

The Importance of Ideas: An A Priori Critical Juncture Framework

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ABSTRACT

This paper sets out an improved framework for examining critical junctures. This framework, while rigorous and broadly applicable, already an advance on the frameworks currently employed, primarily seeks to incorporate an a priori element. Until now the frameworks utilised in examining critical junctures have been entirely postdictive in nature. Adding a predictive element to the concept will constitute a significant advance for historical institutionalism in particular, and political science in general. The new framework, and its predictive element, termed the “differentiating factor,” is tested here in examining economic crises, and subsequent changes in macroeconomic policy, in both America and Sweden.

Introduction

Institutionalists (Steinmo, 1989; Thelen and Steinmo 1992; Christensen 1997; Mahoney 2000; Pierson 2000; Gorges 2001) have regularly argued that crises can result in abrupt institutional change. Often, crises are pointed to as the starting points in a sequence of change, as in path dependence. Consequently, scholars' interpretations of institutional change have resulted in the past being divided into periods of normalcy, and critical junctures.

But, Pierson (2004: 5-6) points out that critical junctures, 'a key concept needed in underpinning the analyses of temporal processes, have received only limited discussion.' Thelen (1999, p. 388) further argues that good tools for understanding continuity have not been matched by equally sophisticated tools for understanding change. These arguments relate to the idea that historical institutionalism, in general, has tended to concentrate on the institutional side of the approach, rather than the historic.

Of late, historical institutionalists have moved on from critical junctures, seeking new means to demonstrate how institutions are remade over time (Thelen, 1999, 2000; Clemens and Cook, 1999; Pierson 2004). Consequently, the critical junctures concept, an only half developed approach as it is entirely postdictive, is being consigned to academic history. Simultaneously, some scholars are declaring particular events they are studying to be critical junctures, watersheds, or other turning point terms, without the provision of the least evidence to that effect. This renders the concept of critical junctures meaningless, denigrating even what value it possesses as a postdictive approach.

In the past critical junctures have been examined by means of unwieldy frameworks (Collier and Collier 1991), or counterfactual analysis (Fearon, 1991;

1996). Of late (Hogan 2005; 2006) sought to develop a framework with greater rigour. But, this involved the development of narrow, in many instances, case specific criteria, as well as what amounted to arbitrary standards. Consequently, scholars have yet to develop a framework for examining critical junctures that is rigorous and yet widely applicable. At the same time, all approaches used to examine critical junctures up to now have lacked a predictive element. This paper seeks to develop a rigorous, widely applicable framework for examining critical junctures, but a framework with a predictive element.

The hypothesis tested here is that a critical juncture in macroeconomic policy consists of three stages: a macroeconomic crisis, an ideational change, and then a radical change in economic policies. The time periods dealt with concern rapid changes in macroeconomic policy, rather than gradual or incremental changes. Relatively rapid change in macroeconomic policy is synonymous with the concept of critical junctures. Through the study of five potential macroeconomic crises in two countries, this paper aims to develop a predictive set of a priori criteria for examining potential critical junctures. The reason for so many cases is that, as Hall (1993, p. 277) encourages, broad concepts deserve exploration in many context, and no single case can fully resolve such issues. The paper seeks to show that although there were five potential macroeconomic crises not all of these were actual crises, and not all of the crises resulted in critical junctures in those countries' economic policies.

The paper will elucidate the reasons for this, thus explicitly setting out what differentiates macroeconomic crises that resulted in critical junctures in a country's economic policies from macroeconomic crises that do not. This differentiating factor will be the essential predictive element. Once the differentiating factor has been identified it will be possible in future to look at counties experiencing economic

difficulties, test these difficulties to see if they constitute a crisis, then test for the differentiating factor's presence, and thereafter be able to interpret whether that economic crisis is likely to result in a critical juncture in that country's economic policies. This development would remove the longstanding element of contingency associated with critical junctures by path dependence scholars (Mahoney, 2000, p. 513). It would also eliminate the necessity of having to wait decades to be able to conclude with hindsight if an event was a critical juncture. While this approach focuses on economic crises, and their consequences for government policy, it could be altered to examine a range of other types of crises.

The first section of the paper discusses the literature relating to critical junctures. This section focuses upon the frameworks developed; the range of issues studied, and most importantly the concept's postdictive nature. The second section briefly sets out the countries chosen for examination, and the timeframe of the study. The third section sets out the criteria to be utilised for examining macroeconomic crisis, the concepts of ideational change and armoured policies, and the economic policy changes to be tested for in order to see if there was a drastic change in macroeconomic policies that might have constituted a critical juncture. The conclusion will discuss the new predictive framework to be utilised in examining potential critical junctures in the future. It will set out the criteria to be examined in order to see if a period of economic difficulty is in fact an economic crisis, and if this crisis might lead to a critical juncture in that country's economic policies.

Section 1: The Characteristics and Uses of the Critical Junctures Approach

Critical junctures are seen as constituting branching point, the trigger events that set whole processes of institutional, or policy change, in motion. The literature sees

critical junctures resulting in the adoption of an institutional arrangement from among alternatives (Mahoney, 2000: 512). Thereafter, the pathway established funnels units in a particular direction, with the consequence of increasing returns, and the resultant irreversibilities (Mahoney, 2003, p. 53; Pierson and Skocpol, 2002, p. 9). However, Pierson (2004) argues that institutional stability can result from non-path dependent causes too, implying that critical junctures should not be defined in part by the assumption that they initiate path dependent processes. Thus, it is conceivable that a critical juncture could lead to the existence of an institution whose persistence is not due to path dependence, but other sources of stability.

For some, the duration of a critical juncture may involve a relatively brief period in which one direction or another is taken, while for others it can constitute extended periods of reorientation (Mahoney 2001). The analysis of critical junctures has been influential in comparative politics. Collier and Collier (1991) developed a framework to determine if certain periods constituted critical junctures in national development in Latin America. Their definition does not imply that institutional innovation occurs in short episodes (Thelen, 2004: 215). For Mahoney (2001), analysing the nineteenth century liberalisation of Central America, critical junctures took decades to come about, while their after effects were sometimes of shorter duration. Hogan (2005; 2006) questioned whether these periods of change could rightly be called critical junctures, or were instances of incremental change, more appropriate labelled by Streeck and Thelen (2005) as periods of conversion.

However, critical junctures have also been employed in research into short term change. Garrett and Lange (1995: 628) showed that electoral landslides create critical junctures by producing mandates for policy change. Casper and Taylor (1996) employed critical junctures in analysing periods when authoritarian regimes were

vulnerable to liberalisation. Examining the Reciprocal Trade Agreements Act of 1934, Haggard (1988: 91) argued that economic depression brought into question existing institutions, and resulted in dramatic change. Karl (1997) used the concept in her analysis of how the “petro-states” became locked into problematic development paths, Gal and Bargal (2002) used it to analyse the emergence of occupational welfare in Israeli, while Vargas (2004) used the concept to examine the conflict in Chiapas Mexico. Hogan (2005; 2006) remoulded the framework to examine periods of change in trade union influence over public policy.

Critical junctures have been looked upon as pointing to the importance of the past in explaining the present. They ‘suggest the importance of focusing on the formative moments for institutions and organisations’ (Pierson, 1993: 602). But, the above studies were all postdictive. As Collier and Collier (1991, p. 35) state, ‘the distinctive contribution of the critical junctures framework is its approach to explanation.’ It focuses on the historical causes. If focusing on the formative moments of institutions and organisations is critical, then only being able to do so long after the fact constitutes a significant weakness for the concept, a weakness this paper seeks to remedy.

Section 2: The Countries Selected for Examination

The countries selected are Sweden, and the United States of America. Both constitute similar, and simultaneously different, democracies. Their similarities ensure ‘the context of analysis are analytically equivalent, to a significant degree,’ while their difference place ‘parallel processes of change in sharp relief as they are operating in different settings in many respects’ (Collier, 1997, p. 40). Both countries’ economies are very different, while their performances, and the policies governing them, have

varied dramatically. Their economic performance between 1945 and 2000 is examined here.

Section 3: 1. The Identification of Macroeconomic Crisis

‘An important part of the literature on critical junctures views them from the perspective of cleavages or crises, thereby placing a particular emphasis on the tensions leading up to the critical juncture’ (Collier and Collier, 1991, p. 32). ‘Traditionally, students of institutional change focused on the importance of crisis, situations of large-scale public dissatisfaction or even fear stemming from an unusual degree of social unrest and/or threats to national security’ (Cortell and Peterson, 1999, p. 184). ‘Exogenous shock, such as an international economic crisis, is often cited as an explanation for policy change (Golob, 2003, p. 373). In this study the crises being searched for are macroeconomic crises. ‘Most scholars agree that severe recessions make significant structural changes possible because they render politics highly fluid’ (Garrett, 1993, p. 522). Governments, political parties, and their economic policies, are openly exposed to the impact of economic fluctuations, being readily affected by them. Such an event as a macroeconomic crisis can call into question existing institutions, policies, or even state projects, consequently triggering change (Tilly, 1975).

But, how do we identify a macroeconomic crisis? To this end, we have developed a broad range of observable implications. These implications accept that a macroeconomic crisis must constitute a severe economic low point. Apart from the first observable implication that is directly quantifiable, the identification of the empirical-theoretical fit for the remainder of the observables will rely upon the clarity of the results provided by the independent variables utilised.

O1. If the main economic indicators reached decade-long lows the economy may have been in crisis.

O2. If opinion polls find the public regarded the economic in crisis, then the economy may have been in crisis.

O3. If the national media regarded the economy in crisis, then the economy may have been in crisis.

O4. If economic and political commentators regarded the economy in crisis, then the economy may have been in crisis.

O5. If the central bank regarded the economy in crisis, then the economy may have been in crisis.

O6. If both domestic and international organisations (OECD) monitoring economic performance regarded the economy in crisis, then the economy may have been in crisis.

O7. If elected representatives regarded the economy in crisis, then the economy may have been in crisis.

O8. If government pronouncements on the economy were consistent with a crisis management approach, then the economy may have been in crisis.

As space permits only the briefest review of the material examined we concentrate on the most likely cases of macroeconomic crises identified.

The United States of America

We identify three possible macroeconomic crises between 1945 and 2000.

The late 1950s were marked by relatively high unemployment, and a large deficit. *Time* stated that the economy was in recession.¹ The rate of unemployment stood at 5.5 per cent, or 3.7 million.² For the Labor Department, anything above 3 million indicated economic weakness.³ ‘By 1960 most economists argued that the economy was slumping dangerously’ (Heath, 1975, p. 63). The Secretary of the Treasury admitted as much to an annual IMF meeting.⁴ Democratic presidential candidate Kennedy observed that in 1959 America experienced the lowest growth of any major industrialized country.⁵ ‘You don’t see a burgeoning economy,’ agreed his Republican rival Nixon.⁶ The start of the 1960s were marked by slow growth, high unemployment, and a large deficit (OECD, 1962, p. 5). However, these factors were not sufficient to constitute an economic crisis.

The Carter administration’s final year was characterized by high interest rates, and rising unemployment (OECD, 1982, p. 9). Compounding matters, the National Bureau of Economic Research declared the economy in recession.⁷ When the President invoked the Credit Control Act it resulted in reduced borrowing, and a steep decline in growth.⁸ By the second half of 1980 the administration’s responses to the recession smacked of crisis-management. Carter’s Economic Renewal Programme, to stimulate the economy, was criticized as weak.⁹ By November Fed Chairman Volcker admitted there was a recession.¹⁰ In restraining the growth of the money supply the Fed pushed interest rates to their highest levels in a century, reducing consumer borrowing, and sending spending into decline.¹¹ ‘Through the actions of the Reserve Board and the administration, the economy was inadvertently plunged into the kind of recession the White House had been trying to avoid’ (Dark, 1999, p. 120). The recession of 1980-81 was the worst in post-war US history (OECD, 1983, p. 7).

By 1992 the economy was in serious trouble (Caple, 1991, p. 3). In December 1990 Fed Chairman Greenspan called the post 1980s downturn “meaningful.”¹² The OECD (1993, pp. 18-29) showed that the economy shrank 1.2 per cent in 1991, while the budget deficit reached \$290 billion in 1992, with federal debt surpassed \$4 trillion. *The Wall Street Journal* warned that the deficit was out of control,¹³ leaving no room to stimulate the economy.¹⁴ The Gulf War, the Savings & Loan bailout, defence-industry contraction, real estate depression, and soaring welfare payments, wreaked havoc with budget-balancing efforts.¹⁵ Unemployment peaked at 7.8 per cent in mid-1992, with 2 million jobs disappearing in a year. President Bush eventually agreed with his Democratic rival Clinton’s argument that his administration had botched the recession.¹⁶ This economic downturn became the longest recession since the Great Depression.¹⁷

Sweden

Examining Sweden between 1945 and 2000 we identified two potential macroeconomic crises.

The recession begun in the mid 1970s proved persistent. The OECD (1982, p. 49) described the Swedish economy in 1982 as in difficulty. Government’s expenditures had grown, while revenues stagnated due to slow growth. The budget deficits were financed by international borrowing (Siven, 1984, p. 17). Sweden’s debt to GNP ratio stood at 59.3 per cent, an increase of over 250 per cent in six years. In 1981 inflation had reached 12.1 per cent, while economic growth stagnated.¹⁸ Unemployment reached 3.1 per cent in 1982, its highest level since 1945. This was a political scandal in a country accustomed to full employment.¹⁹ However, economists believed [unemployment] would have been closer to 16 per cent if it included the

jobless in training programmes, workers forced into early retirement, and those who had given up looking for work.²⁰ The *New York Times* argued that the Swedish economy had been hobbled by foreign debt, low investment, and an adverse balance of payments.²¹ The economy was certainly in crisis.

Although prosperity returned during the 1980s, by the 1990s another economic crisis had arisen. The attempt to maintain industrial competitiveness, an enormous public sector, and full employment, resulted in spiralling inflation.²² The Bank of International Settlement observed that Sweden had the worst inflation rate of the ten leading industrialised countries.²³ In 1990 prices rose by 6.6 per cent, against the OECD average of 4.5 per cent (OECD, 1992, p. 12). That autumn, as the real estate market collapsed, the banking system was thrown into jeopardy,²⁴ threatening the country's financial infrastructure (Martin, 2000, p. 246). Unemployment increased from 1.7 per cent in 1990²⁵ to 5.3 per cent in 1992. There was fiscal instability, and the current budget deficit, public sector borrowing requirement, and national debt, all rose as the economy contracted.²⁶ *The Guardian* pointed out that 'this was the first time the [Swedish] economy contracted since 1942.'²⁷ "Sweden is in a very severe recession. There is crisis in every part of the public sector – health, education, childcare, and aged care," said Anders Aslund, Sweden's leading economist.²⁸

INSERT TABLE 1.1

Of the five potential macroeconomic crises four constituted authentic crises, satisfying all, or nearly all, of the observable implications they were tested against. As can be seen in Table 1.1, America 1959-1961 satisfied only one observable

implication, and thus could not be a severe economic low point. The next section will examine the four periods of macroeconomic crises to see if ideational change occurred at these times.

2. The Identification of Ideational Change

A crisis presents new problems, as previous policies are discredited due to their implication in, or inability to right, the situation. Economic crises can have great impact, shaping a range of alternatives, but they will not determine policy choices. This remains 'firmly centred in domestic political and ideational processes' (Golob, 2003, p. 375). Thus, when an economic model is in flux Kingdon's (1995) windows of opportunity will appear in which agents will contest the viability of the prevailing paradigm.

This is similar to Blyth's 'discursive phase,' where 'agents interested in reforming existing distributional arrangements contest the definition, meaning and solution to the problems identified by opposing economic ideologies' (1997, p. 234). Agents will critique the old economic model, as economic shocks 'discredit earlier policy models that did not predict the crisis' (Golob, 2003, p. 374). These agents will introduce new ideas, which they believe can solve the problem. The crisis, and resulting uncertainty in the policy arena, provides a window of opportunity for new ideas to gain credence. Eventually, agents coalesce around a set of ideas, which will act as an alternative paradigm to the current model. 'Economic ideas facilitate the reduction of...barriers by acting as coalition-building resources among agents who, in periods of crisis, attempt to resolve the crisis' (Blyth, 2002, p. 37). This broadly reflects Blyth's 'instrumentalist phase,' when ideas are co-opted and deployed by agents in an attempt to redefine existing institutional arrangements (1997, p. 234).

Thus, ideas are the casual mechanisms of change that occur in any critical juncture (Golob, 2003).

Once agents coalesce around a set ideas, which purport to offer a solution to current economic woes, and an alternative to the current paradigm, *they* will attempt to ‘inject’ these ideas into the policy domain. We contend that this occurs as a result of the actions of three broad groupings of *agents of change*. It is important to note that all three groups do not have to act in tandem.

Newly elected political parties constitute the first grouping. When elections occur during economic crisis, opposition parties run on platforms opposed to the current economic model. They will propose new economic ideas as an alternative paradigm. For the second and broader grouping we borrow Kingdon’s (1995, pp. 179-183) term ‘policy entrepreneurs.’ These are agents operating within the state, which promulgate a specific economic idea that they believe can replace the current paradigm. They may be civil servants, technocrats, academics, economists and interest groups etc., who have access to decision makers. This roughly amalgamates both Hall’s economist-centred approach and coalition centred approach in explaining economic change (Hall, 1989, pp. 8-12). The final grouping consists of outside influences. Here, the media, and international organisations, such as the OECD, IMF or World Bank etc., will critique an existing economic paradigm, and advocate a new set of economic ideas constituting an alternative paradigm.

Therefore, we hypothesise that an economic crisis will result in debate regarding the economy, and this will generate a new set of ideas about the economy. Consequently, we develop another set of observable implications, which suggest that as agents debate the viability of the old economic model, they generate solutions to its ills in the form of new ideas.

O1. The media questions the efficacy of the current economic model and/or specific policy areas.

O2. Opposition political parties critique the current model and propose alternative economic ideas – at election time their platform will be built around these alternative ideas.

O3. Civil society organisations, e.g. labour unions, employer organisations, consumer groups etc. critique the current model, reflecting Hall's coalition-centred approach (1989, p. 12).

O4. Widespread public dissatisfaction with the current paradigm, observable through opinion polls, protests etc.

O5. External or international organisations critique the current model **and/or** actively disseminate alternative economic ideas to replace this model.

O6. A clear set of alternative economic ideas are evident.

O7. A clear agent of change to inject these new ideas into policy arena is evident.

According to Legro's (2000, p. 419) two stage conceptualisation of rapid ideational change, if, despite its institutionalisation, agents agree that the prevailing paradigm is inadequate and should be replaced, then the first stage – collapse has occurred. These agents will propose solutions consisting of a hierarchy of contending ideas, with one main challenger to the dominant creed. But 'even when ideational collapse occurs, failure to reach consensus on a replacement could still produce continuity, as society reflexively re-embraces the old orthodoxy' (Legro, 2000, p. 424). Thus, the critical issue becomes reaching consensus on a new set of ideas. If consensus is achieved it

constitutes the second stage of Legro's model – consolidation – agents coordinating a replacement set of ideas to the reigning consensus.

Once agents attempt to utilise the new ideas for change, it remains to be seen whether previous policies will change significantly. That is, following ideational collapse can sufficient consensus develop around the new ideas to reach consolidation, replacing the old ideas, and thereafter piercing 'armoured policies.' Referring to previous policies as 'armoured' builds upon the work of Hall, Blyth, and historical institutionalists in general. It is similar to Golob's notion of 'policy frontiers' (2003, p. 363). Armoured policies represent policy continuity, whereby once a policy has become institutionally embedded, 'policy-making becomes possible only in terms of these ideas'. (Blyth, 2001, p. 4)

America 1981 and 1992

By the end of Carter's administration the US economy was in serious trouble, with inflation rising rapidly. As a response, President Carter and Paul Volcker, Federal Reserve Chairman, initiated policies to rectify the situation. Volcker believed the remedy for spiralling inflation was a tightened money supply (Krugman, 1990), the first coherent move towards some form of monetarist policy. However, the results were limited. The president's imposition of new controls on consumer credit did little to stop the economy's slide; on the contrary it contributed to it. Consequently, dissatisfaction and critiques of government policy became widespread.

Time argued that Carter's decisions resulted in large reductions in consumer borrowing, and a steep decline in growth.²⁹ 'Recession Hits Hard' headlined *The Washington Post*.³⁰ Economic commentators of all political hues expressed negative sentiments on the prospects for recovery. The economy had become ensnarled in

what Walter Okun called ‘the great stagflation swamp.’³¹ The President’s inflation record is not good admitted Walter Heller. In allowing the economy deteriorate, noted Alan Greenspan, Carter was forced into a crash programme of restraint that led to decline and a huge rise in unemployment.³² By late 1980 the administration’s responses to the recession smacked of crisis-management. The president’s \$32.2 billion economic stimulus package was lambasted by the media.³³ The critiques began to coalesce around set of alternative economic ideas, which purported to tackle current economic ills: monetarism. With agents in agreement as to the inadequacy of the extant paradigm, and that it should be replaced, ideational collapse had occurred.

Monetarist concepts had been present in American political circles since the early 1970s, with Milton Friedman, Robert Lucas, and Arthur Laffer, founding organizations such as the Capital Formation Lobby, and the American Enterprise Institute (Blyth, 1997, pp. 236-237). These groups ensured that by the late 1970s American economic journalism propagated their ideas (Blyth, 1997, p. 237), with the Wall Street Journal acting as both ‘effective synthesizer and chief proselytizer for these...ideas’ (Blyth, 2002, p. 164).

Ronald Regan, Republican candidate for President, embraced this new ideology, wielding it aggressively during his campaign, and using it to attack the administration’s policy failures. His message was simplistic: lower taxes, reduced spending on social services, balanced budgets, and fewer governmental regulations. He blamed the Democrats’ inflationary policies for stifling productivity and bringing recession. In late August Reagan stated that President Carter had ‘created a severe depression in our nation.’³⁴ He promised new policies and leadership (Wayne, 1992, p. 182). During the final stages of the election campaign Reagan declared that Carter’s record on inflation and unemployment ‘is a failure on a scale so vast, in

dimensions so broad, with effects so devastating, that it is virtually without parallel in American History.’³⁵ Reagan succeeded in forging an electoral coalition around the notion of monetarism (Blyth, 1997), and won the election on the back of having a discernable set of alternative economic ideas which could replace existing arrangements, deemed a failure. President Reagan’s election, and the accompanying Congressional elections, gave a clear mandate for conservative policies (OECD, 1982, p. 10). Thus, with consensus reached on a new set of economic ideas, agents consolidated around a new economic orthodoxy to replace the old. Monetarism, thanks to Reagan, became widely accepted as a viable alternative economic idea.

The Bush administration was blamed for the recession of the early 1990s by the media, opposition political parties, the public, the World Bank and organised labour. The Gulf War, along with a range of domestic economic problems, not least of which was the Savings & Loan debacle, left a legacy of disastrous budget deficits.³⁶ With a national debt exceeding \$4 trillion, and huge interest repayments, stimulating the economy through spending was not an option.³⁷

The public lost faith in the administration’s ability to manage the economy. An August 1992 poll by *Time* showed only 22 per cent of the public regarded President Bush as performing a good job with the economy.³⁸ A *Newsweek* poll the following month produced similar results.³⁹ The media weighed in with its own critiques of the administration. *Time* argued that the Reagan/Bush administrations were largely responsible for the red ink on the federal budget. *The New York Times* stated that from the start Bush had mismanaged the economy, knowing secretly it was in for tough times, but refusing to admit taxes would have to rise.⁴⁰ However, when taxes were raised this drew vicious criticism. ‘Read My Lips: I Lied’ proclaimed the

headline on the *New York Post*.⁴¹ ‘Anxious about the economic future?’ asked *Newsweek*, ‘if you aren’t you should be,’ it warned.⁴² Even the World Bank attacked the Bush’s economic management. ‘The most important lesson of elementary economics America must learn,’ said World Bank chief executive Laurence Summers, ‘is: deficit finance is not an alternate to cutting spending or raising taxes – it is a way of postponing these painful steps.’⁴³ Confidence in the extant economic ideas had collapsed.

The 1992 Democrat Presidential nominee, Bill Clinton, attacked the administration for the economic ills it had generated. At the Democratic Party’s convention, Clinton pledged an activist government addressing the economy, jobs, and health care. Clinton’s campaign focused on the recession, with the famous maxim: ‘The Economy Stupid!’⁴⁴ Although the critiques of Bush’s administration were rife, unlike the previous example, these debates did not coalesce around an alternative set of economic ideas. Agents did not reach consensus on a new set of economic ideas to replace the old; consequently, there was no consolidation of a new ideational structure. The result was continuity with the old economic orthodoxy. Clinton was elected on the back of Bush’s unpopularity, with economic proposals aimed at rectifying Bush’s errors, rather than seriously changing economic policy. The ideas he espoused did not constitute an ideational economic shift, or an alternative economic paradigm, nor were any significant agents of change present during the crisis. No complete set of alternative economic ideas were presented. Consequently, Clinton came to power with no radically new economic ideas to inject into the policy arena.

Sweden 1982 and 1991

The Swedish recession of the mid-1970s proved persistent, while the budget deficits supporting the social welfare system continued to grow. By 1981 the non-socialist coalition government (Centre and Liberal) held only 102 of the 350 seats in the *Riksdag*.⁴⁵ In autumn 1981 the krona was devalued by 10 per cent, and the following spring the government introduced far-reaching austerity measures. However, the opposition parties gained ground (Hadenius, 1997, pp. 129-130). The government hoped attempts to combat the economy's problems would generate respect for non-socialist policies. However, its handling of the crisis generated widespread critiques of its economic management, and initiated a debate on the economy. The *Financial Times* pointed out that Swedes were nervous about the future, but reluctant to see the welfare state's benefits reduced, and to accept the tough remedies proposed to deal with their growing economic problems.⁴⁶ "The welfare state is in a crisis of legitimacy," observed Hans Vetterberg, Sweden's leading public opinion analyst. "We can no longer afford to keep expanding it the way we were."⁴⁷ Not surprisingly, the Swedish Employers' Federation (SAF) was unhappy with the mode of government. However, the non-socialists government wanted neither to raise taxes, nor be accused of trying to dismantle the welfare state.⁴⁸ This state of affairs, rife with unfulfilled economic expectations, and agents dissatisfied with the prevailing paradigm, constituted ideational collapse.

The critiques of the economy, the resultant debate, and the 1982 general election failed to generate either a coherent set of alternative economic ideas to replace existing ones, or a significant agent of change. The 1982 general election was deemed crucial for Sweden, as it would determine whether public perception had shifted, as in Norway and Denmark, away from the Social Democrats. The election

campaign was dominated by talk of economic crisis – rising budget deficits, a \$10 billion debt to foreign banks, inflation, declining exports, and increasing unemployment.⁴⁹ During the campaign the Social Democrats attacked the viability of a new non-socialist government, and their economic policies. The party presented a program on how Sweden could save and work its way out of the crisis. Ultimately, the election failed to generate any coherent new economic ideas, becoming mired in controversial issues such as employee investment funds. The non-socialist parties failed to create a coalition that coalesced around ideas alternate to the welfare state, and nearly all economic ideas presented were merely variations on existing themes. Despite the failure of the dominant orthodoxy which saw ideational collapse, the various agents failed to reach a consensus on a replacement set of ideas. With failure to consolidate around a new ideational orthodoxy agents ultimately re-embraced the old. One of the main reasons for this was public support for the welfare state ran very deep, ensuring it was enshrined as an armoured policy, deflecting all alternative ideas. Consequently, the SAP won the election, not on the back of a new economic paradigm that could cure the country's economic woes, but on a series of proposals to rectify existing economic arrangements.

Sweden's economic crisis in the early 1990s provided a window of opportunity for monetarist ideas to gain salience. Following the SAP's election in 1982, a number of agents in the state began coalescing around alternative economic ideas, specifically monetarism, which had gained strong support internationally. These agents, consisting of the new leaderships of the Conservative, Liberal and Socialist parties, the new policy elites outside the original social bargain, the SNS, and the SAF, began aggressively propagating these ideas (Blyth, 1997, p. 239).

Meanwhile, the media continued to harangue the SAP government, and its policy failures. *The New York Times* stated that the economy was stagnant throughout 1991.⁵⁰ *The Financial Times* pointed out that in 1991, under the impact of weak foreign demand, and losses in competitiveness, Swedish exporters lost ground in all geographic markets.⁵¹ *The Washington Post* argued that Swedes were increasingly troubled by the country's slow growth, and doubts about their ability to maintain the extraordinary standard of living to which they were accustomed.⁵²

Once the economy entered freefall, critiques of the SAP by the media, the opposition, and the OECD, enabled these agents to propose monetarism as an alternative economic paradigm which could solve the crisis. From the mid-1980s onwards the SAF, among others, had increasingly called into question the corporatist system (de Geer, 1992, p. 155-157). It mounted intense publicity campaigns to improve the electoral prospects of Liberal and Conservative parties. The SAF's ideas on privatisation and deregulation also influenced the SAP government. In an effort to combat the crisis, the SAP, prior to the 1991 election, began tentatively incorporating monetarist ideas into policy. To restore confidence, and combat inflation, fiscal policy was tightened (OECD, 1992, p. 11). The January 1991 budget was a stark indicator of the gradual acceptance of monetarist ideas, as low inflation became the objective of economic policy (OECD, 1992, p. 39).

The internationalisation of financial markets undermined the internal coherence of the economy, restricting the ability of government to pursue economic policies diverging from those of other capitalist states, forming what Blyth terms a 'cognitive lock' (Blyth, 2002). Policies that industrialists (and foreign currency dealers) disapproved of became increasingly difficult to implement (Marshall, 1996, p. 9). In an environment of unfulfilled collective economic expectations, contestation

of the existing economic orthodoxy by agents agreed on both its inadequacy and need for replacement resulted in its collapse.

The 1991 election provided the opportunity for change, with opposition parties forming a coalition of agents around monetarist ideas. They possessed a coherent set of alternative economic theories purporting to rectify the economy. Following the election, Carl Bildt, leader of the Moderate Party, formed a four-party government that advocated a switch to monetarism. The *Financial Times* observed that ‘Swedish politics have reached the end of the Social Democratic era.’⁵³ Bildt summed up the result as ‘‘a massive mandate for change and the worst defeat for the left we have ever seen in this country since universal suffrage.’’⁵⁴ A range of agents had reached consensus on a new set of economic ideas to replace the old collapsed ones, consolidating new dominant economic ideational orthodoxy. Sweden had accepted the idea of an alternative economic paradigm.

INSERT TABLE 1.2

Of the four macroeconomic crises identified, two were accompanied by ideational change. In both of those cases ideational collapse was followed by agents reaching consensus upon, and thereafter consolidating around, a new economic ideational structure. As can be seen from Table 1.2 the economic crises in America 1990-1992 and Sweden 1980-1982 satisfied less than half of the observables, and although ideational collapse occurred in both cases there was no ideational change. Competing ideas which were presented failed to offer a viable alternative to the dominant paradigm, thus ensuring that these ideas were never consolidated. The next section will again examine the periods of macroeconomic crisis, this time to

determine if any were accompanied by radical changes in government economic policy.

3. The Identification of Change in Government Economic Policy

The final issue this paper seeks to uncover is if there were radical changes in the governments' economic policies. We identified macroeconomic crises in four of the cases examined, with ideational change in two (America 1981; Sweden 1991), and no ideational change in the others (America 1992; Sweden 1982). The examination of change in economic policies is the final hurdle in determining which of these four cases constituted critical junctures, and if ideational change is central to the concept. Golob (2003, p. 374) points out that 'with demands for new solutions intensifying, the crisis driven window for reform may actually broaden the scope of what constitutes an acceptable policy.' To this end we have opted to base our final set of observable implications upon the concepts of first, second, and third order changes in policy as developed by Hall (1993). Hall (1993, p. 291) argued that policy failures and exogenous shocks can set off processes that lead to great ideational change, to the extent of resulting in a re-examination of the very belief systems through which policy has been generated – a paradigmatic (third order) change. These observables will enable us to identify, and differentiate, both the normal and fundamental shifts in a country's macroeconomic policies. However, the observables set out here also incorporate the ideas of both swift and enduring change as developed by Hogan (2005). As we are dealing with the concepts of a critical juncture (radical change) we must assume that this change is not a long drawn out process, otherwise it would surely constitute incremental change. Also, if the change is to be enduring in a policy environment full of competing actors, policy entrepreneurs, and policies in search of a

home, it should survive for at least one change of government. Otherwise, the new policies will only have proven themselves to be thin skinned, lacking all the armoured protection (i.e. institutional embedding) necessary to see them endure. It is the paradigm shift in economic policy that we are searching for here, thus, this shift must encompass all three of the below observables.

O1. If economic policy instrument settings changed (swiftly and for longer than one government's term of office) there may have been a radical change in government economic policy.

O2. If the instruments of economic policy changed (swiftly and for longer than one government's term of office) there may have been a radical change in government economic policy.

O3. If the hierarchy of goals behind economic policy changed (swiftly and for longer than one government's term of office) then there may have been a radical change in government economic policy.

America 1981 and 1992

In the midst of economic crisis a new administration took over in Washington in early 1981. Among the problems confronting President Reagan was declining productivity and output, and growing pressure on profitability and personal disposable incomes (OECD, 1982, p. 17).

The new administration's economic policies were redrawn along lines that differed from those of its predecessors in their political roots, and theoretical foundations (OECD, 1982, p. 9). Reagan fashioned his economic strategy around the monetarist proposals of economist Arthur Laffer. To combat stagflation it promoted a

seemingly painless panacea: tax cuts, and deregulation, wherein the resulting stimulus would boost federal revenues to balance the budget, consequently reducing inflationary pressure. The new President's programme, dubbed Reaganomics by the media, constituted the belief that American capitalism, freed from the burden of taxes and regulation, would surge ahead. Reagan's first budget proposed a \$750 billion tax cut, built around a 30 per cent reduction in federal income taxes over three years. Middle and working class Americans, who had organised 'tax revolts' from Massachusetts to California, applauded (Jones, 1995, p. 597). Hand in hand with tax reductions the administration cut \$11 billion of public works and job training programmes, the extended unemployment benefits programme, and trade adjustment assistance-benefits to workers who lost their jobs due to foreign invasion of a domestic market.⁵⁵ 'A trend towards reduced economic regulation was carried further by the immediate application of the remaining stages of crude oil price decontrol, and the abolition of the Council on Wage and Price Stability' (OECD, 1982, p. 24).

In political terms Reagan capitalised on anti-government sentiment, emphasising individualism, and a smaller Federal role. Tax relief was allied to a restructuring of federal expenditure, bringing sharp changes in the fiscal influence on the economy. In this case the economic policy instrument settings, the instruments themselves, and the hierarchy of goals behind economic policy, all changed. This third order change in economic policy was to endure into the administration of Reagan's successor. D'Souza (1997, p. 85) argues that Reagan's programme for America was the most ambitious since the New Deal. In this case an economic crisis led to the collapse of the dominant economic paradigm, the consolidation of a new ideational structure on how to run the economy, and the subsequent piercing of an old armoured policy.

Clinton came to office in the midst of a biting recession. The preceding Republican administrations were largely responsible for the vast federal budget deficits.⁵⁶ These deficits had crippled Bush's presidency, stifling any thoughts he may have had for new federal initiatives. They prevented Bush from proposing conventional pump-priming measures, such as tax cuts or public works spending, to stimulate the economy.⁵⁷

However, President Clinton was determined to lift the economy's performance. Consequently, there was a change in the government's economic policies. Clinton (1992, p. 46) argued for a new economic programme which put people back to work. A New Democrat seeking to shed the party's reputation for ultra-liberalism, and wasteful spending on social programmes, Clinton sought to court the middle class, and blue-collar voters who had once composed the party's backbone. But, in so doing he would fail to bring about a third order change in economic policies.

The recession shaped much of Clinton's agenda. His administration's economic strategy was built on the view that government could improve market outcomes, and had greater scope for correcting market failures (OECD, 1993, p. 14). 'The zeal for deregulation has clearly waned since the mid-1980s, and the government seems willing to turn to new regulation to achieve its social objectives in an environment of budgetary stringency' (OECD, 1993, p. 117).

The OECD (1993, p. 113) pointed out that the new administration recognised the need for action to confront the deficit. Rejecting the 'trickle down' approach of the Reagan-Bush years, Clinton proposed government revitalise the economy through investment in infrastructure and education (French, 1997, p. 52). His 1993 economic

programme proposed spending cuts and tax increases with a net deficit reduction of \$325 billion over four years. One of the programmes main components was a so-called stimulus package comprising \$169 billion of additional budgetary outlays in the short term. In August, Congress passed a five-year economic plan that incorporated Clinton's spending cuts and tax increases, while gutting his stimulus package. Nevertheless, this deficit-reduction plan went a long way to alleviating fiscal imbalances (OECD, 1993, p. 113). Clinton's economic programme included the North American Free Trade Agreement (NAFTA). Negotiated by the Bush administration, this pact admitted Mexico to the free-trade zone earlier created by the United States and Canada. Bello et al., (1994, p. 94) argues that NAFTA was corporate America's effort to guarantee a source of cheap-labour reserves.

While the administration was committed to getting its house in order by bringing down the deficit, to ease the drain on national savings, it also showed a willingness to pursue such objectives as countering the trend rise in income inequality, securing faster job creation, and supporting higher rates of investment in all its forms. Although economic policy instrument settings, and the instruments themselves, may have changed, the hierarchy of goals behind economic policy did not. This constituted a second order change in American economic policy. Economic crisis witnessed the collapse of the extant economic orthodoxy, but without consensus on a replacement ideation structure for agents to consolidate around, the armour of the Regan/Bush years' economic policies remained un-pierced.

Sweden 1982 and 1990

By the 1980s the Swedish economy, once the envy of Europe, had been hobbled by crisis.⁵⁸ However, Swedes were reluctant to see their welfare state cut back.⁵⁹ But,

economists argued that the state could not afford to keep expanding its range of benefits.⁶⁰

The 1982 election saw economic problems deprived the non-socialist government of credibility (Mjoset, 1992, p. 346). However, the government argued that under it the welfare system had not been dismantled. The SAP, presenting a strategy on how Sweden could save and work its way out of the crisis, won the election (Lewin, 1985b).

The result precipitated an altered approach to economic management, with changes in economic policies. The SAP, admitting there were no ready solutions to the economy's problems,⁶¹ implemented a recovery programme – The Third Road. This approach argued that renewed growth required the redistribution of national income from labour to capital. This policy constituted a shift in SAP economic planning. Behind this course lay the influence of the SAP's research unit, as opposed to those of the unions. This was the SAP's attempt to maintain social democracy when other countries were rolling back what approximations to it they possessed (Martin, 2000, p. 234). The Third Road sought to devise a wide-ranging, and well-balanced, stabilisation programme encompassing demand management measures, as well as initiatives to promote structural change and ensure an equitable distribution of the burden of adjustment (OECD, 1984, p. 21). The SAP was determined to pour government funds into job creating industries, and even to increase taxes for that purpose. The party planned to spend \$100 million, and hoped to attract an addition \$350 million in private investment, to create 30,000 jobs.⁶²

The centrepiece of finance minister Feldt's strategy to boost corporate profit margins was devaluation of the krona. This measure was implemented in conjunction with a general price freeze, and increases in sales and corporate taxes in a sweeping

“crisis plan”⁶³ aimed at stimulating the economy.⁶⁴ The main objective was to achieve export-led and investment-fed recovery (OECD, 1984, p. 21). The SAP identified labour costs as the key to international competition. The LO accommodated devaluation by demanding average wage increases of 2.5 per cent in the ensuing wage-bargaining round. The devaluation, and international economic recovery resulted in high earnings and excellent scope for exporters to expand (Ahlén, 1989, p. 333). The government also restored welfare entitlements cut by the non-socialist government (OECD, 1984, p. 23).

In an effort to maintain the welfare state by whatever means necessary the government was giving priority to private sector growth, profits, and market forces. In this case, the economic policy instrument settings changed, but the instruments of economic policy, and the goals behind economic policy, remained pretty much the same – the maintenance of the welfare state. Thus, this constituted a first order policy change. The economic crisis, although resulting in the collapse of the extant economic orthodoxy, did not see consensus develop around a new replacement paradigm, thus leaving the armour of old Social Democratic economic policies largely intact.

By the late 1980s the SAP recognised a shift to the right in society. This was influenced by developments abroad – deregulation, tax cuts, shrinking public sectors, and privatisations. Consequently, the right wing of the party argued for greater attention to market forces, and a smaller public sector, this seen as a principle factor in the country’s stagnation (Lundberg, 1985, p. 24). Public sector employment constituted over 35 per cent of all employment (Olsson, 1990, p. 124), while public expenditure exceeded 60 per cent of GNP.⁶⁵

By 1990, with the economy in crisis, support for the SAP declined. The following year the SAP began to retreat from the welfare state.⁶⁶ Simultaneously, Swedish companies were investing up to 75 per cent of resources abroad as entrepreneurs fled high taxes, prohibitive interest rates, and high inflation.⁶⁷

Prior to the 1991 election economic policy changed. In 1990 currency outflows prompted the *Riksbank* to increase interest rates.⁶⁸ In an effort to reduce inflation, the government tightened fiscal policy (OECD, 1992, p. 11). This marked an important change in macroeconomic policy for an SAP government that previously attached top priority to the maintenance of high employment. As the economy's future depended on maintaining tight fiscal and monetary policy this meant giving highest priority to keeping inflation at the European level, even at the cost of unemployment, something previously unacceptable.⁶⁹ The government's resolve was emphasised in the January 1991 budget, which made low inflation the prime aim of economic policy (OECD, 1992, p. 39).

The coalition government elected in 1991 sought to fundamentally change the economy's structure. To right the economy it slashed the role of the state,⁷⁰ selling its share in 34 companies,⁷¹ with a market value of SKr250 billion.⁷² In limiting how far state responsibility should extend, Carl Bildt challenged what had been received wisdom since the 1930s.⁷³ A central element of the new economic programme was reduced taxes to encourage efficiency. This was matched to reduced spending (OECD, 1992, p. 44). In general, competitive forces were given a greater role in allocating resources in the economy (OECD, 1992, p. 40). The new administration reduced the benefit system, and began abolishing the employee investment funds,⁷⁴ using their resources to promote research, and support the development of small and medium-sized companies (Hadenius, 1997, p. 153). This change reflected concerns

that past policies, especially the expansion of the public sector, involved high costs in lost economic dynamism. Past policies were thought to have undermined Sweden's growth prospects, even if they had helped to hold unemployment down.

In seeking to change Sweden from social democracy to a more free market economy this government achieved more in its first six weeks in office than any previous non-socialist administration.⁷⁵ The coalition government changed the setting, instruments, and hierarchy of goals behind economic policy, resulting in a third order change in economic policy. An economic crisis saw the collapse of the dominant economic paradigm, consensus develop around a new set of economic ideas which led to the consolidation of a new ideational structure on how to run the economy, and the puncturing of a policy whose armour had endured since the early 1930s.

INSERT TABLE 1.3

Four macroeconomic crises were initially identified in Section 3.1. Of these crises, two were found to be accompanied by ideational change in Section 3.2, namely America 1979-1981 and Sweden 1990-1992. As can be seen from Table 1.3, both of these macroeconomic crises were followed by third order changes in government economic policy. Thus, in both cases there were critical junctures in economic policy. In the case of the other two macroeconomic crises, which were not accompanied by ideational change, as alternative ideas generated as a result of the economic crisis failed to reach the consolidation stage, both were followed by either first, or second, order changes in government economic policy, but not by third order changes.

Consequently, in both of those cases there were no critical junctures in economic policy.

Conclusion

In political science we are continuously seeking better tools with which to make sense of change. Any new, or revised, instrument introduced into this complex research environment should be eagerly welcomed. In this paper we sought to develop an improved framework for examining critical junctures, a framework incorporating an a priori element. The case studies utilised in testing this framework were initially five potential macroeconomic crises, three from America, and two from Sweden. We hypothesised that a critical juncture in macroeconomic policy would consist of three stages: macroeconomic crisis, ideational change, and finally radical change in economic policy. Of the five potential macroeconomic crises, four were found to constitute actual economic crises. Of these four macroeconomic crises, we uncovered ideational change during two (America 1981, and Sweden 1991). In both of those cases the paradigm underpinning economic policy came under intense scrutiny due to policy failures, and attack from various groupings of agents of change actively advocating alternative paradigms. Thus, we uncovered paradigmatic (third order) changes in economic policy during both of the macroeconomic crises in which ideational change occurred. Economic policy instrument settings, the instruments themselves, and the hierarchy of goals behind economic policy all changed.

We are led to conclude that during macroeconomic crises, ideational change, as advocated by agents of change, is the key component that leads to radical change in a country's macroeconomic policies. The armoured policies of the past, having been warped and weakened by previous failures, are thus liable to be shattered by the new

ideas. In the absence of ideational change the level of macroeconomic policy change, in response to a macroeconomic crisis, will be either of the first or second order (Sweden 1982, America 1992), but will not be of the third order - paradigmatic level. Thus, economic policy instrument settings, and the instruments themselves may change, but without ideational change the hierarchy of goals underpinning economic policy will remain unaltered. Consequently, it is the presence, or absence, of ideational change which constitutes the predictive element in identifying critical junctures. Ideational change constitutes the differentiating factor between macroeconomic crises that result in critical junctures in countries' economic policies, and those that do not.

The framework, as set out and tested above, while rigorous and broadly applicable, most significantly incorporates an a priori element. It draws together some of the main theories of ideational and institutional change that have emerged from this discipline, in order to forge a rigorous framework that purports not only to analyse macroeconomic change, but other instances of institutional change also. Consequently, in future studies, researchers, having identified a crisis (of whatever kind), and ideational change, should be able to predict that either a third order change in policy is coming, or if it has already taken place, that it constitutes a critical juncture, and will endure for a long time to come.

This framework shows us that once a crisis occurs existing armoured policies come under attack. If the ideational orthodoxy underpinning these armoured policies collapses, and new ideas purporting to provide a viable alternative are consolidated, then it is likely that a third order change will occur. However, should existing ideas collapse, but consolidation around viable alternatives does not take place armoured policies will deflect whatever attack this crisis generates. As a result only first or

second order change will occur in this instance. In this manner, researchers will no longer have to wait for years to pass after an event they feel to be a critical juncture in order to be able to declare it as such. The predictive element developed herein broadens the applicability of the concept, deepens its incisiveness, while at the same time eliminating its exclusively postdictive nature.

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- ⁵⁴ *ibid.*, 17 September, 1991, p. 3.
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Table 1.1 – The Identification of Macroeconomic Crisis

The Implications	Observable	America		Sweden	
		1959- 1961	1979- 1981	1990- 1992	1980- 1982
O1. Were the main economic indicators at decade-long lows?		X	X	X	X
O2. Did opinion polls find the public regarded the economic in crisis.			X		X
O3. Did the media regard the economy in crisis?	X	X	X	X	X
O4. Did economic and political commentators regard the economy in crisis?		X	X	X	X
O5. Did the central bank regard the economy as in crisis?		X	X	X	
O6. Did domestic/international organisations regard the economy as in crisis?		X	X	X	X
O7. Did elected representatives regard the economy as in crisis?		X	X	X	X
O8. Were gov pronouncements on the economy were consistent with a crisis management approach?		X	X	X	X
Economic Crisis		X	X	X	X

Table 1.2 – The Identification of Ideational Change

The Observable Implications	America		Sweden	
	1979-1981	1990-1992	1980-1982	1990-1992
1. Media questioning efficacy of current economic model and/or specific policy areas.	X	X	X	X
2. Opposition parties critique current model and propose alternative economic ideas – at elections their platform are built around these alternative ideas.	X			X
3. Civil society organisations will critique current model, reflecting Hall's coalition-centred approach.	X	X		X
04. Widespread public dissatisfaction with current paradigm, observable through opinion polls, protests etc.			X	X
05. External or international organisations which critique current model or, which actively disseminate alternative economic ideas to replace model.	X	X	X	X
06. A clear set of observable alternative ideas are evident	X			X
07. A clear agent of change to inject these new ideas into policy arena is evident	X			X
Adoption of New Economic Idea	X			X

Table 1.3 – The Identification of Change in Government Economic Policy

The Observable Implications	America		Sweden	
	1979-1981	1990-1992	1980-1982	1990-1992
01. If economic policy instrument settings changed there may have been a radical change in economic policy.	X	X	X	X
02. If the instruments of economic policy changed there may have been radical change in government economic policy.	X	X		X
03. If the hierarchy of goals behind economic policy changed there may have been a radical change in government economic policy.	X			X
Critical Juncture in Macroeconomic Policy	X			X