

NEGOTIATION AND THE MICRO-FOUNDATIONS OF INSTITUTIONAL CHANGE

By Cathie Jo Martin

Boston University

Chapter for *Institutional Change in Social Democratic Society:
Working Life and Welfare State*

Edited by Fredrik Engelstad and Anniken Hagelund

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Cathie Jo Martin
Department of Political Science
Boston University
232 Bay State Road
Boston, MA 02215
cjmartin@bu.edu

"It's deja vu all over again."

Yogi Berra

INTRODUCTION

The Nordic havens of social solidarity seem to defy the conventional "equality versus efficiency" trade-off (Okun 1975). Close linkages between working life and the welfare state mean that expansive social spending is particularly targeted on investments in skills training; generous unemployment benefits do not lead to high unemployment; and equality coexists with productivity. Scandinavian citizens express significantly higher levels of trust in government, labor unions, and employers than their Anglo counterparts. Even through the global financial crisis, the Nordic countries have sustained low budget deficits, high employment, and a robust public sector.

Perhaps even more surprisingly, Scandinavian countries periodically redesign welfare state policies and institutions in ways that challenge our understanding of the social democratic model and baffle students of institutional change. These sometimes profound institutional changes seem at odds with the policy legacies of the Nordic model, yet they often work to preserve social democratic outcomes of equality and solidarity. For example, the widespread adoption of active labor market policies in the 1990s greatly scaled back passive employment benefits and was viewed by many as an assault on the welfare state (Abrahamson). Yet the broader ambition of the proponents

of activation was to reduce dualism, build skills and reincorporate marginal workers back into the core economy. This institutional reinvention of social assistance, seemingly so contrary to the historical practices of social democracy, was implemented in ways that resonated with the deep logics of social democracy (Martin 2004, Martin and Swank 2004; Martin and Thelen 2007; Cox 2001). In this volume, Mari Teigen's tale of the legislation of gender quotas for corporate boards provides another case in point. Regulated mandates play an insignificant role in and are at odds with the policy legacies of the Norwegian industrial relations system, yet the new quotas fostered gender equality and were developed with full support of the social partners.

This chapter reflects on the institutional change processes that enable Norway and other Nordic countries simultaneously to redesign and preserve their social democratic solutions, and considers the implications of the Scandinavian slight-of-hand for broader theories of institutional change. In particular, the chapter sheds light on three related mysteries of institutional change in Scandia. First, how do these lands frequently produce reforms that offer substantial, pie-expanding, long-term benefits for a broad cross-section of their societies? Second, why do the Scandinavian countries appear to have greater capacities both for encompassing paradigm shifts and for intentional incremental institutional adjustments? Third, how do these countries sustain the essence of social democracy and a measure of continuity even within moments of

significant institutional change? Familiar patterns of political engagement, relations among social actors, and outcome measures often persist even during dramatic institutional upheaval and radical departures from the policy status quo; therefore, one need explain the puzzling conundrum of *institutional continuity within change* (Pettigrew et. al, 697).

The secret to the endurance of the social democratic model and institutional continuity within change lies with the *rules of collective political engagement*, or procedures for the negotiation of political reforms, that have an indelible impact both on types of policy pacts available to national decision makers and on institutional change processes. Diverse *rules for collective political engagement* influence participants' perceptions of problems, their level of trust, and their willingness to place broad, long-term, often uncertain group interests above their own narrow concerns. Individuals fall prey to *negotiation myopia*, or psychological and strategic tendencies to make sub-optimal deals in collective bargains and to misunderstand their broad, long-term, collective interests (and this has been repeatedly demonstrated in laboratory experiments and elsewhere). For example, individuals often scrimmage over zero sum gains instead of seeking out and endorsing pie-expanding options with broader benefits; moreover, they generally value short-term benefits over longer-term ones. These myopia may bring negotiating parties to settle for suboptimal bargains and miss

broader deals that bring benefits to both sides of the table (Mansbridge and Martin, 2013, APSA Task Force).

The Nordic countries have developed institutions for political negotiation, such as industrial relations and party systems, which include rules for political engagement and work against negotiation myopia. For example, a strong role for *non-partisan expertise* over politicized information helps to foster a shared and broader conception of a problem and its solutions. *Repeated interactions* among negotiators across policy areas and time augment trust and punish participants for devious strategic behaviors. The institutional use of *penalty defaults* enhances the likelihood of action in a negotiated agreement. The development of policy in non-legislative, somewhat *private* settings helps to prevent public posturing and enables greater movement in negotiated positions.

The procedural tools for overcoming myopia in political negotiations enable both more solidaristic public policy and the capacity for more far-reaching institutional changes. Robust, transformational changes and solidaristic policy reforms are more likely to occur when deviations from the status quo expand the pie rather than simply redistribute benefits, anticipate second order changes, gratify a wide spectrum of interests, rest on universal principals, and meet substantive (rather than simply political) goals. Of course, not all institutional changes are planned and we often find ourselves

racing to adjust to crises or confronted with changes done for political reasons.

Moreover, slow, institutional erosion processes may take us unawares until we discover that our expectations do not fit with reality (Thelen and Streeck). Yet institutions and rules of collective political engagement matter deeply to the persistence of even these unexpected changes, because political forums matter to subsequent implementation and refinement of the policy and institutional changes. Thus the forums and institutional structures that channel our responses to sudden crises or gradual decay play a role in institutional change and deserve our consideration.

MODELS AND DETERMINANTS OF INSTITUTIONAL CHANGE

Contemporary scholarship focuses on two types of institutional change processes: discontinuous punctuated equilibrium models of change and incremental transformations.ⁱ *Discontinuous punctuated equilibrium models* view change as occurring at moments of major upheaval, dramatically transforming institutions, and establishing new paths for future political trajectories. Path-altering institutional changes are often associated with paradigm shifts, which entail deviations from the overarching goals of state intervention, rather than from levels of benefits or instruments of public policy (Hall 1993, 280). In punctuated equilibrium models of change, strategic choices at critical junctures establish policy legacies for future action and define the new normal. Moments of economic and political upheaval permit a broad repertoire of response and

early outcomes are unpredictable. Yet the resolution of political conflicts at critical junctures creates enduring path dependencies through lock-in effects and feedback processes. Sequencing matters enormously and the path dependencies clearly lay down a track for future policy incarnations (North 1990; Weir 1992; Pierson and Skocpol 2002; Baumgartner and Jones; Orren and Skowronek 2004; Capoccia and Ziblatt 2010; Pierson and Skocpol; Soss and Schram 2007). Institutions created at critical junctures have subsequent reinforcing mechanisms including fixed costs, learning effects, coordination effects, and adaption expectations in technological exchange (North, 1990). Ideas are crucial to new trajectories in discontinuous institutional change, because strategic choices and legitimacy are influenced by cognitive paradigms and normative beliefs (Hall 1993; Schmidt 2002; Blyth 2001; DiMaggio & Powell; Campbell and Pedersen).

Incremental institutional change processes unfold according to a very different logic, as these transpire over time and often underlie apparent institutional stability. Endogenous erosion processes such as drift, layering and conversion undermine the status quo. Although these processes sometimes lack intentional action, shifting coalitions of interests may be important to the conversion of institutions in incremental theories. The emergent coalitions of actors with new priorities seize control of institutions and change occurs through the erosion of institutional functions, conversion to new purposes, and layering of new goals onto prior ones (North 1990, Hacker 2002,

Thelen 2004, Streeck and Thelen 2005, Mahoney and Thelen).

Both punctuated equilibria and incremental theories of institutional change have made great strides in exploring the dynamics of policies and institutions in transition. In particular, these offered important corrections to early institutional analyses that accounted for enduring cross-unit differences but that often neglected agency, constructed preferences, and incremental change. Yet the new conventional wisdom in institutional analysis also leaves crucial gaps. Acute and incremental changes are often propelled by similar dynamics and may be sorted according to other qualities on a continuum (Baumgartner 2010). For example, both acute and incremental changes vary as to whether reforms replace or add to extant institutions, are enduring or unstable over time, and are perceived as legitimate or illegitimate.

First, the *scope* of change – *encompassing versus additive* – is crucial to whether new institutions replace the old and establish governing authority or simply duplicate the efforts of other organizations (Orren and Skowronek, 114, 86; Goldstein, 1988, 181). Fragmented and incomplete additive institutional innovation offers more limited reform potential than encompassing change. For example, in the realm of incremental institutional changes, conversion is more likely to constitute replacement while layering simply adds to the status quo, fragments governing authority and compromises adjustment potential (Streeck and Thelen 2005, 42). In this volume, Anniken Hagelund

and Axel West Pedersen's comparison of the pension and sick pay policy reforms illustrate the sharp contrasts between encompassing and additive reforms.

Second, institutional reforms evidence varying levels of *durability over time*. In Orren and Skowronek's discontinuous change model, transformational change happens at moments in which a country experiences a "durable shift in governing authority," and true paradigm shifts require stable and robust alterations in our conceptualizations of a problem and its solution (Hall 1993). The stability of institutional change is influenced, in part, by the degree to which the needs of future actors have been taken into account during the change process. Reformers have difficulty imposing short-term costs for long-term benefits, yet this capacity may influence the ultimate durability of the change (Mansbridge and Martin 2103). Time-based sequencing of reforms also matter to the durability of an institutional change (North, Orren and Skowronek, Pierson; Pettigrew et. al, 2001, 699). In incremental change processes, durability depends in part on the enduring strength of coalitions supporting the changes. Thus, Anne Lise Ellingsæter (in this volume) compares the durability of coalitional support for cash for care benefit schemes in Finland to the uncertain fate of the programs in Norway and Sweden.

Third, institutional change may be perceived as more or less *legitimate*. The degree of perceived legitimacy depends, in part, on whether transformations seem motivated by "considerations of justice" and universal as opposed to particularistic

principles, because changes rooted in universal considerations have greater perceived legitimacy (Stinchcombe, 1997, 5). Institutional reforms with positive impacts on a broader cross-section of citizens should gain greater legitimacy than those with a narrow impact. Change accepted as legitimate is more likely to be motivated by substantive and goal-oriented motives than political ones; and creative solutions that seem to rise above ideological divides may also enhance the perceived legitimacy of organizational change (Pettigrew et. al., 2001, 699-700). In this volume, Mia Vabø delves into the legitimacy problems associated with New Public Management reforms in home care. Proponents drew from various discourses to advance and legitimize the reforms, and in the process, built top-down and bottom-up support for the measures.

There is also an (albeit somewhat complicated) relationship between change processes and outcomes. Pettigrew et. al (2001, 703) suggest that more encompassing replacement change – presumably that is also more durable and legitimate – is associated with better outcomes; for example, cross-national studies of organizational change in Europe suggest a “strong association between whole-system change and firm performance.” Table One presents the ways in which these diverse features characterize diverse types of institutional change.

TABLE ONE: FEATURES OF ACUTE AND INCREMENTAL CHANGE *

	ENCOMPASSING/ REPLACEMENT	ADDITIVE
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DURABLE/ROBUST OVER TIME & LEGITIMATE	Paradigm shifts Durable changes in Governing Authority Conversion Creation of VAT	Adjustment of policy tools Layering Medicare in the US
DURABLE BUT ILLEGITIMATE	Durable shifts in governing authority made by authoritarian regimes and reinforced with social control Nazi racial policies	Incremental changes made under cover of administrative decisions that lack social support but persist. ¹
UNSTABLE OVER TIME	New Policies and Institutions in Westminster system Tony Blair's New Deal	Drift Employment-base d health benefits in US

* Institutional changes are in bold.

The dominant institutional change theories account for variations over time, yet these do not address sources of *continuity within change*, such as the perseverance of social solidarity within the social democratic model. For example, in this volume, Nicolaisen and Trygstad describe a surprising policy change in response to the stresses on solidarity posed by new, low-end service workers. Political actors have fought the growing worsening economic plight of these workers with an institutional innovation, hard regulations to combat illegal practices, which seem completely at odds with the

historical delegation of control over industrial policies to the social partners. The authors reflect on whether this regulatory solution constitutes a failure of the Nordic model, but also recognize that this adaptation enables the continuing social democratic commitment to good working conditions. Even while the tools of intervention seem inconsistent with the Nordic model, the spirit of social democracy persists as a source of continuity within institutional change.

The dominant models of institutional change also pay scant attention to the micro-foundations of institutional change, or the factors bringing reformers to hold preferences for change. In part, this reflects a tension between the historical institutionalist emphasis on the institutional influences of group preferences and the rational choice theorist view of individual preference as grounded in rationally-appraised economic circumstances. Scholars offer “agency” to account for variations in new institutional paths: agency guides idiosyncratic decisions at critical junctures and influences the composition of coalitions that propel incremental change. Yet agency has a transitory quality – a black box with little predictive power -- and new paths and coalitions are seldom entirely random.

In the following sections, I explore how processes for collective political engagement may exert influence on both discontinuous and incremental institutional change. Variations in the rules of political engagement shape the manner in which

policy legacies are reinterpreted at critical junctures. These variations in processes of engagement delimit the range of political coalitions that might contribute to incremental institutional change. The institutions and rules of collective political engagement also have an impact on the implementation of and retrospective adjustments to new institutional creations, in their impacts on the durability and legitimacy of institutional reforms.

THE MICRO-FOUNDATIONAL UNDERPINNINGS OF INSTITUTIONAL CHANGE

To grasp the Nordic successes, one needs to move beyond the conventional wisdom and explore the micro-foundations of institutional change. This entails looking at how rules of engagement influence the negotiation myopia of participants in the reform process and, under some circumstances, inspire these participants to engage in deliberative negotiation. This section defines “deliberative negotiation” and “zero-sum bargaining,” delves into the psychological and strategic myopia that hinder deliberative negotiation, and considers the procedural rules that aid in overcoming myopia. Finally, we consider how lessons derived from dynamics of negotiations inform our thinking about institutional change in general and the Norwegian case in particular.

Prototypes of Negotiation

The negotiation literature differentiates between types of negotiation and considers the procedural arrangements that foster these diverse types. In a moment, we

will consider how this distinction has a parallel in types of national political deals. At one extreme, participants engage in antagonistic bargaining, view outcomes as zero-sum, and worry more about claiming a great share of the distribution of benefits than about expanding the total pie. At the other extreme, participants enter into inclusive or deliberative negotiations, in which the negotiating partners engage in consensual discussions in efforts to obtain collectively beneficial outcomes that create value or expand the proverbial pie (Dür and Mateo, 2010, 682).ⁱⁱ In “distributive bargaining” situations, agreements meet minimal process requirements of efficiency and utility-enhancement; however, outcomes are sub-optimal (as they do not expand the pie), entail distributive, zero-sum exchanges and particularistic pay-offs, exclude the interests of those not represented at the table, and neglect long-term consequences. In “inclusive negotiations,” agreements meet the minimum process requirements, but also produce optimal outcomes that make a majority of people better off. Participants act toward collective instead of individualistic interests, think about long-term impacts on future generations, and focus on substantive rather than political goals. While difficult to measure these concepts, they suggest a hierarchy of intervention that is intuitively known to us. A begrudging zero-sum “horse-trading” is qualitatively different from those moments when thinking outside the black box enables us to arrive at a creative solution that meets with collective needs and interests broadly defined (Bellamy et al. 2012).

Dag Olberg in this volume provides an example of a win-win deal, negotiated by Norwegian social partners to protect workers in the wake of the global financial crisis. Both sides wished to develop a tactic that would spare workers the humiliation of being laid off and reduce economic pressures on firms facing reduced demand for their products. Their win-win solution was the “temporary layoff,” in which the state would pay partial support for the workers but the workers could cling to their employment status and security, because they remained employees of the firms. Table 2 presents these models of collective deal-making.

TABLE TWO: DISTRIBUTIVE BARGAINING VERSUS INCLUSIVE NEGOTIATION

	Distributive Bargaining	Inclusive Negotiation
outcomes measures	meet minimum process criteria, eg not devious, all better off, but sub-optimal	meet process criteria, but also optimal outcomes, even for those not at table
Object	distributive wins value claiming, political goals	pie-expanding solutions value creating, substantive goals
scope of	individual interests	collective interests
time-line	short-term gains	long-term gains

Negotiation Myopia

The essential question, of course, is why individuals – who stand to win much more from inclusive negotiation – are more often likely to engage in redistributive

bargaining. In part, this is because the human brain falls prey to *negotiation myopia*, or cognitive, psychological, and strategic impulses that prevent individuals from reaching agreements that could conceivably leave all better off.

First, we experience myopia in our perspective of ourselves vis-à-vis others. Due to a *self-regarding bias*, we interpret events from our own vantage point, but an alternative other-regarding perspective would help us to grasp courses of action that could improve the lot of the whole, often at minor discomfort to ourselves. With *information asymmetry*, because we do not have full knowledge of others' motives, we may falsely assume that our preferences are incompatible with those of our opponents (Pronin, Lin & Ross 2002; Bazerman 2002).

Second, we experience myopia in terms of the *scope of goals*. Our concerns about the distributive of benefits make us blind to the benefits of joint action that could enlarge the pool of resources and create new value. *Loss aversion* may enhance the tendency toward distributive conflict, in making us risk adverse, even when the potential pay-offs are much greater than the possible losses. For example, unions that refuse to consider productivity-enhancing technological improvements may save the costs of retraining for some members but may ultimately make the company lose market share. Individuals also may fall prey to *reactive devaluation*, in which they tend to discount advantageous deals that are offered too readily (Mnookin and Ross 1995: 17).

Third, we may suffer from *time* myopia that diminish our capacities to grasp the long-term perspective and consider second and third order effects. Many public policies – for example, pensions – require short-term costs or investments in order to achieve longer-term benefits and this accentuates our tendency to overvalue the present, particularly when concentrated interests must bear a greater share of the costs but will not be able to claim a proportionate share of the future benefits (Jacobs 2011, 52). Our tendency to embrace the short-term is complicated by our difficulty understanding second or third order effects. We often derive predictions about the future from easily accessible cases, imperfect data, and narrowly circumscribed considerations.

Rules to Overcome Negotiation Myopia

Certain procedural arrangements to thwart negotiation myopia may be introduced into private negotiations to achieve more optimal outcomes, and corresponding rules for collective engagement in national policy processes may likewise increase the likelihood of developing broadly-inclusive, enduring, pie-expanding political deals. These arrangements influence conceptualizations of problems and solutions, attitudes toward cooperation, and incentives for action. These rules may also be adopted within a subnational policy area or a specific political debate.

The first rule that may foster inclusive negotiation is an incorporation of *nonpartisan expertise* into the deliberative process. Nonpartisan experts help

participants to overcome self-serving biases in the perception of facts, foster a shared understanding of policy problems in more neutral terms, build shared conceptions of justice, diminish ideological left-right cleavages, and enable creative cognitive leaps. Countries develop characteristic “knowledge regimes” that structure policy learning, and these exhibit varying degrees of reliance on nonpartisan expertise, which contributes to the diverse modes of discourse (Campbell and Pedersen; Blyth 2001, Schmidt 2002). Crucial forums for nonpartisan expertise may also contribute to breakthrough agreements in specific policy areas, as was the case when an important governmental commission established support for a new child care system in the Netherlands (Morgan).

Torgeir Nyen and Anna Hagen Tønder (in this volume) describe the crucial meeting of the minds among professional educators and the social partners in a major Norwegian vocational training reform in 1994. Although school and apprenticeships were only weakly connected before the reform, the national educational authorities issued important research on the problematic transition of youth to work and skills deficits among Norwegian workers. Exposed to the new model of vocational training within their encompassing associations, employers and workers fully supported the wholesale creation of a new dual VET system. In contrast, Catherine Holst (also in this volume) finds sharp distinctions between academics’ and employers’ views on the equal

pay controversy. The discrepancies among these views reflect the institutional context.

Second, a negotiation context that includes *repeated interactions* help to foster other-regarding perspective, win-win solutions, and long-term thinking. Classic problems in prisoner's dilemma games are distrust and incentives for short-term, self-interested, sub-optimal behavior; however, these are reduced by iterative interactions, in which current actions have future implications (Olson; Axelrod; Hardin; North 1990). According to Eivind Falkum (in this volume), repeated interactions help to build trust and shared understanding after the establishment of the Norwegian Basic Agreement of 1935 between the employer and labor confederations. The Basic Agreement was born out of industrial conflict; however, through repeated engagements the social partners came to recognize the political and economic advantages of cooperation and converged on many ideological and normative assumptions.

Third, the use of *penalty defaults* establishes a mandate for action and greatly expands the likelihood that an agreement will be reached. Procedural rules and norms that include the provision by external agents of penalty defaults, exclusion from the table, inducements, or other action-forcing rules (external conditionalities) may help to produce negotiation processes and outcomes.ⁱⁱⁱ These defaults may be structured to use costs distributed over the medium term for long-run social benefits. Uncertainty about future economic and social conditions makes it more difficult for participants to

assume future burdens and this, more than short-term thinking, diminishes support for longer-term solutions (Jacob 2011).

Penalty defaults may be necessary to force negotiating partners to adhere to outcomes, even when repeated interactions have built trust and long-term relationships. For example, Norwegian managers adhere to dismissal regulations in quite varied fashion, and this level of discretion reflects the power of local governments to enforce compliance at the implementation stage and the strategic power and attitudes of corresponding trade associations (Jørgen Svalund in this volume).

Rules for Collective Engagement and the Institutions of Consensual Democracies

The rules for collective political engagement are embedded in the institutions of consensual democracies and these account for the heightened capacities for cooperation within these institutional settings. In particular, macrocorporatist industrial relations systems and proportional party systems make use of the procedural arrangements that foster inclusive negotiations and these account for the greater prevalence of inclusive agreements in coordinated market economies.

Proportional party systems, compared to majoritarian ones, are typically (but not always) programmatic rather than patronage parties and organize constituents around substantive rather than purely political ends. These programmatic parties typically nurture *technical expertise* in their units for policy development, in contrast to

patronage parties in countries such as the United States, where interest groups craft most legislation and constituents are linked to their parties through material benefits rather than with ideas. Consensual democracies require greater cross-party negotiation and are more likely to rely on neutral commissions to assess policy issues with broad cross-party and cross-class representation. Representatives of proportional parties are more likely than those of majoritarian parties to engage in repeated interactions with one another, because in proportional, multiparty systems (with rare single-party majority rule), parties must cooperate in order to form a governing coalition and to enact legislation. The need to form coalition governments also constitutes a *penalty default* for participants to arrive at a compromise. Finally, because proportional parties usually have more complete coverage of their constituency groups, they tend to compete less for marginal voters and may more easily make credible commitments that inspire trust in longer-term institutional changes (Kitschelt; Cusack et. al. 2007). The crucial role for technical experts in enabling broad social pacts is illustrated by the use of royal commissions in Sweden, such as the expert task force on climate change in the 1970s, which set the stage for early clean air legislation. Although the Swedish bill was less extensive than parallel legislation in the United States, its impact was far more substantial because the legitimacy established through the expert investigation made for easy implementation and extensive compliance (Lundqvist).

Macro-corporatist industrial relations systems also make extensive use of the arrangements facilitating inclusive negotiation in their structural design. Countries with macro-corporatist industrial relations systems include a more formal role for *technical expertise* in the tripartite commissions that bring business, labor and the state together to consider policy problems, as these forums nurture shared understandings of problems and solutions. Employers have a range of possible interests, multiple objectives, and many intermediate goals; highly-organized business associations educate employers and bring managers into contact with policy experts from government and organized labor. *Repeated interactions* are an important feature of both collective bargaining processes and participation on tripartite commissions found in macro-corporatist industrial relations systems. In macro-corporatist industrial relations systems, a *penalty default* appears in the state's threat to intervene if social partners do not reach agreement. The social partners lose control of their policy making prerogatives and power reverts back to the state in the absence of action (Martin and Swank 2012).

Rules for Collective Political Engagement and Institutional Change

Finally, institutional arrangements enabling inclusive policy negotiations also have bearing on modes of the discontinuous and incremental institutional change processes presented in Table One.

First, change may be encompassing in *replacing* old institutions with new ones or *additive*, a distinction that applies to both paradigm shifts in punctuated equilibrium models and conversion in incremental models of change. An institutional role for the influence of neutral *technical expertise* makes a strong contribution to countries' capacities to replace older institutions with new ones. Specially-appointed bodies of technical experts to analyze problems and offer new policy solutions often have the intellectual capacities to grasp broad social and economic problems and the knowledge of emergent paradigms for coping with such problems. Moreover, their formal mandate facilitates an acceptance of new paradigms, which makes it easier for legislators to justify redesigning policies wholesale rather than simply adding new programs onto existing ones. Forums for *iterative interactions* among representatives of diverse social interests may help to popularize the new paradigms and to secure broader support for their political implementation, and this is particularly true with the technical experts representing the social groups have played a role in the commissions responsible for developing the new paradigm for action. *Penalty defaults* in the form of a widely-perceived need or formal mandates to take action work against the default options of doing nothing and stalemate.

For example, the solidaristic active labor market reforms in Denmark constituted a new paradigm for anti-poverty programs; whereas the German version of ALMP simply

added onto the existing programs and constituted only a minor shift from the status quo (Martin and Thelen 2007; Martin and Swank 2012). The Danes were able to engineer these profound changes in social provision with arrangements that foster inclusive negotiation. The intellectual basis for the new programs was developed in two expert commissions (such as the Zeuthen Commission for the social insurance interventions), which studied and linked together the issues of long-term structural unemployment and a growing shortage of skilled labor. This reliance on technical expertise helped to introduce new paradigm of social provision into dialogue and to link this paradigm to the post-industrial growth model: an encompassing labor market could be created to include all workers, programs for the development of human capital should tailor interventions to individuals' capacities rather than their incapacities, and the state should train to provide the supply of workers for specific demand needs of employers. The Danes used iterative interactions to foster acceptance of these new ideas across a broad cross-section of society, by formally involving the social partners in the expert commissions and by cultivating a common understanding of the problems. They also used penalty defaults to push through the reforms: The Danish Social Ministry told the major employers' association and peak union that if the social partners did not develop a specific plan for implementing the new model, the state would both cultivate relations with individual firms and infringe upon the traditional control over industrial relations

policy by the social partners (Martin 2004; Martin and Swank 2012).

In sharp contrast, German interventions constituted a much less stark formal institutional change than the Danish system, but the incapacities of policy-makers to engineer transformational change permitted significant institutional drift despite formal perceptions of institutional stability. In part, the differences lay with the institutional capacities for iterative interactions in the two countries. Institutions for Danish macro-corporatism build in iterative interactions among a broad cross-section of social partners, which enabled acute institutional replacement rather than incremental institutional drift. Sectoral coordination in Germany made cross-class coalitions at the industry level more likely than broad social pacts across the economy. This separated labor market insiders from outsiders, worked against broad institutional changes, and permitted dualism and institutional drift, as marginal workers increasingly lost the benefits of social protections enjoyed by the industrial elite. The monumental Danish reforms preserved the spirit of social democracy, even as they deviated from the status quo; whereas the incremental German adjustments chipped away at prior solidaristic arrangements, even as these preserved the appearance of institutional stability (Martin 2004; Martin and Thelen 2007; Martin and Swank 2012; Thelen 2013).

Second, institutional change may be characterized as *stable* and robust or *unstable over time*, and here again the procedural arrangements facilitating inclusive

negotiations also contribute to more robust institutional changes. A strong role for neutral *technical expertise* in policymaking processes enhances the capacities of participants to think through the ramifications of various courses of action and to set a priority on substantive goals over political rent-seeking benefits. This expansion of the level of dialogue makes participants more likely to take into consideration second and third-order effects of their actions and to focus on longer-term concerns. The existence of *penalty defaults* forces action and works against the likelihood of gridlock as the default action and institutional drift, in which the absence of intervention allows current institutional arrangements to become increasingly less capable of serving their intended role. Procedures for *iterative interactions* among representatives of a wide range of societal interests also contribute to the stability of institutional innovations over time, because these forums should bring people to trust one another and to rest assured that if they express a willingness to pay higher short-term costs in exchange for longer-term benefits, others will also contribute to the effort.

Contemporary pressures in pension policies constitute a classic example of the difficulties involved in creating long-term, robust institutional change. The pay-as-you-go pension plans were initially set up under conditions of rapid population and economic growth; therefore, using the contributions of current workers to support current retirees was an easy solution to elderly poverty. But with changing demographic

structures and declining worker to recipient ratios, experts agree that a capital investment approach is much more feasible, entailing workers to contribute to their own future retirement needs. Changing the system, however, requires difficult-to-make short-term investments, because current workers must simultaneously continue to support current retirees and begin investing in their own individual funds. Although negotiators worry about the long-term ramifications, short-term solutions are often chosen due to uncertainty, limits to their cognitive perceptions, and fears of the unknown. In the Canadian case, however, policy makers used nonpartisan expertise to build a shared understanding of the problem, and relied on guarantees of cost sharing and penalty defaults to push for enduring institutional change (Jacobs 2011, 52).

A third characteristic of institutional change concerns whether changes are perceived as *legitimate or illegitimate*, and once again, a reliance on technical expertise, iterative interactions and penalty defaults all help to expand legitimacy. Perceived legitimacy depends on three related factors: a) the perceptions that the institutional changes are universal in their application rather than particularistic, b) the focus on substantive rather than political goals and c) the scope of the group whose interests are benefitted by the change, i.e. a broader group translates into a higher perception of legitimacy. A formal role for neutral *technical expertise* increases the likelihood that the intended impacts of institutional change will be substantive, encompassing, and

universally applied, rather than guided by political quid-pro-quo exchanges. Involving a wide cross-section of interests in repeated discussions of the problem should help to expand the legitimacy of the institutional change process, and penalty defaults should, again, depress the likelihood of non-action. In this volume, Fredrik Engelstad recognizes the necessity of securing legitimacy in his discussion of far reaching reforms to corporate boards, which constituted a substantial intrusion of state policy into private business control. Engelstad suggests that the state walks a fine line between protecting property rights and securing democratization in policies to improve the gender balance on corporate boards. Policy makers secured this legitimacy, in part, by working through the macrocorporatist industrial relations institutions to build significant support among the social partners long before the point of legislation.

Of course, technical expertise, iterative interactions, and penalty defaults do not always produce more encompassing, robust and legitimate changes. These rules of engagement in isolation may worsen capacities to arrive at inclusive negotiations and broader institutional change. For example, iterative interactions in the form of high levels of societal coordination may be used to achieve authoritarian ends, a point Berman vividly makes in her analysis of features of German civil society. Moreover, coordination among narrowly circumscribed interests, absent a strong role for technical expertise and without penalty defaults to arrive at broadly applicable solutions, may

allow for insider groups to derail efforts at broader reforms. Iterative interactions can also exacerbate ill feelings among negotiators and although coordination may produce more efficient *and* egalitarian outcomes in the core industrialized world, this may lead to rent-seeking behavior in the developing world, particularly when this exists among vertical linkages (Granovetter 1985; Rodriguez-Pose and Storper 2006). Embedded stability in one domain may prevent broader change; thus, North (83) suggests that institutions have a “complex set of constraints that include formal rules nested in a hierarchy, where each level is more costly to change than the previous one.” Of course, a tension may compromise the joint achievement of process and outcome goals. The expectations of broad consensus require the consent of a larger group of participants than simple bargaining and there are times when more ambitious outcomes may require the political capacity to limit the objections of the range of negotiating partners. Yet when iterative interaction is combined with a formal role for technical expertise and penalty defaults to force negotiation, or institutional reforms develop that establish the capacities for inclusive negotiations, the dark side of coordination surfaces less easily.

CONCLUSION

This paper asks why liberal and coordinated countries often demonstrate an essential familiarity in their national responses to problems, even at moments of tremendous upheaval and radical change. The central argument of this paper is that the

source of *continuity within change* has to do with processes of collective engagement, or the signature way that people come together to solve political problems. These are particularly important in their impacts on how individuals conceptualize their interests and negotiate outcomes, because diverse institutions and rules of engagement have different effects on the myopia that keep individuals from making pie-expanding bargains. Certain cognitive and strategic myopia hold individuals back from pie-expanding negotiations: these include the tendencies toward self-regarding assumptions, engagement in distributive versus pie-expanding bargaining, and preferences for short-term versus long-term solutions. Some institutions and rules of engagement overcome these myopia, influence policy and affect institutional change mechanisms because they have distinctive impacts on individual preferences and capacities to overcome negotiation myopia:

Nations evolve characteristic ways of solving social and economic problems, which shape how actors negotiate new policies and engage in institutional innovations. While these processes are themselves a work-in-progress, a characteristic manner of problem-solving – informed by formal institutions for involving actors in political decisions as well as meso level rules and norms – seems to endure, even as it evolves, across epochs. These meta institutions or the ways that people come together to renegotiate new policy and institutional solutions shape the possibilities for diverse

types of reforms.

The most robust institutional changes are likely to occur when deviations from the status quo expand the pie rather than simply redistribute benefits, anticipate second and third order changes, gratify a wide spectrum of interests, rest on universal principals, and meet substantive (rather than simply political) goals. These micro foundational impacts reveal the logic of why institutions for consensual democracy seem better able to engage in disjunctive institutional changes that are encompassing (replacement versus additive), robust over time and perceived as broadly legitimate; and industrial relations systems and party systems – key forums for collective political engagement – seem particularly relevant. Institutional alterations are more likely to become disjunctive, encompassing, robust over time, and legitimate when these are undertaken through inclusive negotiations.

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ⁱ Following Campbell, institutions are strategic equilibria, formal and informal rules, and norms as well as rules.

ⁱⁱ Descriptions of “bargaining” and “inclusive negotiation” include: “value-claiming versus value-creating,” “distributive versus integrative bargaining,” “bargaining versus problem-solving,” “strategic action versus communicative action,” and “hard versus soft bargaining.”

ⁱⁱⁱ These penalty defaults may simply produce a the most elemental minimally utility-enhancing type of negotiation, as when a fear of stalemate motivates actors simply to impose long-term costs on short-term benefits, which may benefit those at the table but harm groups not represented in the negotiations. Yet these defaults might also be structured to motivate processes and decisions that are more other-regarding, pie-expanding and long term.