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Institutional and Organisational Dynamics in the East German Transformation

Agnès Labrousse
Centre Marc Bloch (Berlin) and CEMI-EHESS (Paris)

Abstract

Focusing mainly on industrial relations and work organisation within firms, the aim of this paper is to shed some light on the complex interrelations between different institutional and organisational levels in the East German transformation. On the theoretical level, this paper will attempt to adapt the path dependency criteria, developed by Arthur, to the institutional sphere and to accurately characterise notions such as rules or organisations, often used in a loose manner. On the empirical level, using quantitative and qualitative material (interviews in particular), this paper scrutinises institutional and organisational change, in order to elucidate some distinctive features of the emerging East German capitalism. East Germany was, and still is, involved in some elementary process common to other countries experiencing transformation (notably a deep institutional and organisational change and path-dependency effects) but with strongly marked specific features related to its absorption by the West German state. But the transfer of West German formal institutions is part of the story, not the end of it. The "overnight" transplantation of formal institutions can be contrasted with the potentially time-expensive change of organisations and informal institutions. The interplay between formal

and informal rules, has led, in East Germany to characteristic original hybrid combinations, that is, functioning processes which are neither reducible to the West German system nor to Eastern legacies.

KEYWORDS**:** East Germany, formal and informal rules, path dependency, industrial relations, labour market, work organisation.

JEL classification : B52, J21, J22, J5, P31

Introduction

The case of East German transformation has been widely excluded from comparative transition studies (Offe 1994 p. 233, Hirschhausen 1996 p. 165). For many analysts the East German path seems so specific, that no relevant lessons can be drawn from it. This specificity is principally related to the West German institutional system transfer (the so-called *Institutionentransfer*). The other Eastern bloc countries devoted considerable time to drafting new constitutions, writing new laws and building new institutions, whereas East Germany adopted the West German institutions with only minor modifications.

Contrasting this view, this paper aims at an institutionalist standpoint of the East German trajectory of systemic change. The obvious specificity of the East German transformation, far from excluding East Germany from the field of transformation analysis, could on the contrary enrich an institutionalist approach to transformation. It is precisely because it represents an extreme case of transformation that the East German experience is a remarkable laboratory for institutionalist theories about the complex interplay between formal and informal institutions and between institutions and organisations, as well as the creative role of individual and collective economic actors. Institutional approaches (the French Regulation theory, the old and the new American institutionalisms… to name a few), may provide a relevant framework to put this original historical experience in a broader comparative perspective on post-socialist transformation in general.

Nevertheless it is interesting to develop the reasons why those institutional economists have been poorly interested in East Germany. The West German economic model fascinates institutionalists' authors, so that it is often not the East German transformation as such which initially interests them, but much more the German unification as a cause of decline and as a revelatory factor of

a more structural crisis in the West German model (cf. Streeck 1996)[1]. Till the mid-nineteen-nineties, approaches to East German transformation, originating mainly from West German scholars, were overwhelmingly dominated by transitional models, East Germany being considered as bound to converge rapidly toward the West German model. As the success of these teleological views of the East German transformation as a mere catching-up process declined, some space was left free for a growing number of micro-studies. However these studies rarely deliver encompassing explanatory frameworks proper to challenge transition and modernisation theories[2].

Yet, all this said, twelve years after the German Unification, the East German economy still doesn't really resemble the Rhineland Capitalism. We find instead of the strong West German *Mittelstand* one, fragile micro-enterprises; instead of export-champions, firms dependent on local markets and state orders; instead of a large and competitive industrial sector, a very small industrial basis. Undeniably, the *Institutionentransfer* did not lead to an East German replication of the West German Capitalism. Furthermore, despite the unprecedented amounts of state financial transfers, the East German industrial collapse was much deeper than in other post-socialist countries.

East Germany was, and still is, involved in some elementary process common to other countries experiencing transformation (notably a deep institutional and organisational change and path-dependency effects) but with strongly marked specific features related to its absorption by the West German state. The transfer of West German formal institutions is only part of the story. Only the federal formal rules were directly transferred, so that the evolution of sector-based governance and organisational rules shows considerable variations and many endogenous developments. Moreover the role of informal institutions has to be stressed. The "overnight" transplantation of formal institutions can be contrasted with the potentially time-expensive change of organisations and informal institutions.

Focusing mainly on industrial relations and work organisation within firms, this paper aims at shedding some light on the complex interrelations between different institutional and organisational levels. The interplay between formal and informal rules, led in East Germany to a set of characteristic and very original hybrid combinations[3], that is, functioning processes which are neither

[1] *Offers some noticeable exceptions concerning in particular, industrial relations and labour market studies (Hyman 1996, Sorge et al. 1996, Andretta/ Baetge 1998)*
[2] *For a critical review of the literature on the East German transformation, see Labrousse (2001).*
[3] *One could refer to the hybridisation model developed by Robert Boyer (1996).*

reducible to the West German system nor to Eastern legacies. On the theoretical level, I will attempt to adapt the path dependency criteria developed by Arthur to the institutional sphere, as well as to accurately define notions such as rules or organisations often used in a loose manner. On the empirical level, using quantitative and qualitative material (especially interviews) to scrutinise institutional and organisational change, I will try to elucidate some distinctive features of the emerging capitalism in East Germany.

Institutional and organisational dynamics in East Germany: a multilevel model

Economic organisations, rules and regularities

It has become common ground to assess the polysemy and vagueness of the notion of institution: a statement that John R. Commons made in as early as the early thirties (Commons 1931). As Douglass North observed, the distinction between institutions and organizations is therefore helpful. According to him, institutions are the "rules of the game", the organisations and their entrepreneurs, the players. Organizations are made up of groups of individuals bound together by some common purpose, to achieve certain objectives. The interaction between institutions and organisations shapes the evolution of an economy (North 1990). Another detailed point made by North is the distinction between formal and informal institutions: whereas formal institutions correspond to legal constraints, informal institutions "are (1) extensions, elaborations and modifications of formal rules, (2), socially sanctioned norms of behaviour, and internally enforced standards of conduct" (p. 40). This distinction is necessary to understand the East German transformation: the formal West German rules which were transferred to East Germany are clearly distinct from the informal East German institutions which are largely inherited from the socialist system.

Yet these qualifications are not enough. There are different types of rules, varying according to their domain of validity. Some are valid at the national level and are mainly concerned with areas defined in four of the five institutional forms of the French Regulation theory[4]: competition, money and

[4]*However, the fifth institutional form in Regulation theory, namely the relationship between economy and state, remains very specific (Delorme 1995). First, the state can be considered as an organization itself constituted of different apparatus. But it is not an organisation reducible to other organizations such as the firm. It is much more a macro-organisation overhanging non-statist organisations. Secondly, a fundamental characteristic of the state is that it generates formal rules. Thirdly, it is also an*

banking, external relations, and labour relations. Other rules apply only to a specific branch (sector-based rules) and are at the core of the sectoral governance, as defined by Hollingsworth et al. (1994). Some, such as specific firm's rules and regulations, are only in use in particular organisations (organisational rules).

Rules are edicted (or institutionalised) by organisations. Generally speaking, organisations can be defined as finalised subsystems characterised by a certain degree of closure and openness towards their environment (Le Moigne 1990). They are made up, on the one hand, of formal and informal organisational rules and on the other hand, of actors organised in networks and hierarchical relations. As for rules, there are different kind of organisations, which weight differs: at the national level, the state, at the sectoral level the meso-corporatist organisations and at the entrepreneurial level, the firm.

I will add a final distinction: the one between rules and regularities that seems very important to me although the two notions are very often interwined. The interplay between formal and informal rules channels the behaviour of economic actors and contributes to the appearance of macroeconomic, mesoeconomic and microeconomic regularities[5]. Interestingly the 'institutional transfer' in East Germany turns out to be only a transfer of formal rules and not of economic regularities.

The creative role of individual and collective actors should be stressed at this point. Rules do not have an ontological character. To exist they have to be actualised and interpreted by economic actors; as Bénédicte Reynaud (2001) pointed out, rules are fundamentally incomplete and "need to be interpreted in relation to the information that is contained in other rules" (p. 1). One has to speak of a network of rules or a system of interrelated rules.

Systemic coherence, hierarchy and interrelations between levels

We notice a hierarchy between the different institutional and organisational levels, a descending "main line of causality" to use Janos Kornai's concept, although there also exists mutual influences between them, in several directions (Kornai 1992). Figure 1 shows the interrelations between the levels. At this

actor who can intervene directly in the economy.

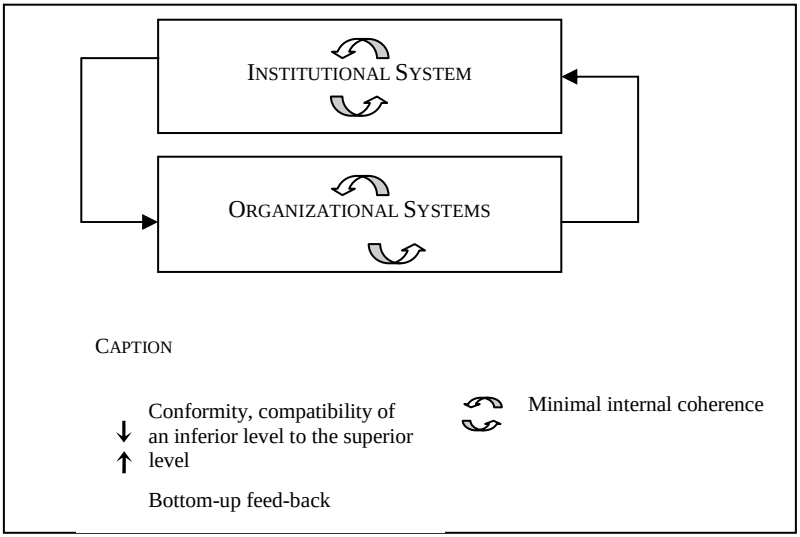
[5] *In its controversy with the jurist Rudolf Stammler, Max Weber emphasises that rules are a crucial but non-unique determinant of socioeconomic regularities (Colliot-Thélène 2001, chapter 7). Interactionist dynamics, non-intended consequences of intentional actions, as well as contingent environment elements can play an important role in the emergence of regularities also.*

stage, in a systemic perspective, it is very important to emphasize the complementarity of institutions or for the least, the minimal degree of compatibility between them (Delorme 1996). According to the French Regulation approach, it is not possible to assess the operational efficiency of an institution separately from its connections with the other institutions of the system considered. It is only *ex post facto* that coherence, whenever this is the case, can be observed, after a process of trial and error. The regulationist perspective thus rejects the idea according to which the most effectively performing institutional set can be imported in order to warrant economic efficiency (see Boyer 2000). It rejects the conception of a single best way: every institutional set-up is embedded in a national historical system[6]. This thematic of coherence embraces a double dimension: an internal compatibility between rules belonging to the same level (horizontal coherence) and a vertical coherence between rules related to different levels.

The various adjustments between different rules and the behaviour of economic actors underpin the emergence of a regulation mode. In a dynamic perspective, the mode of regulation has, in turn, a deep influence upon formal and informal rules. It triggers the apparition of new informal rules and the modification of existent formal rules (institutional reforms). One could think, for instance, of the overall impact of "regulation trough shortage" on economic actors in socialist economies: it led to the development of informal rules and routines like labour force and raw material hoarding precisely to cope with shortage problems. A process of circular causation is therewith taking place: these habituated behaviours induce themselves a deepening of the regulation trough shortage calling for institutional reforms.

[6] *One might find an interesting application of the thematic of systemic coherence in the East German case. Even if West German institutions have proved to be relatively consistent and efficient since the Second World War, it is erroneous to believe that the West German institutional system was per se adapted to East Germany, particularly in the case of transformation process. This explains, rather, the very ambivalent effects the "institutionaltransfer' had on the East German economy (Labrousse 2002a). Another aspect of this question is the clash that often emerged between formal and informal institutions in East Germany. Whereas the formal institutions are a blueprint of the West German ones, the informal institutions have been deeply shaped by the socialist system and its "regulation through shortage".*

Figure 1 : *Interrelations between institutional and organizational systems*



What happens, then, when hierarchically superior formal rules are transplanted to an 'alien territory' like in the former GDR? There is a strong probability of incoherence between imported elements and the already existing ones (organisational rules for instance). One has to think in terms of compatibility or convertibility of the elements implanted, in relation to the imported ones. It is a matter of relative obsolescence. Relative obsolescence, because 1) it should not be forgotten that different rules are compatible in a common institutional system[7] and 2) because rules generally need to be interpreted along with other rules (Reynaud 2001). Moreover the interpretative nature of rules brings about a kind of malleability and plasticity to institutional arrangements permitting small functional adaptations.

Pace of change

A different path and pace of change correspond to each institutional and organisational level. The "overnight" transplantation of formal institutions can be contrasted with the potentially time-expensive change of organisations and informal institutions. It is known that some informal institutions and

[7] *Otherwise it would be a functionalist view contradictory to the theoretical frame developed here.*

organisations can evolve rapidly, in particular cases, but it is not possible to change them all simultaneously from the top and from scratch, in the same manner as formal institutions. Yet, the evolution of organisations and informal institutions cannot be considered separately from the impact of the transplant of formal Western institutions, as it has completely disrupted the game rules East German people were accustomed to. Furthermore, it was not only institutions that were transplanted: German unification also gave rise to a massive influx of Western politicians and civil servants, judges and lawyers, entrepreneurs and managers, consultants and academics. The conditions for enterprise survival and the way the human capital is valued changed completely, at an amazing tempo. To sum up, organisations and individuals were compelled to conform to the new rules. But, as we will see, they did it their own way. But, first of all, one has to qualify which kind of evolutionary path the different kinds of rules follow. Here, the notion of path-dependence comes into play.

Path-dependent rules trajectories

Why has the East German economy not converged to the West German model, contrarily to the transition analysis? It seems to me that the notion of path-dependency, when cautiously applied to rules trajectories can be relevant to understand the specificity of many East German organisational and behavioural patterns. It is a powerful antidote to the teleological bias of transition models.

From technological standards to rules in post-socialist transformation

Indeed there is a strong contrast between the teleological and functionalist view favoured by mainstream economics and the genealogical and historical perspective introduced in the notion of path dependence (David 1985, Arthur 1988). The later underlines the role of small and contingent historical events that lastingly shape-up the present. Transposed to the field of post-socialist transformation, path-dependent analyses have the great merit to provide an alternative to ‘tabula rasa’ approaches (Stark 1991). The statement “history counts” illustrates the strength and weakness of these studies. In their empirical part, they generally remain sketchy, at best, when it comes to shed some light on the exact workings of path dependence (fixed costs, learning effects, network externalities or the role of random historical events). In other words, the notion is often reduced to the mere role of ‘heritage’ (see for instance in the literature about East Germany, Grabher 1996, Grabher and Stark 1997, Thomas 1997). Well-constructed in its original domain (technological standards), the concept has lost a great deal of its accuracy.

Thus it is necessary to qualify the conditions of its export to the institutional field on which I am focusing. The idea of inertia of rules is not new: Schmoller or Veblen had already elaborated it. More recently, Douglas North argues in favour of an analogy (1990, see especially p. 95) but he alleges rather than elucidates the factors of resemblance with technological evolution. Paul David (1994) is more precise when he discusses institutions as the 'carriers of history'. According to him, three main points permit to draw a parallel with technological systems:

- historical experience leads to mutually consistent expectations;
- information channels and codes work like highly durable capital assets;
- the interrelatedness of rules and the compatibility between elements of the same structure constrain future options on new rules that have to be consistent with existing ones.

These are common features to many kinds of institutions. For instance the interrelatedness of West German formal rules provides a sound – but non-exclusive – explanation of the choice of the institutional *status quo* to the detriment of a selective incorporation within the unified German institutional system of East German institutions proved to be efficient. From a West German point of view, this eventuality appeared very costly because even minor modifications of some rules would have called for an encompassing reshaping of all the other interrelated rules[8]. Moreover, there are different sources of path dependence for different types of institutions. For example, the modification of formal rules necessitate some kind of deliberative procedure – more or less time-expensive - whereas the tacit, even implicit kind of routines is widely impeding an intentional change. There is unfortunately no place here to detail this issue. So, let us plunge without deep theoretical training in the cold empirical waters.

Path-dependent behavioural patterns in East Germany: labour market and work organisation

In the following section, I will focus on informal rules and habits, in the veblenian sense of the term, or to use a more modern term, routines[9]. Their

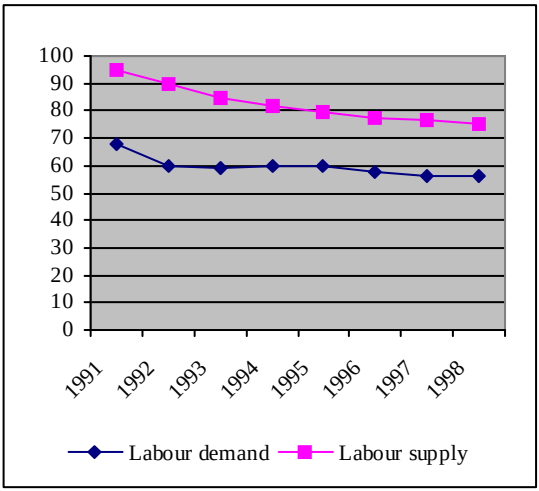
[8] For instance the introduction of the East German Polyclinic system would have triggered a deep reform of the West German health services as a whole.

[9] In the economic literature, one can find very diverging definitions of routines. They are defined here as situated and tacit device of problem solving.

already mentioned implicit nature makes an inquiry difficult. I have therefore decided to concentrate my investigations on routines and rules related to shortage regulation, which are in many cases very well established empirically.

Path dependency can shed some light on behavioural patterns on the labour "market" or within firms. For instance, the East German activity rate remains higher than in West Germany, even if it has sunk from 95% in 1991 to 75% in 1998. Labour "demand"[10], measured by the employment rate, is 5 percentages lower, and labour "supply" is 7 points of percentage higher in East Germany in 1998 (see graph 1b). With the activity rate of West Germany, *ceteris paribus*, the unemployment rate would be sensibly inferior to its actual level. That is the reason why the German Government attempted to reduce the labour supply (by early retirement politics, for instance).

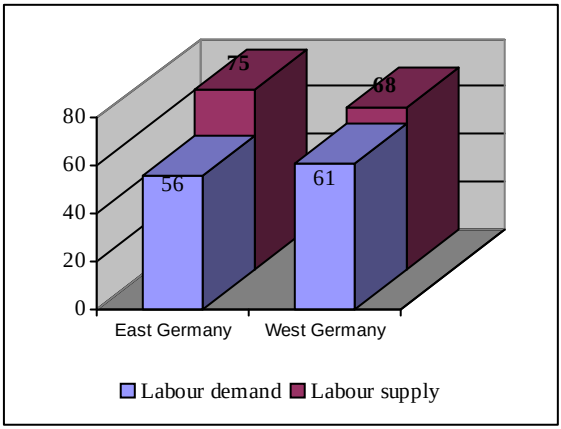
Graph 1a: *Evolution of labour supply and demand in East Germany in relation to the population between 15 and 65 years (1991-1998).*



Source: Pohl, R. (1999), p. 23.

[10] *Quotations marks are used to emphasize that labour is not considered as a commodity.*

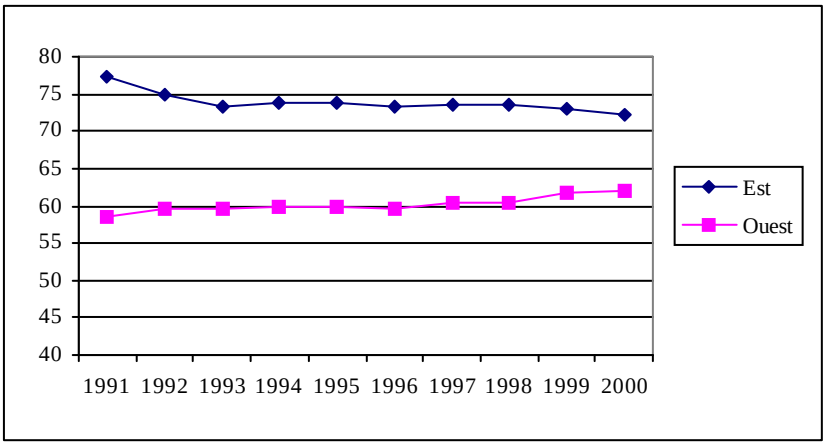
Graph 1b: *Labor market East and West (1998) in relation to the population between 15 and 65 years*



Source: Pohl, R. (1999), p. 23.

A specificity of the East German economy which remained, is the high rate of female activity (see graph 2). Let us now focus on this example.

Graph 2: *Female activity rate in East and West Germany*



Source : IAB Mikrozensus des Statistisches Bundesamtes, www.iab.de

How is the heterogeneity of female activity patterns in East and West to be explained? Two hypothesis can be expressed: first because of the lower level of household income, East German women tend to be more present on labour market (neo-classical explanation); second there is a relative continuity of behavioural patterns in the labour market (path dependency). An econometric study by Wolfram Kempe (1998) clearly demonstrates that the propensity to work or search for a job of East German women is independent of the income level: "financial factors have almost no influence upon women occupation in the new *Länder*. Thus the results of our estimations are clearly distinct from the one of studies concerning other industrialised countries. Although there is usually a strong relation between activity and income, the propensity of East German women to work is largely independent of the income level" (Kempe, 1998, 20). Not only is female work participation, in East Germany, independent of the monthly salary but it is also unrelated to their husband's salary. Whereas in West Germany the occupation of women increases together with their potential salary and declines as the husband salary grows. Another important finding of the investigation is that, in the new länder, children are not an obstacle to female occupation, contrarily to western Germany, where a strictly negative relation between occupation and children number was found (Kempe 1998, 20-24). Thus the first hypothesis is empirically unfounded. On the other hand, the elements at hand seem to corroborate largely the path dependency hypothesis[11]:

(1) Because of labour and social politics oriented towards an extensive use of workforce to compensate labour shortage, the female occupation rate was very high in the GDR. This is the original function within the initial configuration. GDR authorities created incentives[12] and infrastructures (Kindergarten, day nursery, after-school centres[13]) making female occupation easier;

(2) Women occupation had in turn, a retroaction on the distribution of ideal-type roles in the family household with a progressive institutionalisation of new behavioural patterns and social expectations in the sense of Berger and Luckmann (1966, p. 76 in the French edition). Socioeconomic surveys provide a strong evidence for this: attitudes toward female activity, part-time work, the double income model are shared by East German men and women and highly

[11] *For a deeper analysis of the following outline and detailed data, see Labrousse (2002 b).*
[12] *According to the estimations of N. Ott et al. (1990), about 2/3 of « child costs » was financed by the GDR State.*
[13] *These facilities were adapted to the working hours of women (see Spieβ & Wagner 1994, 1997).*

diverge from the opinions shared by their West German counterparts (see for instance Braun 1995, Schulze Buschoff 1997, Krekel & Schenk 1998);

(3) The systemic change put an end to the labour shortage and to the GDR institutional system. Subsequently the configuration that led to a high female employment in East Germany disappeared.

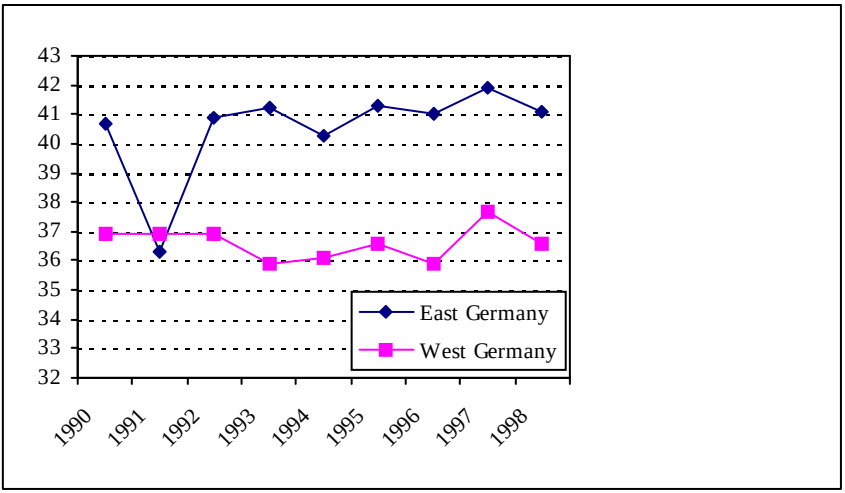
(4) The depth of female unemployment (Beckmann/ Engelbrech 1999) and labour politics aiming at reducing the labour supply should have led to a deeper contraction of female labour supply. In a functionalist perspective it is a kind of counter-intuitive outcome. This outcome is all the more surprising as the West German institutional system (family law, social and fiscal policies), which furthered the breadwinner model in the FRG, was transplanted to the new Länder.

(5) Indeed, there is a lock-in of behavioural rules and social expectations, incorporated in the eastern household model (interrelatedness of rules and consistence of expectations), reinforced by a stronger but decreasing presence of children care facilities[14]. This explains why, in East Germany, we do not find a return to the West German breadwinner model characterised by a lower female occupation and an extensive use of partial time. The dynamic is path dependent with an inflexion corresponding to an adaptation to the tremendously different environment. The logic underlying this evolution is largely endogenous. However, the necessary minimal compatibility between institutional and household systems induced an adjustment trough a decrease of the birth rate, so that it remains possible for East German women to conciliate professional and domestic activities.

Similar mechanisms explain that the level of weekly worked hours in East Germany remains notably above the West German level (see graph 3). Part time work is there, much less widespread than in West Germany. Much more than in West Germany it is a mode of occupation that is rather imposed than chosen for personal or family reasons (Pohl 1999).

[14] This density has diminished since 1989 but remains a multiple of the West German one (Hank/ Tillmann/ Wagner 2001). That is a reason why the presence of children in the household is not a real hindrance to female occupation in East Germany contrary to West Germany (Kempe, p. 24).

Graph 3: *Weekly work hours in relation to the population between 16 and 65 years in East and West Germany*



Source: Das Sozioökonomische Panel, DIW

Path dependence is thus a relevant key to understand pivotal and specific evolutions in the East German labour market. It is also very helpful in explaining many specific organisational features of East German firms. In the same way as for labour markets, many lasting organisational rules and routines found in East German enterprises are related to the regulation through shortage. Informal rules in East Germany were marked by a particular 'power'[15] of the workers over the firm hierarchy existing in the GDR in response to labour shortage. For instance, comes to mind the so-called "chaos qualification", that is, the development of *ad hoc* routines in order to cope with chronic shortages (Senghaas-Knobloch 1992, Marz 1992). In socialist systems, workers were used to periods of low activity followed by intensive concentrations of work, in order to meet the objectives of the plan. Because of the shortage of materials and machines, workers were used to repair and build machines by themselves, and were able to work at different workstations. I propose to call this peculiar form of flexibility "shortage flexibility".

These routines were widespread in East Germany. An East German entrepreneur describes them very clearly:

[15] *It may be more accurate to speak of a 'force of inertia' or 'passive resistance' of the labour force.*

> «The difference between a West German and an East German is the following: The West German solves all his problems with money. When a machine doesn't work, he calls another enterprise to repair it and replace the defective part. In the GDR, when a part was out of service, we had to devise a way to make do and mend it because we knew that we wouldn't get this part in a foreseeable time. We had to organise solutions, whereas the West German has only to make out a cheque. Contrarily to the present situation, we had outlets; there was no need to seek for new contracts. On the other hand, we had no raw materials and had to look for it. We had to organise and struggle for it. I never had an 8-hour day but a 10- or 12- hour day. Problems were different but far from being non-existent. There were forms of competition but not in the same fields as today. We had to improvise, to be creative. It is very useful today. We took care of the machines ourselves and had to repair them. We sometimes built machines to spare some manpower because there was a labour shortage […]. West German entrepreneurs came to us after the fall of the Berlin Wall; they found a machine very interesting and asked which enterprise produced it. They stared wide-eyed as we told them that we did it ourselves, that it is unique. These machines are still there even if we generally do not use them any more. We had to manage on our own. That's the reason why West Germans would all be dead [if they had had to adapt to the East German system and not the contrary].»
>
> Head manager metallurgical industry[16]

In many endogenous East German enterprises, there is a persistence of informal behavioural rules guiding the relations between workers (high cohesion, relatively egalitarian relationships), between foreman (*Meister*) and workers (strong occurrence of 'buddy-buddy'-relationship in the socialist system), between managers and other employees (ascendancy over inferior employees through technical competencies, dominance of engineers in the management)[17].

[16] *The pieces of interviews quoted here originate from a field study in progress in Halle/ Saale (Sachsen-Anhalt). This study is based on semi-directive interviews conducted in 2001-2002 with head managers of firms in the metallurgical, machine building, electronic and agribusiness industries. I wish to mention that none of the interviewed managers is an 'nostalgic', mourning the old GDR time. Among the firms mentioned here only two existed in the GDR. All the others were newly founded in the early 1990's (but all of them have some antecedents before 1989).*

[17] *Cf. Aderhold, J. et al (1994), Windolf, et al (1999).*

The following declaration of the manager of a 100% East German firm illustrates this point:

> «I went around in the area with colleagues for some old iron to retrieve from because the enterprise only had a small part of the amount necessary to fulfil the plan (…). Today for instance when it's snowing, we take our shovel out on weekend to free the enterprise entrances (…). It is not unusual to celebrate 40 years length of service in the firm, you know – I did it myself a while ago – I saw my colleagues' children growing up, we know each other personally, I have been at each work station, I know how hard the job can be. I have not the authoritarian touch to become a true capitalist. If I ask one of my workers for the impossible because we are in full swing, he can tell me, Manfred[18], you know very well it can't be done: we have this and that constraint. A head manager, who doesn't know the production very well, would remain inflexible. I know the technical characteristics of each workstation. On the other hand, these skills are very useful and are strong arguments to convince the employees.»
>
> Head manager metallurgical industry

In the same vein, one of the founders of an enterprise (1993), which managed to become a leader in its market niche, underlines the egalitarian predominance in work relations:

> «What remains of the GDR? This I ask myself too. There still are specific approaches, the will and ability to improvise, to think about solutions without resting on one's laurels. It's an innovative spirit, it's the ability to venture off the beaten track. The interpersonal relations (*zwischenmenschliche Beziehungen*) in the firms remain too: they are of a family kind, barely formal, little hierarchical. Each week, we organise a breakfast with all the employees from the director to the simple worker. You will hardly find it anywhere else [as in East Germany]. It is a very good communication tool, we discuss problems, we get to know each other. Every year we have a Christmas' trip together too.»
>
> Head manager electronic/ computer branch

These enduring behavioural rules are passed down to newcomers and reproduced. Thus, they are embedded in the memory of the organisation. It is

[18] *The name of the person was modified in order to preserve the anonymity of the interviewed person.*

the case for instance of a young enterprise where GDR behavioural patterns clearly persist although only the head manager had an occupation before 1989 (the average age of the firm is very low). Here is his answer to my question "how is it possible that young employees follow these traditions?":

> «They grow in it (*die wachsen da rein*). The think-tank is there (*das Gedankengut ist da*). I pass ways of thinking on to them. We develop ideas together and I pass them down. It's those kinds of things. Its important.»
>
> Head manager mechanical engineering industries

Criteria for a selective persistence of rules: linking institutional and evolutionary approaches

Yet, it is not enough to show the persistence of some rules and routines. The post-socialist transformation is such an encompassing phenomena that one cannot set aside the deep evolution of the environment in which single rules take place. It is precisely because rules are not isolated but embedded in hierarchically ordered institutional systems that it is necessary to look for additional criteria for rules persistence or extinction. For example, the transfer of formal institutional rules has an incidence on organisational rules. Three ideal-typical criteria can be outlined: incompatibility, neutrality and affinity between formal and informal rules. Moreover some rules do not meet each of the lock-in criteria detailed above (weak lock-in). It seems to me that one can distinguish between 6 configurations in the East German case (see table 1).

Table 1: *The persistence of organisational rules: a matrix*

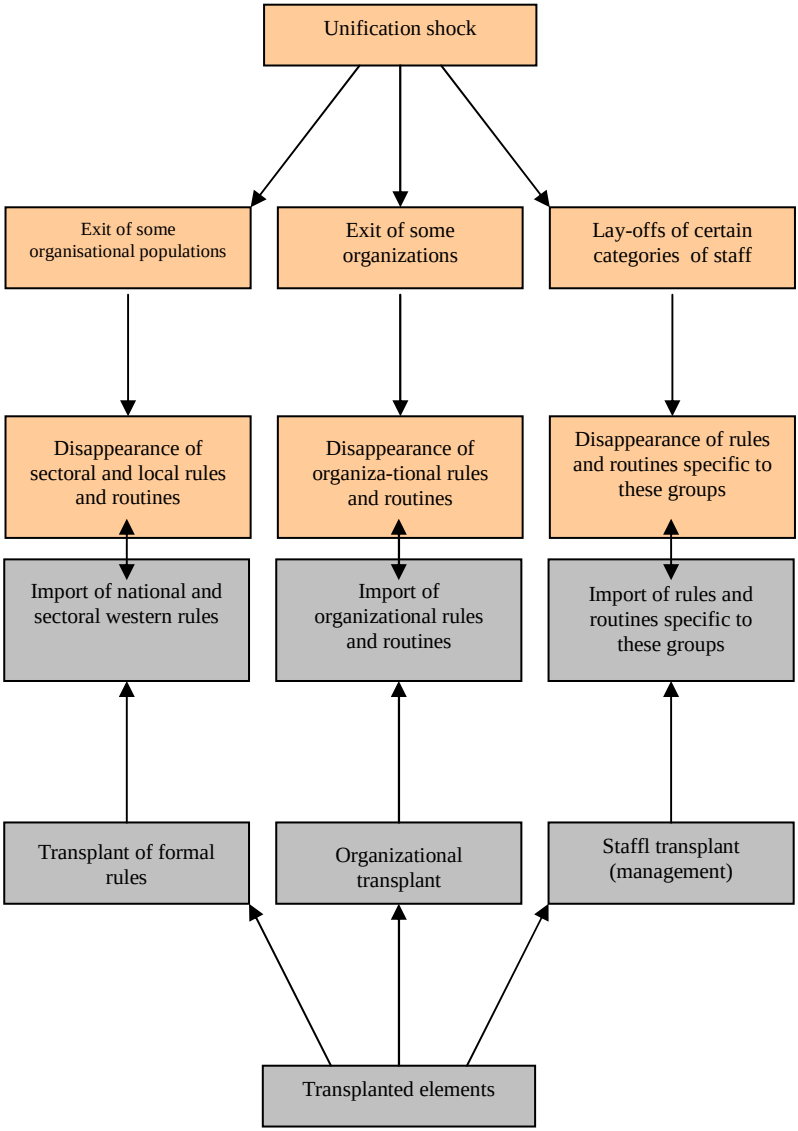
Degree of affinity with the new environment Degree of lock-in of organisational rules	**A** Incompatibility Clash -	**B** Neutrality, minimal compatibility 0	**C** Strong affinity +
1 Strong +	High probability of exit of the organisation and actors incorporating these rules -	Probable endurance Possible survival of the organisation +	Strong endurance of rules, better survival chance of the organisation ++
2 Weak -	Vanishing of existing rules, Emergence of new ones -	Possible endurance of rules 0	Noticeable probability of endurance +

A number of organisational rules, such as 'shortage flexibility' routines, can have a particular kind of affinity with the new environment (configuration C1 and C2), as we shall see below. On the contrary, when the rules of a firm are locked in a trajectory widely incompatible with the new environment the firm can abruptly collapse (configuration A1). One could think for instance of the presence of routines connected to the dominance of suppliers over buyers and the correlative lack of client - and market oriented routines which in many cases contributed to the closure of East German firms (see Pohlmann Schmidt p. 217, p. 223).

This leads us to a fundamental point: the persistence of rules is conditioned by the maintaining of a critical mass of individual and collective actors embodying

them. There is an internal evolution within the firm (trial and errors, emergence of new rules) as well as an evolution through organisational populations (see Hannan Caroll 1992). The later is fundamental in East Germany. The change through evolution of organisational populations occurred in a context of harsh competition, notably in the industrial sector. Adjustment in industry was, and still is, particularly difficult. In contrast to other branches of the economy, the opening of the domestic market meant that industry was exposed to international competition virtually overnight. Adding to which, at the same time, the CMEA collapsed and East Germany lost its traditional markets. Competition, particularly from West Germany, led to widespread desindustrialisation. Endogenous rules are therefore to be found mainly in sectors depending on local markets (craft industry, construction, local services for example) or occupying market niches, and not directly exposed to Western competition. The endogenous enterprises at stance are generally very small ones, born out of the break-up and downscaling of the combines or of start-ups. These represent 80% of all enterprises, half of the working population, and 34% of the business volume (Grunert et al. 1998). Figure 2 shows the link between dynamics of organisational populations and the evolution of rules.

Figure 2: *Dynamics of organizational populations and evolution of rules*



This selective persistence of rules has different shapes in each firm: depending heavily on the local actors' configurations and on initial conditions, which are peculiar to each enterprise. For instance in an enterprise with 100% of its management originating from the old Länder, management rules will correspond to Western German rules, but, on the reverse, the workforce and the ground flour management will be almost entirely east German. Thus, rules of work organisation are widely the outgrowth of an East German heritage, from worker-foremen relationships to reinterpreted shortage flexibility:

> «We work either with two or three shifts, depending on seasonal swings, and on Saturday and Sunday if it becomes necessary, but we rarely need to work on Sunday. It's well accepted. Thanks to this rotation system, we obtain the required flexibility. We use overtime work too, which is compensated in periods of low activity. (…) The old foremen are still employed. Many workers have been working for us for 30-40 years. The foremen have a huge experience and tight relationships with the other employees, so that it sinks costs. It can mean a loss of authority but till now the advantages overweight the inconvenient, and top management have advantage in it.»
>
> Head manager assistant, agrobusiness industry

In the firms where the configurations B1/2 and C1/2 of table 2 are found, hybridisation process between persisting rules and new ones take place.

Institutional and organisational hybridisation

> «[...] every institutional innovation is the starting point of a trial-and-error-process, so that the emerging equilibrium is rarely a mere blueprint of a foreign institution. It is thus interesting to think in terms of hybridisation, that is to say a combination of new and old, of autochthonous and cosmopolitan, of social and economic.»[19]

Boyer and Freyssenet have studied the transplantation of organisation models across countries and propose the notion of hybridisation between two organizational models (1996). It seems to us that this notion of hybridisation can be transposed to the institutional sphere in the East German case, since formal and informal institutions were embedded in two different economic systems, namely diversified quality production capitalism and the GDR regulation through shortage. The transplantation the West German institutional

[19] *Boyer, R. (1995 p. 537, my translation).*

formal rules and organisational rules led to hybridization phenomena, as we shall see below.

Organisational Hybridisation: Work Organisation

In surviving enterprises, one can find enduring organisational rules that are compatible with and adjusted to the 'diversified quality production' coined by Wolfgang Streeck (1991). One can also note configurations where these routines have some affinities with a peculiar sector-based functioning.

The habits originated from the "shortage flexibility" now contribute to the emergence of forms of flexible working hours in the new *Bundesländer*. Often workers will accept teamwork, as well as working at night and during weekends. The past is not merely a burden but also a resource that economic actors can actualise in a new context. The inheritance of these routines can prove very useful in cyclical sectors with very marked seasonal variations, as in the following case of a fragile small enterprise, which orders books deeply fluctuate:

> «In theory we work 40 hours a week, namely the legal working time in Eastern Germany. But the working distribution is very irregular. I don't check the working time of my colleagues. In periods of low activity, I think it's perfectly normal that one of us leaves the job at 2^{30} p.m.[20]. I tell him: go outside, it's a pity to stay here when the weather is so nice. Staying at work would be useless. On the contrary, in peak periods, it is obvious that the contract has to be fulfilled and we work late and during the week-ends».
>
> Head manager mechanical engineering industries

The head manager of another firm, also subject to high variations of activity, explains the role of the internal flexibility of some of his employees, born out of the regulation through shortage under the planned economy to meet the exigencies of quality production. This firm is ISO 9001 certified and banks on up-market segments:

> «It was of great help to us after the unification. I give you one example. One of my men is a skilled electrician. He can do everything. He can dismantle a car and repair it. He has a very good know-how in

[20] *One has to know that East Germans usually begin to work at 7 a.m., a common rule in the Eastern Block, which largely persists in the new Länder.*

> lock-smithing, in hydraulic, he's got a heavy-goods vehicle licence. He takes care of security measures at work (*Arbeitsschutz*) too. He is a much better judge of the utility of one measure or another, than an external person who can't have such a good knowledge of our work organisation. I sent him to a training course so that he is now authorised to carry out the checks here. The regulations stipulate that some of our machines are to be controlled every sixth month. He has a global vision of the firm. He knows it from A to Z, he notices at once when something doesn't quite fit or can be improved. He is employed at different workstations too. During peak periods, he is active in the production. When something goes wrong, he repairs it or anticipates problems. We have very few breakdowns. By now, he stands in for a truck-driver, who is on holiday. In winter, during the slack period, he has a training course. I send him to different kinds of training courses so that he has all the necessary authorisations».
>
> Head manager metallurgy

Other behavioural rules, characterised by the dominance of a technical approach to enterprise organisation and to the product-range can lead to a dangerous defiance *vis-à-vis* commercial and marketing business. But they can prove efficient particularly in high-tech branches, when supplemented by an orientation toward the needs of the customers, as in the following case:

> «With products of this kind it is very delicate to get orders. In a contract technical characteristics are the crucial part. Of course commercial tricks play a role but a marginal one. Most important of all is the technical side. You can only win clients when you discuss thoroughly of technical elements. There is no other way. In our branch, the customer service is based on a 5 to 10 years relationship for one single product.»
>
> Head manager mechanical engineering industries

Let me take another example from a less technological sector:

> «In most of the enterprises, there are the commercial guys on the one side and the technicians on the other. The first overwhelmingly take the price of inputs into account. They have no idea of the consequences upon product quality, which can be of consequences. With our technical competencies, we can bank on quality. Our products aren't cheap but they are well-known for their high quality.»
>
> Head manager metallurgical industry

This dominance of the technical side of product can of course prove harmful to the firm, but can also permit an insertion into diversified quality production along an original path. It is well worth noticing that the West German production model, compared with other capitalist systems, is very much technical-centred.

Last but not least, a set of routines guiding the resolution of technical problems, inherited from the regulation through shortage, may play a positive and innovative role in the contemporary environment. It is particularly true for enterprises doing research and development:

> «If you want to understand the very innovativeness of East German enterprises - although they are very fragile -, you have to go back to the GDR time. The 'brainwaves' richness was quite high. We were constantly compelled to provide new technical and scientific solutions because of the shortage of appropriate materials. There was no stainless steel (*Edelstahl*) for instance. So, we had to find new alloys so that it doesn't rust. That kind of innovative attitude works till now. We had to find out new ways to solve problems and this capacity is very useful today. It is just the same for programming. The computing capacity of our computers was very limited. We always had to find ways to spare some capacity, to write programs and procedures optimising the existing capacities. It is our life buoy today. It plays a growing role. Energy sparing, optimisation is a must in this gloomy economic period.»
>
> Head Manager engineering mechanical industries

As for imported management rules, these are interpreted and filtered through the existing rules. They have to be compatible with the routines already at hand: "new management rules are introduced in East Germany but they are not similar to the West German practices. The new management concepts are implemented in a very selective way, borrowing only fragments of them (*Versatzstück*)" (Brinkmann 1996, p. 241). In the same vein, the "*lean management* alien borrowing pieces (*fremdes Versatzstück*) are transformed by a managerial rationality of another type" (Meinerz, quoted by Pohlmann/ Schmidt 1996, p. 225). Regarding West German subsidiary companies in the new Länder, the presence of different informal rules can be a source of incomprehension and conflict but can also be a way to escape from West German routines: It is for example the case in the automobile sector where the introduction of new production and work organisation (Buteweg 1995) finds a

foothold on 'shortage flexibility' routines. These new methods (multiple-shift working for instance) meet considerable resistances in West Germany, notably because of the trade-unions opposition.

Institutional Hybridisation: Industrial Relations

In order to shed some light on institutional hybridisation processes in the East German transformation, let us now consider the case of industrial relations. West German formal industrial relation rules were introduced in their entirety into East Germany where the role of trade unionism was totally different (Kott 2000). Not only were formal institutions transferred (the German constitution, the *Tarifvertragsgesetz* and the *Betriebsverfassungsgesetz*), but also West German trade unions staffed by Western officials.

However, the West German system of industrial relations is also based on informal institutions. For instance, what is often called the "dual system" of German industrial relations, that is, the combination of collective bargaining by trade unions and workplace representation corresponds in practice to a system where unions and work councils are functionally and organisationally integrated (Streeck 1979). The formal rules produced by the legislator after WW2 aiming at hindering a social democrat model of the Swedish kind were gradually modified by the "bottom-up" emergence of informal rules[21]. But only the formal part of the system has been transferred. These formal rules have combined with East German informal institutions and the emerging outcomes are very different from those in West Germany. Path-dependency at the levels of informal rules modifies the functioning of the industrial relations system.

For instance, a kind of instrumental relationship to trade unions has persisted in East Germany: "East German workers essentially have an instrumental relationship to trade unions mainly considered as service agencies" (Heering/ Schroeder 1995, p. 176). The principal value of the former *Freier Deutscher Gerwerkschaftsbund* was indeed its provision of services (access to holiday and health facilities for instance). In East Germany today, the major function of trade unions is to provide legal advice to its members (Hyman 1996).

In comparison, there has not been any comparable development of the functional integration of trade unions and work councils - a key feature of the West German industrial relations system - in East Germany. A truly "dual

[21] *The main legislative dispositions established sectoral and regional collective agreements. They aimed at excluding trade unions from the firm level. But trade unions struggled for more centralised negotiation practices and a representation of trade union within the enterprise (Thelen 1991).*

system" is emerging. The first work councils implanted in East German enterprises faced an environment of radical uncertainty with a precarious future. The fear of closure was the first concern of works councils, managers and workers alike. Subsequently, councils have often collaborated actively with the managers reviving the "plan fulfilling pact" of the GDR-time. Indeed, at that time, it was common to find a kind of collusion between the management and the work force to develop a "shadow economy" in order to escape the constraints and inefficiencies resulting from "regulation through shortage". According to Jürgens et al. (1993, p. 236): "work councils mobilise the workforce to do hard and flexible work and seek to convince the West German managers to invest more in their plant", an attitude which strongly evokes the 'mobilisation function' of trade union in socialism.

Eastern Germany is sometimes regarded as a test-bed in which Western companies can experiment with Japanese forms of work organisations to which Western work councils refuse to agree, especially in the motor industry (Kern, Voskamp 1994). This being favoured by the fact that meeting the planned output norms in the GDR often necessitated multiple-shift working or even continuous production, whereas such practices were exceptional in the West. Furthermore, Eastern Germany seems to have served as laboratory for the flexibilisation of collective bargaining (Hyman 1996). This evolution is all the more crucial as it meets a concomitant trend in West Germany towards a flexibilisation and decentralisation of industrial relations.

Rules, culture and "situated path-dependence analysis"

The East German case is indeed a phenomenal laboratory for institutional economics. The distinct origins of formal institutional rules and informal rules permits to trace back their respective impact on economic actors and to shed some light on their interaction and combination. It should be stressed that the perspective sketched here deeply diverges from the simplistic culturalist view, widespread among economists, which often attributes alleged "resistance to change" or every unforeseen evolution to the vague and extra-economic impact of "culture"[22]. The concept of rules, far from delivering a catchall explanation for developments remaining unexplained by economic models, has to and can be endogenized in the theoretical framework of the economist. There are cultural rules but they are economic rules too. The East German case is here again very instructive. Cultural patterns strictly speaking are very closed in East and West Germany and only play a minor role in explaining the outcomes of

[22] *For a "non culturalist" view of the role of culture in firms, see for instance D'Iribarne P. et al. (2000).*

transformation in this particular case. But socio-economic patterns are still dissimilar: forty years of real existing socialist economy had a deep impact on the way East Germans act in the economic field. This, in turn, elucidates some distinctive features of the East German economy. Many dynamics in East Germany are path dependent. Applied to rules, the path dependence approach may indeed prove very relevant. It is a heuristic, exploratory tool providing criteria for empirical inquiry and not an *a priori* assessment on the presence of legacies. At this stage, I would like to plead for what I suggest to call "situated path-dependence analysis". It seems to me that there is some kind of contradiction between the path-dependence framework and an empirical analysis relying exclusively on macro data. It is possible in some cases to identify some indices of path-dependence at the macro-level but in order to shed some light on the effective causal process it is necessary to scrutinise causal mechanisms at the micro-level as well. Because the configurations of actors bearing different rules are strongly specific to each enterprise, because initial conditions are highly diverse, because random events are often local, a micro-founded approach to path-dependence using case studies is necessary to understand specific declinations, variations of a general process such as the post-socialist transformation. The path dependence approach that can be traced back to Schmoller or Veblen is clearly connected with historical institutionalism (see especially Veblen 1915). It deals with historical specificity, a crucial issue for economics and social sciences in general (Hodgson 2001). Therefore, the factors of path dependence have to be "situated" in time and space.

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