groups are responsible.

### **The political economy of institutional transfer**

The theory of path dependency refers to spontaneous development processes that are not the result of contests of power. If such processes only offer a partial explanation for the inflexibility of institutions and thus for the limits to institutional transfer, then the question arises whether the power of the state and the influence exerted by interest groups are not the principal factors hindering the international transfer of institutions? Relationships of power can play a role in connection with perceiving and selecting advantageous institutional arrangements, in persuading socially relevant groups at home that particular arrangements are advantageous, and in introducing and applying such arrangements.

According to Scherrer (2001), even the perception of the advantageousness of institutions is tied to interests. In the national discourse on institutional reform, only those institutions or arrangements that are deemed compatible with the interests of the elites and the influential interest groups are admitted to the debate. The ability of central actors in society to convince others of the advantages of foreign arrangements depends among other things on whether they succeed in presenting the economic problems under discussion as being so threatening that they can only be dealt with successfully by adapting foreign institutions, which are presented as having coped successfully with the problem. This ability will be all the greater, the more influence these central actors have in the process of opinion formation.

If power relationships and competing interests play an important role in determining the content of the national discourse on foreign institutional models, they play an even more decisive role in the decisions concerning the introduction and the implementation of institutional arrangements. Political decision-making processes are determined by the monopoly power of the state to fix the design and sequence of the reform steps as well as by the necessity of attaining voter approval on the reforms. If the potential results of the institutional reforms are very insecure, a revision of the reforms is only possible at high costs, and if many



voters feel they are the losers of the reforms, their resistance can be expected (Roland 2002). If the losers constitute powerful interest groups, then the reforms will be prevented.

Resistance to the adaptation of foreign labour market regulations can have different causes:

- The number of losers is larger than the number of winners. Thus, for example, the liberalisation of the protection against wrongful dismissal will mean that for many insiders the risk of losing their jobs increases; but the chance of finding employment will only increase for a relatively small number of unemployed persons.
- The number of losers resulting from a reform of the labour market may be small, but the much larger number of winners is scattered among many heterogeneous groups that, aside from labour market issues, have different interests, so that they are unable or unwilling to agree on a common strategy to push through reform. In such a case the losers may be successful in their resistance.
- There is uncertainty about the effects of the reform. A large number of those who will be affected are risk adverse and unable to form an opinion of whether they will in the end be among the losers. They therefore argue in favour of retaining the status quo.
- To the extent that the reform brings about improvements in efficiency, compensatory payments may make winners out of potential losers. But the potential losers are afraid that the compensation will not be high enough, or will be reduced in future, and therefore withhold their approval (Alogoskoufis et al. 1995, chap. 6; Dewatripont and Roland 1995; Saint-Paul 2000).

### **Policy learning – a way to remove the transfer barriers?**

The transfer of institutional regulations from other countries can be hindered by an inadequate institutional adaptability and by the domestic political balance of power. Both hindrances are not unalterable, however. Positive feedback effects that are responsible for the inflexibility of paths of institutional development can be counteracted by altering standardized behaviour (and thus stable rules) through a learning process of the relevant actors. In the same way resistance to institutional reforms

from pressure groups can be reduced when “knowledge coalitions” consisting of experts convincingly demonstrate the advantages of adopting regulations from other countries.

The prerequisite for removing transfer barriers is the ability of actors to learn, which is also known as policy learning. Policy learning refers to learning processes that lead to a changed assessment of specific institutional regulations and that increase the legitimacy of adopting institutions from other countries. Learning from other countries often occurs as a result of external shocks and can result in subsequent modifications in the domestic political arrangement (Jenkins-Smith and Sabatier 1993; Schmid 2003).

There have been attempts in many countries to benefit in political decision-making from the experiences of other countries with different institutional regulations. For example, in Germany the benchmarking group in the Alliance for Jobs and the Hartz Commission have introduced the problem-solving approaches of other countries into the political debate in Germany. This was only partially successful, however, although the so-called “window of political opportunity” was open. The reasons for this partial success are the weak influence that academics have on politicians, the political balance of power and the veto positions of powerful pressure groups.

### **Summary**

The international comparison of institutions has become more important. It is an instrument with which the political decision makers in a country seek to learn from other countries and to improve the quality of subsequent decisions. The learning process is not confined simply to finding out what the institutional arrangements of foreign countries are, but also examines the effectiveness of these arrangements. Analyses of aggregate effects of institutional arrangements measure the influence of institutions on indicators that are defined macroeconomically. They inform us as to which arrangements have been internationally successful at a global level. Microeconomic evaluations, on the other hand, focus on individual regulatory efforts and estimate their effects on those directly affected. By comparative analysis of microeconomic evaluations, insights into the best design for in-

dividual regulations (best practices) may be obtained.

The transfer of institutions from other countries is determined by the goals of the government, by political competition and to an increasing extent by systems competition. The latter forces governments to take into account the effects of their decisions on the locational choices of mobile factors of production. Systems competition can influence institutional transfer in different ways. Depending on the conditions, it can lead to an improvement, but also to a worsening of domestic institutional regulations.

Different factors limit the scope for adapting institutional arrangements that seem to promise success. The inflexibility of one's own institutional arrangements and values arising from path dependency makes the adaptation of foreign institutional arrangements more difficult. In addition, restrictions on political decision-making processes as well as powerful interest groups at home may be opposed to the transfer of institutions, or may influence the content of such a transfer. Policy learning may, however, reduce the barriers for an international transfer of institutions. The combined effects of all of these factors, which are different from one country to another, lead to the multiplicity of institutional systems that characterises today's international scene (Freeman 2000).

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