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a strategic interaction model

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A STRATEGIC INTERACTION MODEL

Introduction

The literature on oversight has been generally oblivious to the theory of agency and the importance of voter demands. As we have noted (Pelizzo and Stapenhurst, 2006), legislative oversight scholars have produced a wide range of explanations for why oversight may be effective. Some scholars have underlined the importance of the legal framework, the (range of) formal powers assigned to the overseeing bodies, the size of the staff at the disposal of the overseeing authorities, the salience of the issues and so on (Rockman, 1984). In other words, they have either reduced oversight effectiveness to the status of a random event (when the issue is salient, oversight is effective, otherwise it is not) or they have viewed it as a quasi-deterministic consequence of a set of structural conditions.

Yet, neither position is particularly appealing. The fatalistic explanation (oversight is effective when it is effective) is disappointing on theoretical grounds as it fails even to qualify as pseudo-scientific form of theorizing (Popper, 1959). The deterministic explanation is also disappointing on theoretical grounds because, while it is inappropriate to suggest that oversight effectiveness and capacity are orthogonal, it is equally incorrect to suggest that they are linked in a deterministic way.¹

Therefore structural conditions alone are insufficient to explain why oversight capacity is sometimes used effectively by legislatures. Structural conditions may facilitate effective oversight, but they cannot cause it.

¹ This problem seems to be particularly acute with regard to the explanations, discussed in the literature, of what makes Public Accounts Committees work effectively. For a review of the literature, see Pelizzo (2010) and/or Pelizzo (2011).
In this paper we formulate an agential explanation of oversight effectiveness. Our explanation is fairly straightforward: the adoption of oversight mechanisms must be viewed as a subsample of a broader category of social scientific phenomena, namely institutional change. The effective use of oversight tools must be viewed as subsample of why newly established institutions are successful in generating the results for which they had been established. In other words, in order to understand both the adoption and the effective use of oversight tools, we propose a theory of institutional change and performance. Specifically we suggest that voter demands play a key role in shaping the set of incentives confronting political actors as well as their strategies and choices. We claim that it is the interplay between voter demands and politicians’ strategic considerations that explains why oversight capacity is or is not used effectively.

This paper is organized in the following way. In the first section we discuss theories of institutional change. In doing so, we note that institutional change has been explained on the grounds of micro, macro and micro-macro approaches, that all these approaches agree that institutional change generally occurs as a response to a crisis (real or perceived), and that crises are viewed either as exogenous or endogenous shocks. Building on this discussion we go on to argue that for ‘New Development Economics’ the successful performance of newly established institutions depends on whether or not the newly adopted institutions are a domestic response to an endogenous crisis. When the newly established institutions are a domestic response to such a crisis, the newly established institutions perform successfully. By contrast, when the newly established institutions are a foreign solution that is borrowed or copied to cope with the crisis, the performance of newly established institutions is far from successful.

In the second section, we propose an alternative model of institutional change and performance. In doing so, we argue that efforts to alter institutional arrangements are usually
made in response to a crisis (real or perceived), that such a crisis creates a strategic situation in which the ruling elite and reformers interact and in which a substantive institutional change is only one of several possible outcomes. Crises allow the ruling elite to neglect the reformist demands altogether, they may force the ruling elite to make only cosmetic changes to the institutional system or they may force the ruling elite to make substantive institutional reforms. We will argue that substantive reforms occur only when neglecting the reformist demands of the population would bring the ruling elite into disrepute, erode its - and the political system’s – legitimacy, and possibly create the conditions for a system-wide breakdown. In the third and final section, we will draw some tentative conclusions.

Section One. Understanding Institutional Change: The Story So Far

The literature on institutional change is divided into three streams: the macro-level, the micro-level and the bi (micro-macro)-level.

Macro-level explanations provide several different, and sometimes conflicting, explanations for why institutional change occurs: structural conditions, culture, institutions, ideas and individual preferences are all invoked as determinants of change. Yet, none of these factors manages to provide per sé a fully convincing, explanation. There are several reasons for this. In particular, they risk “explanatory determinism, ignoring possibly independent influences of actors and their strategic interactions on political outcomes” (Knill and Lenschow, 2001: 194). That is they all see change, to recall Blyth’s (2002) criticism of structural explanations of institutional change, “as a problem of comparative statics”. Structural explanations, Blyth suggested, “implicitly posit the model: ‘institutional equilibrium-> punctuation-> new institutional equilibrium” (Blyth, 2002: 7). This means that structural arguments explain the two equilibria as if they were simply the necessary outcome of a new set of structural conditions. Such an argument is somewhat problematic.
In this respect, Blyth (2002:7) noted that “unless one can specify the causal links between the former and the latter objects”, the post hoc, propter hoc logic does not explain much. This is true, but is not the only problem. A structural explanation of political change may be plagued by other potential problems: it may be circular (a change explains a change), it may be spurious (both changes are in reality the product of some other and unobserved forces) and it may be a regressio ad infinitum. A change can always be explained by a previous change.

A very similar criticism could also be made, by extension, also for the other macro-level explanations, such as the cultural and ideational modes of explanation. Cultural arguments tend to explain social, economic and political phenomena on the basis of cultural values that are assumed to be fairly stable over time. This creates a problem as to the cultural approach’s ability to address change. In fact, by assuming that cultural values are constant over time and by assuming that they are the ‘real’ determinants of social and political phenomena, social and political changes can then be explained only on the basis of cultural changes. This, of course, brings us back to the same problems encountered with regard to the structural explanation. Cultural explanations of change run the serious risk of being circular, or regressing ad infinitum, or being spurious.

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2 Harry Eckstein, one of the most important proponents of the culturalist approach, recognized that political culture theory has often coped inadequately with change. In this respect, he quoted Rogowski’s idea that “culturalists have been very offhand in dealing with change-(that) they have tended to improvise far too much in order to accommodate political changes into their framework. They have done so, he writes, to the point that they no longer have a convincing way to treat political change at all”, Eckstein went on to say that “this argument – and others to similar effect – strikes me as cogent criticism of how culturalists have in fact dealt with political changes. Furthermore, difficulties accounting for change in general and for certain kinds of change especially seem to me inherent in the assumptions on which the political culture approach is based” see Harry Eckstein, “A Culturalist Theory of political Change”, American Political Science Review, vol. 82, n. 3, (September) 1988, pp.789-804. The quote is taken from pp. 789-790.
Ideational explanations suggest that institutional change is just the outcome of an ideational struggle. According to Blyth (2002) the triumph in the ideational struggle is what determines a shift in the ideational paradigm, that is in the dominant way of viewing things. In this respect, the shift in the ideational paradigm resembles the shift in the scientific paradigm that characterizes scientific revolutions (Kuhn, 1962). However, between the ideational struggle theorized by Blyth (2002) and the clash of scientific paradigms analyzed by Kuhn (1962), there are some major differences.

The triumph of a new scientific paradigm, for Kuhn, is ultimately due to the fact that the new scientific paradigm explains more and better than its competitors, whereas in Blyth’s (2002) understanding the triumph of a new paradigm over its competitors is the result of a mobilization of resources not of the fact that it works better than its competitors. Thus, the real determinant of institutional change is not so much the quality of ideas but the mobilization of resources employed to disseminate certain ideas. In other words, the success of ideational forces is viewed as a quasi-mechanistic, quasi-deterministic product of material forces. This point has two basic implications: first the ideational explanation is spurious and all but ideational; second, if the institutional change is a consequence of a change in the ideational paradigm and if the change in the institutional paradigm is a consequence of a change in the distribution of material resources, the ideational explanation ends up explaining a change with a change—just like the theories it wanted to criticize. And, finally, ideational explanations tend to pay insufficient attention to the real drivers of institutional change: political actors or agents.

The alternative to these macro-level arguments is represented by micro-level explanations of change that adopt agency as the single most important determinant of change. Institutional change is produced by what Mahoney and Snyder (1999:5) call the “ongoing interactions between purposeful actors” whose ability to achieve their goals is potentially
limited by structures and structural incentives. Mahoney and Snyder (1999) went on to argue that while both micro- and macro-level theories of institutional change view it as the product of the interaction between structural and agential factors, structuralists tend to oversocialize agents while (micro) voluntarists tend to undersocialize agents.

This is why, in spite of the fact that the micro approach acknowledges that agents and political actors are not atoms floating in the vacuum, that their options, choices and behavior may be constrained by structural conditions, it has been criticized for the belief “that elite bargaining over new arrangements occurs on a tabula rasa, without regard to entrenched understandings and power relationships (…) actors change goals and perceptions in response to uncertainty and bargain in a dynamic way – producing different outcomes (…). But elites work from power positions and understandings embedded in inherited arrangements; indeed, they try to encode those older meanings and power relationships into seemingly new structures” (Skocpol, 2003:423). In other words, Skocpol criticized micro-explanations for failing to grasp that institutional change may be formal or cosmetic but not substantive and suggested that more attention should be paid to the embeddedness of institutions (Granovetter, 1985).

In spite of this methodological pluralism, the literature agreed unanimously agreed on one point: demands for institutional reforms arise when the previous institutional order suffers a crisis or a breakdown, which, in its turn, may be exogenous or endogenous (Gourevitch, 1986). Electoral reforms, the transformation of party finance legislation, constitutional reforms are all generally enacted as a response to a crisis:³ the electoral changes

³ European politics specialists may recall that in the early 1990s, the discovery of widespread corruption in the Italian political system – a crisis which became known as Bribesville – eroded political parties’ legitimacy, anti-party feelings gained currency, and in the referendum held on April 18, 1993, Italian voters overwhelmingly voted in favor of reforming the electoral system and of abolishing state subventions to political parties. I discussed the transformation of party finance and party finance legislation in Pelizzo (2007). An abridged version of the paper appeared Comparative European Politics (Pelizzo, 2004).
system’s inability to provide adequate representation of voter preferences; political parties’ loss of legitimacy; and the government instability/ineffectiveness.

Scholars have disagreed, however, as to what makes institutional reforms work successfully. For the ideationalists an institutional change is successful because it occurs, it occurs because it was able to create a better narrative than its competitors, and because it could mobilize more resources for disseminating such narrative thus making it hegemonic. But the ideationalists are not always terribly interested in whether the institutional reform is successful in the sense of solving the problems the crisis had generated.

For those who believe that an institutional change represents a response to an exogenous shock, whether the institutional change is a domestic or a foreign response to the crisis has little to no effect as to whether the institutional change will solve the problems the crisis had generated. For them an institutional change is successful when it is able to solve the problems that had emerged in the crisis. For the ‘New Development Economists’, institutional change can occur for a variety of reasons, in response to either exogenous or endogenous shocks, and it can be either a domestic or a foreign solution, but they go on to say institutional change is successful in getting the problems solved only when the institutional change is a domestic solution for an endogenous shock. In other words, an institution is successful, to paraphrase Boettke and Storr (2002:163) only when it evolves naturally from a socially embedded foundation.

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4 In the late 1950s, some philosophers operating within the Marxist tradition and under the influence of Dewey’s pragmatism and and logical empiricism of the Vienna Circle (Carnap, Neurath,…) suggested quite forcefully the idea that understanding, explanation and modification of reality occur together and simultaneously and that the proper test for the validity or the success of an idea is whether it is translated into practice. In other words, what I call the translation into practice was the ultimate evidence for the quality, the value, and indeed the success of an idea. One of the best works generated in this stream of theorizing was Praxis e Empirismo by Preti (1957).

5 On this point see, Boettke, Coyne and Leeson (2008).

6 The idea that an institutional setting and/or a constitutional order is self-sustaining only if it emerges from the context in which it has to operate was initially proposed by Hayek (1978). Hayek in fact suggested that it is
Section Two. Our Explanation

In our model there are two sets of actors: the members of the ruling elite and the members of society. Whether an institutional reform occurs or not, and whether a newly established institution succeeds in eliminating the problems that emerged in the course of the crisis or not, depends on the interaction of these two groups.

A corruption scandal, an economic crisis, the alleged mismanagement of public resources, the unethical behaviour of the ruling elite may all erode the legitimacy of the ruling elite and of the political system. In response to this crisis, citizens and social groups may voice their discontent with the functioning of the political system and they may demand political reforms and institutional changes to eliminate the problems that the crisis disclosed.

The ruling elite, confronted with these popular demands, faces two options: it may decide to preserve the status quo or it may decide to make some institutional reforms. The ruling elite’s decision to reform or not to reform the political system depends on how strong the ruling elite is (or, at least, on how strong it believes to be), on how strong the ruling believes society and social demands to be. If the ruling elite believes that it is strong enough to neglect social demands without having to pay the price for such a choice, the ruling elite will decide to preserve the status quo. Whereas, if the ruling elite believes that an effort to preserve the status quo may exacerbate the crisis, further delegitimizing the ruling class, and potentially leading to more disastrous changes such as civil conflict or military coup, the ruling elite will agree to make some institutional changes.

only the necessary condition for a self-sustaining political, institutional and constitutional order is that order was self-generating or spontaneous.
Furthermore, at this stage, the ruling elite may still be very much convinced that any institutional reform will be purely formal and cosmetic, that it will not amount to any meaningful change and that it will not produce a substantive change in how the political system operates.

Once the ruling elite enacts the institutional reforms, society is left with two basic choices: to regard the reforms as a political success, to be satisfied by what it was able to achieve and drop additional demands or alternatively to articulate further demands. If society makes the first choice, the reforms are enacted but they are fairly ineffective in tackling the problems for which they had been demanded in the first place. If society makes the second choice, it puts the ruling elite in a very difficult position. In fact, if society demands additional, or more incisive, reforms, the ruling elite is left with three - possibly unappealing - prospects:

1) to ensure that the newly established reforms perform effectively, in which case the reforms succeed and the ruling elite may lose some of the benefits it had previously enjoyed in the status quo ante;

2) to neglect the new social demands and run the risk of losing whatever legitimacy it has left, thereby creating the conditions for a further crisis;

3) or, finally, to ignore popular demands, tolerate unethical and corrupt behaviour and the suboptimal functioning of the newly established institutions at the risk, once again, compromising its legitimacy as well as that of the political system as a whole. The model is presented in Figure 1.

Figure 1. A Strategic Interaction Model of Institutional Change and Performance
As it should be clear our position differs from previous explanations. Unlike the macro-level explanations of change, we do not believe that institutional change can be accounted for simply in terms of structural, cultural, social or ideational factors. Similarly, micro-level explanations tend to overestimate the importance of voluntaristic factors and to underestimate social constraints, power relations and legacies from the status quo ante. Thus, our model emphasises that actors change preferences, choices and strategies in response to changing circumstances, that they interact in a dynamic way and that such interactions do not occur in the vacuum but are instead influenced, not deterministically, by previous understandings and power relations. Furthermore, our model differs from a Washington consensus that treats institutional change and performance as a consequence of exogenous shocks and it also
differs from the New Development Economics approach for we do not believe that the success of an institutional reform is a necessary consequence of domestic/endogenous nature.

Our model makes it quite clear that the success of institutional reforms regardless is independent of whether they are domestic or foreign solutions. In fact our model illustrates why domestic solutions that are adopted to respond to a domestic/endogenous crisis may fail just as foreign solutions that are enacted in response to an exogenous shock. Indeed, our model shows that if the political elite is not given a strong incentive to reform the political system, it will resist efforts to change the status quo. Therefore, the question does not concern so much whether the crisis is exogenous or endogenous or whether the institutional response to a crisis is foreign or domestic. The real question is whether an institutional reform is carried out as mere formality or whether it is carried out to substantively alter the way in which the political system operates. Whether institutional reforms are formal or substantive depends on the strategic interplay between political elites and the rest of society—because it is only through this interplay that the ruling elite may be induced to accept both formal and substantive institutional change.

Section Three: Conclusions

International organizations, scholars and practitioners have paid considerable attention to what Sartori (1987) calls oversight potential and others call oversight capacity (Maffio, 2002; Pelizzo and Stapenhurst, 2004; Stapenhurst, 2011). Most of those studies on oversight tools and capacity (Yamamoto, 2007) do not address why oversight capacity sometimes lead to effective oversight activity and in some other cases it does not—which is precisely what we
seek to explain n in this paper. Specifically, we have proposed a strategic interaction model which explains what makes legislative oversight effective and what ensures that oversight tools are put to effective use. These issues reflect a more general problem of institutional change, which, in our view, can be broken down into two distinct issues:

1) why does institutional change/reform occur in some cases but not in others and,

2) why do newly established institutions function in some cases but not in others?

Building on the very large and important body of scholarly work, we have suggested that both institutional reforms and institutional performance can be explained on the basis of a strategic interaction model.

In its basic features, the model posits that in the wake of a legitimacy crisis, there is a popular demand to address the critical elements, and institutional reform occurs when the ruling elite decides to address and satisfy, at least formally, the popular demands. We noted that while this part of the model explains why institutional change occurs, it provides no evidence as to how institutions will perform. In this second respect we noted that once institutional change has occurred, the newly established institution will perform well or not depending on whether civil society is satisfied by the institutional reform at the formal level or whether it seeks substantive change. In this latter case, our model posits, a newly established institution performs effectively.

We argued that this model can be applied to institutional change and reforms in general but also, more specifically, to the expansion of oversight capacity, that is to the adoption of additional oversight tools. We further argued that this model provides a compelling explanation for why oversight tools/capacity are sometimes used effectively and sometimes not. We believe that the proposed theory is of some interest for scholars and practitioners alike. It is important for scholars devoted to the study of institutions and institutional change,
because our model provides an explanation that is parsimonious, logically consistent, easily testable, easily falsifiable, without, however, being either too formalistic to be applied to the analysis of concrete empirical cases. It is important for comparative legislative studies specialists because it is one of the first attempts to explain oversight effectiveness on the basis of a micro-level explanation.

Bibliography


