

Critical Junctures. A Comparative Analysis of Institutional Reforms

SPP „Switzerland - Towards the Future“ – Module: Evolution of Political Institutions

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The Critical Junctures Hypothesis

This research project analyses the conditions for reforms of political institutions. By reforms we mean substantial changes in the basic rules and aims of political institutions. Our guiding hypothesis is, that the probability of institutional reform is high, if there is both internal pressure and political potential for change accompanied by external developments, which support such changes. Being at such a critical juncture opens windows of opportunity for policy makers.

Likelihood of Institutional Reform:

		External Pressures and Incentives for Change:	
		High	Low
Internal Pressures and Potential for Change:	High	++	-
	Low	-	--

Framework of Analysis

The critical junctures hypothesis is tested by analysing qualitative and quantitative Data from 22 OECD countries over the period from 1975 to 2000. We are interested in reforms which have changed five major institutions: horizontal and vertical structures of national government, the system of interest mediation, the welfare state (quantitative study focussing on major shifts →) and the type of state intervention in the economy (qualitative study focussing on the reform mechanisms →).

Relevance

The role external developments such as globalization and Europeanization play for the domestic political sphere is at the forefront of scientific and public debates. Our project contributes to this debate. Especially in the Swiss case often institutional inertia of the political system is emphasized. Our analysis shows whether and to what extent institutions in other countries change. This allows to compare institutional stability and change in Switzerland with the experiences of other countries.

Quantitative Insights: Common Institutional Shifts

The project started with observing large institutional reforms. The changes brought about by the governments in the UK and New Zealand in the field of the welfare state, public finance, and central banks in the 1980s and 1990s are cases to be found. According to our initial assumption, such changes in the hierarchy of goals and instruments of major institutions occur at critical junctures, when international and domestic pressures join forces. However, we found but few cases of such large reforms in our empirical analysis. In a systematic and comparative perspective even 'Regime shifts', as described in the case of Japan, turned out to be incremental and path dependent variations. Changes of formal institutional rules were often introduced but some time after political practice had changed. The clear break with the past hardly happened.

On the other hand, major common changes in democratic nations occurred in the 1980s and 1990s. However, convergence remained limited since institutional development has been strongly path dependent. International variation continues to exist, but certain elements of institutions have been added to or removed from already existing national institutions in a systematic way. For policy makers, certain institutional options became more feasible while the economic and political cost of other options increased.

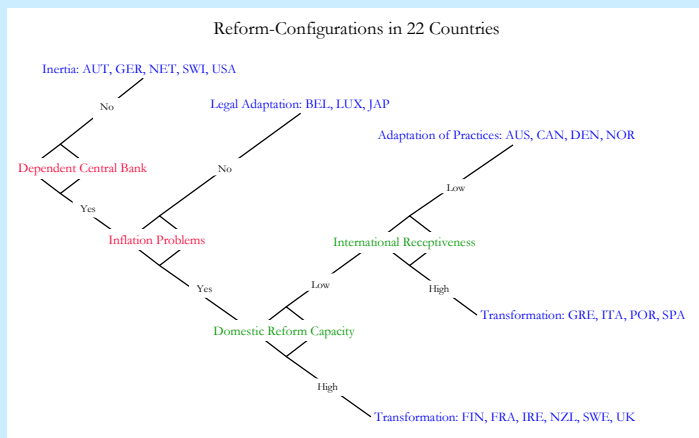
Table : The Changes of Feasible Options in the 1980s/1990s

Institution	Option Less Feasible	Option Easily Feasible
Welfare State	De-commodification	Re-commodification
State Intervention	Fiscal Steering	Regulation
Interest Mediation	Keynesian Corporatism, Conflictual Labor Relations	Supply Side Corporatism
Vertical Structure	Centralized Structures, Unitary States	Decentralized Structures, Federal States
Horizontal Structure	Competitive Democracy	Consensual Democracy

Our new guiding hypothesis states that these common but path-dependent developments occur at the critical juncture of both international and domestic processes in the last twenty years. The international processes are economic (e.g. the liberalization of capital markets) and political integration (e.g. European integration). The most important of these domestic processes is the dissolution of former collectivist modes of national integration as expressed by the system of interest articulation and intermediation. In particular this relates to the weakening of centralized and encompassing trade unions with intra-class re-distributive goals and the rise of new (regionalist and green) parties as well as the internal change of old parties with regard to class and denomination. Differences in institutional development are expected to be explained by differences in this interactive term.

Qualitative Insights: Paradigmatic Reforms of Monetary Policy Regimes

In this part of the project, we are interested in the reform mechanisms. The focus is on paradigmatic shifts in monetary regimes. In order to qualify as paradigmatic changes, reforms of monetary policy instruments have to contain a redefinition of the hierarchy of goals. This is the case when an accommodating, employment oriented regime is transformed in a non-accommodating, price-stability oriented monetary policy regime or vice versa.



The Analytical Frame for Identifying Reform-Configurations:



Reform-Triggers are ideational, political-institutional, and economical pressures that are incompatible with the current institutional model. Such a 'misfit' is a necessary condition for a reform. Misfits occur, if the country has a dependent central bank. For EMU-countries this constitutes an institutional misfit, since the 'Maastricht'-Treaty rules for this institutional solution. Otherwise a dependent central bank constitutes an ideational misfit: central bank independence is increasingly becoming the dominant institutional solution promoted by international economic organizations and the 'economic community'. An economic reform-trigger occurs in the case the country is prone by inflationary pressures.

Reform Capacity: The reform capacity contains a domestic and an inter-national component. 'Domestic reform capacity' refers to the political-institutional context, which inhibits or facilitates large legislative changes (e.g. number of veto-players). International receptiveness refers to the degree to which the country is willing to accept international support and institutional solutions provided by international organizations.

Reform-Responses: Three possible reform responses are distinguished: inertia, adaptation and transformation. Transformation occurs, if both is changed, policy practices as well as the institutional frame (central bank independence). Adaptation occurs, if either only practices or only legal institutions are changed. Inertia stands for cases, where nothing is changed.