

**Restructuring Politics:
Institutional Evolution and the Challenges of Modern Welfare States
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This volume pursues two basic themes - the first empirical, the second theoretical. Substantively we are interested in exploring the ways in which modern welfare states have dealt with the challenges offered them at the end of the 20th century. There are a number of forces that appear to impinge upon and challenge some of the fundamental assumptions and institutions which have been core to the welfare state for at least the last half of the century (Kuhnle 2000; Pierson 2001). Many of these challenges can be captured by the phrase ‘globalization’, but as a number of studies have recently shown, the worst fears (or best hopes) of the ‘globalization’ theorists are not been born out by the facts.¹

This is not to say that nothing has changed, quite the contrary, as the essays presented in this volume clearly show, modern welfare states do indeed face significant challenges from a variety of sources including fiscal competition, growing ethnic diversity, aging populations, and decreasing trust in public officials and institutions. But it is clear that each of these states is responding to these often similar challenges in quite different ways (Hall 1998). Thus one clear theme in this volume is that just as there are *multiple challenges* to advanced welfare states at the dawn of the new century, there are *multiple responses*.

This volume thus contributes to the growing body of literature demonstrating that the ‘convergence’ thesis is simply wrong. But it does more than this: *It also tries to explain why*. In the simplest terms, our answer is that both history and institutions matter.

The analyses in this book show how and why public policies chosen at one time, t_1 , have important consequences for policy choices in t_2 . The logic runs as follows: All advanced democracies have built programs designed to address broadly similar problems (access to health care, public housing, gender inequity etc.). But as the chapters in this volume richly demonstrate, the specific choices made in different countries has varied in considerable ways. Next, because the specific programs/institutions introduced earlier differ, the very nature of the problems facing these countries at later points in time also differs. This is because as policies are institutionalized they mobilize political constituencies and interests, and because they become part of the normative foundations upon which subsequent policy choices are made. In short, the very nature of the problems facing broadly similar democratic regimes today varies *because of* the different policies introduced by these regimes at earlier points in time. Thus, as these countries attempt to deal with broadly similar challenges in current times (for example, the difficulty of attracting capital, aging populations, or overly rigid and unresponsive bureaucracies) the specific nature of these problems varies considerably and consequently so does the range of possible policy solutions available to them. There is, in sum, a dynamic and iterative relationship between politics, public policies and political institutions.

This fundamental understanding does not make for simple model building/testing - but it is the reality of the world we find and that we as social scientists need to explain. Rather than reject reality in favor of 'stylized facts' for the sake of parsimony and the elegance of formal models, the Historical Institutionalists found herein pursue what Peter Hall has recently called "systematic process analysis" (Hall 2000, p. 34). This type of analysis, as Hall suggests, implies a different ontology: Rather than seeing history as the result of the interaction of a specific set of

independent variables whose impact varies only according to the number and weights given intervening variables, the analyses offered here understand real world outcomes in evolutionary terms. In this view, history should not be seen as some sort of linear trajectory motivated by a set of constant causal variables. Instead political and policy outcomes are the product of the complex interactions of a number of historically embedded factors. Thus the objective of the social scientist is to unpack or unravel the historical patterns in order to examine, explore and hopefully understand the processes that bring about the particular outcomes or events of interest. ‘Science’ for these scholars is the effort to uncover explanations for real world events so that we may better understand the world that we live in. The goal of this approach in the social sciences is not to uncover a set of basic and invariant laws of human nature in order to create a “Theory of Everything” (TOE), as for example Michael Wallerstein has argued (Wallerstein 2001). This is not because we have insufficient tools, techniques or data inhibiting the search for such TOE in politics, but rather because we believe that human history is the product of human agency. As humans build, adapt and change social, political, and economic institutions they can – and do – change history. In short, there is no singular set of laws that apply to all actions at all times and with which one could predict all past - or even less - future events. Humans unlike atoms, planets and clouds, make their own history, in part by deliberately creating different social, economic and political institutions.

Different Welfare States?

The quite common analyses predicting “The End of the Welfare State” were wrong not because they overestimated the significance of the technological, economic and social changes

sweeping the globe in the later part of the twentieth century. They were wrong because they misunderstood and/or undervalued the significance and impact of the specific institutions of the modern social welfare state itself. And, of course, not all welfare states are alike. The essays included in herein show that while there are broad, important, and sometimes quite serious problems facing all modern welfare states, the varying characters and structures of the welfare states themselves critically shape the very definition of these problems as well as the likely solutions to them.

It is well known that the North-European and Scandinavian countries spend about twice as much as a percentage of GDP on social insurance and social assistance as the United States and Australia and that most other European countries' spending falls somewhere in between. These differences are not only a matter of quantity. There is an abundance of studies showing that the specific design of public policies intended to handle the same type of social problems vary greatly (Goodin et al. 1999; Scharpf 2000; Swank 2000). This variation can not only be seen between Europe and the United States, but exists as well within Europe (Kitschelt et al. 1999). Even between the three Scandinavian countries, which are usually thought to be very similar in these respect there are significant differences in important policy areas such as policies on education, vocational training and gender equality (Bergqvist 1999; Helgøy 1999; Lindbom 1995).

For scholars working within the rationalist framework these differences observed here and elsewhere are very hard to explain. Even when rational choice explanations can provide insight into why particular choices are made in particular contexts – they provide very little insight into how and why the institutional context differs across time and/or across space. As

Robert Bates et. al. have frankly admitted, “The greatest achievement of rational choice theory has been to provide tools for studying political outcomes in stable institutional settings.... Political transitions seem to defy rational forms of analysis” (Bates et. al. 1998, p 222). Because Rational Choice scholars treat history only as an event space in which individual choices are calculated, their theory has very little to help us understand how and why the history evolves. As a result, the theory gives us little purchase on some very basic questions of comparative politics such as why do institutions differ in different countries and why do they change?² These are questions of direct and central concern to historical institutionalists and – as the following essays demonstrate – questions for which they have persuasive answers.

Another type of explanation would point at more traditional variables in political science such as party politics and ideological orientations of voters. The reason why different countries chose different policies and enter onto different historical paths in their development is that different political parties have dominated the polity. There is certainly something intuitively appealing in this approach. The problem, however, is that parties of similar ideological orientations in different countries often make quite different choices – even when faced with what appears to be very similar circumstances. To take one example, the Danish and Swedish Social Democrats have very different views towards labor market regulation. Likewise, Conservatives in Britain and Germany have opted for very different policies in important areas such as social insurance, taxes and labor market regulations. Equally paradoxically, in all of the Scandinavian countries the Right has had extended periods in government, but in none of these periods has the right made significant cut-backs in public spending.

It seems pretty clear that political institutions, broadly defined, are key in explaining large differences in welfare state arrangements. We are, however, very far from any general or even “middle-range” theory that we can use to explain the when and how, or “causal mechanisms” between on the one hand different institutional arrangements and on the other political behavior and policy outcomes. And we are even further away from being able to explain under what circumstances such institutions can be created and maintained in order to influence political behavior and policy outcomes. The rationale for this volume is therefore to make a contribution to these theoretical questions – to specify the “nuts and bolts” between the concrete “design” of political institutions and political behavior/policy outcomes. In other words, we try to understand “how institutions work” (cf. .Douglas 1987).

What do political institutions do? Strategy, preferences and ideas.

Most approaches in institutional analysis would agree that institutions influence actor's strategies, i.e., the way they try to reach their goals. This is obvious from the fact that institutions determine a) who are the legitimate actors, b) the number of actors, c) the ordering of action and, to a large extent; d) what information actors will have about each others' intentions (Steinmo 1993). This is a very important part of institutional analysis because it has been shown that even small and seemingly unimportant changes in institutional rules affecting strategy (e.g., who "moves" first) greatly influences the outcome of political processes (Ostrom 1999).

The problem is what institutions do with preferences. At opposing ends of a continuum, two very different views exists. One is the view in the economic approaches which holds that

preferences, a) can only be held by individuals, also known as theoretical individualism, (cf. Riker 1990), and b) are exogenous to institutions. The actors come to the institutionalized "game" with a fixed set of preferences which they, moreover, are able to rank in a rational manner. Institutions decide the logic of the exchange between actors, but the institutions as such do not influence preferences. As utility maximizers, actors rank their preferences and engage in a strategic "logic of exchange" with other agents within the constraints set by prevailing institutional rules. If the institutions change, actors usually change their strategy, but not their preferences. Note that in this "logic of exchange" approach, the calculative nature of action is universal as the agents' preferences are always to maximize expected individual utility. The problem is how to design institutions so that an effective aggregation of individuals' preferences to collective choice can be made (March and Olsen 1989, p. 119).

At the other end is the more cultural or sociological approach which holds that institutions structure a "logic of appropriateness", i.e., actor's preferences are in effect defined with the particular context in which decisions are made (Powell and DiMaggio 1991). Without denying that individual action is purposive, this approach assumes that individuals cannot be considered to have the computational or cognitive ability necessary to be fully rational in their interaction with other agents (Simon and Barnard 1957). Instead, they tend to follow "scripts" or "templates" given to them by the institutions in which they are acting. In this cultural understanding, institutions not only shape actors' preferences, they also to some extent create them. Institutions create or socially construct the actors' identities, belongings, definitions of reality and shared meanings. In a given institutional setting, the agent usually does not calculate what action would enhance his or her utility the most. Instead, by reference to the institutional

setting, she asks "who am I" (a judge, a stockbroker, a nurse, a prisoner, a scientist) and what is the appropriate action for such an individual in this situation (to be impartial, or wealth-maximizing, or caring, or escaping justice or searching for the truth). Note that in this "logics of appropriateness" approach, action is not universal but situational as the individual's preferences vary in different institutional settings. The problem is how to construct institutions that integrates the individual with society (March and Olsen 1989, p. 124f).

The advantage with the economic approach is that it provides us with a clearly defined and universal micro foundation of how individuals will act in different institutional settings (i.e., they will maximize their expected utility). The problem is that, because it has no theory where preferences come from, or why they change. Analytically, preferences are simply deduced from behavior, i.e., the dependent variable is used to explain the independent which, in its turn, is reused to explain the same dependant variable. As Raymond Boudon has argued, "the basic shortcoming of the 'rational choice model' resides in the fact that, except in trivial cases, social action rests on beliefs and the "rational choice model" in its current version has little to say about the question of how to explain collective beliefs." (Boudon 1996, p. 147). As many of the chapters in this volume show, the historical institutionalist approach can be a fruitful way to handle this problem.

The problem with the "cultural" approach is that if institutions define preferences, how can one explain why agents acting in the same type of institutions sometimes hold different preferences? Why would Scandinavians, for example, differ so much in their opinions about the European Union? While the economic approach may present an under-socialized view of how agents' establish preferences, the cultural view may be termed over-socialized (Granovetter

1985). If institutions determine preferences, the cultural approach has a long way to go to specify what type of institutions give rise to what sort of preferences for what type of actor(s). In other words, this approach is in great need of a clear and sound micro foundation of its basic propositions. As several of the chapters in this volume show, the historical institutionalist approach can add this “missing link” to the culturalist theory of institutions.

Political Institutions and the Welfare State

The paper by Staffan Kumlin, “Institutions, Experiences, Preferences: How Welfare State Design Affects Political Trust and Ideology” specifically examines the relationship between political institutions and political preferences. This very interesting paper makes a rather straightforward argument that, once considered, appears almost obvious: An individual’s experiences with welfare state institutions effects her attitudes towards these institutions and thus ultimately shapes her broader preferences with respect to the welfare state. In short, this chapter demonstrates the linkage between experience and preferences and shows how they are mediated by institutions.

The implications of this analysis are broad and important. Kumlin makes a much more nuanced and careful analysis of welfare state institutions than has been common in the welfare state literature arguing that *different* kinds of welfare state institutions should produce *different* kinds of experiences. In so doing he brings forward evidence for the point that *how* welfare state institutions are structured can be more important in terms of public acceptance of and confidence in the welfare state than simply the *size* of the welfare state. Simply put: Welfare state institutions that ‘empower’ citizens and treat them as customers tend to build confidence and

support whereas institutions that treat their 'clients' as hostages tend to undermine confidence in these institutions specifically and the welfare state more generally.

People who have positive experiences with welfare state institutions (health care, child care, public libraries, etc.) are more likely to support these institutions and ultimately more likely to have trust or faith in public institutions generally. Moreover, *the more* positive interactions one has with these public institutions, the more positive you are towards the state.

But, of course, not all interactions with state institutions are positive. And as Kumlin notes, not all welfare state programs are the same. He breaks them down into three basic categories according to the level of 'empowerment' they offer citizens. "Customer based" institution 'empower' citizens by giving them substantial control over the experience itself (archetypical 'customer institutions are things like libraries, cultural facilities, etc.). At the other end of the spectrum are "Client Institutions." These institutions are ones which offer users very few or no options. In these cases, there tends to be a higher degree of bureaucratic discretion and users tend to have very little control over or power within the institution. Typical examples of these institutions are things like Social Assistance, Housing benefits, public job agencies, Elder-care. In the middle we find "User Institutions." These institutions are less empowering, than customer institutions, but they at least offer the citizen the exit option - in other words users can at least exit one institution and find another.... even if they must have the care. Examples in Sweden are Kindergartens, Child care facilities, local health care centers, hospitals.

Quite reasonably, Kumlin expects that positive experiences are more likely to be gained out of interactions with 'customer institutions' and the least likely to be gained in relations with 'client institutions.' 'User institutions' should be in the middle. No one should be surprised to

find out that these hypotheses are supported by the statistical evidence. The more often you have dealt with public services in which you are a ‘customer’ - where the agency needs to compete for you as customer - the more likely you are to have positive experiences: The public servants are more likely to be helpful, courteous, responsive etc. etc.. Equally unsurprisingly, the data shows that the more interactions that you have with public bureaucracies where you are the client and have no power - or where bureaucrats have a great deal of power and you have no alternative sources of service - the more likely you are to have negative experiences.

The next step in this analysis is equally straightforward: The more positive experiences you have with state supported institutions specifically, the more positive attitudes you have towards the state in general. And just as logically, the more negative experiences you have with state institutions, the more you dislike, distrust and are unwilling to support the state more broadly. Now notice the kinds of institutions that build support in Scandinavian Social Democracies. Most Americans would be surprised to hear that these are state institutions at all. Sporting facilities, cultural entertainment facilities are not state institutions the US. Americans like these institutions as much as Swedes do, but in the U.S. these are private institutions and therefore the positive reactions evoked do not contribute towards support for the state. What kinds of institutions do Americans think of (or interact with) when they consider the state? Virtually exclusively ‘Client Institutions.’

Why are these ‘customer institutions’ state institutions in Sweden and private institution in the US? The answer to this question has to do with different starting points and different institutional structures rather than original public preferences (as several other authors in this volume demonstrate, see esp. Dobbin, Guiridon, Lieberman). Here we see the iterative and

dynamic relationship between preferences, institutions and policy outcomes in action. Once again, the key mechanism between these variables, according to Kumlin, is the individual's experiences, not political ideology, social class or party preferences. When individual's experiences are largely good, they tend to trust the state. When they tend to be negative, they tend to distrust the state. This causal linkage appears to hold across age, party and gender. And, while the measured effects are relatively small in the short run, the cumulative effects could well be very substantial. This may very well create increasing returns effects or a form of "reciprocal causation" between institutions and political beliefs that explains the variations in welfare state programs mentioned above (Arthur 1994; Hall 2000; Pierson 1998). The implications of this, of course, are enormous.

The Frank Dobbin chapter, "Is America Becoming More Exceptional?" helps us draw out this set of conclusions one step further. This paper examines the evolution of several policy arenas in the United States - the country that is furthest away from Sweden in terms of levels of welfare state support. Here, more explicitly than in the Kumlin paper, the author is asking the question why has this country (the US) traveled down such a distinctive policy path? Why, specifically, do corporations carry so much of the social welfare burden in the United States, or more broadly, why is the public welfare state so small in the US? Anyone reading this volume is fully familiar with the most common 'culturalist' explanation for the "American Exceptionalism": That American's have a small welfare state because American's want a small welfare state (King 1974; Lipset 1996). Dobbin argues quite the contrary, that corporations do so much of the work of the welfare state in the US not because of broad public support for this strategy, but rather because of the fragmentation of American political institutions and the

weakness of coherent political parties in the formative stages of American welfare state development inhibited the broad scale welfare state programs like those found in most European countries.

Like Lieberman (who emphasizes race) Dobbin argues that this institutional fragmentation of the US polity shaped the specific character of the policy solutions to the demands for social protections during formative and critical stages of social policy development. In the American case, he shows, that since these demands/social pressures could not be accomplished through broad scale public programs (because of institutional fragmentation), public policy makers were therefore drawn to create a system of incentives that would encourage employers to protect workers (see also Steinmo 1995) These tax and regulatory incentives worked: Large corporate employers built private social welfare bureaucracies. In so doing, these early policy choices moved the United States down the path towards private provision of many social service functions pursued via public administration in many other countries. Actors within these institutions, in turn, became constituencies for the further expansion of private coverage. They championed private pensions, health care insurance, etc. inside their companies as means of attracting and retaining employees. They also lobbied the government for further expansion of these incentive systems. As Chris Howard has argued, though these programs were administered by employers they are still effectively publicly financed by the state (Howard 1997). Dobbin's point is that this system effectively ensconced *both ideas and interests* favoring a private rather than a public welfare state. In short, U.S. government policies were the driving force behind the expansion of private social insurance coverage in the United States, *not* a general public consensus which stood in opposition to the either social coverage or the state. But once

institutionalized, these policy choices tipped the scales toward the private provision of many social services and away from state sponsored programs.

Thus in this case as well, the analytic story demonstrates the dynamic and iterative relationship between institutions, interests and ideas over time. Critical choices at time 1, affect attitudes/preferences as well as interests in time 2. The configuration of these new ideas, interests and institutions are the foundation, of course, of the next iteration of social policy and institutional change (Thelen 1999).

Robert Lieberman's contribution to this volume, "Political Institutions and the Politics of Race," is the most explicit in its attempt to theorize about the relationship between initial conditions and subsequent policy choices. He too emphasizes the ways in which the institutionalization of specific policy choices tends to reinforce both coalitions of interest and ideas or belief systems. In an explicitly evolutionary analysis, Lieberman asks "Why do the US, UK and France treat race so differently in their social welfare systems?" Whereas the US and the UK have taken multi-culturalist strategies explicitly acknowledging race, France has pursued a race-blind system.

Lieberman's argument runs as follows: Specific characteristics in early racial diversity found in these different cases, in combination with the special character of their national political institutions shaped the coalitions for social welfare reform policy in each of these three countries. The social welfare institutions established early on, in turn, became the foundation upon which each country developed their particular understandings (ideas) about racial inclusion.

Lieberman is careful to warn against an overly simplistic version of historical path analysis. A warning to which all historical Institutionalists should take heed. Path dependency,

he argues, should not be reduced to a kind of path determinism. His analysis shows that while it is important and very useful to study the effects of increasing returns and the reinforcement mechanisms embedded in institutional structures (Arthur 1994; Pierson 1998), he also admonishes us to see that there is “substantial contingency, openness, and unpredictability ‘down path’”. While variations in the patterns of colonialism/imperialism between France and Britain, for example were critical to shaping their early 20th century attitudes and policies in dealing with the relationship between race and citizenship rights; one could not ‘read off’ current policies and attitudes from these early starting points (see also Mahoney 2000).

Given the uncertainty implied in this cautionary tale, the aim of the analyst is to better understand the processes at work and to examine how they unfold over time. Noting that historical development contains important elements of uncertainty does not suggest that history is random. It is precisely through the kind of historical process analysis, as present in this and other chapters, that we can come to understand the ‘nuts and bolts’ of this evolutionary process.

Virginie Guiraudon’s essay, “Including Foreigners in National Welfare States,” also speaks to the issues of unpredictability and uncertainty in institutional design. This paper explores cases in which institutions set up for one set of purposes adapt to new constituencies and purposes. Specifically she examines the process of inclusion of ‘foreign’ immigrants into Germany and France. What she discovers is that despite the very different notions of ‘nationality’ in these countries, they both end up extending social rights, but not political rights, to immigrants. This is the classic kind of puzzle that comparativists look for in the sense that while there are really quite important differences between these countries in terms of who the immigrants are, their historical relationship between the immigrant peoples and the host/home country, and even the

very definitions of national identity - these two countries end up pursuing policies that are remarkably similar. This becomes an even more interesting puzzle when we consider that both countries end up extending social rights which entail substantial costs to the state but fail to extend citizenship rights which are neither explicitly redistributive nor do they necessarily cost the state/taxpayer any money.

Guiraudon's posits two levels of institutional analysis to explain these outcomes. First, the term institutions is meant in the more abstract sense, that is they are rules. In this way she is using the term in ways that are quite familiar to both Rational Choice and Historical Institutionalists (cf. Levi 1997; Rothstein 2000; Steinmo, Thelen and Longstreth, 1992; Weingast 1997). In both of the countries she studies constitutional rules determine which specific institutions will be handed authority to address the problems of immigrant rights. In both countries social rights become matters addressed through the court systems whereas political rights are addressed through more explicitly political institutions. Secondly, she uses the terms "institutions" as they are perhaps more commonly understood by organization theorists and sociological institutionalist, as 'organizations' which develop and maintain their own norms, logics of appropriateness, even organizational cultures (March and Olsen 1989; Scharpf 1997). Both levels of institutional analysis are necessary for her story. The first question she addresses, is why are immigrant's social rights handled by the courts whereas political rights handled in more openly political contexts? The answer is found in the basic constitutional rules dictated that rights of employment and access to social welfare should be handle by the courts, while political rights had to be addressed in more open public venues. These venue decisions were enormously consequential. In the tradition of E.E. Schattschneider's classic institutionalist

work, Guiraudon demonstrates the ‘bias’ in organizations by showing how the liberal *norms of equity* applied by the courts in each country led to substantive outcomes that were in fact quite different to those witnessed where political forces played stronger roles.

In this analysis we find dynamic and interactive processes at work as well. The extension of immigrant rights was not, of course, a one off decision. Instead the current state is the product of a series of choices and decisions over time. Institutions in this analysis, like the others in this volume, must be understood as part of a dynamic and changing process. In this case, strategic actors will shop for venues that are more sympathetic to their cause (biased in their favor). Choosing a particular venue in Time 1 sets in motion a process that will change the relative weight of that venue in Time 2. Moreover, having made decisions in a particular direction further biases this institution to continue down this path. Students of the courts have long understood this dynamic: They call it ‘precedent.’

The chapter by Margarita Estevez-Abe, “Negotiating Welfare Reform,” offers yet another example of how institutional choices made in T_1 can radically structure the choices necessary and/or available in T_2 . Her analysis offers the most direct and obvious refutation of the ‘convergence thesis’ of any seen in this volume through a close evaluation of the politics of welfare reform in Japan. This analysis explodes the ‘globalization’ thesis by effectively demonstrating that the welfare state in Japan is not witnessing a period of ‘retrenchment.’ Instead, Japan is actively engaged in a process of “reshuffling of costs and benefits” within their welfare state in order to help it survive (even thrive?) as that welfare state matures. This paper opens with the very obvious, but all too easily ignored point that “different institutional designs.... produce different problems.” (p.1)

The naive globalization thesis suggests that all states will be ineluctably pushed toward some kind of ‘lowest common denominator’ and that the 21st century will witness a great convergence amongst advanced capitalist democracies (cf. Korten 1995; Rodrik 1997). These authors have clearly not considered the significance of institutions. Similar to Kumlin who also reminds us that different welfare institutions face different sets of problems, Estevez-Abe suggests that the Japanese welfare state faces a set of problems that are A) peculiar to the Japanese case and B) largely unintended products of the specific design of the Japanese welfare state itself. For example, many advanced capitalist states, suffer from the fiscal stress of an aging population, but in Japan’s case this problem is radically exacerbated by the gross inequities embedded in the current social welfare/pension system. Simply put: Those who pay for the system have difficulty accessing it and those that benefit most from it, have not paid much in.

Estevez-Abe provides a convincing historical institutional story for these peculiar outcomes showing how policy choices made in the immediate post-war era combined with the electoral/constitutional structure of the Japanese polity led this country’s social welfare system down its unique path. Much as in the American case elucidated by Dobbin, employers came to finance and administer much of the social welfare functions generally performed by the state in Europe. But in the Japanese case, an institutional compromise was struck between the center and periphery (big business and small farmer) which effectively redistributes wealth from the large cities to the regional prefectures. In an era of very high growth and massive profits, this system could work well, but as growth slowed, profits declined, and the population aged, this system was neither fiscally viable nor politically legitimate. Unfortunately for Japanese political elites, one of the legacies of this system has been a strong anti-tax sentiment in both the large urban

areas and in the rural periphery. Moreover, there has been an institutional separation of authorities in several arenas which has made reform even more difficult.

Estevez-Abe then examines a series of different policy arenas in Japan and discovers that certain institutional configurations develop dynamics favorable to compromise while other tend toward stalemate. Much in line with Rothstein's analysis of Swedish corporatist structures, Estevez-Abe shows that institutional capacity is affected by the character of linkages within the policy arena. Where there is close and consistent contact between actors in negotiations and where all sides are forced to confront costs and benefits simultaneously, compromise is more likely. In short, institutional structure shapes the character of these linkages and thus has profound impact on the ability to adapt or change extant institutions to the new policy/environmental context.

In sum, Estevez-Abe's fascinating analysis demonstrates how variations in institutional design - even within a polity - critically shapes the ability of actors to change and adapt to the many different challenges to the welfare state in the modern era. The Japanese welfare state, then, far from shrinking in the face of global economic competition, is adapting and perhaps even growing.

Steven Rathgeb Smith, "Privatization, Devolution and the Welfare State: Rethinking the Prevailing Wisdom," argues in a somewhat similar vein. Rather than seeing a wholesale retreat in welfare state responsibilities, he sees welfare state institutions adapting to a new political environment. Indeed, he questions the extent to which the state, even in the U.S., has really retreated in social services policy. He argues that that the debate on privatization and devolution has masked the extent to which the state remains central to the funding of social service

administration. Though clearly there have been important changes, he finds little evidence that these functions have been abandoned. The main argument here is that the changing character of the public/private mix in social services requires a rethinking of prevailing approaches of our understanding of privatization, devolution, and in a more profound way, how we should conceptualize what is the “state” in a welfare state.

Smith shows that nonprofit and for-profit service organizations are now much more heavily involved in service provision often with government contracts, not only in the United States, but in many European welfare states as well. In an analytic logic quiet analogous to that offered by Dobbin earlier in this volume, Smith’s story reveals several unexpected and also unintended effects coming out of the development. One is that because so many state funds are now funneled into the nonprofit sector these agencies are increasingly dependent on federal funds or (federal funds passed through state and local governments) and have developed a great interest in government funding levels and service regulations. As a result, service agencies mobilize politically, creating coalitions and associations to represent their political views. This means that the “welfare” part of the welfare state has gotten a new and important interest group or policy network. This partially new welfare state includes many employees in private organizations working under government contracts, indirect public expenditures through the tax system, hybrid nonprofit-public organizations, and new forms of regulatory political institutions.

In Smith’s analysis we see what is becoming an almost familiar narrative: The role of private service agencies historically and their relationship to the state at t1 play an important determinative role in shaping the response to government in social care at t2. Countries which historically have had a large voluntary sector, such as the United States or the Netherlands have

quite a different set of solutions to the public/private mix than Sweden and Denmark. In a sense, policy implementation in social services is path dependent to the extent that the public/private mix influences how governments respond to the changing demands and expectations of the public service.

In his chapter, “Political Trust and Support for State Intervention in Different Policy Regimes,” Stefan Svallfors examines what to many is the most troubling problems facing democratic welfare states today: The broad erosion in public confidence in the state itself. He begins with the rather common-sense proposition that if citizens distrust their political leaders and democratic institutions, then the welfare state is in trouble. Curiously, however, there does not seem to be a clear correlation between trust in “government/political leaders” and support for welfare state programs. It appears that citizens do not equate their local health care services or their social security checks with “politicians” or even “government.” As Kumlin and others have suggested, citizen’s cognitive capacities are rather limited - and it may be unreasonable to expect people to draw the link between ‘politicians’ and their social security check.

Simply put, Swede’s (or for that matter Germans, Japanese, Americans or any other people) do not equate politicians and even ‘government’ with the social services/public programs they take advantage of. In 1960 Anthony Downs made the brilliant observation that people calculate the costs of government differently than they calculate the benefits because the experience cost/benefits in different ways: We drive on the roads our taxes pay for without thinking “Boy am I glad I pay taxes so that I can have a road.” Or we breath air and do not say “Boy, am I glad I pay taxes to a government that protects my environment.” We do not think these things because we come to expect them as normal parts of life. Indeed, when we do notice

them, it is generally because of the potholes or the air pollution warnings, and then we get upset because government is not doing its job well enough. BUT, we do see a large percentage of our weekly/monthly paycheck directly taken away from us to ‘the government’. When we see these large sums taken, we are likely to think of the things that government does that we personally do not agree with (Star Wars missile programs, or ‘welfare’, or ‘bureaucracy’).

When citizens think about ‘government’ and even more so, ‘politicians’, they often think about the extractive and therefore painfully visible side of the public budget.... they are not thinking about the things that the government does or provides precisely because they have come to expect these things. When we notice them, it is because ‘government’ is not doing a good job.

All this has a lot to do with ‘historical institutionalism and the challenges of the welfare state’ because the welfare state is something that people have come to expect as the normal part of life. So, we should not expect them to be grateful to the ‘government’. Svallfors *does not* suggest that the growing skepticism towards political leaders and parties translates into demands for a rolling back of the welfare state (cf. Goul Andersen 1997). Though his analysis suggests that there is little support for the tax increases that would be necessary for substantial welfare state increases, the evidence suggests that there continues to be a great deal of support for maintaining welfare state services and programs. This is equally true in Sweden where the state takes over 50% of GDP in taxes as it is the United States where governments tax the economy at less than 30% of GDP.

Recalling Kumlin’s argument from earlier in this book, Svallfors notes ‘user experiences’ affect attitudes. While trust in politicians and parties in Sweden, for example, is quite low, trust in “implementing agencies” (schools, hospitals, etc.) is quite high. This presents a profoundly

interesting dilemma and in many ways represents one of the most vexing challenges to the modern welfare state: Most citizens and voters today have grown accustomed to the welfare state's that they live in and therefore the very functions performed by state institutions are simply assumed. Few feel the need to mobilize or fight for the right to basic housing, indoor plumbing, free public education or adequate health care (except perhaps in the US) because these things are now part of the basic *institutional and normative* foundation upon which these societies rest.

The final chapter by Bo Rothstein takes the "social dilemma" approach in explaining variations in levels of social spending. With particular reference to Sweden, he argues that the long-term viability of the universal welfare model is not dependent so much on traditional social forces (economy, ideology, political power or class structure). Instead, he argues that the future of the universal welfare state (or universal social programs at large) depends on the political and normative logic of the institutions of the welfare state, particularly those responsible for the implementation of policies. Based on "the theory of contingent consent" (cf. Levi 1998) he argues that the electoral and economic support for the welfare state depends on how well the social policies it produces are able to match three requirements posed by the theory. These are substantive justice, procedural justice and control over "free-riding". The challenge to the universal welfare state is thus more internal than external.

Rothstein further argues that many economic analyses of this type of welfare state have misunderstood what it is about. Given that the general demand for basic social insurances and services is *there*, universal insurance systems are more cost-efficient than private insurance systems. Similar to Svalfors and Downs, Rothstein sees the explanation for this outcome as a problem of "asymmetric information." In Rothstein's case, different institutional structures

shape the political game so that the participants see or understand their interests in quite different ways. In this respect, what the Scandinavian types of welfare states produces should not be understood as providing “private goods” for the poor, but instead as “public goods”. And as with all kinds of public goods, the production creates as “social dilemma” in that most “players” would benefit from cooperation to produce these goods given that they trust that “all other” players also cooperate in good faith. But if they know from “history of play” that such trust is often misplaced, e.g., that government institutions can not be trusted to provide what is in “the contract”, this large-scale cooperation is not likely to occur.

Drawing on insights from game theory, Rothstein thus explicitly theorizes about the connections between history, strategic behavior, institutions and ideas or beliefs. We can once again see the now familiar historical narrative in which actions, policies and/or institutions effect subsequent events. In this case we see the mechanisms through which this process operates as humans construct and reconstruct their institutional environment.

Conclusions: The Evolution of the Welfare State

We believe that it is helpful to see institutional change (and indeed the Historical Institutional approach more broadly) in an environmental and evolutionary context. By this we do not mean to suggest some kind of banal Darwinistic ‘survival of the fittest’ logic in which institutions are seen as competing genotypes. Rather, we suggest that institutions should be seen as an important part of the environmental or ecological context in which humans live, interact and adapt. Institutions in this view should not be seen as structural-determinist way. Instead we borrow a

notion from the well-known social anthropologist Marshall Sahlins: Institutions are the “grammatical rules“ of the political world. As such they are indeed important structural forces, but they do not determine exactly what can be said (Sahlins 2001).

Humans are unique in the physical world because they can be agents in consciously changing their environment or ecology. In politics, they/we can do this most obviously by changing institutions. The construction of the modern welfare state is a case in point. It’s very existence today fundamentally alters the political context (ecology) within which new political choices are made.

Modern welfare states are thus more like the “complex adaptive systems” studied by students of the life sciences than the linear non-adaptive world of Newtonian physics (cf. Holland 1992). We argue that Historical Institutionalism offers just the type of analytic approach that can help us understand the real world of welfare states in which there are multiple equilibrium and non-optimizing behavior (cf. Goodin et al. 1999). The essays in this volume thus move us away from static institutional arguments. They speak specifically to the question posed above by showing the relationship between ideas and institutional change and focusing on the ways in which the embeddedness of political institutions and ideas shape the historical path. Thus, each is engaged in “systemic process analysis” (Hall 2000).

If *Historical* Institutionalism means anything, it must mean that both history and institutions are important. Indeed, we submit that the key unifying factors among those who call themselves *Historical* Institutionalists is their emphasis on history rather than their specific understandings of how institutions structure politics (Thelen 1999). In many economic approaches, institutions are also important, but in their approach history is simply be a series of

events in which the basic dynamics of human choice and action are played out. History, in this sense doesn't *matter*, it is simply a place where different events have occurred and choices were made that can be explained by the strategic action of utility-maximizing agents. Historical institutionalists disagree for two reasons. First, history matters because we see some kind of evolutionary development along specific historical paths. Secondly, institutional analysis gives important clues in understanding the formation of beliefs.

We see Historical Institutionalism ontologically challenging the standard static view implied in most economic approaches to politics – as well as that implied in much of the current efforts in comparative political inquiry. Much like recent efforts at evolutionary game theory we argue for the *theoretical* importance of history in any account of current events. For example, Peyton Young's approach on modeling agency in evolutionary game theory is in many ways analytically similar to the analyses offered in this book. It is by now commonplace to suggest that agents are neither perfectly rational or fully informed – that they base their decisions on incomplete models and are not especially forward looking. “ Still, they are not completely irrational: they adjust to their behavior based on what they think other agents are going to do, and these expectations are generated endogenously by information about what other agents have done in the past” (Young 1998, p. 6).

Real human beings do not wake up each morning in some kind of Hobbesian hell in which they must recalibrate their interests and readjust their behaviors, strategies and even attitudes to the institutional rules in which they find themselves. A more realistic view understands that both information and cognitive capacities are limited and therefore we necessarily have biased impressions of the world around us. These biases – our views of the

world – grow out of our individual and collective experiences. Our histories.

When it comes to welfare states, voters as agents may base their beliefs about the governments ability to provide social services and social insurances on three such sets of “information about what other agents have done in the past”. First, have politicians kept their part of the “contract” or not. Second, can the public administration be trusted to handle the programs. And thirdly, can other citizens be trusted not to cheat or misuse the programs. In all three cases, institutional arrangements may be part of the answers to these questions which all will have bearing on the issue if citizens are going to support collective solutions to their demand for social protection, or not (cf. Levi 1998, and Rothstein 1998).

Humans both make and are made by their own history. Thus, rather than viewing human choice as bounded by static institutional constraints, historical institutionalists see choice bounded and influenced by history itself. This is because in any given society, both the institutions *and the preferences* of actors are framed by the past. As Historical Institutionalists we are interested in unraveling this web events. Our analyses travel back down the historical path not in order to find other cases with which to demonstrate a received theory of political behavior; but rather, in order to discover both why certain choices were made and how these choices affect subsequent rounds of political choice. This ontological bias does not lend itself to easy linear modeling, but it does, we believe, help us better understand the real world in which we live.

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¹ Several recent analyses have shown that the differences in taxation and expenditures between the Western democratic countries persist and to some extent are becoming even more accentuated despite earlier predictions of policy convergence and/or an impending ‘race to the bottom. Garrett & Mitchell, for example, summarizes their empirical study on the OECD countries with the following: “Globalization has not induced a pervasive race to the bottom in welfare state regimes” (Garrett and Mitchell 2000). Similarly, Fritz Scharpf concludes that “while all countries seem to be constrained on the revenue side, there is no evidence of a race to the bottom or, for that matter, of a convergence toward the mean” (Scharpf 2000, p 12.). Swank and Steinmo (forthcoming, 2002) study fiscal policy offer a somewhat more nuanced analysis suggesting: “With regard to internationalization, capital mobility has not led (and is not likely to lead) to a “race the bottom” or the evisceration of the revenue-raising capacity of the state: governments can (and do) pursue moderately extensive social protection and public goods

provision when they and their electorates so choose. Equally clearly, however, governments face a new set of challenges from the internationalization of markets and these have contributed to a paradigm shift in taxation policy and to some specific tax reductions” (Swank & Steinmo 2002. See also, Hemerijck and Schludi 2000; Iversen 2001; Charny 2001; and Barnard 2000, p 59)

² For example, working from this rationalistic perspective Moene & Wallerstein have convincingly shown that both a Scandinavian type of universal welfare state and a US type of selective system can be explained as two different outcomes of voter/workers rational choices (Moene and Wallerstein 2001). But from their perspective they can give no explanation for why we get these very different outcomes given that the agents act out of the same type of strict rationality.