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**Author**

Garrett, Geoffrey

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**Introduction: The International Diffusion of Liberalism**

By

Beth Simmons  
Government Department  
Harvard University  
[bsimmons@latte.harvard.edu](mailto:bsimmons@latte.harvard.edu)

Frank Dobbin  
Sociology Department  
Harvard University  
[Frank\\_Dobbin@harvard.edu](mailto:Frank_Dobbin@harvard.edu)

Geoffrey Garrett  
UCLA International Institute  
[ggarrett@ssc.ucla.edu](mailto:ggarrett@ssc.ucla.edu)

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## **Introduction: The International Diffusion of Liberalism**

### *Abstract:*

One of the most significant developments of the second half of the twentieth century has been the spread of liberal economic and political ideas, institutions, and policies across a large part of the globe. This paper documents some aspects of this trend, and proposes *policy diffusion* as a set of mechanisms that explain the clustering in time and space of liberal policies. Diffusion is defined as any dynamic process whereby the policies chosen in one country affects the probability they will be chosen in another. We distinguish this definition of diffusion from the null hypothesis of independent decision-making, for example, in response to a commonly experienced external shock. We further distinguish diffusion from strategic behavior generally, and argue for a broader approach that includes the possibility of sociologically driven behavior. Four possible mechanisms that might explain the international diffusion of liberalization are introduced. *Coercive processes* involve material (and sometimes non-material) pressures exercised in a hierarchical manner; the consequence is policy innovative that is less than fully voluntary. *Economic competition* involves decentralized market pressures that potentially redistribute economic activity among jurisdictions, creating incentives for governments to respond to policy innovations elsewhere in kind. *Learning* models condition policy innovation on new information gleaned from observing and interpreting the effects of policy experiments by other governments. *Social emulation* involves less rational and more subjective imitative processes based on a less rationally based logic of appropriateness. Finally, the contributions to the volume are introduced.

## **Introduction: The International Diffusion of Liberalism**

The worldwide spread of economic and political liberalism was the defining feature of the late twentieth century. Free-market oriented economic reforms – macroeconomic stabilization, liberalization of foreign economic policies, privatization and deregulation – took root in many parts of the world. At more or less the same time, a “third wave” of democratization and liberal constitutionalism washed over much of the globe. Economists reckon the gains to developing countries from the liberalization of economic policies to be in the hundreds of billions of dollars of added GDP growth while acknowledging the instability and human insecurity sometimes left in liberalization’s wake.<sup>1</sup> Political scientists credit the rise of democratic forms of governance with contributing to better human rights practices and a more secure international environment.<sup>2</sup> While the precise effects of these twin waves of liberalization are still debated, it is hard to deny that they have had a tremendous impact on the quality of life around the world. Yet we really know very little about how and why so much of the world has embraced broad norms of liberal governance.

Why has much of the world come to accept economic policies that give primacy to markets and political organization premised on individual rights and popular participation? Some commentators focus on the exercise of American power in the post-cold war period. According to this line of argument, the hegemonic and emboldened United States—often acting through the Bretton Woods international economic institutions it created after World War II—has used a combination of carrots (political and military support as well as preferential access to

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<sup>1</sup> Dobson and Hufbauer 2001; Kaplinsky 2001; Prasad, Rogoff, Wei and Kose 2002.

<sup>2</sup> Doyle 1986.

American market) and sticks (from conditionality to coercion) to impose its vision for political and economic liberalism on the rest of the world.

Others see the hand of more decentralized processes of globalization at work. Sharp declines in the ability of governments to control cross border movements of goods, services and capital have forced countries to compete with each other for investment and market share. From this perspective, democratic governments have had little choice but radically to curtail their interventions in the economy. Authoritarian governments have also been under great pressure to liberalize not only economically but also politically as a strategy to survive in ever more competitive global markets. A series of bold experiments — such as Margaret Thatcher’s dismantling of the British welfare state, and Mikhail Gorbachev’s “perestroika”— have generated new information about “what works” and what doesn’t. Moreover, the development and deployment of powerful ideologies – monetarism, glasnost, “the Washington consensus” – provide a frame for these and other climactic events, and seem to have swept liberal ideas to the far corners of the globe.

This volume takes a closer look at these processes, focusing on how particular liberal policies, practices, and institutions have spread internationally. We are interested primarily in how a given country’s policy choices are affected by the prior choices of other countries (sometimes mediated by international organizations and private trans national actors). A close look at various kinds of data reveals a good deal of variation in the spread of liberal policies across time and space. This raises the question: what kinds of diffusion processes have underpinned the particular patterns of policy liberalization we see? Our project is to shed light on the mechanisms that explain the timing and geographic reach of liberal innovations. We seek

to identify the causal processes that explain the “pattern[s] of successive adoptions of a policy innovation”<sup>3</sup> across countries.

We begin by defining what we mean by “liberalism” and then explore the evidence of its spread globally. We then discuss what we mean by “diffusion.” In essence we are interested in processes that result from interdependent decision-making. The bulk of this article develops four different diffusion mechanisms—coercion, competition, learning, and emulation— that highlight exactly how and why liberal policies in one country could influence choice elsewhere. Finally, we highlight the findings of the methodological and empirical papers that constitute the unique interdisciplinary contribution of this volume.

## **I. The Spread of Economic and Political Liberalism in the Late Twentieth Century**

Our definition of liberalism includes policies widely associated with classical economic liberalism, particularly policies that reduce government guidance of the economy and that promote free markets, and with classical political liberalism, notably efforts that lessen government constraints on individual freedoms and that entrench rights of political participation. Our definition is broad, for it is our intent to capture the range of policies that governments, politicians, and the public at large accept as “liberal.” The thrust of liberal policy has shifted over time. The first wave of economic liberalization was directed against mercantilism and protectionism, whereas the second wave has targeted the welfare state and state-led models of development. But the underlying logic of the policies, as well as many of the policies themselves, are substantially the same. In this volume, we concentrate on the two primary faces of liberalism: economic marketization and political democratization. Marketization refers to

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<sup>3</sup> Eyestone 1977.p. 441.

policies that transfer authority over economic activity from public to private decision-makers. Democratization concerns the institutionalization of the political and civil rights of citizens.

Policies that reflect various facets of liberal thinking have spread significantly in the past few decades. Figure 1 documents this trend on three key indicators of liberalization: privatization of state-owned enterprises; substantial reductions in policy restrictions on cross-border capital flows; and the spread of democratic forms of government. Perhaps the headline political statistic of the late twentieth century is that the proportion of democratic countries in the world more than doubled from under 30% to almost 60% (while the number of sovereign states in the world also doubled to almost 200).<sup>4</sup>

[FIGURE 1 ABOUT HERE]

Figure 2 demonstrates that in addition to this global trend toward political and economic liberalism, there was considerable convergence in national trajectories during the 1980s and 1990s. Cross-national variation, defined in terms of coefficients of variation (standard deviation/mean) declined substantially in the areas of capital account openness, democracy and privatization.

[FIGURE 2 ABOUT THERE]

The world was much more politically and economically liberal in 2000 than it was in 1980. Moreover, cross-national differences in policy choices and regime types were much

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<sup>4</sup> Przeworski et. al. 2001.

smaller at the end of the period than at the beginning. But these two broad trends conceal important variations in the paths pursued by countries in different parts of the world.

Figures 3-5 break down the global averages presented in Figure 1 by geographic region. As students of democracy know well, there have been at least two, and possibly three, waves of democratization in recent decades. First, Latin American countries began to democratize in the 1970s, with the stability of transitions out of authoritarianism (i.e. fewer coups undoing nascent democracies) increasing steadily through the early 1990s. Today, the region is almost as democratic as North America and Western Europe. The same kind of pattern has been apparent in East Asia and the Pacific as in Latin America, but the pace of democratization has been slower and is not yet as far-reaching on the western side of the Pacific Ocean as on the eastern side.

The second wave of democratization centered around the fall of the Berlin Wall and the subsequent velvet revolutions in the former Soviet bloc between 1989 and 1991. But it should also be noted that the pace and extent of democratization was almost as great, and began just a few years earlier, in South Asia. The number of democracies in Sub-Saharan Africa also began to increase in 1989, but the process was much slower and continues to be much less widespread on the African continent than in Eastern Europe and Central and in South Asia.

Two regions were practically invariant with respect to democracy between 1980 and 2000. At the top, all the countries of Western Europe and North America have remained stably democratic. At the bottom, there was no effective democratization of the Middle East and North Africa in the last two decades of the twentieth century.

[FIGURE 3 ABOUT HERE]



Figure 4 presents data on the openness of national economies to international financial flows, both foreign direct and portfolio investment. The most dramatic feature of this figure is the rapid march among the countries of North America and Western Europe toward open capital accounts. The trend toward capital account liberalization also obtained but was less pronounced in Central Europe, East Asia and Latin America. There were small moves towards financial opening in Sub-Saharan Africa, but only in the mid and late 1990s. As was the case for democracy, capital account policy remained virtually unchanged in the Middle East over the 1980s and 1990s. Capital accounts also remained closed in South Asia throughout the period.

[FIGURE 4 ABOUT HERE]

Finally, figure 5 presents data on regional variation in the pace of privatization. Given that the data are measured in terms of the prices at which state-owned assets were sold (relative to GDP), it is not surprising that the curves in this figure are less smooth than was the case for either democracy or capital account policy. Nonetheless, it is clear that privatization took off earlier and was more pronounced throughout the period of 1985-1999 in Eastern Europe and Central Asia, Latin America and North America and Western Europe than in the remaining regions. The radical and thoroughgoing nature of the velvet revolutions in the former Soviet countries is readily apparent in the case of privatization, no doubt in large measure because these countries had the most state-owned assets to sell.

[FIGURE 5 ABOUT HERE]

The primary point that should be gleaned from figures 3-5 is that despite the global trends to liberalization and convergence, there were still significant differences in the trajectories of different parts of the world—differences that were apparent both across regions and across different dimensions of liberalization. Even though no region became less liberal, it is clear that political regimes and economic policies in the Middle East and North Africa did not participate in the liberal trend to the same extent as the rest of the world. Latin America democratized and marketized gradually over the whole period, whereas the shift from state socialism to capitalist democracy was abrupt in Eastern Europe. But what kinds of dynamics produce these apparent “regional effects”? Are there diffusion mechanisms in operation that can explain the variance observed in these graphs? In order to begin to answer this question, it is important to define what we mean by “diffusion,” and to distinguish it from alternative explanations.

## **II. Policy Diffusion – And Its Alternatives**

International policy diffusion is a dynamic process whereby decisions in Country A are systematically conditioned by prior choices made in Country B (sometimes mediated by international actor C). Defined in this way, diffusion can involve a broad range of mechanisms from the hyper-rational and materially-based to processes more common to cultural anthropology (social scripts and the like). The analysis of diffusion can embrace a broad range of assumptions about who the primary actors are, what motivates their behavior, the nature and extent of the information on which they base decisions, and their ultimate goals.

But what diffusion, so defined, explicitly *excludes* is independent decision-making. Policy independence is thus the null hypothesis that motivates this project. Most cross-national

social science research focuses on variants of this null hypothesis, and develops explanations based on the specific conditions governments and other actors encounter within polities. The democratization literature provides many examples. Differences in economic development<sup>5</sup>, social cleavages<sup>6</sup>, national institutions<sup>7</sup> and elite interactions<sup>8</sup> have all been argued to play important roles in democratization. A small literature has developed that takes seriously the international diffusion of democracy,<sup>9</sup> but little has been done to date to fashion an integrated model or to test competing hypotheses.

The political economy literature, perhaps more surprisingly, is also dominated by research that assumes independent policy choice. Research on capital controls provides many examples. Political economists have analyzed restrictions on cross border capital flows as tools of economic repression<sup>10</sup> or reasoned that such controls could be explained by partisanship, domestic cleavages and governments' desires for seigniorage.<sup>11</sup> Recent work on the choice of monetary and exchange rate institutions focuses on the null hypothesis as well. A recent special issue of *International Organization* provides a paradigmatic example: monetary policy institutions are explained by domestic political pressures,<sup>12</sup> domestic veto players,<sup>13</sup> federalism,<sup>14</sup> coalition governments,<sup>15</sup> and domestic policy transparency.<sup>16</sup> None of these studies asks whether (let alone how) central bank independence or choice of exchange rate regime is influenced by the decision to implement such institutions in other jurisdictions.

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<sup>5</sup> Przeworski 2000.

<sup>6</sup> Therborn (1977, 1979), Collier 1999.

<sup>7</sup> Linz and Stepan 1996.

<sup>8</sup> O'Donnell, Schmitter and Whitehead 1986.

<sup>9</sup> See Huntington 1991; Markoff 1996; O'Loughlin, Ward, Lofdahl, Cohen, Brown, Reilly, Gleditsch and Shin 1998; Starr 1991.

<sup>10</sup> Giovannini and De Melo 1993.

<sup>11</sup> Epstein and Schor 1992; Grilli and Milesi-Ferretti 1995; Quinn and Inclan 1997.

<sup>12</sup> Clark 2002.

<sup>13</sup> Keefer and Stasavage 2002.

<sup>14</sup> Hallerberg 2002.

<sup>15</sup> Bernhard and Leblang 2002.

<sup>16</sup> Broz 2002.

Much influential political economy research links domestic policy choice with constraints, pressures and opportunities posed by the international economy. But this literature does not explore *interdependent* policy-making. Peter Gourevitch's study of how the international economy influenced responses to economic crises,<sup>17</sup> Ronald Rogowski's research on trade policy coalitions,<sup>18</sup> and Jeff Frieden's work on the preferences of domestic interests with respect to financial liberalization and exchange rate policy,<sup>19</sup> all situate local politics within the world economy. Research in this tradition emphasizes changes in aggregate external prices (and other exogenous international shocks) as the driver of coalitional mobilization and then policy change in a given country.<sup>20</sup> But this formulation prematurely reduces "external influences" to relative prices, without seriously entertaining the direct impact of policy choices in other countries on the behavior of governments at home.

Our intention is not to deny that external exogenous shocks, mediated by domestic conditions, have a marked influence on policy choice. Indeed, this is perhaps the most credible *alternative* explanation for the rise of liberalism to the policy diffusion hypotheses we are offering (and testing) in this volume. But from our perspective, the critical analytic point is that exogenous shocks – such as changing world prices – are a commonly experienced phenomenon to which governments must decide how to respond. We would compare world price changes to a rain squall, in response to which one would expect people to decide *individually* to put up their umbrellas. Of course, individuals may have varying responses to a sudden downpour, depending on their capabilities and resources. Athletic people in flat shoes may decide to run. Those

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<sup>17</sup> Gourevitch 1986.

<sup>18</sup> Rogowski 1989.

<sup>19</sup> Frieden 1991.

<sup>20</sup> See generally the articles in Keohane and Milner 1996.

without an umbrella may decide to use their briefcases or newspapers for shelter. Those with lots of time on their hands may decide to hang around in the doorway until the squall blows over.

Such “common stimuli, varying response” models have been the front runners in explaining the spread of markets and democracy over the past two decades.<sup>21</sup> The distinctiveness of the diffusion mechanisms we discuss in this volume is that they all emphasize interdependent decision-making among active agents. There is some overlap between policy diffusion and strategic behavior more generally.<sup>22</sup> The most obvious intersection is between these approaches and our explanation of economic competition between countries as a potential driver of policy diffusion (discussed below). But it is clear that not all strategic behavior leads to policy diffusion. It is equally unlikely that diffusion processes can be exhaustively accounted for through fully informed, rational decision-making. In short, strategic models may be useful in understanding the diffusion of liberal policies, but the analysis of policy diffusion calls for a much broader range of explanations, including the more sociological.

The social sciences have been concerned with diffusion processes, as we have defined them, for some time. Anthropologists in the early twentieth century examined “...the process of adopting or borrowing by one culture from another various devices, implements, institutions, and beliefs.”<sup>23</sup> Some sociologists contend that nations mimic their successful peers, building political and economic institutions that look like those of leading countries almost ritualistically.<sup>24</sup> Economists debate whether economic crises result from “contagious” herd behavior, or are the result of real connections among markets in different countries.<sup>25</sup> Political scientists have incorporated the diffusion of ideas into their accounts of the choice of economic

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<sup>21</sup> See for example Scharpf 1991.

<sup>22</sup> Lake and Powell 1999; Oye 1986.

<sup>23</sup> Malinowski 1944., iii. 17.

<sup>24</sup> Thomas 1987.

<sup>25</sup> See for example Kaminsky and Reinhart 2000.

policies.<sup>26</sup> Students of organizational behavior in business schools model international networks among people or firms that are said to drive the diffusion of technology and management practices.<sup>27</sup> Indeed, many believe that processes of policy transfer, in which “knowledge about policies, administrative arrangements, institutions, etc. in one time and/or place is used in the development of policies, administrative arrangements and institutions in another time and/or place” are a common feature of social and political life.<sup>28</sup>

But which of these processes is the most important, and in what circumstances? How can we distinguish among them, both theoretically and empirically? What is the relative explanatory power of diffusion arguments vis-à-vis common stimulus, varying response models in the case of political and economic liberalization at the end of the twentieth century? The following section sketches four discrete diffusion mechanisms that are developed and tested in the remainder of the volume.

### **III. Mechanisms of Global Diffusion**

#### *Coercion*

One prominent explanation for the spread of economic and political liberalism involves a distinctly anti-liberal mechanism: coercive power. Powerful countries can explicitly or implicitly influence the probability that weaker, more vulnerable countries adopt similar policies by manipulating the incentives to do so. A range of actors can function as coercive agents: governments, international organizations, and even nongovernmental entities. Whether direct or

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<sup>26</sup> Hall 1989.

<sup>27</sup> Goolsbee and Klenow 1999; Keller 2002; Powell 1990. For example, organizations are most likely to copy the poison pill strategy when they share board members with other organizations that have already done so. See Davis 1991.

<sup>28</sup> Dolowitz and Marsh 1996.

mediated, this mechanism involves the threat or use of physical force,<sup>29</sup> the manipulation of economic costs and benefits, and even the monopolization of information or expertise—all with the aim of influencing policy adoption elsewhere. Coercive diffusion involves power asymmetries that the strong exploit to impose their policy preferences on the weak.

Much of the literature on economic liberalization envisions a hierarchical process in which the policy preferences of economically powerful countries are aggressively advanced or via institutions they heavily influence such as the World Bank and the International Monetary Fund.<sup>30</sup> The logic is straightforward. Developing countries need financial assistance from the strong either to ward off crises or to make infrastructural investments that are hard to fund through private markets.<sup>31</sup> Lenders then condition their financial support on domestic economic reforms they deem desirable—macroeconomic stabilization, free trade and capital movements, privatization and deregulation.<sup>32</sup> Their motives for conditionality include discouraging moral hazard problems,<sup>33</sup> encouraging the repayment of sovereign debt,<sup>34</sup> and protecting lenders' investments.<sup>35</sup> On the other side of the bargaining table, those who borrow from the IMF or World Bank, like those who line up to join the European Union<sup>36</sup> or to receive various forms of

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<sup>29</sup> We would expect physical coercion to be rare in the diffusion of economic policy in the latter half of the twentieth century, but it has been used repeatedly historically and contemporaneously by powerful countries to influence domestic institutions in weaker countries. See Owen 2002.

<sup>30</sup> See, for example, on the World Bank, Mosley, Harrigan and Toye 1995. For the effects of IMF conditionality see [add cite].

<sup>31</sup> James Vreeland argues that the countries that go under IMF programs do so not only because of economic need, but also because they have the political will to undertake the kinds of reforms they know the IMF will impose on them. Vreeland 2003.

<sup>32</sup> Williamson 1993. For more recent reflections by Williamson on these policies recommendations see Williamson 1997; Williamson 2000.

<sup>33</sup> Guitian 1995; Mishkin 1999.

<sup>34</sup> Babai 1988; Fafchamps 1996; Hopkins, Powell, Roy and Gilbert 1997.

<sup>35</sup> Guitian 1995; Khan and Sharma 2001.

<sup>36</sup> Schimmelfennig, Engert and Knobel 2003.

bilateral aid,<sup>37</sup> have little choice but to accept the neo-liberal economic policy prescriptions of their “benefactors.”

Notwithstanding the currency of conditionality among pundits and the press, legitimate questions have been raised about how hard it actually bites. Weak enforcement, sketchy monitoring, and policy inertia are all obstacles to effective conditionality. Economists have noted that IMF conditionality suffers to the extent that it cannot be credibly enforced<sup>38</sup> or even consistently monitored.<sup>39</sup> Often recipients simply lack the institutional capacity to effect policy change.<sup>40</sup> These problems may explain why the World Bank in particular has recently talked more about program “ownership” than conditionality.<sup>41</sup> Some scholars even question the characterization of conditionality as coercive. James Vreeland argues that governments sometimes accept IMF loans because they *want* conditions externally imposed on them, rather than the other way around.<sup>42</sup> In a similar vein, Alan Drazen argues that conditions encourage policies that are in a country’s “self-interest” when the government faces “heterogeneous preferences” (political opposition) domestically.<sup>43</sup>

Policy conditionality may also be exercised by organizations such as the World Trade Organization, the European Union, and the North American Free Trade Agreement. These organizations all make more or less explicit demands on new members for policy or institutional

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<sup>37</sup> Kevlihan 2001.

<sup>38</sup> Eichengreen and Ruhl 2000; Sachs and Huizinga 1987. A similar credibility problem applies to poverty-reduction programs. Donors that sincerely want to reduce poverty have a hard time tying such aid to political or economic reforms. See Svensson 2000. Several studies reveal how unsuccessful conditionality has been at securing broader goals, such as political liberalization, in developing countries. See Santiso 2003.

<sup>39</sup> Cordella and Dell’Ariccia 2002.

<sup>40</sup> Martinez-Vazquez 2001.

<sup>41</sup> This is more true of the World Bank than of the IMF, however. See Nelson 1996.

<sup>42</sup> Vreeland 2003.

<sup>43</sup> Drazen 2002.



reform that reflect the preferences of the current members. If anticipated benefits are high enough, aspirants may alter policies to conform to group demands.

International conditionality is exercised through bilateral relationships as well. Bilateral aid is often tied to policy liberalization.<sup>44</sup> The United States pressures its underdeveloped trade partners to liberalize telecommunications, insurance, and finance.<sup>45</sup> Countries negotiating bilateral investment treaties with the U.S. are asked to liberalize their capital accounts.<sup>46</sup> The European Union's negotiations with Latin American countries over free trade contained a contentious "democracy clause".<sup>47</sup> The European Commission and the United States have demanded privatization in developing countries in exchange for further agricultural liberalization.<sup>48</sup>

Coercive theories are persuasive to the extent that they can identify the coercive actors, show that these actors promote the policy in question, and provide evidence of formal conditionality or at least noteworthy "persuasive opportunities" when policy liberalization was on the negotiating table. If the International Monetary Fund is the hypothesized source of dominant influence, for example, empirical tests should demonstrate that (1) the IMF includes the specific policy change as part of its performance expectations during the period in question; and (2) the country in question made use of IMF resources, thus placing it under Fund conditionality. Similarly, studies linking policy diffusion to particular dominant actors will be more persuasive to the extent that they can show that (1) particular actors favor particular policy

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<sup>44</sup> McPherson 1987.

<sup>45</sup> A clear example is that of the recent negotiations between the United States and five central American countries for a Central American Free Trade Agreement with the United States; see the Financial Times of London, December 17, 2003, THE AMERICAS, p. 2

<sup>46</sup> Singapore is a recent and important case in point. The Straits Times (Singapore), 22 November 2002.

<sup>47</sup> See for example Sanahuja 2000.

<sup>48</sup> Katharine Ainger, "Comment & Analysis: A privatisers' hit list: European commission demands to deregulate services spell disaster for the developing world," The Guardian (London), 18 April 2002. See also Siegel and Weinberg 1977. p. 67.

changes,<sup>49</sup> (2) those actors have plausible leverage over the target countries, and (3) countries subject to leverage (trade, aid, or security dependence) are more likely, *ceteris paribus*, to adopt reforms promoted by powerful actors. We should expect for example to see liberalization precede or coincide with a multilateral round of trade negotiations; during periods of “candidacy” for admission to clubs such as the EU or the WTO; during periods in which bilateral trade agreements are being negotiated with the U.S. or the E.U.; or in anticipation of the disbursement of a loan tranche from the IMF.

Political power need not be exercised quite so explicitly to have very real effects on policies elsewhere. Dominant actors have the ability unilaterally to influence a government’s policy choice by altering the nature of the “status quo” it faces. The United States’ decision to liberalize trade with Canada had a profound effect on Mexico’s own economic liberalization program, for example.<sup>50</sup> In economics, monopolists are sometimes modeled as “first movers,” in response to whom others adjust their production decisions. One might also argue that unilateral action is critical to the solution to some coordination problems. Thomas Schelling argued that focal points serve as catalysts in solving coordination problems characterized by multiple equilibria.<sup>51</sup> Where nations need to coordinate their policies, participants may follow the behavior of a powerful nation simply by virtue of its salience.<sup>52</sup>

There are significant challenges to effectively testing the “powerful actor as focal point” argument. Demonstrating that the policy arena under examination is one in which coordination is

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<sup>49</sup> It may be, for example, that the United States encourages particular governments to hold democratic elections when U.S. security interests are served. It is less likely that the U.S. pressures governments to sign human rights treaties, since the U.S. itself has not signed these accords and regularly argues that this in no way undermines its commitment to human rights.

<sup>50</sup> Gruber 2000.

<sup>51</sup> Schelling 1960. In this section, we discuss the role of dominant powers in solving coordination problems among countries. We will discuss a looser definition of focal points below when we analyze the mechanisms underlying social emulation.

<sup>52</sup> With respect to the influence of German rules and practices in the process of European integration, see Garrett and Weingast 1993.

required is only the beginning.<sup>53</sup> The policies of powerful countries are only one possible source of focal points; other social conventions may prove equally influential.<sup>54</sup> Moreover, experimental evidence suggests that the coordinating power of a dominant leader erodes when trust in the dominant actor lessens.<sup>55</sup> Robert Pahre goes so far as to claim that a Stackelberg leader committed to an international public good (e.g., trade liberalization) may under some circumstances *undermine* the willingness of others to liberalize.<sup>56</sup> Finally, social constructivists argue that countries embrace the policies of exemplars in the hope of following in their footsteps, even when coordination is not an issue.

This last point raises the issue of “hegemonic ideas”: more subjective forms of power than traditional coercion or unilateralism. While theories of hegemonic ideas are probably best categorized with social constructionist and emulation theories, which we cover below, they have sometimes been viewed as variants of coercion theory. Hegemony in the Gramscian sense refers to the control of social life by a group or a class through cultural as opposed to physical means.<sup>57</sup> Without exerting physical power or materially altering costs or benefits, dominant actors can have their influence felt through ideational channels. The thrust is that dominant ideas become rationalized, often with elegant theoretical justifications, and become part of the discourse influencing how policy-makers conceptualize their problems and order potential solutions. Albert Hirschman, for example, argued that global Keynesianism owed much to the hegemonic position of the United States.<sup>58</sup> Because powerful countries have the research infrastructure, the critical intellectual mass, and well-developed connections between the policy world and various

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<sup>53</sup> For example, even though standard setting is often considered a class coordination game, Beth Simmons has argued that while accounting standards may primarily be a coordination problem, establishing rules to regulate money laundering is not. Simmons 2001.

<sup>54</sup> Crawford and Haller 1990.

<sup>55</sup> Wilson and Rhodes 1997.

<sup>56</sup> Pahre 1999.

<sup>57</sup> Femia 1983.

<sup>58</sup> Haas 1980; Hirschman 1989.

research nodes, they are likely to be especially (unduly?) influential in the framing of policy discussions.<sup>59</sup>

To be useful as an explanation for policy diffusion, theories of hegemonic ideas must indicate plausible mechanisms for the transmission of dominant ideas. Bruce Kogut and Muir MacPherson (this volume) argue that American trained economists are one such mechanism. Numerous studies exist of the policy influence of the American economics profession, especially in Latin America.<sup>60</sup> Institutionally endorsed economic ideas can be even more powerful. Sebastian Edwards, for example, has argued that the evidentiary contributions of the World Bank have altered the terms of the intellectual debate over economic policy.<sup>61</sup> Practically every international financial institution – from the Bank for International Settlements to the International Monetary Fund to the various regional institutions – has a research department engaged in the dissemination of economic models favored by economists in wealthy, core countries.<sup>62</sup>

Models that highlight the role of powerful actors in the diffusion of policy invariably emphasize some combination of policy conditionality, political and economic power and focal points. These factors are often mutually reinforcing.<sup>63</sup> What unites all these studies is the necessary influence of an external source of pressure for change. Observers may differ in their assessment of the extent to which dominant actors actively, even aggressively, seek to influence policies elsewhere. And one should not dismiss the complementarity of interests (or indeed complicity) of policy adopters around the world. But the notion of power hierarchy—and hence

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<sup>59</sup> Hira 1998. For a highly critical view of how economic theory gains policy adherents, see Krugman 1995.

<sup>60</sup> Drake 1994; Harberger 1997; Montecinos 1997; Murillo 2002.

<sup>61</sup> Edwards 1997. Quote from page 47.

<sup>62</sup> On the importance of economists working in the IMF and the World Bank for the spread of economic ideas internationally see also de Vries 1997; Polak 1997.

<sup>63</sup> See for example the discussion in Ikenberry 1990.

the asymmetrical flow of influence—is what distinguishes the coercive approach from other perspectives on diffusion that tend to be less hierarchical and more decentralized.

### *Economic Competition*

Theories of economic competition offer a far more decentralized explanation for the diffusion of liberal economic policies than the coercive approach discussed above. According to this perspective, governments have little choice but to select “market friendly” policies that make one’s jurisdiction an attractive place for global investment and to remain competitive in product markets by minimizing costs. The central insight is that incentives to liberalize increase when key competitors have already liberalized their markets. Simplifying regulatory requirements, ameliorating investment risks, and reducing tax burdens are often viewed as policy choices that can, quite quickly, make an investment locale more attractive and an economy more efficient and competitive, at least on the margins.

Competition theorists posit well-informed governments who struggle with one another for a fixed quantity of trade or investment, but who would otherwise choose—absent competition—to intervene extensively in their economies for social or political purposes. Governments are assumed to know who their competitors are, and are able to connect policy choices to competitive advantages. Liberalization may expand global business activity as international transactions costs are reduced, but policymakers are concerned about liberalization’s international redistributive aspects as well. Certainly, there are policies that could make one’s own jurisdiction attractive in the long term (better infrastructure, a more educated work force), but these are not likely to influence investors’ or traders’ decisions in the short- to medium-term. Thus, competitive models focus on the strategic interdependence of

relatively short term policy responses, such as capital account liberalization and tax breaks and regulatory laxity.<sup>64</sup> Liberalization by a competitor is understood as an often unwanted disturbance to a level of protection, taxation, or regulation that might have been preferred on domestic grounds alone.

That jurisdictions compete in their formulation of economic policies is hardly a new insight. This dynamic has been documented extensively at the subnational level. In the United States, for example, states notoriously have competed among themselves to attract investment.<sup>65</sup> Competitive innovations ranging from welfare policies to lotteries have also been documented on the sub-national level.<sup>66</sup> Competitive models are increasingly employed in models of regional integration and convergence as well, for example in the context of the European Union.<sup>67</sup>

Competition sparked by increasing market integration has spawned research on the empirical manifestations purportedly associated with such competition. The “convergence” literature developed in the 1990s to test the hypothesis that governments increasingly were constrained by capital mobility and the internationalization of production from pursuing independent fiscal, wage, and social policies. In the area of taxation, the convergence literature predicted a shift in the incidence of taxation from the more to the less internationally mobile factors of production – a finding that has been subject to many rounds of criticism, testing, and revision.<sup>68</sup> Despite more than a decade of careful research, the relationship between international

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<sup>64</sup> See Rodrik 1997, Simmons and Elkins 2004. Studies also show that competition for investment can lead to environmental regulatory races to the bottom. See Kuncze and Shogren 2002; Massey 1999.

<sup>65</sup> Gray 1994. See also Cai and Treisman 2004.

<sup>66</sup> Berry and Berry 1990. Brueckner 2000; Peterson and Rom 1990.

<sup>67</sup> See for example Sinn and Ochel 2003.

<sup>68</sup> For a good review of the literature on tax harmonization see Oates 2001. Dani Rodrik purported to show that capital mobility was indeed associated with lower taxation of capital (Rodrik 1997.). Subsequent studies questioned this finding. See for example Garrett and Mitchell 2001; Swank 1992; Swank 1998. Duane Swank and Sven Steinmo tried to reconcile the mixed results in the literature arguing that while marginal capital tax rates in the OECD have declined considerably since the mid 1980s in the face of

market exposure and tax structure remains inconclusive. Competition for mobile capital and export markets has been hypothesized by some to put pressure on governments to reduce social spending and industry regulation. The causal mechanism in this case is market pressure to reduce policies that raise costs for investors. As in the case of taxes, few clear empirical results have emerged for developed countries,<sup>69</sup> though global markets have had somewhat clearer effects on welfare states in developing countries.<sup>70</sup> Layna Mosley's work suggests that this is because international investors more carefully scrutinize the spending patterns of developing countries.<sup>71</sup>

The convergence research of the 1990s can be criticized on theoretical as well as empirical grounds. Theoretically, Tiebout models – albeit under restrictive assumptions about factor mobility – point to the possibility of jurisdictional competition resulting in policy *divergence*.<sup>72</sup> Furthermore, the convergence literature assumes competitive dynamics drive countries toward a market-friendly form of convergence. But this assumption is rarely directly tested. “Openness” alone is said to account for competitive pro-market outcomes. As we will discuss in greater detail below, a more precise test of the competition hypothesis would involve

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increasing international financial integration, the base of capital taxation has been sufficiently broadened (by reducing depreciation allowances and other tax credits) that the overall tax take—and hence the ability of governments to fund spending by taxing capital—has been largely unaffected. Swank and Steinmo 2002. Richard Baldwin and Paul Krugman have recently argued against the proposition that competition leads to convergence on tax policy, by pointing to the rents governments are able to collect under conditions of industrial agglomeration within their jurisdictions. Baldwin and Krugman 2004. But others purport to show a much stronger connection between capital mobility and reductions in taxation in the OECD. Genschel 2002.

<sup>69</sup> Geoffrey Garrett has found that a global tendency for countries experiencing rapid trade integration to reduce government spending growth, though curiously capital mobility had no such effects. Garrett and Mitchell 2001. Indeed, in the first systematic study of the correlates of financial liberalization, Dennis Quinn found government spending to be higher in OECD countries that were more open to cross border capital movements. Quinn 1997.

<sup>70</sup> Kaufman and Segura-Ubierno 2001; Rudra 2002.

<sup>71</sup> Mosley 2003.

<sup>72</sup> Rogowski 2003; Tiebout 1962.. For a critical review of Tiebout models as they apply to governmental entities, see Donahue 1997. This is consistent with Garrett's observation that globalization has increased partisan differences in economic policies among OECD countries. See Garrett 1998.

linking liberalization in country A to the policies of A's likely *competitors* in the world economy. There is no particular reason to believe that A's level of exposure to world markets per se is responsible for policy liberalization or deregulation, especially if few other countries with whom A competes have themselves done so.

Competition models should specify as precisely as possible the areas in which governments can be expected to be sensitive to the policies of foreign competitors. Exporters, for example, are likely to be sensitive to policies that affect input costs, such as wages, and so a policy that reduces wage costs in a competitor country should lead domestic exporters to call for an "equal playing field". Foreign direct investors are sensitive to a range of transactions costs flowing from the political risks and contractual hazards inherent in operating a firm in a foreign jurisdiction.<sup>73</sup> Policies that reduce these transactions costs in nations that compete for foreign investments should stimulate similar innovations at home.<sup>74</sup> Foreign portfolio investors are especially sensitive to taxes,<sup>75</sup> inflationary pressures,<sup>76</sup> and capital controls.<sup>77</sup> These are all areas in which we would expect policies of competitors to be especially salient.

Empirically, competitive interdependence in adoption is straightforward to model. One measure might be the prevalence of the target policy among the home country's trade partners, weighted for trade flows. In most cases, however, theory suggests that countries adopt new policies to compete with their peers for resources from a *third country* or group of countries. In these cases, the policies of trade partners are not most relevant, for the competitive action is in global or third markets. This can be captured empirically by the prevalence of policy liberalization among countries that export similar goods to the same third markets. Alternatively,

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<sup>73</sup> Henisz 2000.

<sup>74</sup> See Elkins, Guzman and Simmons, this volume.

<sup>75</sup> Gastanaga, Nugent and Pashamova 1998.

<sup>76</sup> Mosley 2003.

<sup>77</sup> Simmons and Elkins 2004.



the strength of sectoral competition between two countries might be most important. In each case, the measure could be based on a correlation matrix of countries' exports, weighting the policies of those whose profiles are most highly correlated accordingly.<sup>78</sup> As this weighted group of competitors liberalizes, we would expect a country to do the same.

Competition for capital can be measured in an analogous way, but one has to think carefully about how to weight the relevant competitors. Competition for foreign direct investment could be a function of the degree of similarity in quality of the workforce (as measured by literacy, etc.) and infrastructure (electricity, communications, transportation). The more similar two countries are on these dimensions, the more competitive for FDI they will be and the greater the weight of country A's policy in predicting country B's.<sup>79</sup> For policies expected to affect non-equity portfolio investment, countries with similar credit ratings might be the most direct competitors.<sup>80</sup> For competition to be supported as a diffusion mechanism, policy innovation would have to be shown to be conditioned by the policies of competitors for the resources in play.

### *Learning*

In the policy literature, learning refers to a change in beliefs or change in the strength of confidence in existing beliefs, resulting either from observation and interpretation or from acquisition of new theories or behavioral repertoires.<sup>81</sup> Some researchers distinguish "simple learning", in which new information leads to changes in means but not ends, from more complex cognitive processes involving new beliefs about ends as well. In the realm of public policy,

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<sup>78</sup> Burt develops applicable models of structural equivalence in markets. Burt 1987. See also Finger and Kreinin 1979.

<sup>79</sup> See for example Elkins, Guzman, and Simmons, this volume.

<sup>80</sup> Simmons and Elkins 2004.

<sup>81</sup> See the very useful review of the learning literature, especially as it has been applied to foreign policy decision-making by Jack Levy 1994..

actors may be learning at both the simple tactical level (how to better achieve a particular goal) and at a deeper level (what goals they should pursue).<sup>82</sup> Most useful for understanding the diffusion of liberal policies are three approaches that point to social learning; the political science perspective on social knowledge; the idea of Bayesian learning from economics, and the work on channeled learning in sociology.

In political science, Ernest Haas's work has drawn attention to the generation of social knowledge, or "the sum of technical information and of theories about that information which commands sufficient consensus at a given time among interested actors to serve as a guide to public policy designed to achieve some social goal."<sup>83</sup> In this approach, policy innovation spreads in the wake of the diffusion of a shared fund of (often technical) knowledge among elites about what is effective. Of course, organizations themselves do not literally "learn;" only individuals do. As Jack Levy has noted, policy change is often a process of "encoding individually learned inferences from experience into organizational routines."<sup>84</sup>

Economists focus on the process of Bayesian updating, in which people add new data to prior knowledge and beliefs to revise their assessment of that knowledge. Bayesian learning takes place as new data accumulate. With new information, the probable range of hypotheses that might explain those data are likely to narrow, and the more consistent the data, the likelier the convergence on a narrow range of interpretation. Figure 1 illustrates the ideal Bayesian learning process in the face of new information (represented here as D1, D2, etc.). Of course

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<sup>82</sup> Philip Tetlock, for example, argues that learning can be hierarchical, but that most foreign policy learning takes place at the tactical level: political decisionmakers reconsider their basic strategic assumptions and orientation only after repeated failures to generate a tactical solution. See Levy (p. 286).

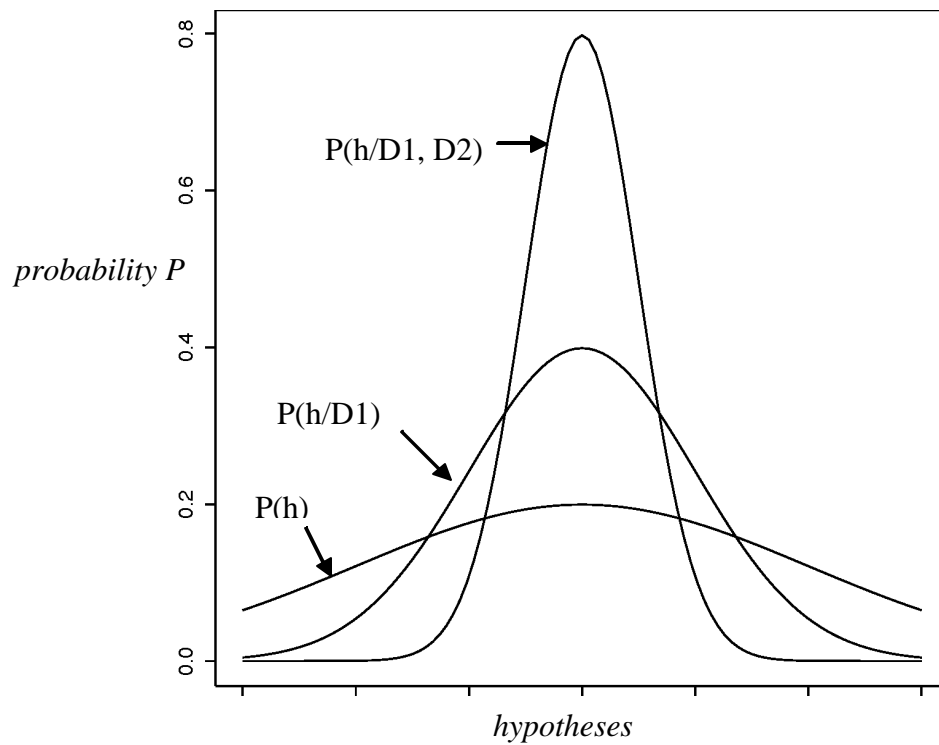
<sup>83</sup> Haas 1980. 367-368.

<sup>84</sup> Levy 1994. Generally, see Levy's discussion pp. 287-89.

relevant data can come from a range of sources, including one's own past experiences<sup>85</sup> and dyadic interactions.<sup>86</sup> The essential insight for policy diffusion, however, is that governments may update their priors based on the policy experience of *other countries*.

[FIGURE 6 ABOUT HERE]

Figure 1: Bayesian updating



Learning models could thus predict liberal policy innovation in a given country to change as the direct result of “natural experiments” with liberal policies elsewhere. Thatcherism, for

<sup>85</sup> In the area of security relationships, for example, Reiter argues that governments are most likely to learn lessons from their own past experiences. Reiter 1996. See also Huth and Russett 1984; Leng 1983; Levite, Jentleson and Berman 1994.

<sup>86</sup> Scholars of international relations have developed models in which bargaining leads to Bayesian updating regarding the nature of an adversary or its level of resolve. See for example Powell 1988; Wagner 1989.

example, provided a natural experiment that shed light on the consequences of privatization. The policy “worked” to the extent that it helped Thatcher to improve the government’s bottom line and newly privatized industries seemed to operate effectively.<sup>87</sup> Governments around the world updated their prior assumptions about the costs and benefits of state ownership, and many privatized as a result.

Bayesian learning is a “rational” process in the sense that actors are assumed to make optimal use of available information. For Bayesian theorists, the choices of others are important not because they affect the payoffs of a policy choice, but rather because others’ choices generate new data that informs beliefs about causal relationships. But two caveats are in order. First, the process of updating does not guarantee the “right” lessons will always be drawn. There is no mechanism in this approach to assure convergence on The Truth. Furthermore, even the aggregation of better informed individual may not be socially optimal. Economists recognize that sequential social learning can be responsible for “herd behavior,” as evident in successive international financial crises in the 1990s. More generally, models in which actors learn from the decisions of a small number of leaders and suppress their own private information tend to lead to Pareto-inefficient outcomes.<sup>88</sup>

Sociologists have focused in particular on how policy-salient information and learning is socially channeled.<sup>89</sup> Policy makers may use cognitive short-cuts in which attention is drawn to highly successful countries or to highly successful outcomes—rather than assessing all available information as the Bayesian approach demands. This kind of channeled learning may be facilitated by communication networks among actors who already are connected in other ways.

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<sup>87</sup> The evidence on the benefits of privatization, however, appears considerably shakier on closer inspection. For a discussion of the literature, see Brune, Garrett and Kogut 2004.

<sup>88</sup> Banerjee 1992; Bikchandani, Hirshleifer and Welch 1992.

<sup>89</sup> Coleman, Katz, Menzel and Columbia University. Bureau of Applied Social Research 1966; Rogers 1995. See also Axelrod 1997.

In these models, the cognitive process is dominated by an “availability heuristic,” in which actors unable to retrieve a full sample of information base their decisions on only those instances that are available to them—limiting the viable range of policy alternatives.<sup>90</sup>

Several studies indicate the importance of learning within communications networks in the policy arena.<sup>91</sup> Virginia Gray’s pioneering work on policy innovation among the states of the United States, for example, demonstrated that the intensity of contact among officials was associated with policy diffusion.<sup>92</sup> Recent research on how developing countries formulate and implement exchange rate policies similarly point to strong social learning from neighbors.<sup>93</sup> It is well documented in the international relations literature that the process of negotiating and maintaining institutional affiliations may create opportunities to learn and persuade.<sup>94</sup>

International institutions are another natural conduit for learning and, especially, for organized pedagogy. Joseph Nye found that international institutions reinforced learning with respect to nuclear policy through their use of rules and standard operating procedures.<sup>95</sup> Miles Kahler has noted that the international financial institutions shape learning to reinforce their policy preferences.<sup>96</sup> Indeed, the International Monetary Fund regards its research function as a way to disseminate the lessons of earlier liberalizers (usually developed countries) to the rest of the world.<sup>97</sup> Rainer Eising attributes the spread of liberalization in the electricity sector in

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<sup>90</sup> Kahneman, Slovic and Tversky 1982. Gale and Kariv 2003. To return to the privatization example, privatization probably failed to catch on in Africa because there were so few examples of low-income countries doing so successfully. See for example Ramamurti 1999.

<sup>91</sup> The international relations literature has recognized a role for channeled learning outside of the policy realm. For example, with respect to coup contagion see Li and Thompson 1975.

<sup>92</sup> Gray 1973. See also Lutz 1987.

<sup>93</sup> Khamfula 1998.

<sup>94</sup> Haas 1959.

<sup>95</sup> Nye 1987.

<sup>96</sup> Kahler 1994.

<sup>97</sup> Many examples could be cited, but for an explicit effort to pass on the positive lessons of liberalization see Quirk and International Monetary Fund. Monetary and Exchange Affairs Dept. 1994.

Europe to learning facilitated by the Council of the European Union.<sup>98</sup> In all of these cases, international organizations, either as agents or as sets of rules that enhance transparency, appear to have had important effects on information flows and policy transmission.

How might one devise tests for the influence of learning on policy diffusion? There are good reasons to suppose that learning has occurred when we see *highly successful* policy changes in country A, followed by similar changes in B and C. That is, measurable policy success should predict adoption elsewhere. Where policymakers have knowledge of the efficacy of a new policy, rational learning may be taking place.<sup>99</sup> In the case of privatization, for example, higher rates of investment and economic growth and lower deficits would suggest that the policy worked at the national level. Over time, the ratio of these measures among privatizers relative to non-privatizers should predict future privatization efforts. It may be that learning happens at the global level, or it may be that it happens among groups of peers who share information and whose experiences are more relevant to each other – among neighbors, cultural groups, or states at the same level of development. But the important point is this: government policies represent sunk investments in particular “technologies.”<sup>100</sup> We should expect policy innovations to diffuse via learning only in the face of compelling evidence that the innovation has had its intended effect.

In short, learning theories suggest that information about policy success or failure abroad will influence the probability of policy change at home. The information may be acquired rationally, dispassionately, and completely, as in strict Bayesian models. It might be mediated

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<sup>98</sup> Eising 2002.

<sup>99</sup> Holden shows that airline hijackings stimulate new hijackings, but that *successful* hijackings (where ransom is paid) are more likely to be copied. Conell and Cohn find that French coal-mining strikes ignite other strikes, but that *successful* strikes were more likely to ignite others. Holden 1986; Conell and Cohn 1995. Both studies, however, also find that people emulate strategies even in the absence of evidence.

<sup>100</sup> See for example Atkeson and Kehoe 2001. On the likelihood of incremental change in the absence of a dramatically successful model, see Schneider and Ingram 1988.

through existing communication networks. Information might flow more quickly among peer groups of countries whose experiences are deemed most relevant to each other. In all cases, however, evidence of “success” increases the likelihood of adoption elsewhere.

### *Emulation*

Diffusion studies have a venerable history in sociology, where the focus has been on individual, organizational, and social-movement adoption of innovations.<sup>101</sup> Sociologists have studied public policy diffusion through the lens of “social construction” since the late 1970s.<sup>102</sup> John Meyer’s “world polity” approach draws on the Weberian view of an increasingly global culture comprising broad consensus on the set of appropriate social actors (individuals, organizations, and nation-states have replaced clans, city-states, fiefdoms), appropriate societal goals (economic growth and social justice have replaced territorial conquest and eternal salvation), and means for achieving those goals (tariff reduction and interest rate manipulation have replaced plunder and incantation). It is this logic of “appropriateness” that diffuses around the globe, first in the west and then elsewhere, to create the world polity.<sup>103</sup>

This constructivism is distinguished from materialist and individualist theories by its focus on the inter-subjectivity of meaning. Both legitimate ends and appropriate means are shared social constructs.<sup>104</sup> According to this view, we are not born into the world with ready-made understandings of what tariffs on trade, for example, do and mean. Nor do we each derive our own understanding *de novo*. Moreover understandings of cause and effect can vary over time. Tariffs were thought to do very different things in 1880, 1947, and 1995. Constructivism is

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<sup>101</sup> For reviews see Strang and Meyer 1993; Dobbin 1994; Rogers 1995; Strang and Soule 1998. Classic studies include Coleman et al. 1966; Hagerstrand 1967.

<sup>102</sup> The first sustained analysis appeared in Meyer and Hannan 1979.

<sup>103</sup> Strang 1991.

<sup>104</sup> Hirschman 1977; Meyer, Boli, Thomas and Ramirez 1997. Berger and Luckmann 1967.

rooted in Max Weber's insight that to understand social action we must grasp its meaning to the actors, and that that meaning is an empirically traceable product of social context.<sup>105</sup>

The causal imagery of the world polity approach is classically sociological. The conventions of nation-states and of international organizations are socially generated, much like the conventions of families, social movements, or religions. While policymakers see themselves as collectively trying to divine the "best practice" in each policy area, in fact policymakers are seldom able to judge whether a popular new policy improves upon the status quo. They operate under teleological assumptions about the trajectory of public policy, but the effects of particular policies are often complex and uncertain. Even the most rational of decision-makers can rarely find incontrovertible evidence of the efficacy of a prospective policy. Theory and rhetoric often serve as the bases of decision-making, and theory and rhetoric change over time.

Early constructivist studies traced the diffusion of educational and human rights policies from first-world nations to third-world nations, showing that most countries adopted these policies not when they were developmentally ready but rather when the "fad" became irresistible.<sup>106</sup> Meyer and colleagues showed that between 1950 and 1970 all countries expanded mass schooling, which had been defined as key to achieving both growth and democracy, regardless of political ideology or level of development.<sup>107</sup> Developing countries signed human rights treaties early and often to signal their commitment to global norms, even when Amnesty International was chiding them for rights abuses.<sup>108</sup> Any two countries ratifying

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<sup>105</sup> Weber 1978., p. 4.

<sup>106</sup> Boli-Bennett and Meyer 1978.

<sup>107</sup> Meyer, Ramirez, Rubinson and Boli-Bennett 1977; Meyer, Ramirez and Soysal 1992.

<sup>108</sup> Boyle and Preves 2000; Forsythe 1991; Ramirez and McEneaney 1997.



constitutions in 1980 specified virtually the same set of rights, as did any two countries ratifying in 1850.<sup>109</sup>

In international relations, the constructivist paradigm began to make inroads in the late 1980s as political scientists sought to parse the shared beliefs underlying the foreign policies of different nations.<sup>110</sup> By the late 1990s, a spate of studies highlighted how international agencies and governments actively construct theories of action and corresponding models of behavior.<sup>111</sup> On this view, defining the nation-state as the appropriate collective actor was the first major project of social construction of the modern world.<sup>112</sup> International relations theorists have focused on the creation of shared norms. For instance, Peter Katzenstein's studies of national security explore how cultural meaning shaped the reconfiguration of national security theory and practice after the fall of Soviet communism.<sup>113</sup> The sociological approach has also gained currency in analyses of business strategy<sup>114</sup> and comparative politics.<sup>115</sup>

For constructivists, understanding how public policies become socially accepted is the key to understanding why they diffuse. Social acceptance of a policy approach can happen in at least four ways: (i), leading countries serve as exemplars ("follow-the-leader"), (ii) expert groups theorize the effects of a new policy, and thereby give policymakers rationales for adopting it, (iii) specialists make contingent arguments about a policy's appropriateness, defining it as right under certain circumstances, (iv) and policies go through different stages of institutionalization, typically spreading beyond the countries for which they were invented in a second phase of diffusion.

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<sup>109</sup> Boli 1987.

<sup>110</sup> For an interesting discussion of the movement see Keohane 1988.

<sup>111</sup> Finnemore and Sikkink 2001; Ruggie 1998; Wendt 1999.

<sup>112</sup> Krasner 1993; Ruggie 1993; Thomas and Meyer 1984.

<sup>113</sup> Katzenstein 1996..

<sup>114</sup> Edelman 1992 studies organizational rights, whereas Davis, Diekmann, and Tinsley 1994 and Dobbin and Dowd 2000 explore the social construction of corporate strategy.

<sup>115</sup> Dobbin 1994; Gourevitch 1986; Hall 1989.

As compared to coercion theorists, constructivists emphasize the voluntary adoption of new policies, embraced by policymakers seeking to do their best. Leading nations and IFIs may play roles, but followers are typically willing. As compared to learning theorists, constructivists describe policymakers as seeking to learn from the experiences of others but as rarely able to establish the efficacy of a given policy. Policymakers are constrained by bounded rationality, meaning that they are unable to envision the full range of policy alternatives and unable to assess the costs and benefits of each.<sup>116</sup> In consequence it is often the rhetorical power of a new policy approach, rather than hard evidence that the policy has reduced deficits, or increased female enrollments, that matters.

There are at least four different ways in which policies can diffuse among countries as the result of social emulation. First, policymakers often “follow the leader”.<sup>117</sup> When the U.S. is on top, for example, others translate its happenstance policy shifts into demonstration projects. Because causal processes are difficult to isolate empirically, governments may copy policies almost ritualistically, as when 20 American states copied California’s fair trade policy so nearly verbatim that half copied two serious typographical errors.<sup>118</sup> Conversely, there are models that fail to catch on despite their apparent efficacy. While they have been lauded as promoting development, East Asian trade policies have not caught on, perhaps because they do not comport with current economic thinking.<sup>119</sup>

What makes a country a “leading” country? Research suggests that Britain had been the model for economic policies late in the nineteenth century, followed by the U.S. for much of the twentieth century, but France made a showing after strong postwar growth, and Germany and

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<sup>116</sup> March and Simon 1993.

<sup>117</sup> Haveman 1993.

<sup>118</sup> Walker 1969 documents this, working with a database showing interstate copying of leaders to be common.

<sup>119</sup> Gruen 1999.

Japan were emulated in the 1980s.<sup>120</sup> One way to operationalize the theory is simply by the presence of the target policy in the leader du jour. Another strategy, employed by organizational sociologists, is to measure the proportion of the largest, richest, or fastest-growing units—in this case nation-states—with the policy in place.<sup>121</sup>

A second form of emulation can be termed “expert theorization”: when policy professionals, academics, inter-governmental organizations (INGOs), and non-governmental organizations (NGOs) theorize a new policy solution that is subsequently followed by non-experts, including national political leaders.<sup>122</sup> Epistemic communities help to define new solutions to existing problems, and new paradigms for thinking about problems and solutions.<sup>123</sup> A policy may spread even without a particular exemplar, although experts frequently riff on the experience of a leader. DiMaggio and Powell call this “normative isomorphism,” for experts advocate new policy norms that lead to isomorphism. Students of organizational policy find that it is usually specific groups of professionals – finance or personnel experts – who sell particular policies.<sup>124</sup> Students of human rights policies have generally identified NGOs or INGOs as defining policy norms.<sup>125</sup> Empirically, national membership in, or presence of, an NGO or INGO that supports a certain policy should increase the likelihood of adopting that policy. But research shows that countries that support new rights but lack the resources to provide them may

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<sup>120</sup> See Shonfield 1965.on France, Johnson 1982.on Japan; and McNamara 1998.on Germany.

<sup>121</sup> Haveman 1993.

<sup>122</sup> Strang and Meyer 1993.contend that the first step is the theorization of similarities across countries, of salient identity dimensions that make up groups of countries.

<sup>123</sup> Haas 1989. was one of the early scholars to link epistemic communities to policymaking. For a general discussion of the role that epistemic communities play in formulating theories and articulating solutions that eventually influence policy see Haas 1992. For a test of the proposition that policy entrepreneurs have a significant impact on the probability that a particular policy innovation (in this case school reform) will get on the political agenda and be approved see Mintrom 1997; Mintrom and Vergari 1998.

<sup>124</sup> Dimaggio and Powell 1983; DiMaggio and Powell 1991. Fligstein 1990; Edelman 1992.

<sup>125</sup> Boli and Thomas 1999; Boli and Thomas 1997; McNeely 1995. Berkovitz 1999. Ramirez, Soysal, and Shanahan found that the extension of suffrage to women hinged before 1930 on the number of national organizations promoting suffrage, and after 1930 on a nation’s participation in a pro-suffrage international alliance. Ramirez, Soysal and Shanahan 1997. See also Frank, Hironaka and Schofer 2000.

decouple formal policy from practice.<sup>126</sup> Strang and Chang find that ratification of International Labor Organization treaties guaranteeing welfare rights has led to increases in welfare expenditures in developed countries, but not in developing countries. This may not represent bad faith so much as the power of new international norms even in countries that lack the resources to implement them.<sup>127</sup>

Followers of this approach view professional groups as crucial agents of policy diffusion. For example, a study of the spread of professional licensing for thirty different occupational groups found that the groups themselves promoted adoption among the American states.<sup>128</sup> We would expect neoliberal economic policies to succeed in nations where their main professional proponents, economists, are dominant. If we see an effect of local Chicago-trained economists on economic policies, net of all else, we would be inclined to chalk one up for “expert theorization” (see Kogut and McPherson, this volume). Sometimes it can be difficult to distinguish expert theorization from coercion, for the tail can wag the dog; as we noted, governments may participate in World Bank programs so that they can justify fiscal austerity programs (championed by economists) to their constituents.

Third, policymakers and expert groups often construct certain policies as appropriate for countries with given characteristics – we term this the contingency hypothesis. Women’s rights conventions have a global character, but Islamic countries developed a distinct version.<sup>129</sup> Empirically, constructivists suggest that when a country fits the prescription, it will follow others that fit the prescription. The strongest test of the contingency hypothesis combines qualitative

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<sup>126</sup> The idea that policy be decoupled from day-to-day activities is sketched in the organizational literature, in Meyer and Rowan 1977; Weick 1976.

<sup>127</sup> Strang and Chang 1993.

<sup>128</sup> Zhou 1993.

<sup>129</sup> Berkovitch and Bradley 1999.

evidence of expert theorization of the particular contingency with quantitative evidence that countries sharing the relevant characteristics have adopted.

A weaker version of the contingency hypothesis comes from reference group theory in social psychology, which suggests that individuals emulate the behavior of peers because they surmise that what works for their peers will work for them as well.<sup>130</sup> Socio-cultural linkages may contribute to “psychological proximity”<sup>131</sup> among nations: for example, Britain looks to North America<sup>132</sup> for policy solutions, whereas Syria looks to Saudi Arabia.<sup>133</sup> The reference group hypothesis is based on the idea that policymakers engage in a kind of inductive reasoning based on observation. In research on policy diffusion, region often stands in for reference group, or for contagion by proximity.<sup>134</sup> But what exactly do “regions” comprise? Regional variables may reflect information flows, commercial contacts, or heightened contact among religious groups or other affective communities.<sup>135</sup> This is can be tested by looking at whether a country’s likelihood of adopting an innovation is best predicted by the prevalence among neighbors, trade partners, or religious community members. Region may also reflect the tendency for near neighbors to be “structurally equivalent” – that is, they are involved in similar social or economic networks.<sup>136</sup> Theories of structural equivalence hold that actors tend to draw inductive conclusions based on the policies of other actors who share similar network relationships.

Where one suspects emulation on this basis to be in play, it is useful to replace ambiguous

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<sup>130</sup> There is not a sharp distinction between this formulation and channeled learning discussed above.

<sup>131</sup> Rose 1993.

<sup>132</sup> Examples include Waltman 1980. and Lester and Bindman 1972. Chapter 3.

<sup>133</sup> Stone 1999.

<sup>134</sup> For instance, Ramirez, Soysal, and Shanahan(1997) find that women’s suffrage spread regionally – between 1930 and 1990, the prevalence of suffrage rights in regional neighbors influenced holdouts.

<sup>135</sup> For example, Simmons and Elkins 2004. present evidence that cultural peers – indicated by common religious orientation – are significant in explaining external financial and monetary liberalization.

<sup>136</sup> Ronald Burt (1997) has shown, in a reanalysis of data from the classical study of the diffusion of tetracycline among physicians in the mid-1950s, that physicians defined themselves as like others on the basis of shared structural positions.

regional variables with more precise specifications of the relevant structural similarities (shared trade or cultural networks). Often, only the policy context will be able to distinguish emulation based on structural equivalence from diffusion based on competition.

The fourth and final way in which social emulation may result in the international diffusion of policy concerns policies that experts or NGOs initially prescribe for a certain group of countries but that subsequently become more broadly accepted as good practice, through a sort of sequential combination of “expert theorization” and “follow-the-leader.” Policies adopted to address a particular problem thus spread eventually to countries without the problem as part of standard operating procedure. The studies of mass schooling mentioned above show this pattern, for after World War II what was defined as a necessary component of industrialization by European nation-states needing skilled workers came to be a necessary component of nation-building for third-world nations.<sup>137</sup> This is known as the “stages-of-institutionalization” thesis following Tolbert and Zucker’s (1983) finding that civil service reforms spread first to the big cities for which they were designed and then became standard operating procedure, spreading to towns too small to make use of them.<sup>138</sup> Once a new policy reaches a certain threshold, policymakers take it for granted as necessary. The stages-of-institutionalization process can be recognized in two ways. First, it suggests that policies will first diffuse to countries for which they are prescribed and will only later diffuse elsewhere. Second, for policies that carry no clear network externalities – women’s rights – qualitative evidence may help us to confirm that social construction is at work.

To summarize, world polity theorists describe a fundamentally sociological process underlying the diffusion of national policies that mirrors the processes underlying the diffusion

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<sup>137</sup> Meyer, Ramirez, Rubinson and Boli-Bennett 1977; Meyer, Ramirez and Soysal 1992; Ramirez and Boli 1987.

<sup>138</sup> Tolbert and Zucker 1983.

of organizational practices and individual behaviors. Policymakers in the modern world operate under norms of political justice and economic rationality, but they derive ideas about how to bring about justice and economic growth from the world around them. Given changing definitions of human rights and of economic efficiency, and given uncertainty about which policies are most effective, policymakers copy the policies they see experts promoting and leading countries embracing. Policy decisions are only loosely based on competition or learning, strictly defined, although policymakers may describe their behavior as competitive and evidence-based.

#### **IV. Survey of Contributions to this Volume**

The contributions to this volume make significant progress in testing various theories for the spread of liberal policies around the globe. Notably, they compare diffusion mechanisms against plausible alternatives, most prominently domestic explanations and responses to various kinds of commonly experienced shocks. The articles that follow primarily examine economic policies, but political liberalization is considered in two articles as well. The findings shed new light on the processes that have given rise to the waves of liberalism that have characterized the last quarter of this century.

Diffusion is a tricky phenomenon to study rigorously, and so the volume begins with a methodological investigation of the problems relating to its modeling. Robert Franzese and Jude Hays make the important methodological point in their contribution that ignoring diffusion processes can bias empirical models of policy choice. “Spatial correlation,” they note, is as serious a problem as temporal autocorrelation, but the challenge for the diffusion scholar is to model this form of correlation rather than to simply treat it as a statistical nuisance. Their article

shows that ignoring diffusion processes misleads us not only by their exclusion, but also by biasing our estimates of the effects of non-diffusion variables (the null hypotheses in this volume). Franzese and Hays make a number of positive suggestions for distinguishing common shocks from diffusion processes, and point out the advances in several of the empirical articles in this volume in this regard.

Our first two empirical pieces take a close look at how two policy areas – tax reform and government downsizing – have diffused throughout the advanced industrial countries. Duane Swank explores the spread of neoliberal tax policies among OECD countries, focusing on the period after 1986 when several governments began to copy U.S. tax policy, which was designed to stimulate growth by lowering the marginal tax rate for the highest earners and for corporations. He finds strong support for the thesis that diffusion often flows from a dominant economic actor: changes in U.S. tax policy influenced subsequent reforms in other polities. Swank’s dominant actor thesis does not, however, suggest coercion by the United States. Rather, his analysis is more consistent with either the competition or learning hypothesis—which are difficult to separate empirically because they tend to represent complete information (competition) and incomplete information (learning) variants of a story that liberalism is “efficient”. Moreover, Swank finds that the impact of US reform on other countries was stronger the more economically connected countries were to the United States, as both the competition and learning hypotheses would anticipate. Nonetheless, differences in domestic political arrangements and economic conditions influence the subsequent timings of adoption: coordinated market economies are slow to innovate, while countries facing economic stress adopt a version of the US. model much more quickly.



Chang Kil Lee and David Strang's explanation for the spread of government downsizing patterns among the OECD countries ends up supporting a version of learning theory, but a version that depends on the social construction of economic knowledge. As do many of the articles in this volume, they note explicitly that change in the size of the public sector is partially driven by factors we consider to be the null hypothesis (internal factors such as party in power and union density). However, Lee and Strang demonstrate diffusion effects related to both physical proximity and economic interconnections (through bilateral trade). Lee and Strang's most dramatic finding is that nations "learn" from positive evidence of the usefulness of downsizing, but not from positive evidence of the usefulness of upsizing. This suggests that learning and imitation are conditioned by neoliberal and managerialist discourse – by the social construction of government downsizing as beneficial. Lee and Strang also challenge narrow competition arguments. Some expect downsizing to be competitive, as nation-states seek to reduce government expenditures to attract foreign investment, but Lee and Strang find downsizers copy others in their communication networks rather than others with whom they compete directly.

The remaining articles are global in scope. Bruce Kogut and Muir McPherson analyze the wave of privatizations of public companies that intensified over the course of the 1980s and 1990. Like Lee and Strang, they also argue that emulation—in the form of the power of economic theory and ideas—has an independent effect on the policies that governments ultimately adopt. But rather than focus on communication and mutual sense-making, they emphasize the specific carriers of particular kinds of ideas. Their key finding is that countries with more American, and especially University of Chicago, trained economists were more likely to privatize key industries. In their argument, ideas diffuse not because they are associated with

outcomes that are desired by governments, as a rational learning model would suggest, but because they are framed in a theoretically satisfying way and transmitted to decision-makers by a persuasive epistemic community of American-educated economists. Privatization only diffused once there was a theoretical justification for doing so, and the justification was internalized more strongly in countries with economists who were better versed in the neoliberal credo. Kogut and McPherson bring the literature on epistemic communities into sharp relief with a strong empirical test of their role in promoting privatization programs.

The liberalization of financial markets is often thought to be one of the hallmarks of globalization in the latter part of this century. But Dennis Quinn and Maria Toyoda develop the argument that global shifts in ideology can create resistance to the spread of economic liberalization. Social constructivists have mostly focused on the uni-directional global spread of liberal ideology, not the ideological forces that oppose it. Examining liberalization of the capital account, Quinn and Toyoda provide evidence that when strong anti-capitalist sentiment exists around the world, it is much less likely that countries will liberalize their capital accounts. This they find to be true even when controlling for common economic shocks and for local anti-capitalist sentiment. Thus, just as global sentiment favoring liberalism appears, in several of the studies, to favor liberal policies even net of local political sentiments, it appears that global anti-liberal sentiments appear to disfavor liberalism even net of local political sentiments. Theirs is a thought provoking analysis of the role of mass opinion in influencing the waves of liberalization documented in the financial area. It is particularly compelling because they take seriously arguments about coercion and competition and provide compelling controls for these factors, which show effects but which do not undermine the effects of anti-capitalist sentiment.

Zachary Elkins, Andrew Guzman and Beth Simmons examine another aspect of capital regulation, this time focusing on rules to promote foreign direct investment. Examining the spread of bilateral investment treaties (BITs), they develop a strong case for competition as the central engine of diffusion. They argue that BITs should be understood as efforts on the part of a potential home government to make a credible commitment to potential investors to treat their investments equitably and fairly. As such, they expect governments to use BITs to compete for international capital. The evidence suggests that potential hosts were more likely to sign BITs when their competitors had already. Moreover, BITs are most likely to be negotiated not where host governments have a quasi-monopoly over an investment site (as is generally true in extractives industries), but rather where host country competition for capital is most fierce: the manufacturing sector. Elkins, Guzman and Simmons they also find that countries that already had strong domestic institutions for the protection of property rights were much less likely to sign BITs. These hosts did not need to compete on this dimension, which explains broad swathes of resistance to the BITs wave. Elkins, Guzman and Simmons also explicitly test for coercion, learning, and emulation dynamics, but find less support for them.

The two remaining articles explore two aspects of political liberalization, democratization and human rights commitments. In one of the clearest efforts to compare diffusion processes with the null hypothesis, Kristian Gleditsch and Michael Ward show that, far from depending primarily on domestic social requisites, the spread of democratic forms of governance has clustered spatially, indicative of some form of external influence on the democratization process. Their research suggests that conditions in countries surrounding the country under investigation have had a marked impact on its propensity to democratize. Transitions to democracy have been much more likely following long periods of regional peace, as well as when neighboring

countries have begun to democratize as well. Gleditsch and Ward suggest that the latter form of localized spillover may be the product of efforts by political actors to influence the balance of power and configurations of governance in neighboring countries. Various forms of outside interference drive the diffusion of democracy in this case.

Christine Min Wotipka and Francisco Ramirez's study of women's rights demonstrates that emulation has been much more powerful in this policy area. Focusing on ratification of the Convention on the Elimination of Discrimination Against Women (CEDAW), they show that countries have been more likely to ratify the treaty—a highly symbolic action that need not immediately entail significant internal policy changes—the more strongly they are connected to the broader social world of nation-states. Most importantly, they find that a country's membership in intergovernmental organizations and nongovernmental organizations, as well as its participation in international conferences supporting ratification, significantly increased the probability that it would subsequently ratify CEDAW.

## **V. Conclusion**

This volume provides a sophisticated, and we hope cumulative, approach to the phenomenon of international policy diffusion. Those that have made the case for diffusion have constructed tests to demonstrate that domestic factors are not wholly responsible for policy adoption, and most have tried to control for commonly experienced external stimuli (the null hypotheses that motivated this project in the first place). That is, they have argued that national policy making must be understood as interdependent, not independent, decision-making. Moreover, the papers have also sought to adjudicate among the most plausible of the four

principal claims about the processes that underlie diffusion within the substantive areas they examine.

As would any project of this kind, there are important limits to what can be accomplished. These studies have been systematic in their approach to liberal policy adoption, but primarily due to data limitations have concentrated on the last quarter of a century.<sup>139</sup> As research develops on international diffusion, scholars should look more systematically at the periodicity of diffusion moments. Are there historical conjunctures that give rise to a spate of policy diffusion? How dependent is policy diffusion on spurts in the diffusion of technology? Is diffusion more likely after cataclysmic events, such as major wars, and drastic regime changes? Was diffusion hampered in earlier periods by the relatively thin network of nongovernmental actors with transnational insights and influences? Where will the next wave carry the largely liberal polities of the twenty-first century? These questions can only be broached as diffusion studies broaden their historical scope and sensitivity.

The contribution of these articles is primarily positive; they are concerned to explain the conditions under which the diffusion of liberalization is likely to take place. Several of the contributions invite us to think about normative issues as well. While some contributions imply improvements in economic and political conditions as a result of policy diffusion, others invite a more systematic critique of the mechanisms and processes discussed in this volume. Ramirez and Witopka's work on women's rights, for example, suggests that in some cases form has prevailed over function. Lee and Strang's analysis of government downsizing shows that governments draw lessons from available examples, rather than from clear demonstrations of success. Elkins, Guzman, and Simmons remain officially agnostic, but their analysis of bilateral

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<sup>139</sup> The problem of data imitations would to a certain degree plague detailed case studies as well. This issues is considered explicitly in the concluding section of Dolowitz and Marsh 2000.

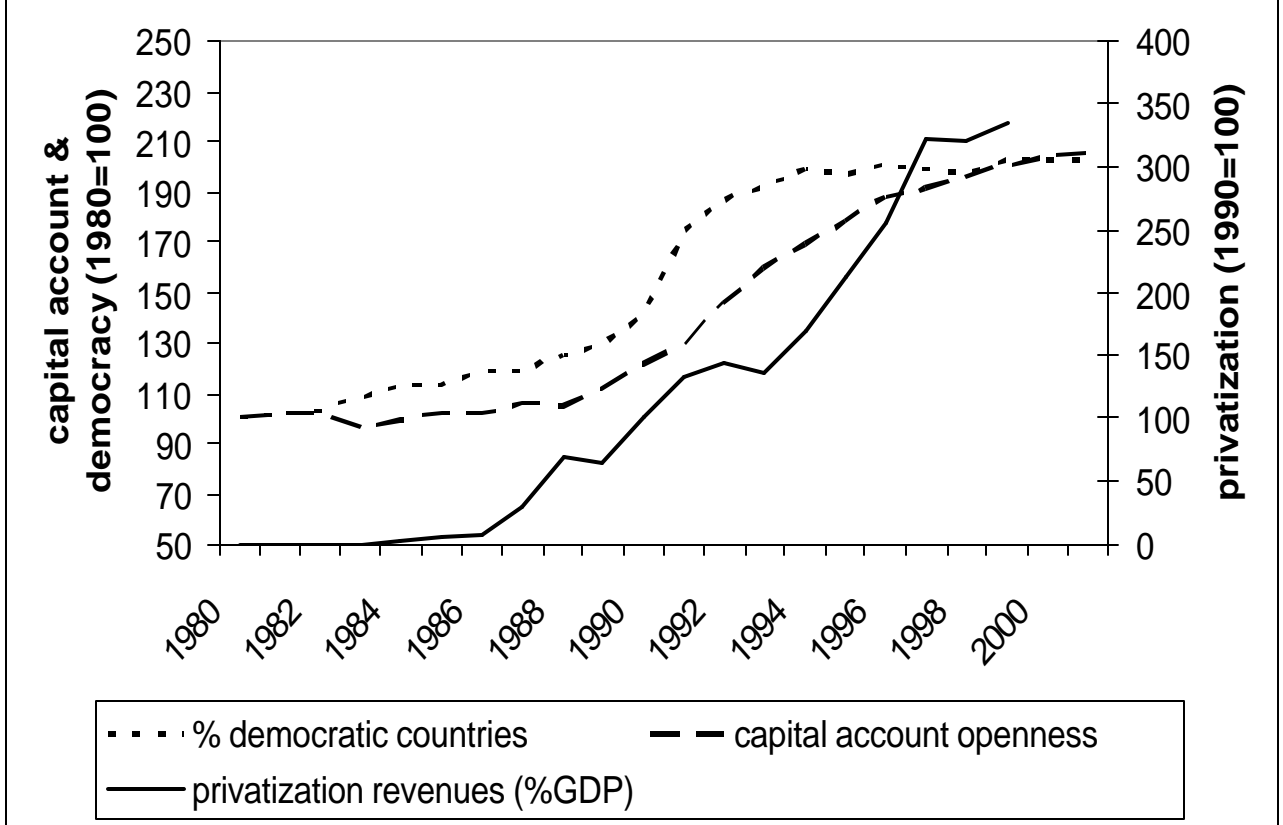
investment treaties suggests that uncoordinated competition among potential FDI hosts can reduce their sovereignty without significantly increasing the flow of FDI to developing countries. These perspectives should prompt an inquiry into the conditions under which policy diffusion can be expected to be “successful.”

At the end of the day, it is not possible or desirable to characterize the diffusion of liberalization in monodisciplinary terms. Raw coercion on the part of dominant powers clearly does not drive the processes discussed in these pages, though more subtle forms of hierarchical influence do infuse the spread of liberal policies in many cases. The model the United States provides is a central part of policy reform elsewhere, though Duane Swank’s analysis shows that implementing the model is highly conditioned by domestic institutions and organizational forms. Hegemonic discourse can be detected Lee and Strang’s explanation for government downsizing, and dominant ideas have an explicitly human face in Kogut and MacPherson’s account of the role of Chicago trained economists in furthering the project of privatization world wide. Yet hegemonic approaches receive surprising little support where one might have expected them to be strong: Elkins, Guzman and Simmons find much more support for competition among hosts than pressure from home governments in explaining the spread of bilateral investment treaties.

Several articles remind us how important the international social and political context is for policy diffusion. Enmeshment in the world polity is key for Wotipka and Ramirez in explaining the diffusion of women’s rights norms, while regional peace fosters democratization in Gelditsch and Ward’s account. Others remind us to keep in mind the specific conditions that effectively serve to resist liberalism’s universal acceptance. Quinn and Toyoda’s account in particular highlights mass sentiments that resist the spread of financial liberalization.

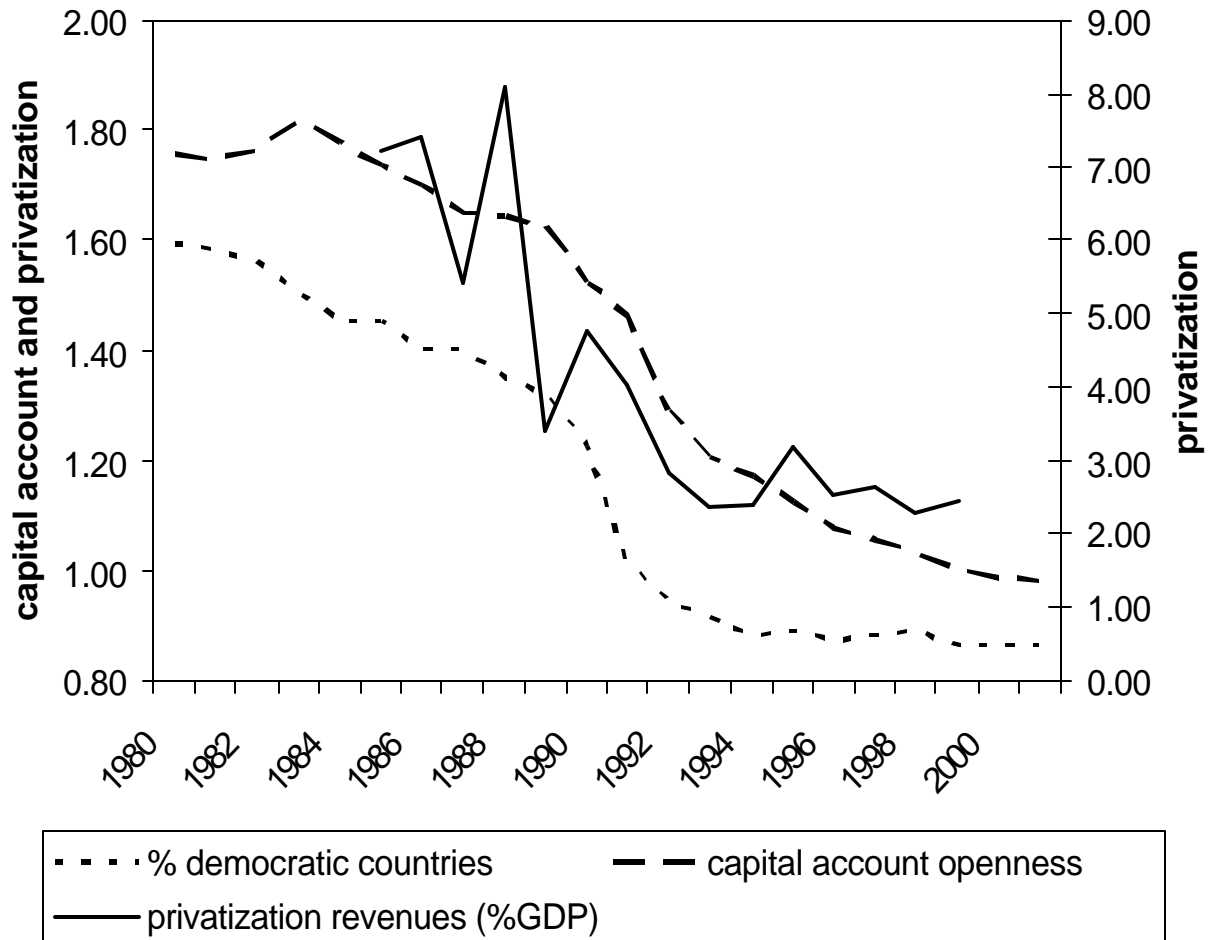
One conclusion is certainly possible. The processes documented in this volume make it clear that closed polity models based on independent governmental decision-making can no longer suffice. Much of the action in explaining national policy choice is to be found in processes that are international and transnational in nature. Governments pressure and bend to pressure; they compete, they model, they emulate, and they learn from each others' experiences with liberal innovations. Only by trying to model diffusion processes explicitly will it be possible to get an accurate picture of how liberal economic and political policies have become so pervasive in recent years.

**Figure 1. Political and Economic Liberalization  
around the World**

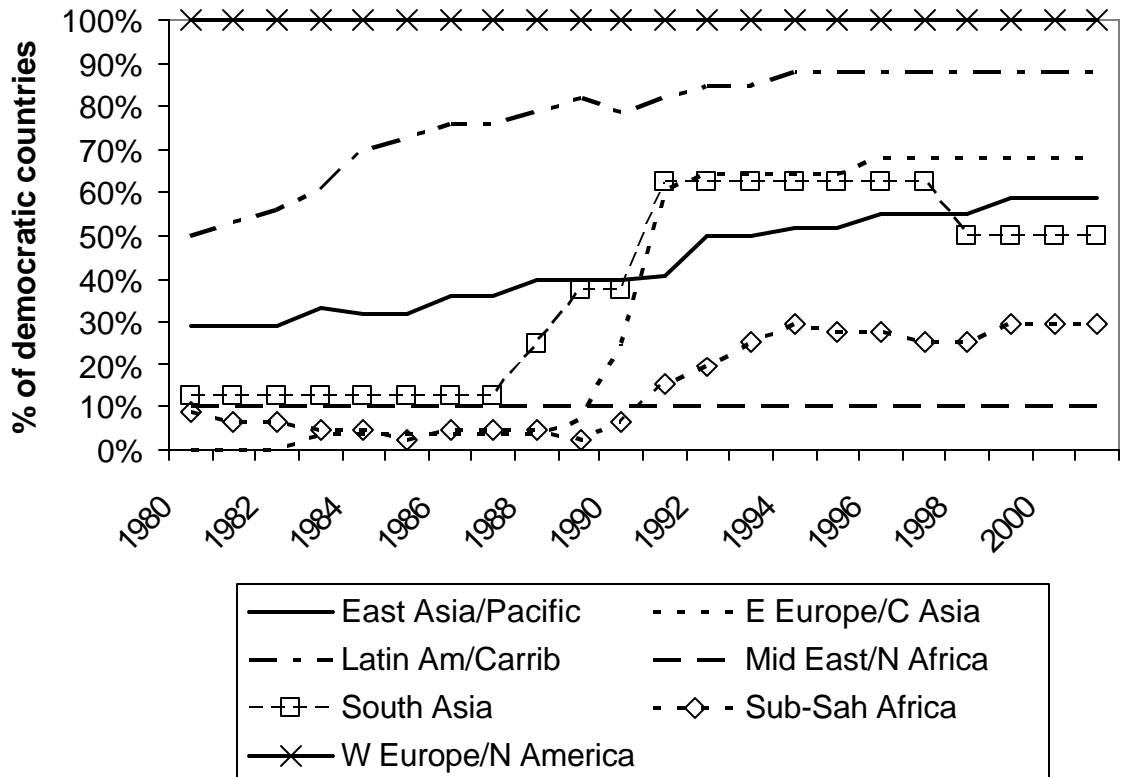




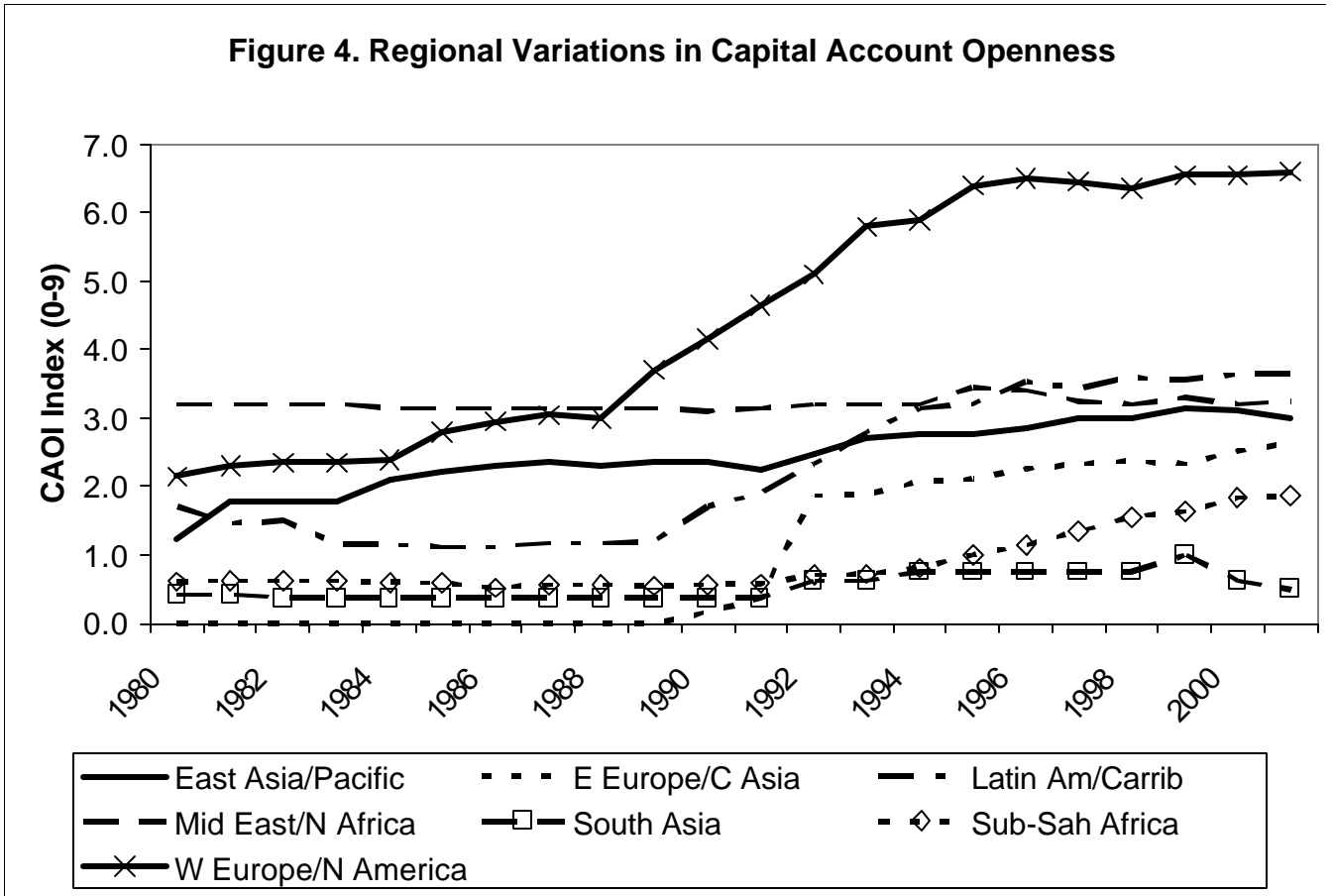
**Figure 2. Variations in Liberalization around the World  
(std. deviation/mean)**



**Figure 3. Regional Variations in Democracy**



**Figure 4. Regional Variations in Capital Account Openness**



**Figure 5. Regional Variations in Privatization**

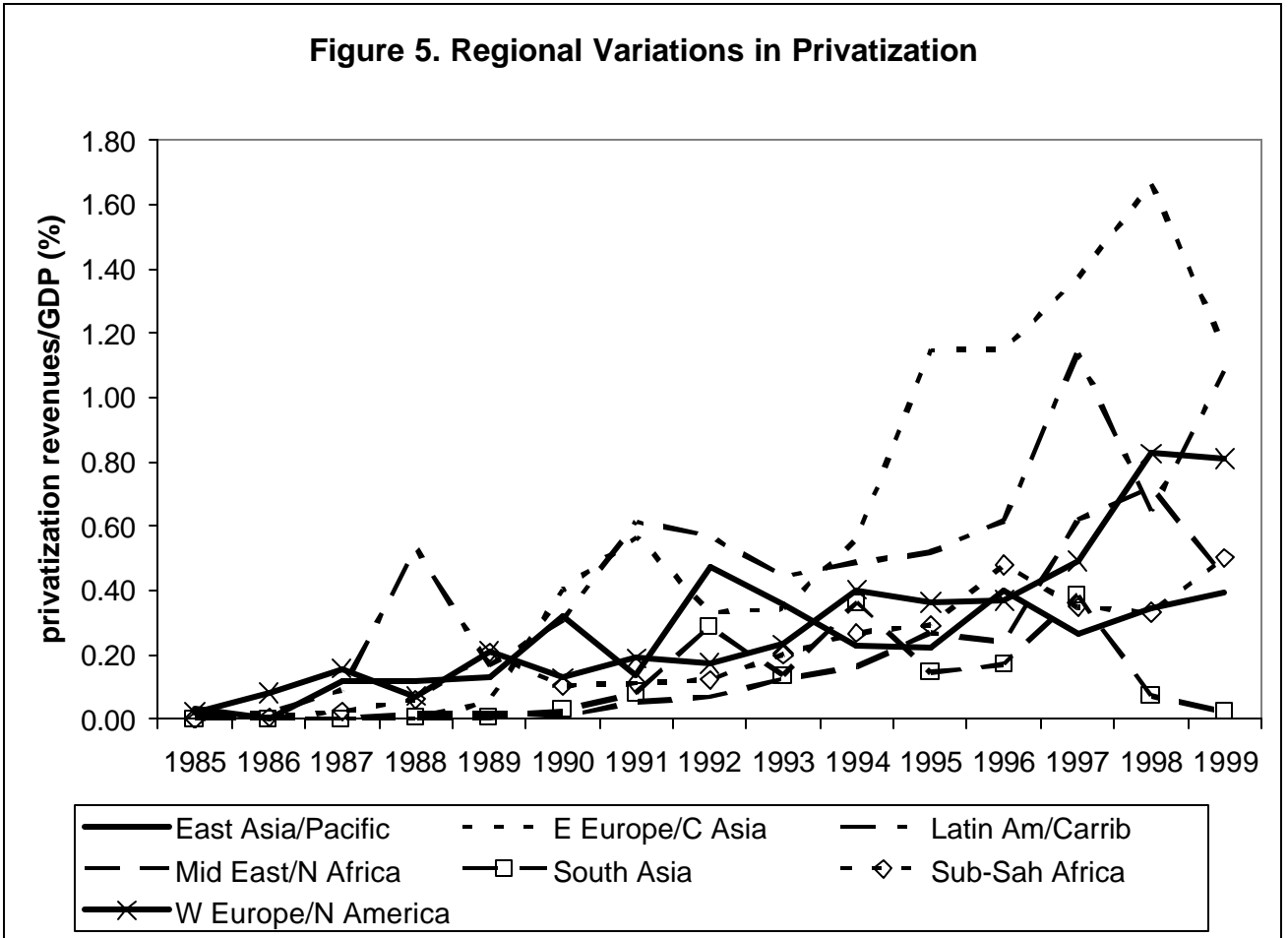
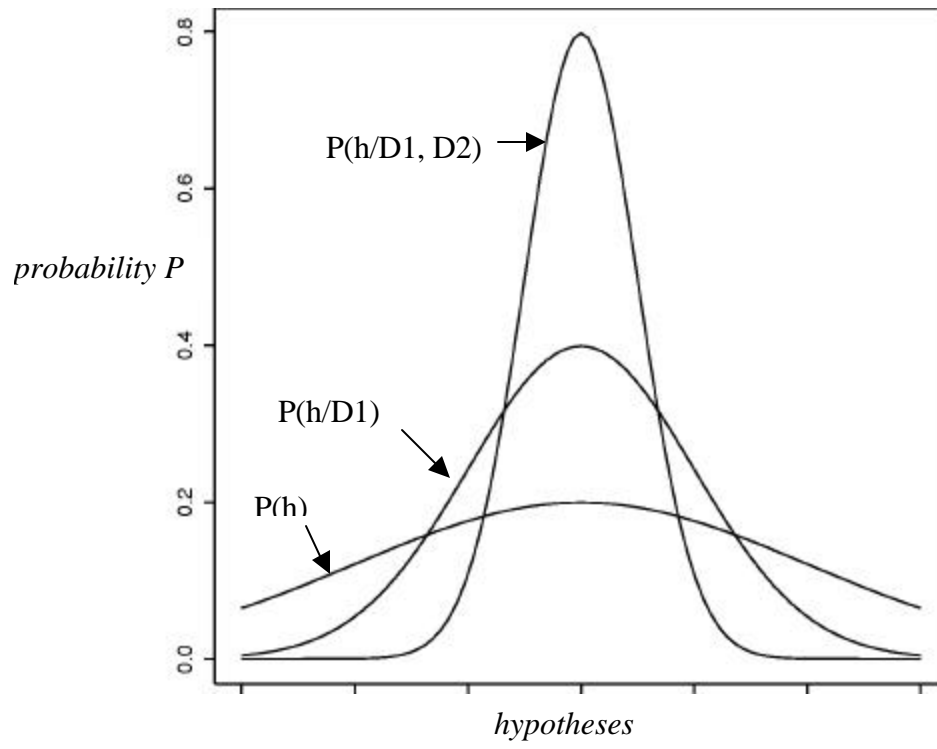


Figure 6: Bayesian updating



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