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Edited by James Mahoney and Kathleen Thelen

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A Theory of Gradual Institutional Change

James Mahoney and Kathleen Thelen

Once created, institutions often change in subtle and gradual ways over time. Although less dramatic than abrupt and wholesale transformations, these slow and piecemeal changes can be equally consequential for patterning human behavior and for shaping substantive political outcomes. Consider, for example, the British House of Lords. This is an institution that began to take shape in the thirteenth century out of informal consultations between the Crown and powerful landowners. By the early nineteenth century, membership was hereditary and the chamber was fully institutionalized at the center of British politics. Who would have thought that this deeply undemocratic assembly of aristocrats would survive the transition to democracy? Not the early Labour Party, which was founded in 1900 and understandably committed to the elimination of a chamber from which its constituents were, more or less by definition, excluded.

We are grateful to the participants in the Workshop on “Explaining Institutional Change: Ambiguity, Agency, and Power in Historical Institutionalism” at Northwestern University in October 2007. The empirical chapters presented at that event, and the stimulating discussions they provoked, provided the inspiration for many of the ideas laid out in this chapter. For subsequent written comments on this essay, we thank Tulia Falleti, Peter Hall, Alan Jacobs, Adam Sheingate, Theda Skocpol, and Dan Slater. We benefited as well from valuable input from Suzanne Berger, Nancy Bermeo, Giovanni Capoccia, Bruce Carruthers, Edward Gibson, Desmond King, Richard Locke, Ann Orloff, Paul Pierson, Dick Samuels, Ben Schneider, and the participants in the Comparative Historical Social Science workshop at Northwestern University and in seminars at Oxford University and M.I.T.

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Yet Labour did not dismantle the House of Lords – despite recurring opportunities to do so during the twentieth century. Instead, the institution was reformed over time in a series of more measured moves that, successively: circumscribed its powers (especially in 1911 by a Liberal Party government), altered its composition (especially in 1958 under a Conservative government, with the addition of life peerages), and rendered it less unwieldy and – in the eyes of some – more legitimate (in 2000 under a Labour government, by reducing dramatically the number of hereditary peers). The cumulative effects of these changes have allowed the chamber not just to survive but to position itself as a significant player in, of all things, the defense of civil liberties in Britain (*The Economist*, February 11, 2006, 51). This is quite a change – from undemocratic bastion of traditional interests to champion of individual rights – and it illustrates that incremental shifts often add up to fundamental transformations.

While institutional analysis has earned a prominent place in contemporary social science, the vast literature that has accumulated provides us with precious little guidance in making sense of processes of institutional change such as occurred in Britain's House of Lords. We have good theories of why various kinds of basic institutional configurations – constitutions, welfare systems, and property right arrangements – come into being in certain cases and at certain times. And we have theories to explain those crucial moments when these institutional configurations are upended and replaced with fundamentally new ones. But still lacking are equally useful tools for explaining the more gradual evolution of institutions once they have been established. Constitutions, systems of social provision, and property right arrangements not only emerge and break down; they also evolve and shift in more subtle ways across time. These kinds of gradual transformations, all too often left out of institutionalist work, are the focus of this volume.

In the literature on institutional change, most scholars point to exogenous shocks that bring about radical institutional reconfigurations, overlooking shifts based on endogenous developments that often unfold incrementally. Indeed, these sorts of gradual or piecemeal changes often only “show up” or “register” *as* change if we consider a somewhat longer time frame than is characteristic in much of the literature. Moreover, when institutions are treated as causes, scholars are too apt to assume that big and abrupt shifts in institutional forms are

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more important or consequential than slow and incrementally occurring changes. As the chapters in this book show, these conclusions are in need of fundamental rethinking. Gradual changes can be of great significance in their own right; and gradually unfolding changes may be hugely consequential as causes of other outcomes.

An emerging body of work provides ideas on which we can build to understand gradual institutional change. New insights have grown out of the literature on path dependence and the ensuing debate over this framework (e.g., North 1990; Collier and Collier 1991; Arthur 1994; Clemens and Cook 1999; Mahoney 2000; Pierson 2004; Thelen 1999, 2004). Among other things, this work has led analysts to theorize the circumstances under which institutions are – and are not – subject to self-reinforcing “lock-in.” Important strands of this literature suggest that path-dependent lock-in is a rare phenomenon, opening up the possibility that institutions normally evolve in more incremental ways. Likewise, works such as Pierson’s *Politics in Time* (2004) discuss various slow-moving causal processes (e.g., cumulative causes, threshold effects, and causal chains) that do not evoke the punctuated equilibrium model of change that is frequently embedded in conceptualizations of path dependence (see also Aminzade 1992; Abbott 2001). Inspired by these works, Streeck and Thelen (2005) have offered an inventory of commonly observed patterns of gradual institutional change that allows us to classify and compare cases across diverse empirical settings.

If theorizing is going to reach its potential, however, institutional analysts must go beyond classification to develop causal propositions that locate the sources of institutional change – sources that are not simply exogenous shocks or environmental shifts. Certain basic questions must be addressed. Exactly what properties of institutions permit change? How and why do the change-permitting properties of institutions allow (or drive) actors to carry out behaviors that foster the changes (and what are these behaviors)? How should we conceptualize these actors? What types of strategies flourish in which kinds of institutional environments? What features of the institutions themselves make them more or less vulnerable to particular kinds of strategies for change? Answering these basic questions is a critical next step if scholars are to theorize the sources and varieties of endogenous institutional change.

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In this chapter, we advance answers to these questions. We begin by noting that all leading approaches to institutional analysis – sociological institutionalism, rational-choice institutionalism, and historical institutionalism (Hall and Taylor 1996) – face problems in explaining institutional change. We then consider how a power-distributional approach to institutions, common in historical institutionalism and present as well in some strands of sociological and rational-choice institutionalism, provides a basic motor for change. To account for actual change, however, this power-distributional approach needs to be supplemented with attention to issues of compliance going well beyond the usual concern for *level* or *extent* of compliance. We argue that institutional change often occurs precisely when problems of rule interpretation and enforcement open up space for actors to implement existing rules in new ways. Expanding our focus to include these concerns allows us to observe and theorize forms of incremental change that are routinely overlooked in most institutional analysis.

Our discussion culminates in the presentation of a new model of institutional change. The model elaborates a set of propositions that link particular modes of incremental change to features of the institutional context and properties of institutions themselves that permit or invite specific kinds of change strategies and change agents. The model sees variations in institutional properties as encouraging different types of change strategies, which are in turn associated with distinctive change agents who work to foster specific kinds of incremental change.

The Challenge of Explaining Change

Despite many other differences, nearly all definitions of institutions treat them as *relatively enduring* features of political and social life (rules, norms, procedures) that structure behavior and that cannot be changed easily or instantaneously. The idea of persistence of some kind is virtually built into the very definition of an institution. This is true for sociological, rational-choice, and historical-institutional approaches alike. The connection between institutions and persistence makes it natural for all of these approaches to focus on explaining continuity rather than change. Nevertheless, the three major institutional approaches do vary in subtle ways in how they conceive of institutions and this turns out to have important implications for their ability to theorize institutional change.

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The Common Problem: A Focus on Stability and Exogenous Shocks

Sociological institutionalism considers a broad range of institutions, focusing attention on noncodified, informal conventions and collective scripts that regulate human behavior. Definitions of institutions in this tradition routinely spotlight their self-reproductive properties. For example, according to Powell (1991, 197), “Things that are institutionalized tend to be relatively inert, that is, they resist efforts at change”; for Jepperson (1991, 145), “Institutions are those social patterns that, when chronically reproduced, owe their survival to relatively self-activating processes.” For some scholars in this broad tradition, institutions are tied to codes of appropriateness, and reproduction occurs as actors are socialized or otherwise learn to follow them (March and Olsen 1984). For others, the self-reproducing properties of institutions are cognitive in nature; institutions may be so routine and “taken for granted” that they are beyond conscious scrutiny (Berger and Luckmann 1967; Zucker 1983, 2). In addition, sociological institutionalists argue that actors often reproduce the same institutional logic across various domains. With organizations, for instance, new organizational forms are “isomorphic” with (i.e., similar to or compatible with) existing organizations (DiMaggio and Powell 1983; Dobbin 1994; Scott 1995). Actors carry their existing scripts forward when building new institutions even when doing so is not “efficient.”

While quite powerful as tools for explaining continuity, the mechanisms of perpetuation used in sociological institutionalism provide few clues about possible sources of endogenous change. If a convention is reified, how might it change? If isomorphism encourages new institutions to take the same form as old ones, where is the locus of dynamism and innovation? To explain transformation, therefore, sociological institutionalists often point to an exogenous entity or force – for example, new interpretive frames imported or imposed from the outside (e.g., DiMaggio and Powell 1983; Hannan and Freeman 1989) or the evolution of broader political, legal, and market “fields” (Fligstein 1996). Studies of change in this genre often provide very compelling accounts in which new actors manage to unsettle dominant practices or scripts and impose their preferred alternatives (e.g., Zorn et al. 2008). But what such accounts typically omit is a set of general propositions about what properties of institutional scripts make some of them, at some times, more vulnerable than others to this type of displacement.

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Rational-choice institutionalists also face quandaries when confronted with institutional change. As Levi (2008) points out, “Rationalists have long recognized the importance of understanding equilibrium change, but their analyses have generally involved comparative statics rather than a more dynamic approach” (see also Weingast 2002, 692). The basic difficulty here is related to a view of institutions as coordinating mechanisms that sustain particular equilibria (Shepsle 1989, 145; Calvert 1995, 218; Levi 1997, 27). As Greif and Laitin put it, “A self-enforcing institution is one in which each player’s behavior is a best response. The inescapable conclusion is that changes in self-enforcing institutions must have an exogenous origin” (2004, 633; see also Bates et al. 1998, 8). This perspective has an obvious affinity to punctuated equilibrium models of institutional change. But such models tend to draw a sharp line between the logic (and analysis) of institutional reproduction and that of change, and thus make it difficult to conceptualize and theorize gradual processes of endogenous change.

Greif and Laitin’s (2004) work represents one of the most explicit efforts to deal with the problem from a rational-choice perspective. The analysis they offer stresses indirect institutional effects – or “feedback effects” – that either expand or reduce the set of situations in which an institution is self-enforcing; thus, their solution to thinking about endogenous change is to redefine (some) of the exogenous parameters as endogenous variables (i.e., “quasi-parameters”). Greif and Laitin can in this way account for the stability (or breakdown) of different institutional equilibria (their cases address the decline versus the resiliency of social order in Venice and Genoa and the decline versus persistence of ethnic cleavages in Estonia and Nigeria). But their framework does not make clear how scholars would be able, *ex ante*, to distinguish quasi-parameters from parameters, or to identify which quasi-parameters are more likely to be affected by the operation of the institution.

Historical institutionalists have also grappled with the problem of institutional change. And they have also traditionally stressed continuity over change. Much of the empirical work on path dependence, for example, has been organized around explaining the persistence of particular institutional patterns or outcomes, often over very long stretches of time (for literature reviews, see Mahoney 2000; Pierson 2004; Thelen 2004). While historical institutionalists acknowledge the

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cultural components of institutions, as well as the coordinating functions that institutions may perform, these scholars view institutions first and foremost as the political legacies of concrete historical struggles. Thus, most historical institutionalists embrace a power-political view of institutions that emphasizes their distributional effects, and many of them explain institutional persistence in terms of increasing returns to power.

When it comes to explaining change, historical institutionalists frequently call attention to “critical junctures,” often understood as periods of contingency during which the usual constraints on action are lifted or eased (Capoccia and Kelemen 2007). Explanations of change focusing on such episodes are sometimes also linked to arguments about the relative weight of agency versus structure in various phases. Ira Katznelson, for example, sees institutions as mostly constraining in periods of “stable” politics, but argues that critical junctures open up opportunities for historic agents to alter the trajectory of development (Katznelson 2003).

In other words, in the historical-institutionalist literature, too, scholars have tended to fall back on a discontinuous model of change in which enduring historical pathways are periodically punctuated by moments of agency and choice. These arguments thus often have the same drawbacks as discussed earlier for other punctuated equilibrium models, obscuring endogenous sources of change and encouraging us to conceive of change as involving the “breakdown” of one set of institutions and its replacement with another.

All three varieties of institutionalism, in short, provide answers to what sustains institutions over time as well as compelling accounts of cases in which exogenous shocks or shifts prompt institutional change. What they do not provide is a general model of change, particularly one that can comprehend both exogenous and endogenous sources of change.

Institutional Stability as a Political Problem and a Dynamic Political Outcome

If institutions are changed not just in response to exogenous shocks or shifts, then their basic properties must be defined in ways that provide some dynamic element that permits such change. The foundation on which we build here is one that conceives institutions above all else as

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distributional instruments laden with power implications (Hall 1986; Skocpol 1995; Mahoney 2010; see also Hall [this volume]). As noted, this view of institutions is commonplace in historical institutionalism but it is also consistent with some rational-choice perspectives that emphasize power over cooperation (e.g., Knight 1992; Acemoglu, Johnson, and Robinson 2005; Moe 2005), as well as some sociological accounts that focus on the political-distributional underpinnings of specific cultural or normative practices (e.g., Stinchcombe 1987, Fligstein forthcoming). In our approach, institutions are fraught with tensions because they inevitably raise resource considerations and invariably have distributional consequences. Any given set of rules or expectations – formal or informal – that patterns action will have unequal implications for resource allocation, and clearly many formal institutions are specifically intended to distribute resources to particular kinds of actors and not to others. This is true for precisely those institutions that mobilize significant and highly valued resources (e.g., most political and political-economic institutions).

Existing work has drawn out many implications of this conceptualization for understanding institutional genesis and continuity. Concerning genesis, actors with different endowments of resources are normally motivated to pursue the creation of different kinds of institutions. And the institutions that are actually created often reflect the relative contributions of – and often conflict among – these differentially motivated actors. In some cases, the power of one group (or coalition) relative to another may be so great that dominant actors are able to design institutions that closely correspond to their well-defined institutional preferences. But institutional outcomes need not reflect the goals of any particular group; they may be the unintended outcome of conflict among groups or the result of “ambiguous compromises” among actors who can coordinate on institutional means even if they differ on substantive goals (Schickler 2001; Palier 2005).

For these reasons, there is nothing automatic, self-perpetuating, or self-reinforcing about institutional arrangements. Rather, a dynamic component is built in; where institutions represent compromises or relatively durable though still contested settlements based on specific coalitional dynamics, they are always vulnerable to shifts. On this view,

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change and stability are in fact inextricably linked. Those who benefit from existing arrangements may have an objective preference for continuity but ensuring such continuity requires the ongoing mobilization of political support as well as, often, active efforts to resolve institutional ambiguities in their favor (Thelen 2004). Dan Slater's analysis (this volume) of the stability of authoritarianism in Indonesia under Suharto is an excellent case in point. The phenomenal durability of this regime was not a matter of self-enforcement or even of increasing returns to power; rather, this outcome depended on the active creation and nurturing of (over time, different) coalitions and institutional supports for the regime. Ironically, as Slater shows, the political balancing that allowed Suharto to concentrate autocratic power paved the way for later regime collapse by compromising the independent coercive capacities of the co-opted institutions and organizations.

Given a view of institutional stability that rests not just on the accumulation but also on the ongoing mobilization of resources, one important source of change will be shifts in the balance of power (e.g., Knight 1992, 145, 184; Thelen 1999). This can happen in straightforward ways as, for instance, through changes in environmental conditions that reshuffle power relations. Beyond this, however, a number of scholars have drawn attention to less obvious aspects of such shifts, emphasizing for example that actors are embedded in a multiplicity of institutions, and interactions among them may allow unforeseen changes in the ongoing distribution of resources. Resource allocations from one set of institutions may shape the outcomes of distributional conflicts over resource allocations connected to a different set of institutions. Pierson and Skocpol (2002, 696) note the importance of hypothesizing "about the combined effects of institutions and processes rather than examining just one institution or process at a time." Actors disadvantaged by one institution may be able to use their advantaged status vis-à-vis other institutions to enact change.

Other strands of scholarship in this broad tradition examine how the expected operation of institutions itself sometimes generates pressures for change. This can occur if the over-time distributional effects of institutions trigger divisions among institutional power holders. Or change can occur if institutions disadvantage subordinate groups to the point that they organize and come to identify with one another, thereby

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increasing their power and capacity to break prevailing institutional arrangements. Between them, these two possibilities correspond to the themes of “divided elites” and “united subordinate groups” that are sometimes emphasized in explanations of change (e.g., Yashar 1997).

Compliance as a Variable in the Analysis of Institutional Change

Beyond balance-of-power shifts (either exogenous or endogenously generated through feedback effects), we especially call attention to forms of change that are linked to issues of *compliance*. On this point there is a rather important difference between the power-distributional perspective of institutions we are advancing here and some prominent alternatives discussed earlier. In some versions of sociological institutionalism, for example, compliance and enforcement appear to be nonissues. If institutions involve cognitive templates that individuals unconsciously enact, then actors presumably do not think about not complying.¹ In fact, it is their very taken-for-grantedness that makes these institutions self-enforcing. In rationalist accounts, sanctions and monitoring do play a role as mechanisms to prevent free riding and promote collective action (Ostrom 1990). However, in much of this work, compliance is built into the definition of the institution under consideration. In other words, what institutions *do* is stabilize expectations (among other ways, by providing information about the probable behavior of others), and thus enforcement is endogenous in the sense that the expected costs and extent of noncompliance are factored into the strategic behavior of the actors in a particular institutional equilibrium (North 1990, 1993).

If, instead, we break with a view of institutions as self-reinforcing (through whatever mechanism) and put distributional issues front and center, compliance emerges as a *variable*, and a variable that is crucially important to the analysis of both stability and change. The need to enforce institutions carries its own dynamic of potential change, emanating not just from the politically contested nature of institutional rules but also, importantly, from a degree of openness in the interpretation and implementation of these rules. Even when institutions are

¹ We owe this insight regarding compliance and its different valence in different varieties of institutionalism to Wolfgang Streeck, who made these points at a workshop on institutions held in Italy in 2006.