

Bringing Ideas and Discourse Back into the Explanation of Change in Varieties of Capitalism and Welfare States

Vivien A. Schmidt

May 2008
Working Paper No. 2

The Centre for Global Political Economy
University of Sussex
Brighton BN1 9SN
United Kingdom

Centre for Global Political Economy
University of Sussex
Brighton BN1 9SN
United Kingdom

Telephone: +44 (0) 1273 872735
Fax: +44 (0) 1273 723 673563
E-Mail: cgpe@sussex.ac.uk
Website: www.sussex.ac.uk/cgpe

CGPE WORKING PAPER SERIES

The Series aims to publish innovative research that attempts to shed light on and advance our understanding of the forces that influence the production, reproduction and change of our social universe, and thus our multiple ways of being and becoming in the international. To meet this aim the Series will try to foster the inter- and multidisciplinary study of International Political Economy by bringing together scholars, ideas, issues, methods, methodologies, problematiques from different social science disciplines.

INFORMATION FOR SUBMISSION

Papers should be submitted to CGPE <cgpe@sussex.ac.uk> and the series editor Andreas Antoniadis <A.A.Antoniades@sussex.ac.uk>. All papers will be refereed by CGPE staff or external referees. Changes may be required before publication. The copyright remains with the author(s).

Submission specifications:

1. Papers should not exceed 12,000 words. Shorter policy oriented papers of up to 5,000 are also welcomed.
2. A cover page should be included with the title, abstract and author name(s), as well as postal address, telephone and e-mail information.
3. A biographical note of the author(s) should be attached as a separate file.
4. Both the Chicago and Harvard referencing styles are acceptable.

VIVIEN A. SCHMIDT holds the Jean Monnet Chair of European Integration and is Professor of International Relations at Boston University. She is also Visiting Professor at Sciences Po, Paris, has been Professor at the University of Massachusetts, and visiting professor at the Institute for Advanced Studies in Vienna, the European University Institute in Florence, the Max Planck Institute for the Study of Societies in Cologne, the Universities of Paris and Lille, and visiting scholar at Nuffield College, Oxford University and at Harvard University, where she is currently a faculty affiliate in the Center for European Studies.

She has published widely in the areas of European political economy, institutions, and democracy. Recent books include: *Democracy in Europe: The EU and National Politics* (Oxford 2006), *Public Discourse and Welfare State Reform: The Social Democratic Experience* (Vivien A. Schmidt et al. Mets & Schilt, 2005), *Policy Change and Discourse in Europe* (with Claudio Radaelli, Routledge 2004), *The Futures of European Capitalism* (Oxford 2002), *Welfare and Work in the Open Economy* (2 vols, with F. W. Scharpf, Oxford 2000), and *From State to Market? The Transformation of French Business and Government* (Cambridge 1996). Recent awards and distinctions include the Franqui Interuniversity Chair for Foreign Scholars, held at the Free University of Brussels and Louvain (January to June 2007); a French Council for Scientific Research award as a Visiting Researcher at the Center for the Study of Politics (CEVIPOF) of Sciences Po (July-Dec. 2007); a Rockefeller Foundation Residency grant at the Bellagio Center (July-Aug. 2003); a Fulbright EU Research Award held at Oxford University (2001). She is also past head of the European Union Studies Association-USA.

BRINGING IDEAS AND DISCOURSE BACK INTO THE EXPLANATION OF CHANGE IN VARIETIES OF CAPITALISM AND WELFARE STATES

Vivien A. Schmidt

Department of International Relations
Boston University

Abstract

To explain change in the varieties of capitalism and welfare states, a ‘discursive institutionalist’ approach focused on ideas and discourse is a necessary complement to older ‘new institutionalist’ approaches. Historical institutionalist approaches have difficulty explaining change, tend to be static and equilibrium-focused, and even where they get beyond this through accounts of incremental change, these are more descriptive than they are explanatory of change. The turn to rational choice institutionalist approaches for agency and ‘micro-foundations’ to historical institutionalist ‘macro-patterns’ also does not solve the problems of historical institutionalism. A turn to discursive institutionalism could. Using examples of reforms in national political economies and welfare states in ‘liberal,’ ‘coordinated,’ and ‘state-influenced’ market economies, the paper illustrates how ideas and discourse help explain the dynamics of change (and continuity).

Introduction

Methodological approaches to studies of capitalism and welfare states over the past many years have largely been dominated by historical institutionalism. Although this approach has yielded great insights into the historical regularities and path dependencies of political economic and socio-economic structures and practices, it has done much better at explaining institutional continuity rather than change. This results not only from its methodological emphasis on institutional ‘stickiness’ but also from the lack of agents in historical institutional explanation. Although the shift in historical institutionalism from ‘big bang’ theories of change to incremental or evolutionary approaches have gone a long way toward accounting for change over time, they still do more to *describe* what changes occur than to *explain* why change occurs; and where they do explain change, they do so mostly by reference to outside (exogenous) events rather than to internal (endogenous) agency. Moreover, when they attempt to add agency, historical institutionalists have (mostly) turned to rational choice institutionalism, which provides accounts of agency based on the strategic calculations of rational actors. The problem with rational choice institutionalism is that although it may add more of a micro-foundational logic to the macro-historical patterns of historical institutionalism, it does little to explain change across time, given its underlying assumptions about fixed preferences and stable institutions. Those (fewer) historical institutionalists who have turned instead to sociological institutionalism have not fared much better, however, since social agents’ reasons for action tend to be subsumed under equally stable macro-cultural norms and frames.

In what follows, I propose a different methodological route to endogenizing agency which also better helps to explain the dynamics of institutional change (and continuity), by using a ‘discursive institutionalist’ approach. Discursive institutionalism is the term I use for all methodological approaches that take ideas and discourse seriously. By this I mean all approaches that consider the ideas through which sentient agents conceptualize their actions and/or the discourse through which they generate, convey, deliberate, and legitimate those ideas according to a logic of communication within a given meaning context. Through discursive institutionalism, we can gain insight into *why* institutions change (or continue) by focusing on political actors’ substantive ideas about what they were doing and why they altered their practices (or not), and on their discursive interactions regarding who spoke to whom in the process of articulating those ideas and persuading others to change their ideas and actions (or not). Moreover, unlike historical or rational choice institutionalism, where institutions are conceptualized as rule-following structures external to agents which constrain their actions, thus making it hard to explain how such structures may change, in discursive institutionalism institutions are at one and the same time external rule-following structures and constructs internal to agents, and therefore serve as constructive opportunities for action as much as obstructive constraints to it.

The paper seeks to demonstrate that discursive and historical institutionalism are for the most part complementary, albeit different, approaches and that historical institutionalism can benefit even more from interaction with discursive institutionalism than with rational choice institutionalism. But the article notes that discursive institutionalism is nevertheless a different methodological enterprise, and it is therefore crucial to explore the boundaries between approaches, to see where they are most compatible and where they may contradict.

The paper begins with a theoretical discussion of discursive institutionalism, focusing on how it defines ideas, discourse, and institutions. It follows with a critique of the historical institutionalist approach to change before detailing the nature and limits of the ways in which discursive institutionalism explains the dynamics of change. The paper then turns to explanations of capitalism and welfare states, beginning with a critique of the 'Varieties of Capitalism' school, which formally conjoins historical and rational choice institutionalism, before demonstrating empirically how discursive institutionalism can add to historical institutionalist analyses of the varieties of capitalism and welfare states in 'liberal' market economies, 'coordinated' market economies, and 'state-influenced' market economies.

Discursive Institutionalism in Perspective

Discursive institutionalism focuses on the substantive content of ideas and on the interactive processes that serve to generate those ideas and communicate them to the public (see Schmidt 2002, 2006, 2008). This makes for a definition that is somewhat broader than the same or similar terms used by those who focus primarily on the ideational content of discourse (see Campbell and Pedersen 2001; Hay 2001; Hay 2006). The 'institutionalism' in the term, moreover, highlights the fact that this is not only about the communication of ideas or 'text' but also about the institutional context in which and through which ideas are communicated via discourse. It is the newest of the 'new institutionalisms,' to be distinguished from the three older ones: rational choice, historical, and sociological institutionalism (see Hall and Taylor 1996). In contrast with historical institutionalism's focus on historically-developing structures and regularities that follow a logic of path dependence within a given historical context, rational choice institutionalism's focus on rational actors who pursue their preferences following a logic of calculation within given structures of incentives, or even sociological institutionalism's focus on social agents who act according to a logic of appropriateness within a given cultural context, discursive institutionalism focuses on sentient actors who construct their ideas following a logic of communication within a given meaning context.

The Nature of Ideas and Discourse

Increasing numbers of scholars have been turning to ideas and discourse in recent years to make up for the limits of the other three institutionalist approaches. Their approaches to ideas may come at three levels of generality (see Mehta n/a; Schmidt 2008), ranging from policy ideas (Kingdon 1984, Hall 1989; Jabko 2006) to programmatic ideas that underpin the policy ideas—whether seen as ‘paradigms’ (Majone 1989; Hall 1993), ‘frames of reference’ (Jobert 1989; Muller 1995), or ‘programmatic beliefs’ (Berman 1998)—to the even more basic philosophical ideas that undergird the policies and programs—whether understood as ‘public philosophies’ (Campbell 1998), ‘deep cores’ (Sabatier & Jenkins-Smith 1993) or worldviews and *Weltanschauung*. Such ideas may also come in two types, cognitive ideas that serve to justify policies and programs in terms of their interest-based logic and necessity (Jobert 1989; Hall 1993; Schmidt 2002, ch. 5) or normative ideas that serve to legitimate policies and programs in terms of their appropriateness and resonance with the more basic principles and values of public life (March & Olsen 1989; Schmidt 2000).

As for discourse, it encompasses not only the representation of ideas but also the interactive processes by which those ideas are conveyed. It enables us to consider not only ‘what is said’ but also ‘who said what to whom, where and why’ in the process of policy construction and political communication. Scholars’ approaches to discourse encompass two forms of interaction: the ‘coordinative’ discourse among policy actors engaged in creating, arguing, bargaining, and reaching agreement on public policies in the policy sphere and the ‘communicative’ discourse between political actors and the public engaged in presenting, contesting, deliberating, and legitimating such policies in the political sphere (see Schmidt 2002, Ch. 5, 2006, Ch. 5, 2008).

The coordinative discourse is home to a wide range of discursive communities. These include ‘epistemic communities’ of loosely connected individuals who share cognitive and normative ideas about a common policy enterprise (Haas 1992); ‘advocacy coalitions’ of more closely connected individuals sharing ideas and access to policymaking (Sabatier and Jenkins-Smith 1993); ‘discourse coalitions’ of actors that share ideas across extended periods of time (Lehmbruch 2001); and ‘entrepreneurs’ (Fligstein & Mara-Drita 1996) or ‘mediators’ (Jobert 1989; Muller 1995) who serve as catalysts for change as they articulate the ideas of discursive communities. As for the communicative discourse, all manner of discursive publics engaged in ‘communicative action’ (Habermas 1989) may be involved—from the general public of citizens to members of ‘mini-publics’ in citizen juries and issues forums (Goodin & Dryzek 2006) to specialized ‘policy forums’ of organized interests (e.g., Rein and Schön 1994) to public intellectuals and the media to political actors—from elected officials to ‘strong publics’ of opposition parties (Eriksen & Fossum 2002) to ‘spin doctors’ to civil servants and policy actors (Mutz et al. 1996; Art 2006). The arrows of discursive interaction, moreover, may go from top down, as elites form mass public opinion (Zaller 1992; Art 2006) to bottom up, as social activists seek to influence national and international debates (Keck & Sikkink 1998), although they may

also remain at the level of civil society, whether in ‘public conversations’ (Benhabib 1996) or through ‘deliberative democracy’ (Dryzek 2000).

Institutional context also matters. Different forms of discourse may be emphasized in different formal institutional settings. In ‘simple polities,’ characterized by majoritarian electoral systems, unitary states, and statist policymaking, the channeling of governing activity through a single authority makes for a more elaborate communicative discourse by political leaders to the general public. In ‘compound polities,’ characterized by proportional representation systems, federal or regionalized states, and/or corporatist policymaking, the dispersion of governing activity through multiple authorities makes for a more developed coordinative discourse among policy actors (see Schmidt 2002, 2006).

More specific institutional settings are also significant. Discourses succeed when speakers ‘get it right’ by addressing their remarks to the ‘right’ audiences at the ‘right’ times in the ‘right’ ways. Their messages must be both convincing in cognitive terms (justifiable) and persuasive in normative terms (appropriate and/or legitimate). Moreover, the ideas in the discourse must not only ‘make sense’ within a particular ‘meaning context,’ the discourse itself must be patterned according to a given ‘logic of communication,’ following rules and expressing ideas that are socially constructed and historically transmitted within a given discursive institutional context.

Institutional context, however, may also refer to the kind of background information provided by historical institutionalist analysis. Such information can serve to define the institutional contexts within which repertoires of more or less acceptable (and expectable) ideas and discursive interactions develop. As such, historical institutionalism provides background information for what one normally expects, given the structural constraints. But it does not explain what one often gets—the unexpected—which may better be explained by discursive institutionalism. Importantly, discursive institutionalism can explain the unexpected not just because it can account for unique events by reference to individuals’ ideas and discourse but also because the unexpected may actually be expectable when analysis is based on a particular set of ideational rules and discursive regularities in a given meaning context following a particular logic of communication—rather than being based on historical regularities following a logic of path dependence.

Institutions in Discursive Institutionalism

But what are institutions in discursive institutionalism, then? How are they created, how do they exist, why do they change (or continue)? How do they differ from the institutions of the three older neo-institutionalism?

For the three older neo-institutionalisms, institutions are structures external to agents as rules about acting in the world that serve mainly as constraints—whether by way of rational incentives that structure strategic action, historical paths that shape action, or

cultural norms that frame action. For discursive institutionalism, by contrast, institutions are internal to sentient agents, serving both as structures (of thinking, saying, and acting) that constrain actors and as constructs (of thinking, saying, and acting) created and changed by those actors. This internal capacity to create and maintain institutions is what I call agents' '*background ideational abilities*' (Schmidt 2008)—which is a generic term for what Searle (1995) defines as the 'background abilities' which encompass human capacities, dispositions, and know-how related to how the world works and how to cope with it; for what Bourdieu (1990, p 11) describes as the '*habitus*' in which humans beings act "following the intuitions of a 'logic of practice'"; and for what the psychology of cognitive dissonance illustrates when it shows that people generally act without thinking and only become conscious of the rules that might apply if they are contradictory (Harmon-Jones and Mills 1999). These background ideational abilities underpin agents' ability to make sense in a given meaning context, that is, to 'get it right' in terms of the ideational rules or 'rationality' of a given discursive institutional setting.

But institutional action is also predicated on what I call '*foreground discursive abilities*,' through which agents may change (or maintain) their institutions (Schmidt 2008). This is about the logic of communication, and the ways in which ideas are conveyed. We don't, after all, know what people are thinking or why they act the way they do until they say it. And we don't for the most part engage in collective action or in collective (re)thinking of our actions without the articulation, discussion, deliberation, and legitimization of our ideas about our actions. These foreground discursive abilities are key to explaining change in public action because they refer to peoples' ability to think outside the institutions in which they continue to act, to talk about such institutions in a critical way, to communicate and deliberate about them, to persuade themselves as well as others to change their minds about their institutions, and then to take action to change them, individually or collectively. Discourse, in short, works at two levels, at the every-day level of generating and communicating about institutions, and at a meta-level, as a kind of second order critical communication among agents about what goes on in institutions.

By calling this interactive externalization of our internal ideational processes '*foreground discursive abilities*,' I offer a generic term close to Habermas' (1989) '*communicative action*' (although without the normative prescriptions) and to deliberative and discursive theories of democracy (e.g., Dryzek 1990, 2000). These foreground discursive abilities also provide a direct response to continental philosophers and macro-sociologists who assume that elites with a monopoly on power dominate the production of ideas (e.g., Bourdieu 1994, Foucault 2000). Foreground discursive abilities enable people to reason, debate, and change the ideas they use—a point also brought out by Gramsci (1971) on the role of intellectuals. But beyond this, the term points to the importance of public debates in democratic societies in serving to expose the ideas which serve as vehicles for elite domination and power or, more simply, the 'bad' ideas, lies and manipulations in the discourse of any given political actor or set of actors. An approach that takes ideas and discourse seriously, in short, assumes that the clash in ideas and discourse is just as

important in building, maintaining, and changing ‘institutions’ as is any ultimate compromise, consensus, or even imposition related to one set of ideas or discourse.

The Problems of Explaining Institutional Change in Historical Institutionalism

But how, then, does this discursive institutionalist approach to institutions provide better insights to institutional change than historical institutionalism? Historical institutionalism focuses on how institutions, understood as sets of regularized practices with rule-like qualities, structure action and outcomes (see Hall and Taylor 1996; Thelen 1999; Hall and Thelen 2006). The problem for historical institutionalism is that the institutions it defines have a tendency to be overly “sticky.” Change is explained mainly by reference to external events, as a result of critical junctures, with change coming in bursts as a result of ‘configurative moments’ (e.g., Collier and Collier 1991) or “punctuated equilibria” (Krasner 1988). Otherwise, history is given very limited play, since developments that begin with critical junctures “set into motion institutional patterns or event chains (with) deterministic properties” (Mahoney 2000: 507), or ‘path dependence.’ Path dependence itself is a self-reinforcing sequence of events which, with its “lock-in effects” and “positive reinforcement” mechanisms, ensure increasing returns that, if lasting over a very long time, make for a ‘deep equilibrium’ which is highly resistant to change (Pierson 2000; Pierson 2004).

The more evolutionary approach to institutional change pioneered by Kathleen Thelen (2004) and Wolfgang Streeck (Streeck and Thelen 2005) has done much to put the *historical* back into historical institutionalism by focusing on the (many) evolutionary changes that may be as if not more transformative than the (rarer) revolutionary moments. It abandons revolution in favor of evolution by replacing punctuated equilibrium with incremental change, and it abandons historical determinism in favor of historical indeterminacy by replacing path dependence with various processes of path renewal, revision, or replacement. Thus, institutional change results from such mechanisms as the layering of new elements onto otherwise stable institutional frameworks and the conversion of institutions through the adoption of new goals or the incorporation of new groups. But even here, how change is instigated—through layering, drift, or conversion—remains unclear. This approach provides a rich theoretical approach to analyzing ‘what happened;’ but it is very thin with regard to ‘why it happened.’

The most Streeck and Thelen do to explain ‘why’ is to suggest that institutions are the object of “on-going skirmishing as actors try to achieve advantage by interpreting or redirecting institutions in pursuit of their goals, or by subverting or circumventing rules that clash with their interests” (2005, p. 19). Actors are clearly strategic, acting in their own interests, but there is no explicit micro-logic of strategic action based on rational choice institutionalism elaborated here. And there cannot be. This is because rational choice institutionalist accounts of strategic action assume fixed preferences with stable

institutions that act as structures of incentives. If institutions change all the time—as this incremental approach suggests—then it becomes difficult to theorize how institutions structure individual actors' incentives. Moreover, if some individual actors accept the institutions while others are seeking to redirect or reinterpret them, then actors' preferences are differentially affected by the institutions, and it is impossible *a priori* to know which ones. Empirical investigation of actors' motivations, their interests, and their ideas within macro-institutional context seems to be the only answer here.

In a jointly authored paper by Thelen and Peter Hall (Hall and Thelen 2006), however, we do get a clearer theoretical picture of how rationalist and historical institutionalist approaches might fit together in such a way as to explain agency. Here, institutions are defined in classical historical institutionalist terms as sets of regularized practices with rule-like qualities, whether backed by sanctions, enforced by statute or formal organizations, or relying on mutual monitoring and perceptions of shared interests. Change is difficult and institutions are stable not only for historical institutionalist reasons of path-dependency but because of rationalist uncertainties about new institutions serving interests better, difficulties in shifting to new coordinating institutions, complexities of institutional interactions that might require new strategies, and institutionalized power relations. But change nonetheless occurs because such institutions are the target of rationalist strategic action by economic actors who use them as resources to achieve their goals and are always testing the limits of their power, probing the intentions of others, basing their decisions on perceived interests rather than objective ones. The rationalist 'routes' to institutional change are: 1) deliberation among relevant actors and government policy; 2) defection, when action occurs without deliberation with other actors; and 3) reinterpretation, when practices gradually change while the institution formally stays the same (Hall and Thelen 2006, p. 4). Political economy, as a result, is 'an ecology of interacting institutions which change via defection, reinterpretation and a politics of mutual adjustment inflected by distributive concerns,' such that they expect there "to be distinctive varieties of capitalism for many decades to come" (Hall and Thelen 2006, p. 4).

This approach is on the fence, then, between rational choice and historical institutionalism. Institutions are more than just the incentive structures of rational choice institutionalism, as Hall and Thelen (2005) themselves make clear, since they have qualities of their own, as regularized practices and rules, and complexities due to their interaction effects. But actors are also not defined by their institutions, as in traditional historical institutionalism, since they have knowledge outside the institutions in which they operate. Importantly, moreover, actors' interests are not just the 'objective' ones assumed by rationalists, but 'subjective' because they are perceived interests, while deliberation and reinterpretation are part and parcel of the processes of change. Here, too, then, the use of rational choice institutionalism cannot go very far in theoretical terms because preferences are not fixed, are 'subjective' rather than 'objective,' and institutions not stable enough to theorize as incentives. This, then, is a very soft rationalist version of the micro-foundations.

Moreover, once preferences are seen as ‘subjective,’ this leaves the way open to considering the role of ideas in helping to change actors’ perceptions and preferences and discourse in the process of deliberation and reinterpretation of institutions. In fact, Peter Hall (2005, p. 151) himself in a piece on preference formation seems to suggest just this when he concludes by suggesting that we should look at how issues are framed and how “the actor tries to make sense of his actions in his eyes and those of others,” seeking to balance “multiple interests, often linked to multiple identities” referencing “a set of narratives that draw heavily on past experiences and the interpretations of them that have authority in their community.” But then, how do we do this? Only by turning to discursive institutionalist analysis, by investigating the ideas that lead to ‘bricolage’ or the ‘layering’ of one institution over another, the discourse surrounding the ‘reinterpretation’ of an institution, and the debates that preceded the ‘conversion’ of agents to another institution.

Explaining Institutional Change in Discursive Institutionalism

Like historical institutionalism, discursive institutionalism may also explain change as coming at critical junctures. But whereas in historical institutionalism critical moments are unexplainable times when structures shift, much like tectonic plates, in discursive institutionalism these moments are the objects of explanation, to be considered in depth for the ideational and deliberative processes which lend insight into institutional change (see Schmidt 2008). In other words, rather than remaining on the outside of such critical junctures, discursive institutionalists look inside, to what public actors say and do that lend insight into their ideas, that is, what they think about what to do; into their discourse, that is, what they say about what they think about what to do; and into their actions, to see if their ideas and discourse actually did make a difference, serving to reconstruct their institutions. Such ‘critical junctures in discursive institutionalism’ may be periods of ‘third-order change’ where paradigms change in terms of policy goals as well as instruments and objectives, as in Thatcher’s neo-liberal reforms in the UK (Hall 1993). They may be times of ‘great transformation’ when ideas serve to recast countries’ political economic policies, as in the ‘disembedding’ of liberalism in Sweden and the US (Blyth 2002). They may be ‘critical moments’ in which ‘collective memories’ are made and/or changed, as in the agreements in the 1930s establishing the collaborative institutions of wage-bargaining in Sweden (Rothstein 2005, Ch. 8). Or they may be periods when political leaders’ ‘communicative’ discourse or policy actors’ ‘coordinative’ discourse are transformative, and thereby promote lasting reforms to national systems of welfare and work—the case for the UK but not New Zealand, despite similar economic challenges and institutional configurations, for the Netherlands but not Germany, for Denmark even more than Sweden, and for Italy more than France (Schmidt 2000, 2002b).

Importantly, however, discursive institutionalists also consider change in a more evolutionary manner, much as in historical institutionalism. But here, rather than focusing on the processes of development of institutional rules and the reproduction of

historical regularities, scholars trace how ideas are transformed across time. Thus, for example, they may show the shift across the century in social democrats' political ideas as they sought to find workable and equitable democratic solutions to the economic challenges of globalizing capitalism (Berman 2006); how a "Paris consensus," not the Washington consensus, was key to conceiving of and promoting the rules that now structure the international financial markets from the 1980s on (Abdelal 2006); or how globalization has more generally been used as a compelling set of ideas for change (Campbell 2004). Alternatively, they may outline how discourses evolve over time, by detailing how political leaders in the UK and Ireland crafted communicative discourses about the challenges of globalization to legitimate neo-liberal reform (Hay 2001; Hay and Smith 2005) or how the bottom-up communicative discourse of the everyday deliberative interactions and contestations between state actors and economic actors with incomes below the median level helped develop states' capacity in the international financial order (Seabrooke 2006).

One caveat, though. Discursive institutionalism does not purport to explain all change 'from the inside.' This would be a big mistake since 'stuff happens,' material conditions do change, and actors often act before thinking about what it is they will do, let alone say it. As the historical institutionalists remind us, processes of change are often unconscious—as people may act without any clear sense of what they are doing, creating new practices as a result of 'bricolage' and destroying old ones as a result of 'drift' (Thelen 2004; Streeck and Thelen 2005). And there are always unintended consequences of intentional action. As Michel Foucault noted, 'People know what they do; they frequently know why they do what they do; but what they don't know is what what they do does' (Dreyfus & Rabinow, 1982: 187). Describing the consequences of such action are the domain of historical institutionalism, which is extremely useful for understanding 'from the outside' what happens.

Moreover, since discursive institutionalism recognizes that 'stuff happens,' it does not deny that there is a material reality out there, or interests. What it does challenge is the assumption that there is an 'objective' reality attached to the 'material interests' as defined by rational choice institutionalism. Rather, material reality is the setting within which actors conceive of their interests, and to which actors respond with ideas and discourse about their interests. Although discursive institutionalists agree that interest-based behavior certainly exists, they see this as involving ideas about interests that may encompass much more than strictly utilitarian concerns, bringing in a wide range of strategic ideas (Jabko 2006) and social norms (Seabrooke 2006). In addition, whereas some of those interests may be universally recognizable, most of those interests will be collectively constructed, while others will be individually formulated. This means that discursive institutionalism can accommodate many accounts of 'interest-based ideas' from rational choice institutionalism, by seeing them as a useful shortcut to the range of responses to material realities that can be expected, given what we know about human rationality and irrationality. However, such accounts can also serve as a jumping-off point for investigation through a more in-depth, discursive institutionalist approach, which

may very well show that what was expected does not in fact explain what peoples' reasons really were (see Schmidt 2008). Thus, as Margaret Weir (2006) has argued, we need to use an approach which adds to explanations of interest calculations a focus on relational and cognitive factors, for example, by explaining organized labor's efforts to redefine itself as a political actor in the US and to build new coalitions by looking closely at how organizational leaders 'puzzled' and 'powered' over questions of identity ('who are we?'), alliances ('who are our allies?') and values as well as interests ('what policies do we care about and what policies are actively beneficial for us?').

So how do we conceive of the relationship between discursive institutionalism and historical institutionalism, especially given the tendency of historical institutionalists to turn either to 'calculus-oriented' approach of rational choice institutionalism or the 'culture-oriented' approach of sociological institutionalism for agency (see Hall and Taylor 1996)? Perhaps the best way is using a figure (see Figure 1):

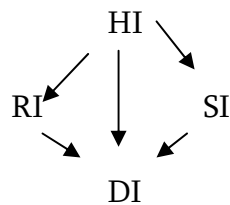


Figure 1: *Flow chart of historical institutionalist recourse to agency*

Importantly, when change is individual, subtle and slow, and peoples' ideas are unarticulated, as in the case of people simply quitting to pay their taxes in Australia (Levi 1988), rational choice institutionalism is sufficient for explaining people acting individually and strategically (thinking: I won't get caught) without collective action. For the historical institutionalists, this is 'drift.' Discursive institutionalism can also be used, since individuals' ideas about their interests do matter, but it is likely to do little more than reiterate the rationalist explanation (as confirmed through surveys and opinion polls), especially since there is no discourse or collective discussion. This is where rational choice institutionalism can provide a shortcut for discursive institutionalism, by explaining that which is expected and universally 'rational.' However, once policymakers seek to institute reforms to remedy the 'drift'—ideas (about how to solve the problem) and discourse (to persuade about a solution as well as to engage others in a process of rethinking the institutions that are the subject of unconscious rule-following) are needed, along with collective action. Here, discursive institutionalism is key to explaining what happens subsequently.¹ [This may help explain why scholars in the public policy sphere were the first to get onto ideas/discourse (e.g., Kingdon 1984), as a way to account for new laws/rules being brought in to solve problems. Often, however, they were not

¹ My thanks to Fritz Scharpf for suggesting this example.

focused enough on the institutional contexts that make for big differences in how/why/where reforms take place.]

Bringing Ideas and Discourse Back into the Explanation of Capitalism and Welfare States

Discursive institutionalism, then, stands on its own as a framework for analysis with the same epistemological status as the other neo-institutionalisms, that is, as a framework that enables one to analyze important phenomena when they occur, applies only under certain conditions, and for which theories can be developed and tested. As such, it also serves as a complement and corrective to the other neo-institutionalisms, by examining phenomena they do not, by interpreting events and actions in ways they might not, and by explaining the dynamics of change, which they cannot. This can be demonstrated empirically, as we shall see below, through the consideration of one of the main schools of thought about capitalism and welfare states in contemporary political economy, the 'Varieties of Capitalism' school.

Explaining Change in the Varieties of Capitalism and Welfare States

Scholars of capitalism and welfare states have in recent years converged around the 'Varieties of Capitalism' school (VOC). This approach takes firms as their primary focus, considers how they coordinate with their environment, and divides capitalism into two basic varieties. In liberal market economies (LME's), typical of Anglophone countries like the US, the UK, Australia, and New Zealand, the market coordinates interactions among socioeconomic actors. In coordinated market economies (CME's), typical of European countries like Germany, Sweden, Denmark, Austria, and the Netherlands, socioeconomic actors engage in non-market coordination (see Hall and Soskice 2001).

For its methodological approach, VOC combines historical institutionalism and rational choice institutionalism. It is historical institutionalist in its attention to the historically-grounded macro-institutional rules and regularized practices of the two varieties of capitalism. It is rational choice institutionalist in its focus on the micro-foundational agency of coordination games among firms and other relevant actors. The drawback for VOC with regard to this particular combination of methodological approaches is that it makes it almost impossible for it to account for change over time. It is not just that the historical institutionalism in the approach makes for stasis, given its account of change through unexplainable critical junctures and path dependence. It is that the rational choice institutionalism only adds to this. In order to be able to map the logic of interaction among rational actors in coordination games, rational choice institutionalism has to presuppose fixed preferences and stable institutions. Moreover, here, too, change in institutions can only come from 'exogenous shocks' (Levi 1997) while the origins of and changes in preferences remain outside its domain. The result is a very static depiction of capitalism which critics have also found overly functionalist and static (see Morgan et

al. 2005; Crouch 2005; Schmidt 2002, Ch. 3). The main problem is the emphasis on coordination and complementarity in capitalist systems, which admits of little change other than positive feedback effects, with a homeostatic equilibrium in which changing any one component leads to adjustments in the other components, but no real transformation of the system as a whole or even evolution except at moments of 'punctuated equilibrium.' This is what makes it difficult for classical VOC scholars to account for the ways in which globalization, Europeanization, or internal dynamics can lead to a loosening of the coordination, let alone to a creeping disaggregation, of the system as a whole. Even development and evolution over time become very difficult to explain.

Revisionist VOC scholars have suggested one of two ways out of the quandary: open systems or evolution. The open systems approach tends to see much greater contestation and contradiction in VOC (Becker 2006) and much greater possibility for development, with different subsystems able to go off in different directions (Deeg 2005). But the question here is: how much change among subsystems in any given national variety does it take before it no longer fits under the ideal-type but has become a hybrid model, is disaggregating, or even converging onto another VOC?

The evolutionary way out of the quandary is the one we have already discussed, that of describing incremental change through processes of layering, conversion, and drift (Thelen 2004; Thelen and Streeck 2005). But although this does offer a way out of the historical institutionalist statics of VOC, it does so at the expense of VOC's rational choice institutionalist logic, since allowing for incremental change by definition makes for 'un-fixed' preferences and unstable institutions. Thus, paths may be 'crooked' (Djelic and Quack 2005) and may diverge as a result of exogenous and endogenous factors that take countries 'off-path' (Crouch and Farrell 2002; Höpner 2001; Deeg 2005; Djelic and Quack 2005). Institutions in this approach are 'regimes' or 'systems of social interaction under formal normative control' in which actors follow the rules because they are not only enforceable but also legitimate, imbued with authority by the society and the actors who act within them. As such, they are neither the voluntaristic institutions of rational choice institutionalists, because their obligatory character makes them more than simple coordinating mechanisms, nor the informal institutions or shared scripts of sociological institutionalists, since these are formal-legal institutions which are separable from the behavior that takes place within them. Institutional change itself, moreover, can be seen to come about through a variety of processes resulting from the continuous interaction between 'rule-makers' and rule-takers' to new interpretations of the rules. These may take the form of 'displacement' and defection, 'layering' through reform; 'drift' through neglect; 'conversion' through reinterpretation or redirection; 'exhaustion' through break down (Streeck and Thelen 2005; Thelen 2004).

In short, instead of insisting on closely complementary and coordinated capitalist systems, revisionist scholars of VOC describe the components of loosely connected, historically evolving varieties of capitalism, which change at different rates in different ways through

different processes, by contrast with the classic systemic view of VOC. This theoretical opening also means that empirically it becomes possible to chart changes in the VOCs—toward hybrids, convergence, as well as decline (Streeck and Hassel 2003; Beyer and Höpner 2003). And it also creates an opening for those who argue that there are more than two varieties of capitalism, whether three (e.g., Coates 2000; Schmidt 2002; Rhodes and Van Apeldoorn 1997), four (Boyer 2004; Whitley 2005) or five (Amable 2003). Here, we consider only the third variety.

This third variety of capitalism is typical of countries like France, Italy, Spain, S. Korea, and Taiwan. While some see this as a middle category in between the two ideal-types, as ‘mixed market economies’ (MMEs) (Hall and Gingrich 2004; Molina and Rhodes 2007) others identify it as a variety in its own right, sometimes calling it ‘state-influenced market economies’ (SMEs) (Schmidt 2008b; see also 2002), ‘Latin capitalism (Rhodes and van Apeldoorn 1997), or a reformed version of Asian ‘developmental states’ (see Weiss 2003; Woo-Cummings 1999). But whatever the appellation, it is characterized by a state that continues to intervene more, for better or worse, in national economies, with a hierarchical logic of coordination—by contrast with the market managed logic of LMEs and the non-market managed logic of CMEs (Schmidt 2002, 2008; Molina and Rhodes 2007).

Importantly, the opening up of VOC to hybrids, alternative paths, and a third variety of capitalism has also signaled the opening up of VOC to discursive institutionalism. Richard Deeg (2005), for example, acknowledges the role of discourse when, in addition to defining a whole range of new ways of thinking about path dependency in order to make VOC less path dependent, he takes note of theorists who see ideas as having independent causal force of their own, rather than just as tools in the hands of powerful actors (e.g., Lieberman 2002, Lehmbruch 2001). Pepper Culpepper (2005), takes us one step further when, in his discussion of the politics of institutional change in vocational education in Switzerland and Austria, he adds to his rationalist/historical institutionalist explanation of employers’ interests with regard to legal change a discursive institutionalist account of the role of political discourse in the legitimization of such change. Although his theoretical justification involves no more than a nod to the ‘frame of reference’ approach developed by Bruno Jobert (1989) and Pierre Muller (1995), his case study shows empirically that legitimizing political discourse helped in the Swiss case in the 1980s by providing employers with a new conception of vocational training that justified the proposed legal change, which therefore passed, by contrast with Austria, where legal reform failed because of small employers’ resistance and a different conception of vocational training. Moreover, Christel Lane, in arguing that the unraveling of coordination in Germany is likely to lead to convergence to the LME model, nevertheless suggested that this might be stopped were there an emerging “coalition of industrial managers, employees, and politicians working for a new as yet inchoate compromise solution;” but she noted that the ideas are lacking (Lane 2005, p. 105).

But all of the above are rather underdeveloped in terms of their use of ideas and discourse to enrich accounts of the varieties of capitalism. This is why, in what follows, I provide a more systematic elaboration of the ways in which discursive institutionalism helps answer puzzles that historical institutionalist and rational choice explanations of the varieties of capitalism cannot. I demonstrate the causal influence of ideas and discourse by showing that the structural factors related to narrowly-defined rationalist interests and historical path dependencies cannot account for the clear changes (or continuities) in institutions, whereas political actors' expressed ideas and discourse can. The evidence for this comes from such methods as the process-tracing of ideas, the mapping of public debates and discourse, and the juxtaposition of matched pairs of cases in which all factors are controlled for other than the discourse.

The Politics of Ideas and Discourse in Liberal Market Economies

We begin with LMEs, where the puzzles are: How did Thatcher and Reagan manage to impose neo-liberal reforms, overcoming entrenched interests and path-dependent institutions? Why were those policies not reversed when the opposition came back to power? Why did reform in the UK go much farther in business and labor markets than in welfare? And why was radical reform more extensive in the UK than in the US?

In an LME like the UK, there can be no doubt that Thatcher's success in instituting neo-liberal reform owes a great deal to the UK's formal macro-institutions, enabling her to impose reform as a result of centralized authority and to win elections as a result of a divided opposition. This historical institutionalist analysis is necessary to understanding why she was able to impose reform, but it is not sufficient to explaining why such reform took hold, lasting despite subsequent changes in government. For this, we need a discursive institutionalist explanation. The reform's holding power owes much to Thatcher's neo-liberal ideas developed in the pre-1979 coordinative discourse (Hall 1993) and to her highly effective subsequent communicative discourse, through which she sought to persuade the general public not only of the superior logic of the liberal market economy but also of its appropriateness in terms of the country's historically liberal values (Marquand 1988). Centralized institutions certainly helped government leaders impose reform, but they also needed to convert the electorate to policy ideas that radically altered the economy through reduced public spending and privatization of major industries and of council housing (Prasad 2006). And they did succeed in this conversion already by 1987, as evidenced by opinion polls which chart not only the popularity of these policies but also a shift toward more neo-liberal values with greater acceptance of individual responsibility, materialism, and inequalities of income (Taylor-Gooby 1991). Additional proof of the significance of Thatcherite ideas and discourse is in the fact that until the Labor Party accepted the neo-liberal ideas and renewed its communicative discourse with its talk of the 'third-way,' it remained unelectable (Schmidt 2000, 2002a, Ch. 5, 6).

The causal influence of Thatcher's discourse can also be demonstrated through a contrast between the outcome of reform programs in the UK and New Zealand, which in the 1980s experienced similar economic crises, had similar political institutions, party politics and organization, and approaches to welfare provision. Lasting public acceptance for neo-liberal reform in the United Kingdom was due in large measure to the communicative discourse through which Prime Minister Thatcher sought to persuade the public of what she believed as she reformed; its lack of acceptance in New Zealand had much to do with the lack of communicative discourse of political leaders beginning with Finance Minister Douglas, who assumed that people would come to believe what he believed after he reformed (Schmidt 2000, 2002b)

This said, whereas Thatcher's communicative discourse of 'the enterprise culture' resonated with regard to business and labor reform, her discourse contrasting 'the worthy poor' with 'the feckless and the idle' did not persuade the public with regard to welfare reform. This was evidenced by the fact that Thatcher herself pulled back in a strategic calculation (well explained in rational choice terms) related to her fear of electoral sanctions in areas where the public (and in particular her own electorate) was clearly strongly opposed to any cuts (Pierson 1994; Rhodes 2000). It took Blair to extend the Thatcher revolution to the welfare arena, with a communicative discourse that did resonate as it appealed to values of equality and compassion as much as to neo-liberalism, by promising to "promote opportunity instead of dependence" through positive actions (i.e., workfare) rather than negative actions focused on limiting benefits and services, and by providing 'not a hammock but a trampoline,' not 'a hand out but a hand up' (Schmidt 2000, 2002b).

In the US in the 1980s, reform did not go as far as in the UK, despite similar ideological commitments. The reason can in part be explained in historical institutionalist terms by reference to the compound nature of the institutions which means that it is by definition harder to institute neo-liberal reform than in a simple polity like the UK or NZ. This also provides useful background information for discursive institutionalism, because reform therefore requires not only having a strong communicative discourse to get elected on a neo-liberal policy program but also an effective coordinative discourse to get that program through Congress. The triumph of Reaganite neo-liberalism is due in no small measure to the fact that policy entrepreneurs were able to use the very fragmentation of the institutions to gain the advantage as they projected supply-side ideas that Reagan picked up on and managed to pitch in a way that won over the electorate, at least for a while, on cuts in taxes and cutbacks in welfare (Prasad 2006). But Reagan's reforms did not go nearly as far as those of Thatcher, nor were they quite as lasting. In fact, neither Reagan, the 'great communicator,' nor Clinton, were able to overcome the institutional constraints that ensured against rapid reform in the US. This said, Reagan's communicative discourse did arguably better than Clinton's in leaving a lasting influence on the American system, the result of the conservative bias of the institutions and the historically liberal values of the culture that makes it much easier for the state to retreat than to intervene (Dobbin 2002).

The Politics of Ideas and Discourse in Coordinated Market Economies

In CMEs, puzzles that rational choice and historical institutionalism have difficulty explaining include such questions as: Why has Germany been able to reform its labor and welfare institutions in the 2000s, despite institutionalist complexity and opposing interests? How do we explain the persistence of Sweden's cooperative collective bargaining institutions, against all odds?

In Germany, there is no question that the macro-institutional setting makes reform very difficult unless all are agreed. If we combine this historical institutionalist statement with a rational choice institutionalist account of the competing interests involved acting as veto-players, and we can predict no movement toward reform. And there was in fact very little, which we can also show through a discursive institutionalist analysis as readily as a rational choice one. The difficulties came from the fact that the various parties conceptualized their interests differently. The unions remained largely neo-Keynesian, blaming EMU and macroeconomic policy for the lack of growth and resisting flexibilization, while management remained largely monetarist and increasingly neo-liberal, seeing EMU as a good thing and structural reform as necessary. But there was more to it than this. It was also that political leaders failed to come up with a new communicative discourse that could serve to reframe the coordinative discourse between business and labor, thereby helping them reconceptualize their interests or providing both with new common understandings that would enable them to go forward (see Schmidt 2002). When Schröder did finally bite the bullet, with the Hartz IV reforms, he did it without much legitimizing communicative discourse, and to plummeting popularity ratings—in large measure because he failed to legitimate the merger of unemployment compensation and means-tested social assistance into a single system, thereby violating the public's basic beliefs about the appropriateness of an insurance-based system. But he did do it (something which cannot be explained by any rational choice explanation). Moreover, despite the lack of a persuasive communicative discourse, the coordinative discourse among social partners and with parliament was reasonably successful, largely due to the 'ideational leadership' provided by particular ministers in Schröder's government with regard to reforms of pensions, unemployment insurance, and healthcare (Stiller 2007).

In Sweden, the answer to the question about the long-term survival of Sweden's collective bargaining system lies in the history of institutions which have acted neither as the neutral incentive structures of rational choice institutionalism nor as the path-dependent rules of historical institutionalism but rather as the carriers of ideas or 'collective memories' about the trustworthiness of collective-bargaining institutions which were generated at certain critical junctures (Rothstein 2005). In Sweden, the decade of the 1930s was the moment at which Swedish collective bargaining evolved into a trusted 'public institution' based on peaceful and collaborative industrial relations. The defining moments came first in the early 1930s when, in response to a violent strike in which five people were killed, a successful coordinative discourse among policy actors

was joined by a persuasive, cooperation-oriented communicative discourse by the Prime Minister who even-handedly condemned the violence of the military while also chiding the strikers. This then became the basis for a collective memory which in the late 1930s, at the time of agreements on collective bargaining institutions, served to remind all parties to the discussions that cooperation was both possible and desirable. This collective memory continues to underpin the collective bargaining system today, even though the bargaining system has changed greatly, in particular since the employers pulled out of the national central system, but continue to participate in sectoral bargaining (Rothstein 2005, pp. 168-98).

The Politics of Ideas and Discourse in State-Influenced Market Economies

In SMEs, puzzles that rationalist/historical institutionalists have difficulty explaining include such questions as: why was France so successful at transforming business and labor relations, but not the welfare state? Why was Italy able to reform in the 1990s, and not before, nor much after, under Berlusconi?

In France, the macro-institutional setting gives the state tremendous power to impose. But the public also has great ability to resist, taking to the streets on a regular basis when disapproving of government policies. Thus, the puzzle is: why were political leaders successful in imposing radical reforms on business and labor as well as on the state but not in the welfare arena? Explanations in terms of rationalist strategic action takes us some of the way: confronted by crisis, having found that their neo-Keynesian policies had failed miserably, worsening rather than resolving the problems, they chose to switch to monetarism and budgetary austerity in 1983. Mechanistically, globalization made them do it. In the moment of decision, moreover, calculations of interests played a large role—interests of the country (to remain part of the EMS or not), interests of widows and orphans (if major devaluation of the franc were decided as a consequence of quitting EMS), interests of the party (to remain a credible political player), interests of the men in power (to retain power), and so on. But at this moment of decision, there was also a battle of ideas and an intense coordinative discourse, with all the parties to the debates seeking to persuade one man, President Mitterrand, one way or the other, about how to think about France's current interest and future standing in the world, as well as about his own interests individually as well as collectively about the socialist party (Bauchard 1986). This is the only time we could talk about a moment of 'punctuated equilibrium,' of tectonic shift. But here too, of course, the moment was prepared in advance by changing ideas among the various parties to the debate and took a long time to implement, waiting until the right was in power for major privatizations and deregulation, even though the socialists had already been preparing the ground between 1983 and 1986. Importantly, however, the subsequent communicative discourse about the shift sought to legitimize it by talking of the economic necessity of reform as well as its appropriateness, through appeal to national pride in France's ability to maintain the strong franc, the '*franc fort*' (Schmidt 1996).

If we fast-forward to the 1990s and early 2000s, another problem looms, the reform of the welfare state. Strategic action again gives us a preliminary answer. Governments did not have the courage to push through reforms opposed by unions acting in their own self-interest. But this does not explain the divisions among the unions, or the fact that the public in survey after survey agreed with the need for reform, but continued to support the strikes and demonstrations. Why couldn't the government and unions reach agreement? One answer takes us back to historical institutionalism, with the fragmented structure of unions themselves. But another takes us forward to discursive institutionalism, with the failure of government after government to develop the ideas that could serve to legitimize change or to engage in a legitimizing communicative discourse when making what reforms they did make. Instead, political leaders consistently claimed that they would protect 'social solidarity' when they clearly were not as unemployment kept rising. And they were mostly silent when they imposed reform, communicating little to the public—in particular Juppé in 1995, de Villepin in 2006—and coordinating not at all with labor (Schmidt 2002, Ch. 6, 2006, Ch. 4; Cole 200x). The interesting difference between previous reforms and today is that the newly elected President Sarkozy engaged pre and post election in a never-ending communicative discourse about the reforms he would implement once elected, and in particular the elimination of the 'special regimes' for railworkers because it was not 'fair,' since equality of treatment demanded that they retire like everyone else after 40 years of employment, rather than railroad conductors at age fifty. Moreover, his 'work more to earn more' campaign slogan (*travailler plus pour gagner plus*) was highly successful at speaking to peoples' desire for more purchasing power while implicitly criticizing the Socialists' thirty-five hour work week.

But how, then, was Italy able to go much farther than France in welfare reform in the 1990s, given institutions that demanded negotiation, and a path dependent history of consistently failed negotiation? The explanation is partly in the communicative discourse that invoked the EU as *vincolo esterno*—the external constraint or, better, 'opportunity'—which made reform necessary and appropriate, that appealed to national pride in making the sacrifices necessary to ensure that Italy joined EMU from the start, that cast the EU tax as the "price of the last ticket to Europe" (Radaelli 2002, pp. 225-6), and that legitimated the pension reform necessitated by joining EMU through appeal to social equity—to end unfairness and corruption as well as to give '*piu ai figli, meno ai padri*,' more to the sons, less to the fathers, so as to ensure intergenerational solidarity (Ferrera and Gualmini 2004; Schmidt 2000). This was accompanied by an equally effective coordinative discourse among highly-placed policy actors who crafted the \ successful macroeconomic discourse based on sound monetary policy that pushed state and societal actors alike to accept the austerity budgets, the one-off EU tax, and the labor and pension reforms necessary to enable the country to accede to European Monetary Union. But it was also spurred by a coordinative discourse with the unions which, in 1995, for example, engaged not just national union leaders with business and government in tripartite discussions but the entire union rank and file in deliberations which culminated in a referendum that ensured that opposing union members would accept the

‘procedural justice’ of the vote, and therefore not stage wildcats strikes, as they had in the past (Regini and Regalia 1997; Locke and Baccaro 1999). Berlusconi, by contrast, both in his short tenure in 1994 and his longer one from 2001 to 2006, did none of this, using a communicative discourse to the general public to accuse all of the left, and by extension the unions, of being communists. His attempt to impose policies failed time and again in the face of union strikes and the lack of productive coordinative discourse. In his short tenure in office, by contrast, Prime Minister Prodi, despite having the weakest of center-left coalition governments and not much legitimizing communicative discourse, was able to negotiate more significant reform in a wide range of areas through coordinative discourse.

Conclusion

Bringing ideas and discourse into the explanation of change in varieties of capitalism and welfare states has a number of benefits. It first and foremost adds another set of factors, the role of ideas and discourse, to strategic action and macro-historical structures in the explanation of institutional change. Secondly, it shows the importance not only of the communicative discourse of political actors but also that of the coordinative discourse of economic policy actors, with or without political actors. Equally significantly, discursive institutionalism helps to explain the dynamics of change. Historical institutionalists have already gone beyond the historical determinism of path dependence and the ahistorical stasis of punctuated equilibrium to *describe* incremental change. But to *explain* change, they remain stuck on strategic action, disregarding all of the problems such an approach itself has in explaining change, given presuppositions about fixed preferences and stable institutional structures of incentives. Discursive institutionalism shows how to go beyond this, to explain the dynamics of change—evolutionary as well as ‘revolutionary’—in terms of ideas and discursive action. This serves as an addition to, if not a substitute for, strategic preferences and action. The other neo-institutionalisms are nonetheless important for the background information, whether the ‘crystallized’ ideas about interests that come from rational choice institutionalism or the ‘frozen’ regularities and routinized actions that come from historical institutionalism.

This leads us to the final question: what is the value-added of approaches that take ideas and discourse seriously, by contrast with the other three new institutionalisms? Discursive institutionalism endogenizes change, explaining much of how and why public actors bring about institutional change. And with regard to the other institutionalisms, discursive institutionalism helps to explain the actual preferences and strategies of actors in rational choice institutionalisms and historical institutionalism, and it helps to explain changes in the normative orientations emphasized by sociological institutionalism.

References

- Abdelal, R. (2007) *Capital Rules: The Construction of Global Finance* Cambridge, MA: Harvard Univ. Press.
- Amable, Bruno (2003) *The Diversity of Modern Capitalism* Oxford: Oxford University Press.
- Art D. 2006. *The Politics of the Nazi Past in Germany and Austria*. New York: Cambridge Univ. Press.
- Becker, Uwe (2006) "Open Systemness and Contested Reference Frames. A Framework for Understanding Change in the Varieties of Capitalism." Paper delivered at the Center for European Studies, Harvard University (February 6).
- Benhabib S. (1996) Toward a deliberative model of democratic legitimacy. In *Democracy and Difference*, ed. S Benhabib, pp. 67-95. Princeton, NJ: Princeton Univ. Press
- Berman S. (1998) *The Social Democratic Movement: Ideas and Politics in the Making of Interwar Europe* Cambridge: Harvard Univ. Press
- Berman S. 2006. *The Primacy of Politics: Social Democracy and the Making of Europe's Twentieth Century*. New York: Cambridge Univ. Press
- Beyer, J. and Höpner, M (2003) "The Disintegration of Organized Capitalism: German Corporate Governance in the 1990s," *West European Politics* vol. 26: 179-198.
- Blyth, Mark (2002) *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* New York: Cambridge University Press.
- Bourdieu P. 1990. *In Other Words: Essays towards a Reflexive Sociology*. Stanford, CA: Stanford Univ. Press
- Boyer, Robert (2004) How and Why Capitalisms Differ. MPIfG Discussion Paper 04/5. Cologne: Max Planck Institute for the Study of Societies. URL: http://www.mpifg.de/pu/mpifg_dp/dp05-4.pdf.
- Campbell, John L. (1998) 'Institutional Analysis and the Role of Ideas in Political Economy'. *Theory and Society*, 27: 377-409.
- Campbell, John L. (2004) *Institutional Change and Globalization*. Princeton: Princeton University Press. (Danish Translation: Academic Press/Akademisk Forlag A/S, 2004)
- Campbell, John L. and Ove K. Pedersen, eds. (2001) *The Rise of Neoliberalism and Institutional Analysis*. Princeton: Princeton University Press.
- Coates, David (2000) *Models of Capitalism*, Cambridge: Polity Press.
- Collier, David and Collier, Ruth .1991. *Shaping the Political Arena* Princeton: Princeton University Press.
- Crouch, Colin (2005) *Capitalist Diversity and Change: Recombinant Governance and Institutional Entrepreneurs*. Oxford: New York: Oxford University Press.
- Crouch, Colin and Farrell, Henry (2002) "Breaking the Path of Institutional Development: Alternatives to the New Determinism in Political Economy." Cologne: Max Planck Institute Working Paper.
- Culpepper, Pepper (2005) "Austria, Switzerland, and the Politics of Institutional Change in Vocational Education," Paper prepared for presentation at the annual meeting of the American Political Science Association (Washington D.C., Sept. 1-4).

- Deeg, Richard and Jackson, Gregory (2006) How Many Varieties of Capitalism? Comparing the Comparative Institutional Analyses of Capitalist Diversity, MPIfG Discussion Paper 06 / 2. Cologne: Max Planck Institute for the Study of Societies. URL: http://www.mpifg.de/pu/mpifg_dp/dp06-2.pdf - 14.3.2006.
- Djelic, Marie-Laure and Quack, Sigrid (2005) "Rethinking Path Dependency: the Crooked Path of Institutional Change in Post-War Germany" in Morgan, G. Whitley, R. and Moen, E. (eds.) (2005), *Changing Capitalisms? :Internationalization, Institutional Change, and Systems of Economic Organization*, New York, Oxford: Oxford University Press
- Dobbin, Frank (2002) "Is America Becoming More Exceptional? How Public Policy Corporatized Social Citizenship" in *Restructuring the Welfare State: Political Institutions and Policy Change* eds. Bo Rothstein and Sven Steinmo. New York: Palgrave.
- Dryzek J. (2000) *Deliberative Democracy and Beyond*. Oxford, UK: Oxford Univ. Press
- Eriksen EO and Fossum JE (2002) Democracy through Strong Publics in the European Union? *J. of Comm. Mkt. Stud.* 40 (3): 401-24.
- Ferrera, Maurizio and Gualmini, Elisabetta (2004) *Rescued by Europe? : Social and Labour Market Reforms in Italy from Maastricht to Berlusconi*, Amsterdam: Amsterdam University Press.
- Fligstein, Neil and Mara-Drita, Iona (1996) 'How to Make a Market: Reflections on the Attempt to Create a Single Market in the European Union'. *American Journal of Sociology*, 102: 1–32.
- Foucault, M. (2000) *Power. Essential Works of Foucault, 1954–1984*, Vol. 3, ed. JD Faubion. New York: New Press.
- Goodin RE, Dryzek JS. (2006) Deliberative impacts: the macro-political uptake of mini-publics. *Polit. Soc.* 34(2):219—44.
- Gramsci A. (1971) *Selections from the Prison Notebooks*. New York, NY: International Publ
- Haas PM. 1992. Introduction: Epistemic Communities and International Policy Coordination. *Int Org* 46: 1–35.
- Habermas J. (1989) *The Structural Transformation of the Public Sphere* (trans. T Burger and F Lawrence). Cambridge MA: MIT Press.
- Hall P. (1989) Conclusion. In *The Political Power of Economic Ideas: Keynesianism across Nations*, ed. P Hall. Princeton: Princeton University Press.
- Hall, Peter (1993) 'Policy Paradigms, Social Learning and the State: The Case of Economic Policy-Making in Britain'. *Comparative Politics*, 25: 275–96.
- Hall, Peter and Rosemary Taylor (1996) "Political Science and the Three New Institutionalisms," *Political Studies*, pp. 952-973.
- Hall, Peter and Soskice, David (2001) *Varieties of Capitalism* Oxford: Oxford University Press.
- Hall, Peter and Thelen, Kathleen (2006) "Institutional Change in Varieties of Capitalism." Paper prepared for presentation to the Europeanists Conference (Chicago, March).

- Hall, Peter, and Gingerich, Daniel (2004) "Varieites of Capitalism and Institutional Complementarities in the Macroeconomy: An Empirical Analysis, Max Planck Institute for the Study of Societies. Discussion Paper 04/5.
- Harmon-Jones E, Mills J. (1999) *Cognitive Dissonance: Progress on a Pivotal Theory in Social Psychology*. Washington, DC: Am. Psychol. Assoc.
- Hay C. (2006) Constructivist Institutionalism. In *The Oxford Handbook of Political Institutions*, Eds. RAW Rhodes, S Binder, and B Rockman. Oxford: Oxford Univ. Press.
- Hay, C. and Smith, N. J. (2005) 'Horses for courses? The political discourse of globalisation and European integration in the UK and Ireland', *West European Politics*, 28(1): 125-59.
- Hay, Colin (2001) "The 'Crisis' of Keynesianism and the Rise of NeoLiberalism in Britain: An Ideational Institutional Approach" in John L Campbell and Ove Pedersen, Eds., *The Rise of NeoLiberalism and Institutional Analysis*, Princeton: Princeton University Press.
- Höpner, Martin (2001) "Corporate Governance in Transition: Ten Empirical Findings" Discussion Paper 01/05, Max Planck Institute, Cologne.
- Jabko N. (2006) *Playing the Market*, Ithaca: Cornell Univ. Press.
- Jobert B. (1989) The Normative Frameworks of Public Policy. *Pol. Stud.* 37: 376-86.
- Keck ME, Sikkink K. (1998) *Activists Beyond Borders: Advocacy Networks in International Politics*. Ithaca, NY: Cornell Univ. Press
- Kingdon, John (1984) *Agendas, Alternatives and Public Policies*. New York: Longman.
- Lane, Christel (2005) "Institutional Transformation and System Change: Changes in the Corporate Governance of German Corporations" in Morgan, G. Whitley, R. and Moen, E. (eds.), *Changing Capitalisms?* Oxford: Oxford University Press.
- Lehmbruch G. (2001) Institutional Embedding of Market Economies: The German Model and its Impact on Japan. In *The Origins of Nonliberal Capitalism: Germany and Japan in Comparison*, Eds. W Streeck and K Yamamura, Ithaca: Cornell Univ. Press.
- Levi, Margaret (1988) *Of Rule and Revenue* Berkeley: University of California Press.
- Locke, Richard and Baccaro, Lucio (1999) "The Resurgence of Italian Unions?" in Andrew Martin and George Ross (Eds), *The Brave New World of European Labor*. New York: Berghahn.
- Mahoney, J. (2000) "Path Dependence in Historical Sociology," *Theory and Society* vol. 29: 507-48.
- Majone, G. (1989) *Evidence, argument, and persuasion in the policy process*, New Haven, Ct.: Yale Univ. Press.
- March, James G. and Olsen, Johan P. (1989) *Rediscovering Institutions*. New York: Free Press.
- Marquand, David (1988) *The Unprincipled Society*. London: Fontana.
- Mehta, Jal .n/a. From 'Whether' to 'How': The Varied Role of Ideas in Politics. In *Ideas and Politics in Social Scientific Analysis* Eds. D. Beland and R. Cox (forthcoming).
- Molina, Oscar and Rhodes, Martin (2007) "Conflict, Complementarities and Institutional Change in Mixed Market Economies" in B. Hancké, M. Rhodes, and M. Thatcher, eds.

- Beyond Varieties of Capitalism: Contradictions, Complementarities and Change*, Oxford: Oxford University Press.
- Morgan, G. Whitley, R. and Moen, E., Eds., (2005) *Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization*, New York, Oxford: Oxford University Press.
- Muller P. (1995) Les Politiques Publiques comme Construction d'un Rapport au Monde. In Alain Faure, Gielles Pollet, and Philippe Warin (eds), *La Construction du Sens dans les Politiques Publiques: Débats autour de la notion de Référentiel*. Paris: L'Harmattan
- Mutz DC, Sniderman PM, Brody RA. (1996) *Political Persuasion and Attitude Change*. Ann Arbor: Univ. Mich. Press
- Pierson, Paul (2000) "Increasing Returns, Path Dependence, and the Study of Politics," *American Political Science Review* vol. 94: 251-68.
- Pierson, Paul (2004) *Politics in Time: History, Institutions, and Social Analysis*, Princeton: Princeton University Press.
- Pierson, Paul (1994) *Dismantling the Welfare State: Reagan, Thatcher and the Politics of Retrenchment in Britain and the United States* Cambridge: Cambridge University Press.
- Prasad, Monica (2006) *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States*. Chicago: University of Chicago Press,.
- Radaelli, Claudio M. (2002). 'The Italian state and the Euro' in Ken Dyson (ed) *The European State and the Euro*, Oxford University Press, Oxford.
- Regini, Marino and Regalia, Ida (1997). 'Employers, Unions and the State: The Resurgence of Concertation in Italy'. *West European Politics* 20: 210-30.
- Rein, Martin and Schon, D. A. (1994) *Frame Reflection Toward the Resolution of Intractable Policy Controversies* New York: Basic Books
- Rhodes, M. and van Apeldoorn (1998), 'Capital Unbound? The Transformation of European Corporate Governance', *Journal of European Public Policy*, 5, 3, pp. 407-428
- Rhodes, Martin (2000) "Restructuring the British Welfare State: Between Domestic Constraints and Global Imperatives" in *Welfare and Work. Vol. II* eds., F. W. Scharpf and V. A. Schmidt. Oxford: Oxford University Press.
- Rothstein, B. (2005) *Social Traps and the Problem of Trust*, Cambridge University Press, Cambridge.
- Sabatier P and Jenkins-Smith HC., eds. (1993) *Policy Change and Learning: An Advocacy Coalition Approach*. Boulder, CO: Westview Press
- Schmidt VA. (2002b) Does discourse matter in the politics of welfare state adjustment? *Comp. Polit. Stud.* 35(2):168-93
- Schmidt, Vivien A. (2000) "Values and Discourse in the Politics of Adjustment" in *Welfare and Work in the Open Economy: Vol. 1* eds., Fritz W. Scharpf and Vivien A. Schmidt. Oxford: Oxford University Press.
- Schmidt, Vivien A. (2003) "How, Where, and When does Discourse Matter in Small States' Welfare State Adjustment?" *New Political Economy*, vol. 8, no. 1 (March).

- Schmidt, Vivien A. (1996) *From State to Market?* Cambridge: Cambridge University Press
- Schmidt, Vivien A. (2002a) *The Futures of European Capitalism* Oxford: Oxford University Press.
- Schmidt, Vivien A. (2006) *Democracy in Europe: The EU and National Politics*, Oxford: Oxford University Press.
- Schmidt, Vivien A. (2008) "Discursive Institutionalism: The Explanatory Power of Ideas and Discourse," *Annual Review of Political Science* (forthcoming).
- Seabrooke L. (2006) *The Social Sources of Financial Power*. Ithaca, NY: Cornell Univ. Press
- Searle J. (1995) *The Construction of Social Reality*. New York: Free Press
- Stiller, Sabina (2007) *Innovative Agents versus Immovable Objects: The Role of Ideational Leadership in German Welfare State Reforms* PhD dissertation, Radboud University, Nijmegen (October).
- Streeck, Wolfgang and Hassel, Anke (2003) "The Crumbling Pillars of the Social Partnership," *West European Politics* vol. 26: 101-24.
- Streeck, Wolfgang and Thelen, Kathleen (2005) "Introduction" in Wolfgang Streeck and Kathleen Thelen (eds.) *Beyond Continuity: Institutional Change in Advanced Political Economies* Oxford: Oxford University Press.
- Taylor-Gooby, Peter (1991). 'Attachment to the Welfare State', in R. Jowell (ed.), *British Social Attitudes: The 8th Report*. Aldershot, UK: Dartmouth.
- Thelen, Kathleen (1999) "Historical Institutionalism in Comparative Politics" in *The Annual Review of Political Science* Palo Alto: Annual Reviews, Inc.
- Thelen, Kathleen (2004) *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan*, New York: Cambridge University Press.
- Weir M. (2006) When does politics create policy? The organizational politics of change. In *Rethinking Political Institutions: The Art of the State*, ed. I Shapiro, S Skowronek, D Galvin, pp. 171-186, New York: NY Univ. Press.
- Weiss, Linda (2003) "Guiding Globalization in East Asia: New Roles for old Developmental States" in *States in the Global Economy: Bringing Domestic Institutions Back In* ed., Linda Weiss. Cambridge, UK: Cambridge University Press.
- Whitley, Richard (2005) "How National are Business Systems? The Role of States and Complementary Institutions in Standardizing Systems of Economic Coordination and Control at the National Level" in Morgan, G. Whitley, R. and Moen, E. (eds.) (2005), *Changing Capitalisms?* New York, Oxford: Oxford University Press.
- Woo-Cumings, Yung-en, Ed.,(1999) *The Developmental State*. Ithaca, Cornell University Press
- Zaller J. 1992. *The Nature and Origins of Mass Opinion*. New York: Cambridge Univ. Press.