

Experimentalist institutions call for experimental governance

In the 21st century institutional change has become the order of the day. Institutions are no longer stable determinants of societal 'rules of the game', but have instead become much more open to the influence of involved actors. Today, institutions and actors constitute each other mutually. Micro-level changes are, however, not always seen, let alone dealt with, at the macro-level, and this creates a potential tension between how institutions function and how they are governed. The shift towards more dynamic and versatile institutions calls for new forms of governance that may ensure positive outcomes of the open-ended processes of institutional experimentation.

The mutual constitution of actors and institutions

Institutionalist theories have traditionally been concerned with describing how rules constrain actors and create political agency. This leads to a focus on the stability of institutions, which are seen to be reinforced by actors' incentives to follow the rules and patterns laid out by the institutions. Institutions, in this view, create path dependencies and only change slowly and incrementally. Whereas this was both a theoretically successful and empirically accurate description of institutions in the Fordist era, the current context of globalization has seen the rise of new, flexible and dynamic institutional practices that call for new theoretical conceptualisations and frameworks. The empirical characteristics of these institutions include a higher degree of reflexivity and experimentalism that, in turn, allows actors to take up new roles within institutions. Actors are increasingly determining of as well as determined by their institutional settings, and this leads to new forms of institutions in which change becomes the rule of the game, rather than an exception to the rule. Institutions can no longer be conceptualized as stable frames or patterns, but must rather be seen as the contingent outcomes of struggles and deliberative negotiations among the various involved actors.

Two examples: Danish 'flexicurity' and US/UK 'financialisation'

The development towards experimental institutions is neither inherently good nor bad. It may have positive consequences, as the case of the developments in the Danish labour market from a situation of crisis in the 1970's and 1980's to the success of the 2000's illustrates. And it can be detrimental, as is illustrated by the development of the financial markets of the United States and the UK in the same time period; a development that is widely recognised as a root cause of the global financial crisis.

In Denmark, the development of a labour market that combines flexibility and security took place as a response to an institutional crisis of the welfare state. By the early 1980's the Danish economy seemed to be breaking down because the welfare state was not geared to the new context of globalization. In this situation it became possible for new collective actors to emerge and to establish new institutional practices from the bottom up. Thus, the reform of the labour market unfolded first as local agreements between firms and employees, then as sector-wide changes involving employers' associations and trade unions, and only then as institutional changes of the labour market as such. In the 1990s experiments took place locally and led to an

abundance of institutional innovations, but as these experiments never became centrally observed, assessed and diffused, it was experimentalism without governance. And the labour market reforms after 2000 grossly ignored what could have been learned from the 1990s.

In the case of the financial markets of the US and the UK, neo-liberalist deregulation was the dominant response to the changes in the global context that occurred from the 1970s onwards. This led to an institutional void in which actors such as investment banks and hedge funds could experiment with and establish markets for new financial products. As no governing bodies for these new markets existed – or were created – the involved actors were, so to speak, left to govern themselves; they could experiment freely with specific financial products as well as with the broader institutional practices of financialization. And as the emerging experimental institutions were narrowly concerned with generating value for and distributing it among themselves, the experiments, as the financial crisis has taught us, soon became unsustainable.

Towards experimental governance

At the level of research these two examples point to the need for comparative studies of how experimentalist institutions have developed in different contexts, of what forms the experimental institutions take, and of their various social and political consequences. Such research may not only provide empirical insights, but can also help substantiate and strengthen the conceptual framework of experimentalist institutions.

At the level of practice both examples demonstrate that the rise of experimentalist institutions necessitates new forms of governance; forms that are themselves flexible and experimental, but may nevertheless provide the institutional experiments with a sense of direction and evaluation criteria. In the case of Denmark, lack of experimental governance meant that the system as such missed an opportunity to learn. In the case of the US and the UK, the lack of accompanying forms of governance under an ideology of de-regulation, may, to a certain extent, explain why the experiments went so fatally wrong. Without guiding principles and explicit goals for institutional experimentation, these processes are as – perhaps even more – likely to end in failure and crisis as they are to provide adequate solutions to current institutional problems.

Find out more about experimental institutions

The question of institutional change and its relation to governance is a central research agenda of the Department of Business and Politics. This research has benefitted greatly from the World Class Initiative, SONIC, and in particular from collaboration with Professor Charles Sabel. Professor Peer Hull Kristensen of DBP has contributed to two recent publications that present the topic and point the way for further research:

Kristensen, P. H. & Morgan, G. (2012). From institutional change to experimentalist institutions. *Industrial Relations* 51(S1): 413-437.

Morgan, G. & Whitley, R. (eds.) (2012). *Capitalisms and Capital in the Twenty-First Century*. Oxford: Oxford University Press.