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The Rise of Neoliberalism and Institutional Analysis

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Chapter 1

Introduction

THE RISE OF NEOLIBERALISM AND INSTITUTIONAL ANALYSIS

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THE LAST two decades of the twentieth century have been marked by the election of conservative governments in North America and Western Europe, the pursuit of austere stabilization policies in Latin America, and the collapse of the communist regimes in Eastern Europe and the Soviet Union and their movement toward market economies. As a result, the period has been described as one of rising *neoliberalism*—that is, a time of market deregulation, state decentralization, and reduced state intervention into economic affairs in general (Albert 1993; Lash and Urry 1987; Przeworski 1995). Cast in these terms, neoliberalism has been a political project concerned with institutional changes on a scale not seen since the immediate aftermath of the Second World War and a project that has attempted to transform some of the most basic political and economic settlements of the postwar era, including labor market accords, industrial relations systems, redistributive tax structures, and social welfare programs. Integral to these changes has been a shift away from Keynesian economic ideas, which emphasized the political management of aggregate demand, to a more conservative discourse based on monetarist, supply-side, and rational expectations theories (Heilbroner and Milberg 1995). This has entailed a confrontation of ideas and rhetoric on a normative level regarding the sorts of institutional changes toward which societies ought to aspire and on a prescriptive level regarding the concrete policy recommendations deemed necessary to fix a variety of social and economic problems, notably economic stagnation and the dilemmas posed to national political economies by the forces of economic globalization. Much debate has occurred over how extensive these changes have been and over their causes, but few doubt that neoliberalism has become an important part of our world (Berger and Dore 1996; Boyer and Drache 1996; Crouch and Streeck 1997; Hirst and Thompson 1996; Kitschelt et al. 1999a).

Simultaneously, and not coincidentally, given the vast institutional changes associated with the rise of neoliberalism, there has been renewed interest since the mid-1970s in the analysis of institutions as critical determinants of political and economic performance as well as objects of inquiry in their own right.

This has occurred in Europe as well as North America and has involved the emergence of several new institutionalist paradigms, specifically *rational choice* (e.g., Knight 1992; North 1990), *historical* (e.g., Steinmo et al. 1992), *organizational* (e.g., Powell and DiMaggio 1991) and *discursive institutionalism* (Bourdieu 1998; Foucault 1969, 1991; Searle 1995).¹

This volume compares the strengths and weaknesses of these new paradigms by turning them to an empirical analysis of the rise of neoliberalism. This is important for two reasons. On the one hand, as argued below, the rise of neoliberalism played an important role in the development of institutional analysis, so it is fitting that the theoretical perspectives that it helped foster should now be used to examine how extensive this phenomenon has become, how it emerged in the first place, and what some of its effects have been. On the other hand, until the mid-1990s scholars tended either to work within their own institutionalist paradigms or to engage in critical debates in which each side attacked the other's weaknesses (e.g., DiMaggio and Powell 1991; Kiser and Hechter 1991; Thelen and Steinmo 1992; for an exception, see March and Olsen 1989). Recently, however, there have been calls for what might be described as a *second movement* in institutional analysis, that is, a more constructive dialogue among paradigms in order to identify complementarities and explore the possibilities for rapprochement, cross-fertilization, and integration (Ethington and McDonagh 1995; Finnemore 1996; Fligstein 1998, chap. 5; Hirsch 1997, p. 1721; Hirsch and Lounsbury 1997; Peters 1999, chap. 9). This stems from the increasing recognition among scholars that institutions and institutional change are more complex than any paradigm portrays by itself and that it is time to begin exploring how paradigms complement and connect with each other in ways that might eventually generate new insights, if not a new problematic, for analyzing institutions. This volume seeks to advance that project by examining how different paradigms attack a common empirical problem, in this case the rise of neoliberalism.

To be sure, some of the chapters presented here embrace the principle of a second movement more wholeheartedly than others by trying to integrate insights from different paradigms in ways that shed new light on the rise of neoliberalism. Other contributors prefer to see how far their paradigm can go alone in explaining neoliberalism. They suggest, for instance, that those aspects of the phenomenon for which their approach cannot provide a satisfactory account may be explained better by one of the other paradigms. So, although not every chapter in this volume demonstrates or even aspires to the sort of paradigmatic cross-fertilization and integration that some scholars advocate, the volume does point the way toward more fruitful interactions among institutionalist paradigms—interactions that can further the second movement in institutional analysis.

In addition to the unique insights of each chapter, the volume as a whole makes several important points, which we elaborate in the concluding chap-

ter. At an empirical level, it shows, first, that the concept of neoliberalism is more complex, diverse, contested, and open to interpretation than is often recognized. Several chapters demonstrate that neoliberalism is less a coherent totality, as is often assumed, than a loose conglomeration of institutions, ideas, and policy prescriptions from which actors pick and choose depending on prevailing political, economic, social, historical, and institutional conditions. The results can be either contradictory or complementary, and often vary across as well as within countries. Institutional analysis brings all of this clearly into view even though the process of picking and choosing can be viewed from many different angles, depending on the institutionalist paradigm at work. Second, it is a profound exaggeration to argue that there is widespread convergence toward a common set of neoliberal institutions, but it is also wrong to suggest that there is no convergence whatsoever. The truth is in between, rooted in the notion that neoliberalism does not so much involve *deregulation* as *re-regulation* of economic activity. Third, states are much less incapacitated by the rise of neoliberalism than is often appreciated. Instead, states can block, adapt to, mediate, and in some cases even reverse neoliberal tendencies. Finally, contrary to what the proponents of neoliberalism assert, market deregulation does not necessarily yield more efficient economic behavior than do other institutional arrangements.

At a theoretical level, the volume indicates that differences in methodological approach do not preclude a second movement in institutional analysis, as some have suggested, even though different approaches tend to be associated with different paradigms. As discussed in the conclusion, such a movement has begun recently and involves a variety of strategies: linking paradigms by specifying the contexts under which different causal processes operate; blending insights from different paradigms to show how the causal factors of one paradigm interact or are nested with those of another; identifying analytic problems shared by different paradigms; and subsuming arguments from one paradigm into those of another. More importantly, significant theoretical payoffs can be gained from a second movement. First, the fact that debates about the relative explanatory power of these paradigms keep recurring in the social science fields of political economy, historical sociology, comparative politics, international relations, organizational analysis, and others suggests that no paradigm has a monopoly on the truth.² By trying to transcend paradigmatic boundaries, scholars can discover a wider, more complex array of mechanisms of institutional change than each paradigm generally can alone. They can also identify areas where paradigms overlap, where they complement or supplement each other, and where paradigms describe different parts of the empirical world (Ruggie 1998, p. 885). Indeed, this volume yields all of these benefits, but particularly insights about the many mechanisms of institutional change — such as political struggle, diffusion, imitation, translation, learning and experimentation — that affected the rise of neoliberalism. Second, engaging in construc-

tive dialogue across paradigms can advance research agendas on all sides by raising new questions about the causes and effects of institutional development that have been neglected previously (Kahler 1998, p. 940). For instance, debates among advocates of these paradigms have spawned a wave of empirical studies that seek to adjudicate the manner in which cognitive, normative, and formal regulatory institutions—each representing a different institutionalist approach—affect policy, economic performance, and institutional change (e.g., Hall 1997). This is a theme in several of our chapters. Finally, advocates for a second movement have argued that the debate needs to be pushed from the level of theoretical polemic, of claims and counterclaims, to the level of empirical research in order to see how well each paradigm explains real-world phenomena (Kahler 1998, p. 922; Lichbach 1997, p. 266). In doing so, scholars are more likely to arrive at a better understanding and more accurate theoretical account of empirical reality (Keck and Sikkink 1998, pp. 210–11). Certainly, the empirical insights offered by contributors to this volume underscore this point.

Of course, several excellent volumes have been published in which scholars from a *single* institutionalist paradigm studied a *wide variety* of empirical phenomena in order to demonstrate the analytical power of their approach.³ This was a necessary and constructive first step in the development of institutional analysis because it defined different approaches and established the terrain for debate among them. In the end, however, it also led more to the construction of barriers than to the building of bridges among paradigms.

This volume is much different because it presents work by authors operating from *different* paradigms who have agreed to focus their attention on a *common*, albeit complex, empirical subject. In doing so, it strives toward four goals. First, it represents the state of the art in using the new paradigms of institutional analysis. Second, it reveals the comparative virtues of each paradigm by turning them all to an analysis of a common empirical problem, the rise of neoliberalism. Third, it identifies possibilities for rapprochement, cross-fertilization, and integration among paradigms. Finally, it contributes to our understanding of the rise of neoliberalism. In sum, this volume is both a *demonstration* of how scholars from different theoretical traditions practice their craft and an empirically based *comparison* of different approaches to the analysis of institutions that helps show how scholars might begin to contribute more systematically to the second movement in institutional analysis.

This volume is *not* an attempt to adjudicate which paradigm is somehow the “best.” As it demonstrates, each paradigm has its own advantages and disadvantages, particularly when it comes to explaining a phenomenon as complex as the rise of neoliberalism. Nor does it claim that a second movement in institutional analysis is inevitable. This would be naive, if not utopian, insofar as it ignores how scholars thrive on carving out and defending various theoretical niches for themselves. Nevertheless, this volume indicates that theoretical

headway can be made by considering the ways in which different paradigms may inform one another through empirical research.

Political-Economic Intersections with New Institutional Analysis

It seems particularly fitting to compare and evaluate different institutionalist paradigms by deploying them for an empirical analysis of neoliberalism. Neoliberalism is itself a heterogeneous set of institutions consisting of various ideas, social and economic policies, and ways of organizing political and economic activity that are quite different from others. Ideally, it includes formal institutions, such as minimalist welfare-state, taxation, and business-regulation programs; flexible labor markets and decentralized capital-labor relations unencumbered by strong unions and collective bargaining; and the absence of barriers to international capital mobility. It includes institutionalized normative principles favoring free-market solutions to economic problems, rather than bargaining or indicative planning, and a dedication to controlling inflation even at the expense of full employment. It includes institutionalized cognitive principles, notably a deep, taken-for-granted belief in neoclassical economics. In many ways it is the antithesis to the Fordist-Keynesian institutions that preceded it in the advanced capitalist countries during the three decades following the Second World War (e.g., Hall 1998, 1993; Locke and Thelen 1995; Piore and Sabel 1984). If the new institutionalist paradigms are worthwhile, they should be able to account for the emergence of this very important set of institutions. They should be able to show how nations adopted new ideas, pursued different policies, and ultimately reorganized political-economic activity in ways that were fundamentally different from what had previously been the case.

It also seems fitting to use institutional analysis to view neoliberalism because some versions of institutional analysis were developed to explain the same set of political and economic problems that triggered debates over the desirability of neoliberalism in the first place. Other versions of institutional analysis were not stimulated so directly by these problems, but still had profound theoretical implications for some of neoliberalism's core precepts.

More specifically, in an effort to understand why some advanced capitalist countries were more likely to suffer stagflation after the collapse of the Bretton Woods agreement in 1971 and the first oil embargo in 1973, scholars examined the different national institutions within which political and economic decision making was embedded. Building on earlier literature in comparative political economy (e.g., Shonfield 1965), many argued that differences in economic performance during the 1970s depended on whether liberal, statist, or corporatist institutions prevailed. Indeed, much of this literature maintained that corporatist arrangements were superior to the others insofar as they tended

to be associated with lower inflation, lower unemployment, and less labor unrest, as well as higher rates of productivity growth and technological innovation (Goldthorpe 1984; Gourevitch 1986; Hibbs 1987; Katzenstein 1978; Lindberg and Maier 1985). Much of this literature laid the foundation for what later came to be known as *historical institutionalism*.

As this literature began to emerge, scholars, particularly in the Scandinavian countries, who recognized that complex and important institutional differences existed *among* the corporatist countries and, by implication, among liberal and statist ones as well, voiced concern that the emergent comparative literature overemphasized the formal aspects of institutions at the expense of others. Having been influenced by the development of discourse and linguistic analysis in Europe (e.g., Foucault 1991, 1969; Latour and Woolgar 1986; Ricouer 1983; Wagner, Wittrock, and Whitely 1991), they argued that the comparativists neglected how institutions also consist of discursive elements that shape political and economic perceptions, the definition of actors' interests and, ultimately, behavior. Moreover, they believed that differences in the discursive side of institutions helped explain variation in public policy and economic performance among corporatist countries. For example, they credited Denmark's remarkable success in reducing its budget deficits during the mid-1980s to the ability of its leaders to utilize the principles of a well-institutionalized discourse, stressing social cooperation and consensus building, which enabled the major social partners to redefine their interests in terms of bringing the budget under control. This critique represented another body of work that also sought to explain the relative success of corporatist arrangements, but with a more multidimensional approach to institutional analysis (e.g., Nielsen and Pedersen 1991; Pedersen 1991, 1993). We refer to this literature as *discursive institutionalism*. Eventually, scholars from other theoretical traditions in political economy began to incorporate the discursive approach into their work, often in their accounts of the rise of neoliberalism (e.g., Block 1996; Bourdieu 1998; Schmidt 1999, 2000).

As stagflation persisted and in some cases worsened, doubts emerged in the late 1970s and early 1980s about the efficacy and desirability of corporatism and political space opened up for neoliberal experiments (Kitschelt et al. 1999b). This was exacerbated by the growing belief that economic activity was becoming more globally oriented; that the capacities of nation-states to manage their economies were being subverted accordingly; that the competitive position of advanced countries required more institutional flexibility, especially in the organization of labor markets and production, in order to better respond to global economic imperatives; and that institutional rigidities were contributing to economic problems (e.g., Ohmae 1990; Piore and Sabel 1984; Reich 1991). In turn, some governments began to reduce welfare-state programs and abandon centralized corporatist bargaining and the indicative planning that had flourished earlier in so many countries (Lash and Urry 1987).

Institutions drew attention once again but this time as impediments to international competitiveness. Scholars had created the intellectual justification for this neoliberal turn years earlier through public choice theory, the Austrian school of economics, monetarism, and conservative liberalism (Kelley 1997, chap. 2). An especially important and related literature gained prominence during the 1980s and early 1990s that focused on how rational economic actors pursuing their short-term interests tend to build political and economic institutions that often stifle technological innovation, economic efficiency, and long-term economic growth (e.g., North 1990; Ostrom 1990). Some of this work was directly concerned with explaining stagflation and other economic problems of the late 1970s (e.g., Olson 1982). Of course, rational actor models had been around for years, and the impetus for *rational choice institutionalism* came as much from academic debates as it did from concerns with contemporary economic problems (e.g., Swedberg 1990, chaps. 6, 9). Nevertheless, its development intersected and often provided insights into the problems that precipitated neoliberal experiments.

Early work in *organizational institutionalism* was not concerned with problems of stagflation, market deregulation, and the like. Instead, it was done by scholars who were interested in showing how organizations such as schools, museums and hospitals changed their institutional practices as new cultural scripts and schema diffused through organizational environments, often at the international level, and served symbolic and ceremonial purposes at least as much as utilitarian ones (DiMaggio and Powell 1983; Meyer et al. 1977; Meyer and Rowan 1977; Thomas et al. 1987). However, these scholars reacted to the emergence of historical and rational choice institutionalism in ways that had significant implications for some of neoliberalism's central tenets.

Organizational institutionalists charged that both rational choice and historical institutionalism systematically neglected the importance of norms, cultural scripts, cognitive frames, and meaning systems. They argued that these factors heavily mediated whatever tendencies there might be for actors to build institutions on the basis of their self-interests (e.g., Dobbin 1994a; Fligstein 1990, 1998; Soysal 1994) and that these influences were often quite positive for the economic performance of firms, markets, and national political economies (Abolafia 1996; Baker 1984; Fligstein 1990, 1998; Nelson and Winter 1982). As a result, organizational institutionalism signified a double-edged critique of neoliberalism. On the one hand, neoliberalism assumed that actors were naturally driven by a self-interested, instrumental rationality, but organizational institutionalists showed that this rationality, like others, was socially constructed and culturally and historically contingent. In other words, there was nothing natural about it (Dobbin 1994b; Meyer, Boli, and Thomas 1987). On the other hand, neoliberalism maintained that if actors were left to freely pursue their self-interests, then the economy would yield optimal results. Yet organizational institutionalists showed that liberal market systems did not nec-

essarily perform better than statist or corporatist forms of capitalism (Dobbin 1994a; Fligstein 1998) and that institutionally unbridled self-interest might actually undermine economic performance (Abolafia 1996).

During the 1990s world events continued to invigorate institutional analysis. First, the collapse of communism precipitated new experiments with neoliberalism as many new postcommunist governments distanced themselves from anything that resembled state economic intervention or planning. Poland's shock therapy program in the early 1990s was perhaps the most dramatic example, but other countries engaged in similar experiments. Of course, international organizations, such as the International Monetary Fund and the World Bank, encouraged these efforts, much as they continued to do in Latin America and East Asia (Greskovits 1998). However, when it became obvious that postcommunist societies lacked the institutional foundations required for the rapid development of capitalism and that this severely undermined neoliberal policies and created all sorts of problems in the region, institutional analysts moved into the breach to better explain what was going on and how to proceed (e.g., Amsden, Kochanowicz, and Taylor 1994; Campbell and Pedersen 1996; Elster, Offe, and Preuss 1998; Przeworski 1995; Stark and Bruszt 1998). Second, the Asian financial crisis in the late 1990s provoked much soul-searching among politicians and academics, some of whom had advocated neoliberalism earlier in order to promote economic development in the region but who in retrospect admitted publicly that more institutionally sensitive policies might have worked better (Kristof and Sanger 1999). Finally, recognition that neoliberal experiments in the advanced capitalist countries had contributed to rising unemployment, income inequality, and other problems generated increasing interest in the institutionalized discourses that continued to make neoliberalism so appealing politically despite its less attractive side effects (Block 1996; Bourdieu 1998).

The Paradigms

In sum, by the mid-1990s four distinct paradigms of institutional analysis had developed. They constitute the paradigmatic foundations upon which the remaining essays in this volume are built. Their characteristics have been described in great detail elsewhere (e.g., Campbell 1997b; Finnemore 1996; Hall and Taylor 1996; Lichbach 1997; Pedersen 1991; Peters 1999; Thelen 1999; Scott 1995). Nevertheless, we briefly highlight below some of their most relevant features insofar as our project is concerned. This discussion is summarized in table 1-1. However, it is important to understand that table 1-1 represents these paradigms as ideal types, each of which really represents a somewhat *heterogeneous family* of theories. Like all families, there are often disagreements *within* each paradigm over theoretical and other issues (e.g., Hechter and

Kanazawa 1997; Hall and Taylor 1996, 1998; Hay and Wincott 1998; Knight in this volume; Schneiberg and Clemens forthcoming; Strang and Bradburn in this volume). For example, rational choice institutionalism encompasses transaction-cost theory, principle-agent theory, game theory, and even some versions of traditional pluralist theory insofar as they all assume that actors pursue their self-interests and build political and economic institutions accordingly. As a result, attempts at brief characterization necessarily provide a glimpse of only the rough contours of each paradigm beneath which much important variation may exist, not to mention fuzziness at the boundaries between paradigms.⁴ Still, we provide such a sketch in order to alert readers to the most important theoretical and methodological issues at stake throughout this volume.

To begin with, at its most basic level each paradigm is motivated by a different *problematic*. The rational choice view is concerned with how rationally motivated actors build institutions to solve problems of exchange, such as reducing transaction costs and managing principle-agent relations, and the production of collective goods (North 1990, 1981; Ostrom 1990; Williamson 1985). Historical institutionalists are more often concerned with how variations in political or other institutions shape actors' capacities for action, policy making, and institution building (Steinmo, Thelen, and Longstreth 1992). Organizational institutionalists are often interested in how rationality and the rationalization of institution building are culturally and cognitively constituted and legitimized (Thomas et al. 1987). The principal concern of discursive institutionalists is in how institutions are constituted, framed, and transformed through the confrontation of new and old discursive structures—that is, systems of symbolic meaning codified in language that influence how actors observe, interpret, and reason in particular social settings (Kjær and Pedersen, this volume).⁵ This is important because, as this volume illustrates, these problematics influence the sorts of questions that researchers find interesting and worth studying. As a result, when they set out to study an empirical phenomenon like the rise of neoliberalism, they may end up examining different parts of it and thus making discoveries that other paradigms might miss given the different questions they tend to ask. This is certainly true of the contributions to this volume.

For example, different paradigms theorize different *conditions of change*. Rational choice institutionalists posit that actors transform institutions when material factors, such as prices or transaction costs, shift and they perceive that the benefits of doing so will exceed the costs (e.g., Moe 1987; North 1990). Historical institutionalists concur that institutional change occurs when actors perceive that it is in their political or economic interests to pursue it—notably, in the face of major crises or other shocks like depression, civil unrest, or war—and that institutions shape the capacities and therefore the strategies with which actors pursue change (e.g., Gourevitch 1986). However, they also main-

TABLE 1-1
Comparison of Rational Choice, Historical, Organizational, and Discursive Institutionalism

	<i>Rational Choice Institutionalism</i>	<i>Historical Institutionalism</i>	<i>Organizational Institutionalism</i>	<i>Discursive Institutionalism</i>
Problematic	How do institutions solve problems of exchange and collective goods production?	How do institutions shape capacities for action and institution building?	How are institutions culturally constituted, rationalized and legitimized?	How are institutions constituted, framed, and transformed through discourse?
Conditions of Change	Shift in costs and benefits	Crisis and exogenous shock Contradictory institutional logics	Increased environmental uncertainty Political-cultural shifts	Perceived political-economic crisis Presence of alternative discourses
Mechanisms of Change	Interest-based struggle, conflict, bargaining, strategic gaming	Interest, idea, and ideologically-based struggle, conflict, bargaining Learning, feedback, and experimentation	Imitation, diffusion, translation	Translation, displacement, bricolage
Epistemology and Methodology	Positivist deductive search for general theory	Comparative inductive search for historically specific theory	Positivist deductive search for theory	Interpretive inductive search for historically specific explanation Archaeology of texts

tain that because different institutions may operate according to different logics and that these logics may occasionally contradict each other, the impetus for institutional change may also be endogenous to an existing constellation of institutions (Thelen 1999; see also Schneiberg 1999). Organizational institutionalists suggest that institutional change occurs under conditions of environmental uncertainty where actors, often confused about what the most rational or cost-effective strategy should be, adopt whatever culturally appropriate or legitimate practices and models they find around them. As a result, institutional change is driven more by a logic of appropriateness than a logic of instrumentality (Dobbin 1994a; Fligstein 1990). Moreover, and in sharp contrast to the other paradigms, some organizational institutionalists also argue that in addition to changes in material conditions, political-cultural shifts — in particular the emergence of new models of appropriate political, organizational, or economic behavior — often stimulate institutional change (Boli and Thomas 1999; Soysal 1994; Thomas et al. 1987). Discursive institutionalists maintain that perceptions of institutional crisis coupled with the presence of alternative discourses, through which actors define and interpret crises in new ways and propose new solutions to them, are essential conditions for institutional change (Wittrock and Wagner 1996). Subsequent chapters reveal that all of these factors helped foster neoliberalism.

Paradigms also take different positions on the *mechanisms through which change occurs*. Rational choice theorists generally see interest-based struggle, conflict, bargaining, or strategic gaming as the chief mechanisms of change. For example, ruling elites struggle with each other and the citizenry to build political institutions to extract taxes and other resources from society (Levi 1997b, 1988). Historical institutionalists also view struggle and conflict as the primary mechanism through which institutional change occurs, although they see that ideas and ideologies as well as interests drive these struggles (Hattam 1993; Peters 1999; Rueschemeyer and Skocpol 1996). Recently, they have also begun to pay close attention to how institutional change may stem from trial-and-error experimentation, learning, and the effects of policy feedback (Hall 1993; Pierson 1993). For both rational choice and historical institutionalists, outcomes may vary considerably across cases, depending on prevailing institutional, historical, and political conditions. In contrast, much organizational institutionalism suggests that because institutional change is largely a process of modeling appropriate behavior, it is a much less conflictual process of imitation through which new institutional forms diffuse through fields of organizations or across nation-states — a process whose outcome is described in terms of institutional isomorphism, homogeneity, or convergence (DiMaggio and Powell 1983; Strang and Meyer 1993). More recent proponents of organizational institutionalism view the process of change more as one of translation, where organizations or polities adopt new models, but in ways that are heavily mediated by prevailing institutional conditions that result in somewhat more

differentiated institutional outcomes (Soysal 1994). Similarly, discursive institutionalists focus on how elements of one discourse are translated into another and displace older definitions of problems and solutions. Thus, old and new discursive elements are combined in innovative ways that facilitate institutional change through discursive alliances or bricolage (Wittrock and Wagner 1996; see also Douglas 1986, pp. 66–67; Campbell 1997a). Whether these mechanisms are mutually exclusive is a question that we address in chapter 10 based on the analyses provided by our contributors, but the important point here is that specifying and examining these processes sheds light on the degree to which neoliberalism has spread and penetrated in different countries and cases around the world.

Finally, each paradigm tends to adopt different *epistemological and methodological conventions*. Rational choice institutionalists subscribe to a positivist approach that emphasizes deducing hypotheses from theories based on the microanalytic principles of methodological individualism and tests them by studying bargaining and exchange relations in order to develop general theories that hold across time and space (e.g., Bates et al. 1998; Kiser and Hechter 1998). In contrast, although historical institutionalists are not averse to hypothesis testing, they often compare cases of similar types, such as groups of advanced capitalist economies or democratic states, in order to inductively generate theories about political economic systems that are more specific to particular times and places (Katznelson 1997; Hall 1997). For many years organizational institutionalists have taken a positivist approach, although deducing hypotheses from much different theoretical principles from those of rational choice. However, more recent practitioners have adopted far more interpretive and inductive strategies in order to better identify the processes and mechanisms through which actors try to make sense of their situations and attribute meaning to their institutions (Schneiberg and Clemens forthcoming). This very inductive approach is also typical of discursive institutionalism, which hails from a hermeneutic tradition, particularly insofar as it requires that researchers perform an archaeology of archival or textual material. In the extreme, the concern is for developing historically specific descriptions and explanations, not causal theories in a conventional sense (Bourdieu 1998; Foucault 1991, 1969; Pedersen 1991). The fact that organizational institutionalism, if not representatives of the other paradigms, appears to be adopting an especially varied set of methodologies in order to advance their theoretical position is important because it suggests that perhaps the rather stark methodological differences that often appear to separate these paradigms do not, in fact, pose insurmountable obstacles to theoretical cross-fertilization and integration, another issue tackled in chapter 10.

Of course, each paradigm has unique theoretical roots too complex to review here in detail. Rational choice evolved from neoclassical economics as indicated, notably, by the fact that both embrace the principles of method-

ological individualism. However, it largely eschewed the neoclassical obsession with formal modeling at the expense of empirical analysis and insisted increasingly on theorizing how institutions affect the strategic calculations and information costs of individuals (Levi 1997a). Historical institutionalists rejected methodological individualism as well as excessively broad, often functionalist, analyses of society by adopting Weber's comparative political economy approach, including an interest in the potential autonomy of state actors and institutions, and Marxism's concern with crisis theory and class struggle (Katznelson 1997). Organizational institutionalism developed in critical reaction to both the behavioralism and functionalism of the social sciences after the Second World War and rational choice theory more recently, and was heavily influenced by the social constructionist theories of phenomenology, symbolic interactionism, and cognitive psychology (DiMaggio 1997; DiMaggio and Powell 1991). Discursive institutionalism was influenced, on the one hand, by linguistics, hermeneutics, and the anthropological structuralism of Claude Levi-Strauss, Mary Douglas, John Searle, and others and, on the other hand, by the critical social philosophy of theorists like Paul Ricouer and Michel Foucault (Pedersen 1991). It represented a rejection of empiricism, positivism, behavioralism, and Marxist materialism, particularly the French structuralist variety, and was more concerned with social criticism.

Yet despite these widely varying theoretical origins, all four of these perspectives share a common concern for locating human behavior in institutional context. What makes these paradigms "new" and, indeed, what contributed to their origins at a theoretical level was a rejection of excessively general theories of social structure and individual behavior. As a result, they all stress the importance of more middle-range explanation than did their fore-runners. Even rational choice institutionalists, who strive for broad theoretical generalizations more than do theorists of other institutionalist paradigms, take history and context much more seriously than do neoclassical theorists (e.g., Kiser and Hechter 1998; Knight 1992; Levi 1988; Ostrom 1990). Notably, many rational choice theorists now advocate using a methodological approach known as *analytic narratives*, where researchers blend the analytic tools of game theory with thick historical descriptions of empirical cases, carefully specify the scope conditions of their theory, and only later, once the theory has been refined in light of the empirical cases, test it against "out of sample" cases in order to generalize more broadly (Bates et al. 1998; Levi 1999, 1997b).

This is an important point. One of the reasons why institutional analysis has become so important is that it fills a vacuum left by other scholars who had developed a variety of much different paradigms, which in the end turned out not to be very good for explaining empirical reality. Two examples will suffice. First, structural functionalism made sweeping predictions in the 1950s about the gradual, evolutionary development of increasingly well integrated industrial societies, the inevitability of modernization, and the like. Yet the social up-

heavals of the 1960s and the failure of many developing countries to really “modernize” and become independent democratic societies discredited this approach, as dependency theory, world systems theory, and recent versions of development theory have all shown (Haggard and Kaufman 1992; Wallerstein 1976). Second, neo-Marxism’s determination to theorize universal laws associated with the capitalist mode of production was also flawed in that it could not adequately account for wide variations in the organization and performance of different societies within advanced capitalism. Indeed, during the late 1970s several prominent neo-Marxists began to incorporate rudimentary institutional analyses into their work precisely to grapple with these problems (e.g., Jessop 1982; Poulantzas 1978). Nor was neo-Marxism able to account for the empirical realities of state socialist societies, particularly the persistent inequalities and flagging economic performance of both the Soviet Union and East European countries prior to the collapse of their communist regimes (Konrad and Szelenyi 1979).

Eventually, scholars became dissatisfied with such “grand theory” (Mills 1959) and began to return to the classical roots of sociology, political economy, and political science by rediscovering institutions (e.g., March and Olsen 1989; Evans, Rueschemeyer, and Skocpol 1985). Max Weber, Emile Durkheim, Karl Polanyi, and others whose work focused sharply on how political and economic behavior was firmly embedded in institutions became the hub of an intellectual renaissance—the new institutional analysis. By adopting a middle-range approach to theory, scholars found that institutional analysis offered an escape from the quagmire of grand theory and provided the kind of analytic leverage necessary to account for both historical and cross-national variation in political and economic activity. Of course, we must guard against the possibility that the old debates that distracted us from these classical traditions and created the opportunity for the ascendance of grand theory do not recur and undermine the institutionalist project that has blossomed. Slipping back into arguments about whether structure or agency ought to enjoy pride of place in our theories or whether macrolevel analysis is more appropriate than microlevel analysis may present just such dangers. By sticking to middle-range theorizing, institutional analysis provides ways to avoid these pitfalls.

Outline of the Volume

Contributors to this volume represent all of the major approaches to the study of institutions. In chapter 2, Jack Knight develops a game theoretic account of the spread of neoliberalism through Latin America that relies on rational choice theory to adjudicate among a variety of more specific theories of institutional change and development. Edgar Kiser and Aaron Laing also adopt a rational choice perspective in chapter 3 but question how extensively the

spread of neoliberalism has really been insofar as government taxation and spending policies are concerned. Indeed, they provide evidence that neither policy area has changed in the advanced capitalist countries in ways predicted in standard accounts of the rise of neoliberalism. They also offer a rational choice explanation for this anomaly.

In chapter 4, Bruce Western adopts a historical institutionalist view to examine how among OECD countries neoliberal institutions mediate and affect labor market outcomes. He too suggests that the shift toward neoliberalism may not have been as extensive as is sometimes assumed and that neoliberal outcomes may not be as efficient as often claimed. In chapter 5, Bruce Carruthers, Sarah Babb, and Terence Halliday use historical institutionalism to show that although central bank institutions have gained more autonomy from governments, thereby shifting monetary policy in a neoliberal direction, this has created a much harsher competitive environment for firms, so governments have compensated by softening their bankruptcy laws in very non-neoliberal directions. Again, the degree to which neoliberalism results in more efficient institutional outcomes is drawn into question.

In chapter 6, David Strang and Ellen Bradburn explore how neoliberal reforms in U.S. health care institutions emerged through processes of diffusion and imitation that are typically theorized by organizational institutionalists. In chapter 7, John Campbell shows how the rise of neoliberalism in the United States involved a contest between essential neoliberal principles, notably supply-side economics, and alternative industrial policy models that called for more, not less, political intervention and institutional innovation. He argues that neoliberalism's eventual victory during the early 1980s stemmed in part from its cognitive and normative advantages. His argument deliberately blends insights from organizational institutionalism with historical institutionalism.

Colin Hay seeks in chapter 8 to explain neoliberal reforms in Britain before and after Margaret Thatcher came to power. He finds that the adoption of neoliberalism followed a pattern of "punctuated evolution," in which some discursive elements of the neoliberal model were adopted long before others. This is another effort to work near the edges of two paradigms by exploring how discursive and historical institutionalism might inform each other. Chapter 9, by Peter Kjær and Ove K. Pedersen, is located more centrally within discursive institutionalism. They investigate how policy makers translated certain neoliberal concepts and principles into industrial policy in order to facilitate institutional change in Denmark during the 1970s and 1980s. As a result, Danish neoliberalism stemmed from the combination of old and new discursive elements.

The fact that some contributors represent the mainstream of their paradigms while others gravitate toward the margins, exploring how theirs might intersect with others, is a crucial point to keep in mind. Chapter 10 addresses this and other issues by taking stock of all the chapters. It examines the methodological

approaches that contributors have utilized and argues that methodological differences per se do not preclude a second movement in institutional analysis, as others have suggested. It discusses the payoffs to a second movement by identifying areas of complementarity, overlap, and cross-fertilization and comparing how different paradigms explain the conditions and mechanisms of change, noted above, that are associated with neoliberalism. It also suggests several strategies for promoting a second movement in institutional analysis. Finally, it considers some of the most important empirical payoffs that these chapters offer about the rise of neoliberalism itself.

Notes

1. For comparisons of “old” and “new” institutional paradigms in sociology, economics, and political science, see, for example, DiMaggio and Powell 1991; Hirsch and Lounsbury 1997; Nee 1998; Peters 1999, chap. 1; and Stinchcombe 1997. We use the term “paradigm” cautiously, recognizing that it is often associated with the work of Thomas Kuhn (1962) and his particular philosophy of science, which has been heavily criticized. Without implying a particular philosophy of science, we understand a paradigm to be simply an analytic approach to social scientific inquiry that provides model problems, questions, and solutions based on a set of ontological, epistemological, and methodological principles. Different paradigms are based on different principles. Whether or not paradigms can or should be merged, blended, or transcended by evolutionary or revolutionary empirical breakthroughs, a subject dear to Kuhn, remains an open question for us.

2. For examples of these debates in the field of international relations, see *International Organization* 1998; in comparative politics, see Lichbach and Zuckerman 1997; in political economy, see Hall 1997; in political science, see Peters 1999; in historical sociology, see the *American Journal of Sociology* (“Symposium” 1998); in organizational sociology, see Scott 1995.

3. For example, see Evans, Rueschemeyer, and Skocpol 1985; Katzenstein 1978; and Steinmo, Thelen, and Longstreth 1992 for historical institutionalism; see Alt and Shepsle 1990 and Hechter, Opp, and Wippler 1990 for rational choice institutionalism; see Powell and DiMaggio 1991; Scott and Christensen 1995; Scott and Meyer 1994; and Thomas et al. 1987 for organizational institutionalism.

4. Although heterogeneity *within* paradigms is often the more difficult problem for building typologies, fuzziness *between* paradigms can be too. For example, considering how systems of meaning affect how actors interpret their problems and seek to transform policies and institutions has long been a preoccupation for organizational institutionalists, who insist that cognitive and normative scripts influence institution building (e.g., Dobbin 1994a). Similarly, it has long been a concern for discursive institutionalists who seek to understand how local intellectual differences do the same (Wittrock and Wagner 1996). However, the issue has also become important lately for historical institutionalists, who are interested in the effects of “ideas” on policy making (Berman 1998; Hall 1993; Hattam 1993; McNamara 1998), and rational choice insti-

tutionalists, who want to understand how cognitive structures help actors define their interests and strategies (Knight and North 1997). Convergence of this sort is one indication of the second movement in institutional analysis.

5. Organizational and discursive institutionalism share a strong interest in the effects that cognitive structures have on institution building, change, and policy making. However, organizational institutionalism generally takes these structures as given and seeks to explain how effects emanate from them. Discursive institutionalism is also interested in this but also pays close attention to how these structures are socially constructed in the first place.

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