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Introduction: Institutional Change in Advanced Political Economies

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The chapters in this volume were written as a collective contribution to the current debate in political science and sociology on institutional change. Instead of abstract theoretical reasoning, they offer in-depth empirical case studies. The underlying assumption, amply supported by recent literature, is that there is *a wide but not infinite variety* of modes of institutional change that can meaningfully be distinguished and analytically compared. It is also assumed that an empirically grounded typology of institutional change that does justice to the complexity and versatility of the subject can offer important insights on mechanisms of social and political stability and evolution generally.

Empirically the chapters of this book deal with current changes in selected political-economic institutions of rich, mostly Western democracies. To us the most prominent theoretical frameworks employed in the analysis of the welfare state and of contemporary political economy generally seem singularly ill-equipped to capture significant developments underway in many if not all of them. While we join with a large literature that rejects the notion that previously diverse political economies are all converging on a single model of capitalism, we notice that many arguments in support of the idea of distinctive and stable national models lack the analytic tools necessary to capture the changes that are indisputably going on in these countries. One consequence is a tendency in the literature to understate the extent of change, or alternatively to code all observed changes as minor adaptive adjustments to altered circumstances in the service of continuous reproduction of existing systems.

The conservative bias in much of this literature—the widespread propensity to explain what might seem to be new as just another version of the old—is at least partly a consequence of the impoverished state of theorizing on issues of institutional change. In the absence of analytic tools to characterize and explain modes of gradual change, much of the institutionalist literature relies—explicitly or implicitly—on a strong punctuated equilibrium model that draws an overly sharp distinction between long periods of institutional stasis periodically interrupted by some sort of exogenous shock that opens things up, allowing for more or less radical reorganization. As the problems of the literature on the political economies of advanced capitalism are symptomatic of broader theoretical deficits in the institutionalist literature as a whole, we submit that a close analysis of the

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processes through which they are currently changing can provide a particularly fertile terrain within which to explore frequently overlooked mechanisms and modes of change more generally.

The opening section of this chapter will address three general issues. It begins with a summary account of the *historical setting* of the cases of institutional change analyzed in subsequent chapters. In particular, it describes the secular process of *liberalization* that constitutes the common denominator of many of the changes presently occurring in advanced political economies. Second, it characterizes and places in context the *type* of institutional change associated with current processes of liberalization, change that is at the same time *incremental* and *transformative*. And third, a definition of the concept of institution is provided that is to allow for an adequate conceptualization, not only of institutional statics, but also of institutional change. In the second part, we review the lessons that case studies in the volume hold for the theorization of institutional change. First we ask how we may distinguish 'real' change from 'superficial', merely adaptive change, and how to detect change in the absence of disruptive events leading to institutional breakdown. Then we explore the contribution of our cases to an empirical inventory and analytical typology of modes of *gradual transformative change* of modern political-economic institutions. The Introduction ends with a concluding summary that returns to the substantive theme of the volume, the current liberalization of advanced political economies.

Institutional change in advanced political economies

Institutional change as liberalization

In the 1980s and 1990s, the political economies of the second postwar settlement began to undergo major changes. What exactly these changes were—or rather, are—is far from being unanimously agreed upon. At a very general level, however, most observers describe a secular expansion of market relations inside and across the borders of national political-economic systems, significantly beyond the limits that the organized capitalism of the postwar 'mixed economy' had set for them. With due caution, it would therefore seem justified to characterize the prevailing trend in the advanced economies during the last two decades of the twentieth century and beyond as a broad process of *liberalization*.

Clearly, differences between countries are of importance, and we would be making a severe mistake if we were to belittle them. But commonalities also count and must be taken no less seriously. Major differences between them notwithstanding, the postwar political economies of the countries that after 1945 under American leadership came to form the 'Free World' of democratic capitalism shared a number of features that set them apart from the capitalism of the interwar period and of the Great Depression. After the Second World War, governments accepted political responsibility for full employment, to be discharged by means of a Keynesian economic policy that, if necessary, placed the interests of

workers above that of capitalist 'rentiers'. Trade unions were conceded constitutional or quasi-constitutional rights to free collective bargaining; large parts of industrial capacity were nationalized or in other ways controlled by the state, sometimes together with organized business and trade unions, in various ways exempting industries from market pressure and providing safe employment at good pay; economic growth was to a significant extent spent on an expanding welfare state that insured rising standards of mass consumption against the vagaries of the market while partly 'de-commodifying' the supply of labor; and sophisticated international arrangements enabled national governments democratically to respond to popular demands for social protection without upsetting an international free trade regime that made for ever increasing productivity and growing demand for mass-produced consumer goods.

Why the 'Golden Age' of postwar capitalism came to an end is the subject of an extensive debate that we cannot and need not summarize in this essay. First fissures began to show in the 1970s, in the aftermath of a worldwide wave of worker militancy that, among other things, reflected a new level of material and social aspirations after twenty years of peace, prosperity, and democracy. For a few years after, a new generation of workers and citizens used the institutions of democratic capitalism without being restrained by the cultural inhibitions and the historical traumas that had helped make economic democracy compatible with capitalist markets and hierarchies. Then the tide began to turn. In most western countries heightened distributional conflict, reinforced by the welfare losses imparted on the rich industrialized world by the two oil crises, caused rising inflation and, subsequently, unemployment. In some places earlier than in others, but ultimately throughout the countries of the second postwar settlement, governments gradually reneged on their promise to provide for full employment and began to return to the markets growing segments of national economies that had become too politicized to be governable by democratic politics.

Again, time and pathways of liberalization differed greatly between countries. There is also no doubt that a number of factors were at work that had little if anything to do with the explosion of popular economic and political demands after the demise of the disciplining memories of war and depression. The new micro-electronic technology comes to mind that revolutionized work, skill requirements, employment structures, products, and product markets. In addition there also was internationalization and globalization, in part unquestionably accelerated and indeed called upon by governments striving to defend themselves against ever more demanding constituents, but in part clearly not. Rising competition in world markets both forced and legitimated sometimes deep revisions of welfare state policies, and the same can be said of fundamental demographic changes especially in Europe that originated in the 1970s and seemed to hang together in complex ways with increased consumer prosperity and citizen equality. In the 1990s at the latest, tightening political and economic limits on public budgets, in part constructed by international agreement between national executives that were about to lose their room for fiscal maneuver, combined with intensified international and

domestic competition to discredit collective solutions to economic and social problems, providing strong ideological support for privatization, deregulation, self-reliance, and a general opening-up of social and economic arrangements to the logic of 'free' competitive markets—not just in the traditionally 'liberal' but also in the so-called 'coordinated' market economies.

Liberalization, then, may be described both as an inevitable economic adjustment in organized political economies to growing internal and external market pressures, and as a political strategy of either governments overwhelmed by unsatisfiable political demands or of business extricating itself through internationalization from the profit squeeze imposed on it by labor at the height of its postwar power in the early 1970s. As already emphasized, the liberalization of the institutions of organized capitalism—their 'disorganization', as it was called by Offe (1985) and Lash and Urry (1987)—took different forms and proceeded at different speeds in different countries, due in part to the effects of different institutional endowments interacting with what may in shorthand be described as identical exogenous and, in part, endogenous challenges. Indeed as pointed out prominently by the economic historian, Karl Polanyi, liberalization always comes with, and is enveloped in, all sorts of countermeasures taken by 'society'—or by specific societies in line with their respective traditions—against the destructive effects of free, 'self-regulating' markets. This, however, must clearly not be read with the unquenchable optimism of much of functionalist reasoning, which seems to accept as a general premise that liberalization can never be destructive because ultimately it will always be balanced by newly invented institutions and methods of social regulation. Rather it puts us on alert that in studying liberalization as a direction of institutional change, we should expect also to observe changes in institutions intended to reembed the very same market relations that liberalization sets free from traditional social constraints.

Transformation without disruption

Institutional change that we observe in the political economies of today's advanced capitalist societies is associated with a significant renegotiation of the politically regulated social market economy of the postwar period. Important qualifications notwithstanding, the current transformation of modern capitalism is making it more market-driven and market-accommodating as it releases ever more economic transactions from public-political control and turns them over to private contracts. One particularly intriguing aspect of this broad and multifaceted development is that it unfolds by and large incrementally, without dramatic disruptions like the wars and revolutions that were characteristic of the first half of the twentieth century. In fact, an essential and defining characteristic of the ongoing worldwide liberalization of advanced political economies is that it evolves in the form of gradual change that takes place within, and is conditioned and constrained by, the very same postwar institutions that it is reforming or even dissolving.

Clearly it is hard to determine with any degree of accuracy whether the difference between the capitalist political economies of today and of the early 1950s is greater or smaller than that between capitalism in the middle and at the beginning of the nineteenth century. Perhaps the convulsive transformations associated with the First and Second World Wars did in fact unsettle the societies of western Europe and, to a lesser extent, North America more deeply than the gradual changes that began to chisel away at the postwar mixed economy in the 1980s and 1990s. But to us this cannot mean that the changes we are observing today throughout the advanced capitalist world are only of minor significance, or are merely modifications on the surface of a fundamentally stable and self-reproductive social order. For a few years when one could still speak of a 'crisis'—usually in the expectation of a return to a stable state similar to what the world was like when its transformation began—this might have seemed plausible. But ongoing change and its accumulating results increasingly suggest that the current process of liberalization involves a major recasting of the system of democratic capitalism as we know it, issuing in a social order dissociated from fundamental assumptions on social integration and political-economic conflict resolution that underlay the construction of the postwar settlement after 1945.

In our view, central properties of the developments currently underway in the advanced political economies are not being adequately theorized, nor even fully recognized, in the most influential theoretical frameworks guiding research on political economy and the welfare state. For different reasons, contemporary scholarship both on 'varieties of capitalism' and on the welfare state seem to be producing analyses that understate the magnitude and significance of current changes. Hall and Soskice's highly influential work on varieties of capitalism is one example (Hall and Soskice 2001). The framework they propose is premised on a broad distinction between 'coordinated' and 'liberal' market economies based on the extent to which employers can coordinate among themselves to achieve joint gains. Differences between the two types of economies are expressed in different clusters of institutions—including particular kinds of financial arrangements, collective bargaining institutions, vocational training institutions, and welfare state institutions—that together support distinctive types of employer strategies in the market. Against popular convergence theories that see all systems bending toward the Anglo Saxon model, Hall and Soskice's argument predicts continuing cross-national divergence. Specifically, and most directly at odds with convergence theories, Hall and Soskice argue that employers in coordinated market economies who have invested in and organized their strategies around indigenous institutions will not abandon these arrangements in the face of new market pressures. While providing a compelling account of observed institutional resiliency, the theory is much less suited to understanding contemporary changes. Emphasizing divergent employer preferences rooted in preexisting institutional configurations, the theory, in fact, seems to regard almost all feedback within a system as positive and operating to maintain traditional structures (Kume and Thelen 2002; Thelen and van Wijnbergen 2003).

Similarly in the welfare state literature, the most influential theoretical frameworks stress continuity over change. Pierson's agenda-setting work on welfare state retrenchment paints a picture that emphasizes the obstacles and political risks of change. Contrary to previous accounts, Pierson argues that the politics involved in dismantling the welfare state are not simply the mirror image of the politics of constructing and expanding it. For instance, even if organized labor and Left political parties had been crucial to the construction of the welfare state, their declining political power does not necessarily imperil its continuity. The reason, Pierson argues, is that large-scale public welfare programs are subject to important feedback effects, as they create new constituencies and beneficiaries that develop vested interests in their maintenance. Following Pierson, conventional wisdom in the welfare state literature today largely focuses on the difficulties of retrenchment. As Hacker points out (Chapter 2, p. 1), the dominant view is that while the welfare state is perhaps under greater strain than before 'social policy frameworks remain secure, anchored by their enduring popularity, powerful constituencies, and centrality within the post-war order'.

The prevailing emphasis on institutional stability even in the face of indisputable and important change points to a general problem in contemporary institutional analysis, which has always emphasized structural constraints and continuity. In the past, this involved a highly static conception of institutions as 'frozen' residues, or 'crystallizations', of previous political conflict. Presently a growing body of work has begun to conceive of institutional reproduction as a dynamic political process. Recent work on path dependence in particular has emphasized mechanisms of increasing returns and positive feedback that sustain and reinforce institutions through time. Still, however, increasing returns and positive feedback are more helpful in understanding institutional resiliency than institutional change.

In fact, when it comes to the latter, the notion of path dependence seems to encourage scholars to think of change in one of two ways, *either* as very minor and more or less continuous (the more frequent type) *or* as very major but then abrupt and discontinuous (the much rarer type). This has yielded a strangely bifurcated literature that links path dependence as a concept to two completely different and in some ways diametrically opposed conceptions of change. Some scholars invoke the term to support the broad assertion that legacies of the past always weigh on choices and changes in the present (e.g. Sewell 1996). Especially studies of transitions to democracy and market economy in contemporary eastern Europe, for example, employ path dependence in this way, as in: 'Path-dependency suggests that the institutional legacies of the past limit the range of current possibilities and/or options in institutional innovation' (Nielson, Jessop, and Hausner 1995: 6). Invoked in this way, the concept is to stress the *limited degrees of freedom* that exist for innovation, even in moments of extreme upheaval. In many such cases, the characterization of change as 'path dependent' is meant as a refutation of and an alternative to voluntarist ('rational design') accounts that view institution-building as a matter of building efficient incentive structures on a more or less 'clean slate' (e.g. Stark 1995).

Others, however, and often those who insist on a more precise definition of path dependence, tend toward a very different view of change, one that is closer to a strong version of a punctuated equilibrium model that draws a sharp distinction between the dynamics of institutional innovation on the one hand and of institutional reproduction on the other (Krasner 1988). Mahoney, for instance, criticizes loose definitions of path dependence and argues that 'path-dependence characterizes specifically those historical sequences in which contingent events set in motion institutional patterns or event chains that have deterministic properties' (Mahoney 2000: 507). By emphasizing the very different logic of contingent institutional choice and deterministic institutional reproduction, this definition implies and encourages a strong distinction between 'critical juncture' moments in which institutions are originally formed, and long periods of stasis characterized by institutional continuity. Any number of examples could be given here but the idea is generally captured in what Pempel calls 'long continuities' periodically interrupted by 'radical shifts' (Pempel 1998: 1). In his words: 'Path-dependent equilibrium is periodically ruptured by radical change, making for sudden bends in the path of history' (Pempel 1998: 3).

Claims about relative contingency at historic choice points and relative determinism in trajectories once chosen are pervasive in the social science literature and they are by no means exclusively associated with scholars invoking the concept of path dependence.¹ In sociology, Ann Swidler has drawn a distinction between 'settled' and 'unsettled' times, in which the latter are seen as 'periods of social transformation' or 'historical junctures where new cultural complexes make possible new or reorganized strategies of action' (Swidler 1986: 278, 283, respectively). Ira Katznelson adopts this formulation and links it to the age-old debate on the balance between agency and structure, arguing that structure figures heavily in the 'settled' while agency reigns in 'unsettled' times. He writes of 'multiple possibilities inside unsettled moments of uncommon choice', such moments being defined as periods in which the 'constraints on agency are broken or relaxed and opportunities expand so that purposive action may be especially consequential' (Katznelson 2003: 277, 283). This kind of perspective is reflected, among others, in Jowitt's work on eastern Europe, which sees post-Leninist societies as 'genesis environments' characterized by a new openness in which 'leaders will matter more than institutions, and charisma more than political economy' (quoted in Stark 1995: 68).

Rational-choice scholarship, too, has mostly gravitated to a model of discontinuous institutional change (Weingast 2002: 692), though from a different starting point. This is because some of the core premises underlying rational-choice theorizing—above all, the view of institutions as self-enforcing equilibria in which behavior is generated endogenously—suggest a sharp line between the logics and the analysis of institutional reproduction and change. Here again, there is a tendency to see change mostly in terms of dynamics unleashed by some exogenous shift or shock, ignoring the possibility of endogenously generated institutional change that is more than just adaptive (but see Greif and Laitin 2003: 2).²

Moreover, similar to perspectives such as Katznelson's that stress agency and openness in 'critical junctures', the *direction* of change (i.e. the reason why a particular institutional equilibrium prevails over other possible ones) seems to be a function of factors exogenous to the institutions.³ As Pierson points out, this perspective has little to say 'about what is likely to happen if a particular institutional equilibrium does give way', and in fact the implication often is that 'any new equilibrium may be as likely as any other' (Pierson 2004: 143–4). In other words, where the problem of change is posed in terms of breakdown and replacement, there is often no sense of a 'path' at all.

The analyses offered in this volume suggest that there are severe limits to models of change that draw a sharp line between institutional stability and institutional change and that see all major changes as exogenously generated. Sometimes institutional change *is* abrupt and sharp (e.g. see Beissinger 2002). However, it is not at all clear that this exhausts the possibilities, nor even that it captures the most important ways in which institutions evolve over time. Certainly, the cases examined in this volume do not conform to a strong punctuated equilibrium model. On the contrary, they suggest that we must avoid being caught in a conceptual schema that provides only for either incremental change supporting institutional continuity through reproductive adaptation, or disruptive change causing institutional breakdown and innovation and thereby resulting in discontinuity. In short, we argue that equating incremental with adaptive and reproductive *minor* change, and *major* change with, mostly exogenous, disruption of continuity, makes excessively high demands on 'real' change to be recognized as such and tends to reduce most or all observable changes to adjustment for the purpose of stability.

The biases inherent in existing conceptual frameworks are particularly limiting in a time, like ours, when incremental processes of change appear to cause gradual institutional transformations that add up to major historical discontinuities. As various authors have suggested, far-reaching change can be accomplished through the accumulation of small, often seemingly insignificant adjustments (e.g. Pierson 2004 and others on 'tipping points'). To be able to take due account of this, we suggest that we distinguish between *processes* of change, which may be incremental or abrupt, and *results* of change, which may amount to either continuity or discontinuity (Figure 1.1). From the perspective of a punctuated equilibrium model, 'real' change that results in discontinuity takes place through abrupt institutional breakdown and replacement (the cell on the lower right of Figure 1.1). Authors writing in this tradition do recognize that there is also incremental change; but they tend to conceive of this as fundamentally reactive and adaptive and serving to protect institutional continuity (upper left cell). In reality, however, there often is considerable continuity through and in spite of historical break points, as well as dramatic institutional reconfiguration beneath the surface of apparent stability or adaptive self-reproduction, as a result of an accumulation over longer periods of time of subtle incremental changes (see also Thelen 2004). The former, which we tentatively refer to as 'survival and return' (lower left cell), is of less

		<i>Result of change</i>	
		continuity	Discontinuity
<i>Process of change</i>	Incremental	Reproduction by adaptation	Gradual transformation
	Abrupt	Survival and return	Breakdown and replacement

Figure 1.1 Types of institutional change: processes and results

interest to us in the present context than the latter, which we call *gradual transformation* and which stands for institutional discontinuity caused by incremental, ‘creeping’ change (upper right cell).

It is to the exploration of this type of change that the present volume is devoted—and, we believe, should be if we want to be able to conceptualize properly current developments in the political economy of modern capitalism. Rather than big changes in response to big shocks, we will be looking for *incremental change with transformative results*.⁴ To move beyond the punctuated equilibrium models that are employed, almost by default, by most political scientists, sociologists, and economists working on institutional change, we have invited contributions organized around a theoretically self-conscious investigation of empirical cases of institutional change in advanced industrial societies that do not fit received conceptualizations. As our volume demonstrates, such cases are not just frequent but they are also found in core areas of contemporary political economies. Authors were asked to work toward general insights in the character and the mechanisms of the sort of change they observed within and across individual countries. Contributions were to draw on ongoing or completed empirical work and highlight the significance of its findings for an improved theoretical understanding of institutional change, in particular of the relationship between continuity and discontinuity, and between incremental and fundamental change.

Institutions as regimes

Definitions of institutions abound. As none of them has yet become firmly institutionalized in the social and political sciences, a brief conceptual exercise cannot be avoided.⁵ Very generally, institutions may be defined *as building-blocks of social order*: they represent socially sanctioned, that is, collectively enforced expectations with respect to the behavior of specific categories of actors or to the performance of certain activities. Typically they involve *mutually related rights and obligations* for actors, distinguishing between appropriate and inappropriate, ‘right’ and ‘wrong’, ‘possible’ and ‘impossible’ actions and thereby organizing behavior into predictable and reliable patterns.

In this volume we focus on institutions that govern behavior in the political economies of advanced capitalism. As we believe in historically grounded concepts and theories, this relieves us of the need to define institutions so generally that all possible forms of normative regulation of social action are covered. For example, anthropologists might conceive of mores and customs, like shaking hands with everyone present in a certain order when one enters a meeting room, as institutions, provided there are strong enough sanctions against deviating from them. Indeed in more conservative social settings in Germany, like a business meeting, not shaking hands is very likely to reflect negatively on someone, and those present will in one way or other make the deviant feel that they disapprove of what is disrespectful and impolite behavior to them.

Mores and customs are no trivial matter. The sanctions that are applied to enforce them may be extremely painful—in the case above, they may mean that business is lost to the competition, or that an overdue promotion is refused. But what is important for us in the example is that the sanctions that are available to the group to enforce the norm are strictly *informal* in nature, as indeed is the ‘institution’ of the handshake that such sanctions are supposed to protect. Informal institutions exist by no means only in premodern societies; in fact informal norms enforced by community disapproval are universally present in social life. *They are, however, not the subject of our study.* This is because to the extent that modern economies are *political* economies—that is, governed by politics—they are mainly controlled by norms and sanctions that are *formalized*.⁶

Modern, formal, legal–political institutions differ in a variety of ways from informal, ‘anthropological’ ones, not least in how they change: the former by decision and the latter by cultural evolution. Still, they also have important properties in common. Foremost among these is their *obligatory character*. Actors may and frequently will voluntarily comply with the demands of an institutionalized social norm, either because they believe in its value or because they find compliance with its expedient. This, however, is not what *defines* an institution. Defining of an institution is, rather, that actors are *expected* to conform to it, regardless of what they would want to do on their own. Moreover, such expectations are held, not just by actors directly affected by the expected behavior, but by ‘society’ as a whole. Someone who does not know how to greet people properly in a meeting room and in what order will incur the disapproval of *all* well-socialized middle- or upper-class Germans, whether or not they themselves have been refused the opportunity to shake hands with him or her. And in a country with an institutionalized right to collective bargaining, an employer who turns his shop into a ‘union-free environment’ will not just be reproached by the unions he has locked out, but also by the courts that will remind him of the obligations the law of the land imposes on an employer of labor as a matter of legal duty.

In sum, the institutions in which we are interested here are formalized rules that may be enforced by calling upon a third party. Following Stinchcombe (1968), it is this possibility of third party enforcement that indicates whether

a rule has legitimacy. As long as the breach of a rule or the violation of an expectation, informal or formal, leads to no more than a strategic response by the actors directly affected, we are dealing, *not* with an institution, but with a more or less voluntarily agreed social convention.⁷ With an institution we are dealing only if and to the extent that third parties predictably and reliably come to the support of actors whose institutionalized, and therefore *legitimate*, normative expectations have been disappointed. This they do not necessarily because they identify with the interests of such actors, although they may. Rather, they intervene as an expression of moral disapproval (in traditional societies, or on behalf of informal institutions), or because they are specifically charged by an organized modern society with ensuring the reliability of certain expectations of actors with respect to the behavior of others.

By emphasizing the obligatory character of institutions, and in particular of the formal institutions of modern political economies with which we are concerned, we exclude from our discussion empirical phenomena and dissociate ourselves from conceptual constructions that would make our subject too broad to be meaningful. Our definition shares with the more economic treatments associated with 'rational choice' theory an emphasis on strategic behavior within institutional constraints, rejecting the shared cognitive templates that some sociologists associate with institutions (e.g. Meyer and Rowan 1991). But against the rational-choice view of institutions as coordinating mechanisms, we draw attention to relations of authority, obligation, and enforcement as opposed to voluntarism.⁸ In this way we distinguish institutions from private pacts or conventions that lack third party or societal support and with it, in our definition, legitimacy. Pacts or conventions, in other words, become institutions only when their stability ceases to depend exclusively on the self-interested behavior of those directly involved and rather becomes, in a strict sense, a matter of 'public interest'.⁹

Defining institutions in this way, we believe we gain at least three advantages. First, our emphasis on enforcement as a social process by which institutions are translated in behavior distinguishes our approach from the voluntaristic variety of 'rational choice' where institutions are seen in functional terms, as facilitating coordination for actors to achieve joint gains—which does not allow for the possibility of a gap between the institution as designed and the behavior under it. Similarly, at the other end of the spectrum, it sets us off against a view of institutions as shared scripts where also, by definition, there is no gap between institution and behavior, and therefore no conflict over competing interpretations that could be explored as a source of change.¹⁰ Put otherwise, the way we include obligation and enforcement into our concept of institution, we can explicitly provide for a significant amount of 'play' in the rules actors are expected to follow, and thus for the possibility that institutional change may be generated *as a result of the normal, everyday implementation, and enactment of an institution*. We will return to this theme shortly when we introduce the concept of an institutional 'regime'.

Second, especially when political scientists write about institutions, the question sometimes arises whether *policies*, like, for example, early retirement or the provision of state support to small- and medium-sized firms, should be included or not—and to what extent theories of institutional change may at the same time be theories of policy change. To us this depends on the character of the policy in question. If a government agrees or refuses to support the American occupation of Iraq by sending troops, this certainly is a policy but we would not consider it as an institution. There are policies, however, which stipulate rules that assign normatively backed rights and responsibilities to actors and provide for their ‘public’, that is, third party enforcement. Thus early retirement policies create expectations among workers and employers with respect to when people become entitled to draw a pension from the state, and to the extent that stipulated conditions are met, they can consider their expectations to be legitimate and indeed go to the courts to have them vindicated. Policies, that is to say, are institutions in our sense to the extent that they constitute rules for actors other than for the policymakers themselves—rules that can and need to be implemented and that are legitimate in that they will if necessary be enforced by agents acting on behalf of the society as a whole.

Third, in colloquial language the word institution is sometimes used for a specific category of actors, usually corporate actors or organizations, rather than for legitimate rules of behavior. The Federal Reserve Bank, for example certainly falls in this category, and so does a state as a whole. Even private organizations are sometimes considered institutions, for example, trade unions in Scandinavian countries or the Deutsche Bank in the German postwar economy. To us this does not pose a big conceptual problem. We suggest that organizations come to be regarded as institutions to the extent that their existence and operation become in a specific way publicly guaranteed and privileged, by becoming backed up by societal norms and the enforcement capacities related to them. A central bank is considered an institution because its existence is an outflow of the strongly sanctioned state monopoly on issuing legal tender. It stands for the collectively enforced expectation that other actors will stay away from printing money and instead will accept for payment the money issued by the central bank. Also, as long as trade unions are mere organizations, they can be suppressed and may even be outlawed by a hostile government. In some societies, however, where their existence and their activities have become protected by collective values and politically enacted norms, they constitute a socially sanctioned constraint for economic actors. Similarly, a bank is just a bank as long as it is not performing semipublic functions in a country’s industrial policy; if it is, however, the opportunities and constraints its decisions create for others can be disregarded only at the price of disapproval, not just by the bank, but also by other agents that represent the community as a whole.

Summing up so far, to us the closest general concept for the kind of institution in whose dynamics of change we are interested is that of a social *regime*. By regime we mean a set of rules stipulating expected behavior and ‘ruling out’ behavior

deemed to be undesirable. A regime is legitimate in the sense and to the extent that the expectations it represents are enforced by the society in which it is embedded. Regimes involve rule makers and rule takers, the former setting and modifying, often in conflict and competition, the rules with which the latter are expected to comply. In the limiting case, rule makers and rule takers are identical; in any case, relations and interactions between the two are crucial for the content and the evolution of the regime as such. An institution conceived as a regime resembles what Weber calls a *Herrschaftsverband*, translated by Guenther Roth as a 'ruling organization' (Weber 1978 [1956] 53).¹¹ Conceiving of institutions as regimes not only makes them eminently accessible to empirical research as it translates institutional relations into relations between identifiable social actors. Even more importantly, as the analyses in this volume confirm, it is only if we can distinguish analytically between the rules and their implementation or 'enactment'—and, by extension, if we can identify the gaps between the two that are due to or open up opportunities for strategic action on the part of actors—that we can capture important features of incremental endogenous change.

In Figure 1.2 we have summarized the main properties of *institutions as regimes*. Embedded in a societal context of supportive third parties that makes for institutional legitimacy, we locate our ideal-typical distinction between rule

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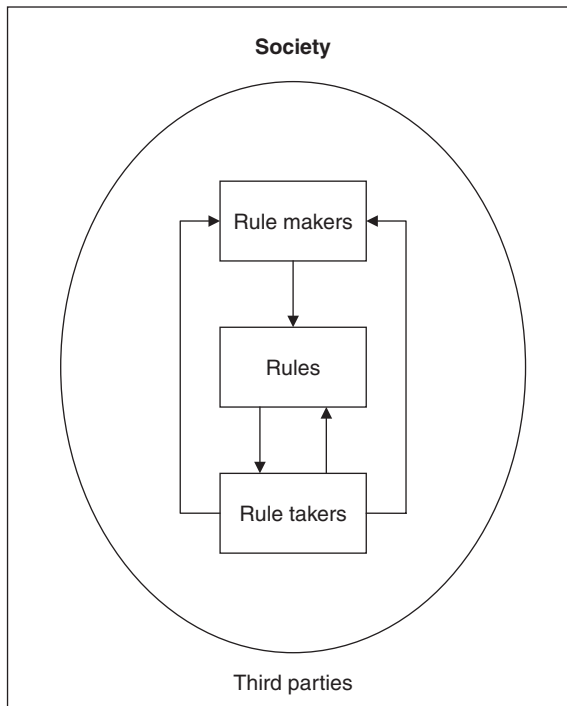


Figure 1.2 Institutions as regimes

makers (or institutional designers) and rule takers. Note that we provide for a direct feedback from the latter to the former, which we expect to be of relevance certainly in democratic societies. In order not to make our Figure too confusing, we have decided not to indicate the relations between both rule makers and rule takers with the surrounding society and the values the latter enforces on them. Just as the surrounding society affects both parties through the constraints and opportunities it creates for socially backed rule making and rule enforcement, it is itself affected by the social and political influence exercised by agents lobbying for their interpretation of social rules and norms. We will address this in more detail further below.

Defining institutions as regimes has the advantage for us that it directs attention to important sources of institutional change. They all have to do with the fact that the *enactment of a social rule is never perfect* and that there always is a gap between the *ideal pattern* of a rule and the *real pattern* of life under it. In the following we will address four facets of this complex relationship for purposes of illustration:

1. As we have learned from sociologists such as Reinhard Bendix (1974 [1956]), the meaning of a rule is never self-evident and always subject to and in need of interpretation. This is relevant especially in the relationship that is indicated in Figure 1.2 by the downward arrow from rules to rule takers. Life in a social, that is, normatively ordered community requires ongoing efforts to develop and maintain a shared understanding of what exactly the rule says that one has to apply to a given situation. As ideal patterns are necessarily less complex than real patterns, honest disagreement over how a norm is to be applied may always arise. Rather than simply a matter of logical deduction, applying a general rule to a specific situation is a creative act that must take into account, not just the rule itself, but also the unique circumstances to which it is to be applied. This holds for highly formalized norms, like written law, no less than for informal ones. Lawyers know the complexities of subsuming the empirical properties of an individual case under a general rule. Recourse to what is called in some legal systems 'the will of the legislator' is for good reason just one way among others to discover what a rule really demands in a concrete context. This is because no rule maker can be assumed to have been aware of the full variety of situations to which his law might in the future have to be applied. In fact he might find it difficult to remember with hindsight the complex variety of motives that may have driven his decision. Sociologists have pointed out that typically, clarification of the operative meaning of formal law presupposes a shared culturally based tacit understanding between the actors involved that may, however, either not really exist or change over time, in which case the rule *in effect* changes with it. Indeed often what a rule 'really means' can be established only by the rulings of a legitimate authority charged with adjudicating between different interpretations. Such rulings, too, can and are likely to change with time and circumstances, which may be entirely functional as they may provide a regime with the sort of ground flexibility that it may require for its reproduction.

2. A related issue is the cognitive limits of rule makers, which become relevant in the downward relationship in our Figure between rule makers and rules. Even the honest application in good will of a rule to empirical conditions may cause unanticipated results that may differ from what was intended when the rule was written, which in turn may cause its corrective rewriting. On the other hand, that rules cannot be unambiguously and definitively stated facilitates their creative application in uncertain circumstances, keeping them valid in spite of the inevitably imperfect information of their designers on the circumstances of their implementation. In fact regimes capable of survival in a complex environment are likely to have built-in feedbacks that inform rule makers how their rules are working out in practice. (In Figure 1.2, these are indicated by the upward arrows from rule takers to rule makers.) Supported by intelligence of this sort rule makers may then revise the rules, setting in motion another sequence of practical exploration of their real meaning, observation of their real consequences, and further revision in the light of the latter.

3. Questioning the true meaning of institutionalized rules happens of course not only in good will. Rule takers do not just implement the rules made for them, but also try to revise them in the process of implementation, making use of their inherent openness and under-definition (see the upward arrow in Figure 1.2 from rule takers to rules). One advantage of defining institutions as *Herrschaftsverbände* within which rule makers and rule takers interact is that this avoids an 'over-socialized' (Wrong 1961) conception of human actors as is often implied by purely normative, or cultural, concepts of institution. While sometimes rule takers are socialized to follow a rule for its own sake, sometimes they clearly are not, and this seems to apply particularly in modern societies and economies. To the extent that rules impose uncomfortable and costly obligations, less than perfectly socialized rational actors may look for ways to circumvent them. Finding loopholes in a law is a specialty of lawyers, especially tax lawyers. Their continuous probing of the boundary between the legal and the illegal is part of the interpretative struggle that begins as soon as a rule is laid down: it is one mechanism by which the meaning of a rule is both clarified and modified ('worked out') in practice. Favorable discoveries made by adventurous interpretative entrepreneurs may spread fast among the subjects of a regime, forcing rule makers to revise the law in order to restore it. Sometimes the only way this can happen is by more special rules being added to cover unforeseen cases. As this makes the regime more complex, it may further extend the opportunities for inventive opportunists to evade or subvert it to their advantage.

4. Finally, there are limits to the extent to which socially authorized agencies of social control can prevent and correct unintentional or subversive deviation from social rules. A case in point is the phenomenon of illegal employment, or more generally of the underground economy. Some labor market regimes are more likely than others to give rise to anomic behavior of this sort. In fact, underground employment seems to be most frequent in highly regulated economies. Mass deviant behavior in breach of a social or legal regime can often be ended

only by changing the regime and making the behavior legal. Sometimes, however, rule makers are willing to live with a great deal of anomie since the stability of a norm may, as famously pointed out by Durkheim, require that it be broken. For example, illegal employment may furnish a modicum of flexibility to an economy that would otherwise be too rigidly regulated to perform well (what Berger and Piore (1980) have some time ago described as economic 'dualism').

What all this amounts to is that those who control social institutions, whoever they may be in a concrete case, are likely to have less than perfect control over the way in which their creations work in reality. What an institution is defined by continuous interaction between rule makers and rule takers during which ever new interpretations of the rule will be discovered, invented, suggested, rejected, or for the time being, adopted. The real meaning of an institution, that is to say, is inevitably and because of the very nature of social order subject to evolution driven, if by nothing else, by its necessarily imperfect enactment on the ground, in directions that are often unpredictable. Indeed the more sophisticated the makers of a regime are, the more they recognize that a good part of institutional and political life consists of unanticipated consequences of their 'institutional design' decisions, requiring that these are continuously adjusted and revised if they are to be made to stick.

We conclude this section by noting that, conceived as systems of social interaction under formalized normative control, institutions cease to appear as a rigid hardware of social life mechanistically relegating actors and action to narrowly circumscribed residual spaces for spontaneous voluntarism and rational calculation. Instead a grounded, 'realistic' concept of social institutions, as adopted in this volume, emphasizes their being continuously created and recreated by a great number of actors with divergent interests, varying normative commitments, different powers, and limited cognition. This process no single actor fully controls; its outcomes are far from being standardized across different sites of enactment; and its results are contingent, often unpredictable, and may be fully understood only with hindsight.¹²

Dynamics of institutional change: lessons from the present volume

What counts as change? Or, when is a change a 'real' change?

As suggested above, the most influential frameworks for the study of the political economy of advanced countries exhibit a distinct if inadvertent conservative bias, in that the sophisticated analytic tools they provide for understanding stability are not matched by equally sophisticated tools for understanding change. As a consequence, whether such frameworks are premised on an equilibrium model (as in the varieties of capitalism literature) or not (as in much of the welfare state literature), current scholarship is prone to ignore or downplay observed changes, or to code all that appears to be new as a variation of the old.

The chapters in this volume demonstrate how much is missed when contemporary trends are analyzed from the perspective of these theoretical frameworks.

Jacob Hacker's chapter on the US welfare state documents a trend toward the privatization of risk across a number of policy areas. The traditional literature on the welfare state rightly suggests that most large-scale social welfare policies have proven very resistant to overt cutback efforts. However, as Hacker argues, 'the conventional story about retrenchment appears only half right', for as he shows, risk coverage in the United States has narrowed significantly as policymakers have failed to adapt welfare programs to cover new risks that have emerged outside the scope of existing policies. As Hacker puts it, in a context in which social risks are changing and where the gap between them and the 'reach' of social programs is growing, 'conservatives have not had to enact major policy reforms to move toward many of their favored ends' (pp. 46–7). Analyses that focus exclusively on the lock-in effects characteristic of large entitlement programs miss the story of a major de facto shrinkage of welfare state coverage in the United States over the past two decades.

The chapters by Jonah Levy and Steven Vogel, on the French and Japanese political economies, respectively, make a similar point. Anyone looking for evidence of the continued viability of the traditional French and Japanese political-economic 'models' will find a lot of it. France has traditionally been considered the classic example of a state-led political economy and as Levy points out, the French state still looms extremely large in the lives of its citizens. In fact, by many conventional measures, like spending and taxation, the state is bigger than ever, and certainly no less economically active. However, as Levy argues, if we focus on these continuities, we miss an enormous and highly consequential transformation: the abandonment of the traditional *dirigiste* strategy of directing capital while excluding labor, in favor of a strategy of aggressively promoting market liberalization while cushioning its social effects. Levy's account shows how existing state capacities, far from being dismantled, were 'redeployed' in a major way during the post *dirigiste* period.

Vogel's chapter on Japan describes a similar phenomenon. Despite the strains of prolonged economic crisis, traditional Japanese political-economic institutions have exhibited remarkable staying power. Much remains of the institutions that support and sustain Japan's version of a 'coordinated' market economy—like long-term employment in the area of labor relations, or corporate and financial networks. Vogel documents these continuities but notes that stability should not obscure change, particularly in the way in which old institutions and policies are being used in the service of new ends. Among other things, the corporate ties that are often seen as defining a distinctively 'coordinated' as opposed to a 'liberal' model of capitalism are being tapped as mechanisms through which to accomplish corporate downsizing and a move toward more liberalized labor markets. Liberalization in Japan, that is to say, has unfolded above all by traditional institutions being deployed in novel and, indeed over the long run, transformative ways.

One thing the three cases have in common is that they illustrate, as suggested by our definition of institutions as regimes, that formal institutions do not fully determine the uses to which they may be put. This is one important reason why

major change in institutional practice may be observed together with strong continuity in institutional structures. Gregory Jackson's analysis of German codetermination is a case in point, documenting as it does profound changes in the way codetermination has functioned over successive historical periods in the absence of major institutional discontinuity. At its inception, codetermination was partly intended as an independent, workplace-based counterweight to Germany's rather radical national labor movement at the time. By the 1950s, however, works councils had been fully though not formally incorporated into the strategies of, now moderate, trade unions. Now, not only did codetermination not detract from the strength of the unions, but it magnified their voice by providing them with a stable, legally anchored foothold in workplaces across the entire economy. Clearly this is change of a quite fundamental sort although it has taken place within an institutional form that has remained recognizably similar, or was reconstructed in recognizably similar forms, over a long period of time.

How can transformative change result from incremental change, in the absence of exogenous shocks? Institutional structures, our chapters suggest, may be stickier than what they do and what is done through them. If the latter changes significantly, however gradually, analytical frameworks that take the absence of disruption as sufficient evidence of institutional continuity miss the point, given that *the practical enactment of an institution is as much part of its reality as its formal structure*. In this vein, Hacker rightly suggests including in institutional analysis the actual *consequences* of institutionalized behavior, while Jackson emphasizes the possibility of changing *meanings* and *functions* being attached to an otherwise stable institution. Similarly, Vogel and Levy point to the different purposes that may be pursued by means of a given institutional arrangement, and Deeg locates the beginning of a new 'path' where a new 'logic of action' is established. The latter he defines as a *general orientation* of actors that, one might add, operates like a 'meta-rule' governing the interpretation of a given structure of institutional constraints and opportunities—whose meaning, as we have argued, is never self-evident and therefore needs to be continuously constituted in practice.

Fundamental change, then, ensues when a multitude of actors switch from one logic of action to another. This may happen in a variety of ways, and it certainly can happen gradually and continuously. For example, given that logics and institutional structures are not one-to-one related, enterprising actors often have enough 'play' to test new behaviors inside old institutions, perhaps in response to new and as yet incompletely understood external conditions, and encourage other actors to behave correspondingly. We will return to the concept of logic of action below.

How institutions change

Contemporary theories of institutional development mostly locate significant change in convulsive historic ruptures or openings. This is not what the essays in this volume do. Rather than abrupt and discontinuous, they find transformative change often to result from an accumulation of gradual and incremental change

(see also Djelic and Quack 2003: 309–10). Moreover, rather than emanating on the outside, change is often endogenous and in some cases is produced by the very behavior an institution itself generates. Reminded of this by their empirical material, the analyses in this volume provide an angle on institutional change that is different from dominant punctuated equilibrium models. In particular, they document from different perspectives how significant change can emanate from inherent ambiguities and ‘gaps’ that exist by design or emerge over time between formal institutions and their actual implementation or enforcement (see also Pierson 2004: Ch. 4). As several of our chapters show, these gaps may become key sites of political contestation over the form, functions, and salience of specific institutions whose outcome may be an important engine of institutional change (see also Thelen 2004).

‘Agency’ and ‘structure’, in other words, do not just matter sequentially—unlike in Katznelson (2003) where institutions mostly constrain and where change has to wait for those rare moments when agency defeats structure. Political institutions are not only periodically contested; they are the object of ongoing skirmishing as actors try to achieve advantage by interpreting or redirecting institutions in pursuit of their goals, or by subverting or circumventing rules that clash with their interests. Instead of separating institutional development into periods in which agency matters more than structure or the other way around, the aim must be to understand, as Deeg puts it, the way actors cultivate change from within the context of existing opportunities and constraints—working around elements they cannot change while attempting to harness and utilize others in novel ways.

Overall the chapters of this book suggest to us five broad modes of gradual but nevertheless transformative change that we will call *displacement*, *layering*, *drift*, *conversion*, and *exhaustion*. We discuss each of these modes briefly, drawing on the contributions to this volume¹³ but also on a broader literature. After this we will close with a consideration of the lessons the essays assembled here can tell us, substantively, about current processes of liberalization in advanced industrial democracies.

Displacement From the perspective of whole systems (or what some sociologists call ‘organizational fields’) change can occur through a process of displacement. In the ‘new’ institutionalism in sociology, displacement happens as new models emerge and diffuse which call into question existing, previously taken-for-granted organizational forms and practices (Fligstein 1990, 1997; DiMaggio and Powell 1991; Dobbin 1994; Clemens 1997; Schneiberg n.d). In the political science literature, the emphasis is typically more on political than on cognitive or normative factors, with change emanating mostly from shifts in the societal balance of power (see, among others, Collier and Collier 1991; Skowronek 1995; Huber and Stephens 2001).

For our present purposes, the important point (associated above all with the works of Karen Orren and Stephen Skowronek) is that the institutional frameworks

that exist in any particular society are never completely coherent. While some institutional arrangements may impose a dominant logic of action, these typically coexist with other arrangements, created at different points in time and under different historical circumstances, that embody conflicting and even contradictory logics (Orren and Skowronek 1994, 2004). Beyond this, and equally important, even within dominant frameworks there will normally remain possibilities of action that institutions neither prescribe nor eliminate. Where either of these is the case, institutional configurations are vulnerable to change through displacement as traditional arrangements are discredited or pushed to the side in favor of new institutions and associated behavioral logics. Such change often occurs through the rediscovery or activation—and, always, the cultivation—of alternative institutional forms. As growing numbers of actors defect to a new system, previously deviant, aberrant, anachronistic, or ‘foreign’ practices gain salience at the expense of traditional institutional forms and behaviors.¹⁴

Where the institutions and behaviors enacted by *displacement through defection* come from can vary widely. For example, an older literature in political science drew attention to the ‘reactivation’ or ‘rediscovery’ of what Barrington Moore once called ‘suppressed historical alternatives’ (Moore 1979: 376). Thus Michael Piore and Charles Sabel (1984) attributed the success of the German political economy in the 1980s in large part to the survival of institutional and organizational forms (among others a vibrant and flexible small business sector and a skill system that preserved and promoted the acquisition of traditional ‘craft’ skills) that had been declared anachronistic and irrelevant in the heyday of Fordist mass production. As the terms of competition shifted in the 1980s, these institutions could be tapped and activated to become the basis for alternative competitive strategies premised on what one of us has elsewhere called ‘diversified quality production’ (Streeck 1991).

In this volume, a similar logic of change is at work in the chapter by Colin Crouch and Maarten Keune. In the two cases they analyzed, change occurred as actors ‘worked creatively with institutional materials that were at hand . . . [by virtue of their historic] legacies, but submerged by more dominant or more recent practices’ (p. x). In the case of the rejuvenation of the Hungarian region of Győr, this involved tapping into and cultivating the Western-oriented, market countenancing practices that had developed alongside and under the dominant state-socialist economy. When the time came for the transition to capitalism, the ruling local elite needed merely to ‘[bring] to the fore the previously secondary development path of the region’ (Crouch and Keune, p. x). Similarly in their analysis of Britain’s transition to neoliberalism in the early 1980s, Crouch and Keune show how displacement was facilitated by the related facts that the foundations of Keynesian had been precarious to begin with, and that they had coexisted with alternative institutions and practices firmly anchored in the country’s financial sector. The point in both cases is that in critical moments or periods latent subsidiary ways of action can be rediscovered, and by switching over actors then promote them to dominance or move them from the periphery of the institutional system to its center.

Underlying Crouch and Keune's analysis is an image of social structure in which different institutions inside one and the same society may embody conflicting, mutually contradictory 'logics'—with one institution requiring or licensing behavior that is *in principle* incompatible with the behavior required or licensed by another institution. Human actors seem to be quite capable to operate simultaneously in different institutional contexts governed by different 'logics', moving back and forth between them, or playing them off against one another. Also, human societies appear to have enough slack, and their causal texture usually seems to be loose enough (or cause takes enough time to turn into effect) to be tolerant of considerable friction between differently constructed institutions or action spaces. All societies, in other words, are in some way hybrids, some more and some less.¹⁵

Change through displacement can occur endogenously through the rediscovery or activation of previously suppressed or suspended possibilities. But it can also occur through what Castaldi and Dosi call 'invasion', in either a literal or metaphorical sense (Castaldi and Dosi n.d.: 24). Literally, invasion refers to the supplanting of indigenous institutions and practices with foreign ones, presumably those of the victor or occupying power—although we know from historical work that this is never complete and more typically produces hybrids of one variety or another (Herrigel 2000, also Quack and Djelic, this volume). In a broader literature (e.g. the sociological literature on diffusion) and for our purposes, the more relevant version of invasion is the metaphorical one, which involves the importation and then cultivation by local actors of 'foreign' institutions and practices.

Chapter 7 by Deeg provides an example of change of this variety. His analysis of contemporary trends in the German financial sector documents the coexistence of two different and, in many ways, competing logics of action. One is based on 'traditional' German institutions including strong long-term links between banks and firms and relying heavily on mutual obligation and trust, and involving what Deeg calls a logic of 'voice'. The other, closer to Anglo-Saxon countries and indeed copied from them, is associated with more distant relations both among firms and between firms and banks that operate according to a logic of 'exit'. In Deeg's case, unlike in Crouch and Keune's, the 'new' institutional forms have not (yet?) come to dominate the old. Rather, both coexist, but with the availability of the former calling into question the primacy and taken-for-grantedness of the latter.¹⁶

Crucial to Deeg's analysis is the idea that change requires active cultivation by enterprising actors (in Crouch and Keune's chapter, by economic elites in Győr and by financial interests in Britain; in Deeg's chapter, by Germany's large commercial banks). Such actors either see their interests at odds with prevailing institutions and practices, or they test new behaviors inside old institutions, perhaps in a tentative response to emerging new external conditions. Change is most likely to be effective if actors are willing to pay a price for their 'incongruent' behavior (this is the core of what Deeg means by the 'cultivation' of a new 'path'). This is because promoting new institutions typically requires the exercise of power or the expenditure of resources, for example, to underwrite new forms of coordination.¹⁷

At some point, to put it in terms of the model we introduced earlier, innovating actors may also be able to get rule makers to make changes to the formal institutions, or rule takers to demand such changes. In the process, deviant behavior becomes less deviant, and indeed traditional behavior may increasingly run into formal and informal sanctions.

Other variations on the displacement theme appear in the Chapter 10 by Sigrid Quack and Marie-Laure Djelic. Quack and Djelic show how *ordo-liberalism*—a school of economic thought that had been entirely marginal in Germany before 1945—came to shape German competition law under the pressure of the American occupation government seeking to transplant its antitrust legislation to Germany. Here endogenous displacement and what we have referred to as displacement by invasion come together, illustrating a point that also Deeg makes: that exogenous change is often advanced by endogenous forces pushing in the same direction but needing to be activated by outside support. A similar configuration of forces was at work later in the unfolding complex interaction between developments in European and German competition law when in what the authors refer to as the ‘public turn’ of European competition law, an almost forgotten section of the European Treaty became ‘activated’ by proponents of a type of liberalization that no one had envisaged when the law was originally written.¹⁸ In cases such as these, elements or possibilities of an institution that have fallen dormant and were for all practical purposes forgotten, may turn into crucial resources for actors interested in making fundamental change appear as an incremental, ‘natural’ evolution of an existing social order.

In all of the instances of displacement discussed above,¹⁹ change occurred, not through explicit revision or amendment of existing arrangements, but rather through shifts in the relative salience of different institutional arrangements within a ‘field’ or ‘system’. This type of change, as Chapter 7 by Deeg and Chapter 10 by Quack and Djelic emphasize, requires active cultivation by agents whose interests are better served by new arrangements. Deeg’s analysis in particular hints, incidentally, at an important, often overlooked relationship between endogenous and exogenous change: for external shocks to bring about fundamental transformation, it helps if endogenous change has prepared the ground. Endogenous evolution of a social system may generate potentials that, when activated by interested parties in response to changing external conditions, can provide the foundation for a new logic of action (on this see also Schneiberg n.d.).

Layering Institutional change can also occur through a process that one of us has elsewhere, following Eric Schickler, called layering (Schickler 2001; Thelen 2002). Paul Pierson has convincingly argued that not just economic institutions but also political ones may be subject to increasing returns and lock-in effects. In his work on social security, he has demonstrated how each new client added to a pay-as-you-go pension system creates additional vested interests in the maintenance of that system. The older the system, therefore, the more costly it becomes both politically and fiscally to dismantle it (Pierson 1994; Myles and Pierson 2001).

Many other kinds of institutional arrangements are subject to this sort of effect. However, as Schickler points out, this does not preclude change altogether provided reformers learn to work around those elements of an institution that have become unchangeable. Layering is the term he uses to characterize the nature of such reform. In his empirical work Schickler shows how, in the case of the US Congress, successive rounds of institutional reform produced a highly 'disjointed' pattern and a much higher degree of institutional incoherence than prevailing functionalist accounts of congressional institutions would predict.

For our purposes what is most interesting about change through layering is that it can set in motion path-altering dynamics through a mechanism of what we might think of as *differential growth*. The classic example from the welfare state literature is the layering of a voluntary private pension system onto an existing public system. While the established public system may well be unassailable, faster growth of the new private system can effect profound change, among other things by draining off political support for the public system. In Chapter 2 this mechanism of change is analyzed by Jacob Hacker, who shows how opponents of the public pension system in the United States consciously orchestrated the expansion of individual, privatized retirement accounts. Importantly, the original innovations—the introduction of 401(k) and IRA accounts—appeared to be minor measures and went virtually unnoticed at their time of enactment. Their subsequent explosive growth, however, amounted to the rise of an alternative pension system premised on a voluntaristic logic wholly different from that of the public system alongside which the new arrangements had been created.

Bo Rothstein has written of analogous reform efforts in the Swedish context in which customized private alternatives, for example, in schools or day care centers, are offered alongside the uniform public system (Rothstein 1998). As he points out, fundamental change can be—gradually—effected, not through a frontal attack on traditional institutions, but through differential growth of private and public sector institutions siphoning off the support of key constituencies for the latter, in particular the middle class which occupies the politically pivotal position. In cases like this, new dynamics are set in motion by political actors working on the margins by introducing amendments that can initially be 'sold' as refinements of or correctives to existing institutions. Since the new layers created in this way do not as such and directly undermine existing institutions, they typically do not provoke countermobilization by defenders of the status quo. To the extent, however, that they operate on a different logic and grow more quickly than the traditional system, over time they may fundamentally alter the overall trajectory of development as the old institutions stagnate or lose their grip and the new ones assume an ever more prominent role in governing individual behavior.

The chapter by Bruno Palier (Chapter 5) provides an additional example of layering as a mode of institutional change. Palier describes the gradual transformation of French social policy over the past two decades. The backdrop to Palier's analysis is the liberalization of French economic policy, which for political reasons had to be embedded initially in an expanding conservative welfare state. (This historical

period and broader context is analyzed in the chapter by Levy.) Palier examines the subsequent liberalization of the welfare state, which may have been an inevitable next step forced by the high costs to the state of full compensation and status maintenance for the losers of economic change. Welfare state liberalization, as Palier shows, departs from the logic of the traditional corporatist welfare state, and in particular entails increasing reliance on means-tested, minimum-level protection paid out of public funds. Importantly, it also involves 'activation' instead of decommodification or status maintenance outside employment. In Palier's account, liberalization policies were designed to avoid generating too much resistance, proceeding incrementally and without much rupture or fanfare, and avoiding a direct assault on existing institutions and policies. In fact, Palier notes that reformers introduced change mainly at the margins and 'as if it were only to fix or complement the system' (p. x). New programs were introduced alongside the immovable and politically firmly established old ones, adding to the 'enduring realm of social insurance' based on contributions and on a traditional social-conservative logic a wholly new and thoroughly liberal welfare regime of targeted minimum benefits financed by taxes. Palier shows how, despite their incremental nature, and despite the fact that they were introduced as minor additions and repairs to make the existing system more stable, the reforms set in motion dynamics that produced a deep transformation of the French welfare state.²⁰

Layering involves active sponsorship of amendments, additions, or revisions to an existing set of institutions. The actual mechanism for change is differential growth; the introduction of new elements setting in motion dynamics through which they, over time, actively crowd out or supplant by default the old system as the domain of the latter progressively shrinks relative to that of the former. Unlike Schickler, who mostly emphasizes the institutional incongruence that layering can produce, for us it is an important question to what extent the fringe and the core can peacefully coexist, or whether the fringe can attract enough defectors from the core eventually to displace it.

Drift There is nothing automatic about institutional stability—despite the language of stasis and stickiness often invoked in relation to institutions. Institutions do not survive by standing still, nor is their stable reproduction always simply a matter of positive feedback or increasing returns (Thelen 2004: Ch. 1). Quite to the contrary institutions require active maintenance; to remain what they are they need to be reset and refocused, or sometimes more fundamentally recalibrated and renegotiated, in response to changes in the political and economic environment in which they are embedded. Without such 'tending', as Hacker's analysis of health care policy in the United States illustrates, they can be subject to erosion or atrophy through *drift*. As with layering, change through drift, while potentially fundamental, may be masked by stability on the surface. Indeed Hacker begins by noting that, as other analysts have shown, social programs in the United States have indeed 'resisted major retrenchment'. However, Hacker also observes

that the American welfare system has failed to be adapted to cover a set of risks that have newly emerged or increased in salience. The result is a significant shrinkage in the social protections enjoyed by American citizens as a matter of right. Hacker's analysis suggests that in addition to the formal attributes of institutions, we must take account of their implementation, and especially of the gaps that may emerge between the two as a consequence of shifting contextual conditions. Analyses that focus only on the continuity of existing rules miss the potential slippage between these and the real world to which they are supposed to apply.

A disjuncture between social programs and changing profiles of social risk can result from 'natural' trends. For example, slow changes in family structures may alter the composition of risk and therefore also de facto welfare state coverage. In cases like this, drift occurs without explicit political maneuvering: the world surrounding an institution evolves in ways that alter its scope, meaning, and function. Drift can also be caused by gaps in rules allowing actors to abdicate previous responsibilities. In Hacker's analysis, changes in the incentives faced by employers (as important private sector welfare providers in the United States) caused many of them to scale back their efforts. Again, the result was declining welfare state coverage even without major retrenchment and indeed in the absence of any public debate or decision at all.

Hacker also emphasizes, however, that drift does not just happen. Like change by layering, change by drift can also be promoted by political cultivation. The difference between the two is exemplified by the different types of change at work in the two policy areas that Hacker analyzes. In the case of pensions where change took place through layering, active political sponsorship put new programs in place that could then be upgraded to attract more clients. In the case of health, by contrast, where the mode of change was drift, change was above all the result of *nondecisions* as conservative policymakers deliberately declined to close emerging gaps in coverage. In health policy just as in pensions, a stable core remained due to opponents of the welfare state refraining, for good political reasons, from attacking popular old programs directly. But change took place nevertheless—in the case of health by way of a kind of passive aggressive behavior refusing to end the 'slippage' caused by exogenous developments that made existing institutions slowly lose their grip. Failure actively to maintain an institution, that is to say, may amount to actively allowing it to decay.

Parallels exist between Hacker's analysis of drift in US health care policy today and Skocpol's analysis of civil war benefits, which provides us with another, especially dramatic, example of change through drift (Skocpol 1992). Civil war pensions, Skocpol argues, could have become the core of a general public pension system had its supporters been able to forge the broader alliances needed to secure its political foundation. That they did not succeed in this was, by Skocpol's account, in large measure due to opponents of expansion being able to invoke a connection between civil war pensions on the one hand and the patronage politics and corruption of the Progressive Era on the other, 'as a reason for opposing

or delaying any move toward more general old-age pensions' (Skocpol 1992: 59). Failure to extend benefits to new groups made the atrophy and ultimate demise of the original system a foregone conclusion: the program literally died out as civil war veterans and their spouses themselves passed away.

Conversion A fourth mode of change documented in Chapter 1 is what Thelen (2002, 2004) has elsewhere called conversion. Different from layering and drift, here institutions are not so much amended or allowed to decay as they are *redirected to new goals, functions, or purposes*. Such redirection may come about as a result of new environmental challenges, to which policymakers respond by deploying existing institutional resources to new ends. Or it can come about through changes in power relations, such that actors who were not involved in the original design of an institution and whose participation in it may not have been reckoned with, take it over and turn it to new ends. Here, too, there are elements of stability and even lock-in. However, whereas conventional increasing returns arguments point to a dynamic in which actors adapt their strategies to existing institutions, conversion works the other way around: existing institutions are adapted to serve new goals or fit the interests of new actors.²¹

The redirection of institutional resources that we associate with conversion may occur through political contestation over what functions and purposes an existing institution should serve. Political contestation driving change through conversion is made possible by the gaps that exist by design or emerge over time between institutionalized rules and their local enactment. Four sources of such gaps are of particular relevance in the present context (see also the discussion in Pierson 2004: ch. 4). The first is the cognitive limits of institutions' builders and associated problem of *unintended consequences*. As Elster (2003) and others have pointed out, designers of institutions are not all seeing; they make mistakes and in any event they can 'never do just one thing' (Pierson 2004: 115). For Elster the point is to challenge the presumption, pervasive in the rational-choice literature, that institutions can be thought of as rational solutions to specific social problems. Elster's analysis, of successive waves of constitution writing in France, ends on the note that behavior in general and institutional design in particular are almost by definition irrational—the implication of which could be that they are not amenable to systematic analysis. Our conclusion here is somewhat less sweeping as we limit ourselves to noting that unintended consequences of institutional design may offer opportunities for political contestation that theoretical treatments that assume an identity between design and effect by definition cannot account for.

Second, institution-building, to the extent that it occurs through political negotiation, typically involves *compromise*. As Schickler has argued, new institutions often constitute 'common carriers' for coalitions of actors who support them for highly diverse reasons (Schickler 1999; Pierson 2004). The resulting *ambiguities* in the rules that define institutionalized behavior provide space for political contestation over how rules should be interpreted and applied. In the present volume, an example of this is given by Palier (Chapter 5). Welfare

state reform in France, his chapter shows, was premised on highly ambiguous agreements, with all parties accepting the need for reform in general while consensus on any particular reform was based on widely different understandings of what the reform was to mean. Similar ambiguities seem to have made possible economic liberalization in France which, according to Levy, was embedded in the same rhetoric that was in the past used to legitimate state planning.

Similarly, as shown in the chapter by Jackson (Chapter 9), the institutions and rules governing German codetermination were always characterized by deep ambiguities as rule makers had in part to leave open their meaning lest they lose support from necessary allies. As a result, both the uncertainty that is inherent in all rules that need to be applied to varying conditions and the discretion rule takers must inevitably exercise in following a rule are amplified considerably. Jackson's analysis in fact describes the continuous reinterpretation of the institution of codetermination over a long period of time under widely varying market and political conditions. It shows how very different ambitions and purposes came to be connected to the same institution, causing a considerable amount of change over time on the background of much formal continuity. Sometimes this was the result of changing power relations among the actors involved, changing the way the institution was practiced. In other periods the environment of the regime changed, confronting rule takers with new contingencies that made them apply the rules differently or forced rule makers to reinterpret them.

Third, and again echoing points made earlier in this chapter, actors are strategic and even those not involved in the design of an institution will do everything in their power to interpret its rules in their own interest (or *circumvent* or *subvert* rules that clash with their interests). Elizabeth Clemens' work, among others, has drawn attention to processes through which familiar organizational forms were redeployed by 'marginal' actors who had been blocked out of the system—in ways that subverted and undermined received behaviors and logics of action (Clemens 1997). An example of the strategic use of institutions not of their own making can be found in the present volume in Quack and Djelic's discussion of multilevel governance systems like the European Union (EU). Lower-order institutions regulated from above in a multilevel institutional structure are not once and for all determined by the latter: like rule takers in general, those in control of national institutions inevitably have some leeway to adjust the supranational rules that apply to them, and they can also try to change such rules by putting pressure on rule makers or rule enforcers. Moreover, those governed by a national institution which is in turn governed by supranational one often have wide-ranging strategic capacities as they can try to use political resources mobilized at one level to influence decisions at the other. This, at least, is what the study of interest group behavior in the EU increasingly shows, and it also becomes apparent in the complex stratagems of national and international policymakers and judges in the field of European and national competition law, as described by Quack and Djelic in this volume.

Fourth and as most forcefully argued by Pierson, *time matters* (Pierson 2004). Many institutions—and certainly some of those in which we are most likely to

have an interest—have been around long enough to have outlived, not just their designers and the social coalition on which they were founded, but also the external conditions of the time of their foundation. Changes in the nature of the challenges actors face or in the balance of power allow for institutions created to serve certain interests to be redirected to very different and even diametrically opposed goals and ends. Time, in other words, and the changes it brings in actors and problems, opens gaps that entail possibilities for institutional conversion. An example explored elsewhere by one of us (Thelen 2004: chs 2 and 5) are the institutional arrangements comprising Germany's celebrated system for vocational training. The 'founding' legislation around which this system came to be constructed was passed in 1897 by an authoritarian government and was above all directed against the country's social democratic labor movement. A hundred years later, some of the central institutional pillars are still recognizable, even though the system has been turned completely on its head in political-distributional terms, serving now as a key source of strength for organized labor and a pillar of social partnership between labor and business. The process of conversion through which this occurred was not one of dramatic and sudden renegotiation in moments of historic ruptures—of which Germany of course experienced several over the twentieth century. Rather, conversion was the result of ongoing political contestation and periodic incremental adjustment through which inherited institutions were adapted and fitted to changes in their social, economic, and political environment.

Chapter 4 on France by Jonah Levy provides another example of this mode of change. Levy characterizes the transformation he documents as an instance of 'redeployment', consisting of the formidable interventionist powers of the French state being diverted away from industrial to social policy, and in the process also from market correcting to market conforming ends. The failure of the old statist model precipitated the transition. However, rather than dismantling previous institutional capacities (and in the absence of societal actors to whom social policy could be handed—itsself a consequence of statism as Levy's work has instructed us) political elites redirected them to new ends. For our purposes, the important message of Levy's analysis is not so much that state activism continues in France—although it does and this is in itself an outcome of considerable interest. Rather it is that the French state has managed to move gradually in a decidedly liberal direction, with policymakers taking full advantage of the considerable institutional capacities at their disposal to make change appear less fundamental than it was, or to make fundamental change proceed gradually enough so that it was not recognized as such.

Finally, the chapter by Steven Vogel shows that even in a political economy as tightly coupled as the Japanese, change that goes beyond routine adjustment is possible. Vogel emphasizes the contribution to change of external shocks, in a system in which typically deviation from established rules immediately causes costly side effects or painful social sanctions or both. (Somewhat more room for deviant behavior seems to exist for foreigners who are less integrated in existing institutions—suggesting a parallel to the chapter by Crouch and Keune, Chapter 3.)

Even Japanese institutions, Vogel emphasizes, do not only impede change but also condition it, facilitating certain kinds of innovation precisely as they proscribe others. Vogel's analysis describes a process of gradual liberalization that advances by way of growing variation between firms and sectors, as well as through redeployment of key institutional supports for the traditional Japanese system to new, more liberal, ends (see the redefinition of lifetime employment into lifetime career support). In this case again, considerable continuities on the surface mask important underlying changes resulting from the way in which traditional rules and institutions are reinterpreted and converted to new goals.

Exhaustion We call our fifth mode of change as institutional exhaustion. We include it although, unlike the four others, the processes we have in mind here strictly speaking lead to institutional breakdown rather than change—although the collapse is gradual rather than abrupt. As argued most famously by Marx, social arrangements may set in motion dynamics that sow the seeds of their own destruction. Different from institutional drift, in which institutions may retain their formal integrity even as they increasingly lose their grip on social reality, institutional exhaustion is a process in which behaviors invoked or allowed under existing rules operate to undermine these.

Recent work by Avner Greif and David Laitin provides an example (Greif and Laitin 2003). Greif and Laitin begin, as we do, with a critique of theories of institutions in which change by definition must be generated exogenously. By examining the divergent fate of governing institutions in Venice and Genoa in the early modern period, they try to specify the conditions under which such arrangements either become self-reinforcing or self-undermining over time.²² In both cases, political institutions were created that provided a foundation for cooperation among rival clans, generating returns for all. Institutional arrangements in Venice operated in ways that weakened the clan structure, however, whereas in Genoa they 'contained inter-clan rivalry, but did not eliminate it' (Greif and Laitin 2003: 18). In both cases cooperative arrangements led to economic prosperity. But in the Genoese case this heightened competition among rival elites, not least by raising the stakes. In this way the institution gave rise to dynamics that made it more and more vulnerable and, indeed, self-undermining over time.

In the present volume, Christine Trampusch's analysis of the exhaustion of early retirement policies in Germany points out that these had originally been conceived in a period of full employment, to deal in a targeted way with the decline of specific industries. The regime 'worked' as long as it applied only to a limited number of cases and had not yet given rise to a general expectation that workers would be entitled to retire early. However, as the context shifted to high levels of long-term unemployment, and especially with German unification, early retirement as an institution became overextended as it was used to facilitate restructuring and soften the impact of redundancies on a massive scale. Since early retirement was financed by the social insurance system, its extension set in motion a perverse dynamic, driving increases in nonwage labor costs that in turn

contributed to unemployment, which then for its part lowered the revenue and raised the expenditure of the social insurance system. Over time, early retirement thus came to consume the very resources that would have been necessary for its continuation, at which point the institution began to yield declining rather than increasing returns.

Yet another facet of time-related exhaustion concerns the *age* of an institution, which may be much underrated as a subject of research. ‘Young’ institutions require elaboration of their meaning in practice, by a sequence of decisions on the part of rule makers as well as rule takers. The ‘path’ along which an institution is ‘worked out’ in this sense is shaped by exogenous circumstances as well as a myriad of strategic choices, deciding together which of the many possible meanings of a young institution are practically explored and which are foreclosed or left behind by the wayside. Institutions may, however, also age. For example, viz. Trampusch, they may meet ‘limits to growth’ where their further expansion destroys or uses up resources that they require for their continued operation. Or they may become ever more complex in a process by which, like in the decline of a Kuhnian ‘paradigm’, more and more exceptions and special provisions have to be added to a given set of institutionalized rules, thereby depriving it of its legitimacy or practicability or both.

In Table 1.1, we have summarized the main properties of the five types of gradual but nevertheless transformative institutional change that we have identified.

Liberalization as gradual transformation

The dominant trend in advanced political economies, we have stated early in this chapter, is liberalization: the steady expansion of market relations in areas that under the postwar settlement of democratic capitalism were reserved to collective political decisionmaking. Although liberalization amounts to a quite fundamental transformation, it proceeds gradually and continuously, apart from occasional but short-lived episodes of turmoil like in Britain under Thatcher when the Keynesian model of economic policy was replaced with a rediscovered neoliberal model.

Whatever its economic and political deserts—on which one can have different views—it cannot be doubted that the advance of liberalism in the countries of democratic capitalism is greatly supported by the fact that it mainly moves forward only slowly, through what we have called displacement, layering, drift, conversion, and the exhaustion of existing institutions and policies. This raises the question—which we can no more than raise here—whether liberalization under modern capitalism is in whatever way a *privileged direction of ‘normal’ institutional change* in the absence of historic ruptures. Notably, as Levy reports, the instruments of postwar state interventionism in France were available to promote liberalization in a way that a liberal state could hardly be used for nonliberal, corporatist, or even socialist purposes. Levy’s account confirms that liberalization, as already Polanyi knew, tends to come together with a ‘countermovement’ that

Table 1.1 Institutional change: five types of gradual transformation

	<i>Displacement</i>	<i>Layering</i>	<i>Drift</i>	<i>Conversion</i>	<i>Exhaustion</i>
Definition	Slowly rising salience of subordinate relative to dominant institutions	New elements attached to existing institutions gradually change their status and structure	Neglect of institutional maintenance in spite of external change resulting in slippage in institutional practice on the ground	Redeployment of old institutions to new purposes; new purposes attached to old structures	Gradual breakdown (withering away) of institutions over time
Mechanism	Defection	Differential growth	Deliberate neglect	Redirection, reinterpretation	Depletion
Elaboration	<p>Institutional Incoherence opening space for deviant Behavior</p> <p>Active cultivation of a new 'logic' of action inside an existing institutional setting</p> <p>Rediscovery and activation of dormant or latent institutional resources</p> <p>'Invasion' and assimilation of foreign practices</p>	<p>Faster growth of new institutions created on the edges of old ones</p> <p>New fringe eats into old core</p> <p>New institutional layer siphons off support for old layer</p> <p>Presumed 'fix' destabilizing existing institutions</p> <p>Compromise between old and new slowly turning into defeat of the old</p>	<p>Change in institutional outcomes effected by (strategically) neglecting adaptation to changing circumstances</p> <p>Enactment of institution changed, not by reform of rules, but by rules remaining unchanged in the face of evolving external conditions</p>	<p>Gaps between rules and enactment due to:</p> <p>(1) Lack of foresight: limits to (unintended consequences of) institutional design</p> <p>(2) Intended ambiguity of institutional rules: institutions are compromises</p> <p>(3) Subversion: rules reinterpreted from below</p> <p>(4) Time: changing contextual conditions and coalitions open up space for redeployment</p>	<p>Self-consumption: the normal working of an institution undermines its external preconditions</p> <p>Decreasing returns: generalization changes cost-benefit relations</p> <p>Overextension: limits to growth</p>

're-embeds' emerging and expanding market relations. But the redeployment of French state capacities after 1983 to social policy was mainly designed to 'anaesthetize' society and 'demobilize' potential resistance. Indeed it did the job quite successfully, only to become afterward the subject of more reform, as described by Palier. Not only was that reform again presented in ambiguous ideological terms so as to be acceptable to actors with widely divergent world-views, but it was also introduced as a series of minor additions and repairs to fix the existing system to make it more stable, rather than to replace it.

Liberalization, our chapters show, can take many forms: not only can it be advanced by the state, like in France, but state functions can also, like in Germany, be delegated to civil society. The resettlement of German early retirement in the collective bargaining system amounts to a move back from the sphere of social rights, in Marshall's sense, to that of industrial rights. This may well be regarded as quite far-reaching change, in spite of the fact that it progressed more slowly and went less far than French social security reform. It also represents change towards liberalization: instead of 'de-commodifying' state legislation, it is now by collective contract negotiated under market constraints that early retirement is made possible and paid for. Collective contracts are concluded in the economic rather than in the political arena; moreover, they are by definition less universal than social rights based on legislation since they apply only to the core and no longer to the periphery. Internalizing the costs of early retirement in workers' pay helps in the consolidation of public budgets. But it also, again, brings in private insurance companies and employers with their company-based pension plans who can be relied upon further to promote liberalization out of their own interests.

Codetermination, too, is undergoing a process of liberalization, according to Jackson, in that its practice is increasingly becoming enmeshed in and circumscribed by market relations. Just as changing capital markets manifest themselves in growing pressure by nonstrategic shareholders, changing product markets intensify needs for corporate restructuring to defend and increase competitiveness. As workforce representatives cannot afford to overlook the changed external conditions, they become increasingly part of a joint comanagement of change for which the continued economic viability of the firm is the uppermost goal. While under German institutional conditions restructuring does not and cannot result in workplaces being turned into 'union-free environments', codetermination slowly mutates in practice toward the institutional base of a tight economic community of face between managers and core workforces.

How powerful and at the same time necessary the slow shift of functions between and within institutions is for the progress of liberalization is demonstrated by the Japanese case. In Japan there is no welfare state to relieve firms of the social obligations they have entered into in the past, nor is there a collective bargaining system to relieve to state of functions it can no longer perform. This seems to be a main reason why liberalization in Japan proceeds even more slowly than in Europe. As Vogel reports and as we have noted above, now small adjustments are being undertaken within firms themselves, with attempts to

expand internal labor markets beyond company boundaries and, simultaneously, redefine on the margins traditional institutions such as long-term employment. In a world in which workers cannot distinguish between the social contract and their employment contract, liberalization has a higher threshold to cross and must take a different path than in Western social democracies.

Could it be that measures of liberalization are somehow particularly suited to being imposed gradually and without disruption? Is, in other words, the relationship we observe between gradual transformative change in institutions and liberalization more than historically contingent? Nonliberal reforms in a market economy seem to require ‘political moments’ (Streeck 2001) in which strong governments create and enforce rules that individual actors have to follow, even if they would on their own prefer not to do so. Liberalization, by comparison, can often proceed without political mobilization, simply by encouraging or tolerating self-interested subversion of collective institutions from below, or by unleashing individual interests and the subversive intelligence of self-interested actors bent on maximizing their utilities. To this extent, liberalization within capitalism may face far fewer collective action problems than the organization of capitalism, and much more than the latter it may be achievable by default: by letting things happen that are happening anyway. All that may be needed for liberalization to progress in this case would be to give people a market alternative to an existing system based on collective solidarity, and then give free rein to the private insurance companies and their sales forces.

Put otherwise, if we follow Deeg (in this volume) and define a liberal regime as one in which exit is favored as a dominant logic of action over voice, individual actors may find it easier to start a movement toward liberalization than one toward constraining market relations by institutional obligations. This is because encouraging others to exit from a previously obligatory social relationship for self-regarding reasons may require no more than setting an example, while tightening normative controls would need collective rather than individual action followed, importantly, by collectively binding decisions. We conclude this chapter by speculating that it may not be by accident that it is predominantly through our five modes of gradual yet transformative change—displacement of dominant with dormant institutions, institutional layering and subsequent differential growth, tolerated drift of institutions away from social reality, slow conversion of existing institutions to new purposes, and exhaustion due to systemic incompatibility and erosion of resources—that the current liberalization of advanced political economies mainly proceeds.

AQ: Please check that Streeck 2001 is not in the list.

Notes

1. Nor, conversely, do all path dependence theorists subscribe to a strong punctuated equilibrium model of change.
2. As Barry Weingast has argued: ‘Rational choice theory provides a variety of mechanisms that afford prediction of discontinuous change’. However, questions of ‘endogenous

- emergence, choice and survival of institutions' he regards as 'frontier issues' (Weingast 2002: 692).
3. The difference is that, in the historical institutionalist version, 'new' arrangements are mostly assumed to be very different from the 'old' ones as a result. In the rational choice version the distance between the new and the old equilibrium could in fact be small; the change, in other words, need not be particularly 'big'.
 4. Djelic and Quack (2003: 309) have also drawn attention to the phenomenon of 'incremental but consequential change' and, for metaphorical illustration of the mechanism behind such change, propose a 'stalactite model of change'. See their contribution to this volume.
 5. For an excellent overview see Voss (2001).
 6. We deliberately say 'mainly' as we do not generally preclude that informal sanctions may also be of importance. Typically, however, as Colin Crouch reminds us, these are today studied by lawyers as 'soft law', indicating that in modern societies even informal rules, like those governing certain production networks, may sometimes become legally enforceable.
 7. We might also say: with a private contract. But this may be misleading since, as Durkheim has pointed out, 'in a contract not everything is contractual' (Durkheim 1984 [1893]: 158), meaning that *the contract as such* is a social institution precisely because individual contracts can be and are enforced by agencies of social control that are not parties to them.
 8. A few rational choice scholars have criticized the voluntaristic conception of institutions characteristic of their school (see, for example, Knight 1992; Moe 2003). But even in revisionist versions the treatment of power remains thin, coming in mainly by virtue of the fact that some actors need an institution more than others, or that the opportunity costs of revising existing institutions are different for different actors. More on this below.
 9. As a result their stability increases. 'Self-interest is, in fact, the least constant thing in the world. Today it is useful for me to unite with you; tomorrow the same reason will make me your enemy. Thus such a cause can give rise only to transitory links and associations of a fleeting kind' (Durkheim 1984 [1893] 152).
 10. By noting that institutions are always interpreted, and thus can be interpreted differently, we also reintroduce room for agency and political conflict that is eliminated when institutions are conceived either in purely functional terms or as shared cognitive frames (taken-for-granted understandings).
 11. A *policy* may give rise to a *Herrschaftsverband* to the extent that it creates a distinction between policymakers and policy takers. Socially backed *corporate actors* may be *Herrschaftsverbände* themselves, or may be included in them at their center.
 12. Constraint, of course, remains constraint. In fact as we have pointed out above in criticizing rational voluntaristic concepts of institutions, enforceable obligation is for us among the most important defining characteristics of social institutions. Our point is simply that obligations may be ambiguous and are in any event generally subject to interpretation and contestation.
 13. To be sure, without even attempting to exhaust the full range of possible interpretations of their empirical material. Each chapter stands on its own feet and our reading in this Introduction is not intended to be anything other than selective. Moreover, empirical cases are always more complex than typological constructs and may contain relationships that are illustrative of different types of change.

AQ: Please check the spelling discrepancy Herrschaftsverbände.

14. See also Kuran (1991) for an analogous model of change, which however draws attention to changes in the revealed preferences of growing numbers of actors and relies more heavily on a tipping point logic. Another example, based more on what one could call a 'cascading logic', is Beissinger's analysis of the development and success of nationalist movements across the states of the former Soviet Union in the late 1980s and very early 1990s (Beissinger 2002). In this case, the impact of events and processes in a densely, temporally, and spatially connected context produced what Beissinger calls a 'tidal' dynamic, such that nationalism in countries lacking the structural prerequisites of success ('improbable nationalisms', as Beissinger calls them) nonetheless succeeded as a result of linkages to other unfolding nationalisms and the ability of politicians to 'ride nationalism's tidal force'.
15. Although it appears that the closeness of interinstitutional coupling, and the degree to which a society insists on congruence between its institutions, is a variable; see the image Vogel projects of the Japanese political economy.
16. Nor, in fact, would we expect displacement ever to be complete, since the premise of these analyses is precisely that dominant forms never completely 'crowd out' alternatives.
17. Within the rational choice literature on institutions as coordinating devices, Terry Moe's work is most sensitive to the connections between power and coordination. As he puts it, 'it is cooperation that makes the exercise of power possible, and the prospect of exercising power that motivates the cooperation' (Moe 2003: 12).
18. The logic here is similar to Pierson's (1996) analysis of European social policy. In one instance (the case of EU policy on gender equality), he shows how provisions adopted by the EU member states in one period—largely symbolic and without much 'meaning'—were later picked up by emergent women's groups, who used these provisions to achieve gains at the EU level that had eluded them domestically.
19. See also the chapter by Trampusch, which analyzes the migration of a particular policy from one institutional context to another—as it were, to a reserve system ready to take over as the primary system became overloaded.
20. It is perhaps important to underscore the subtle but important difference between displacement and layering. A central feature in both Deeg's account of displacement and Palier's and Hacker's examples of layering is differential growth of parallel systems—an expanding fringe that potentially crowds out a shrinking core. The difference is that in Deeg's case proponents of change are cultivating a wholly new set of institutions on the fringes of an existing system, thus setting up a competition between two alternative logics. In Hacker's and Palier's cases, by contrast, innovators are attaching new elements to existing institutions, effecting change gradually within the traditional arrangements themselves.
21. Building new institutions from scratch may take longer than the rise of new goals or purposes, so it often makes sense to try to accomplish new goals with old institutions. This is nicely illustrated by Levy who in his chapter explains the conversion of French statism from industrial to social policy in part by the fact that institutions other than the state that could have carried the new social policies simply were not available—not least as a result of statism itself which by default, as it were, had to be converted instead of dismantled.
22. Where most rational-choice theories see change as emanating from a shift in an institution's parameters, Grief and Laitin pay attention to what they call 'quasi-parameters', which 'are assumed in the rules of the game but in reality are part of the broader

context within which an institution is embedded' (Greif and Laitin 2003: 3). In the language that they employ, the question is whether the behavioral effects that an institution generates either expand or narrow the range of situations (quasi-parameters) in which the institution is self-reinforcing.

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