Policy Change and Innovation in Multilevel Governance

POLICY, ADMINISTRATIVE AND INSTITUTIONAL CHANGE

Series Editors: Giliberto Capano, *Professor of Political Science, Scuola Normale Superiore, Italy* and Edoardo Ongaro, *Professor of Public Management, The Open University, UK*

Change is the main explanatory challenge for the social sciences. Stability and persistence are simpler to understand and explain than change; at the same time, change is not separated from stability, and, from this point of view, any approach to change (in whatever field) should be able to account for both 'constancy and change'.

Change is of significance, both for explanatory reasons, and from a more normative/prescriptive standpoint. To address, lead, control and implement change is a key task for policy-makers who, to adjust to or improve reality, constantly strive to cope with reality through designed changes in the institutional structure, in the organizational and processual dimensions of public administration, and in the governance arrangements of policies.

Following up on the above premises, this series is aimed at publishing books offering new, original, and enlightening views on change in action. The series is committed to overcoming the borders between scholars in public policy, public administration and management, and political institutions. Change happens at the crossroads where political institutions, policies and public administrations constantly interact and influence each other.

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Preface

This book summarizes the results of about a decade of research on institutional and policy change in multilevel governance systems. With policy innovation, it addresses a particular aspect in this research area. By linking research on multilevel governance with literature on policy change, institutional change and policy innovation, this book intends to open a new analytical perspective. Thus far, the results of my research have led me into a new avenue of research, one with which other scholars hopefully will want to engage.

However, this book is not only written for academic discourses, teaching and research. It has a clear practical aim. It explains why governance in increasingly complex multilevel and democratic political systems is, in principle, appropriate for coping with the pressing challenges of contemporary societies around the world and for managing the necessary transformation in different policy fields. If multilevel governance is shaped and practised in the specific ways that are outlined in the book, necessary policy and institutional changes are achievable and processes of interaction, experimentation and learning can lead to innovation.

1. Introduction to *Policy Change and Innovation in Multilevel Governance*

GOVERNANCE IN TURBULENT TIMES

People prefer stability, and governments are expected to provide for stable conditions. However, we live in turbulent times, and turbulence has become a topic of academic literature on governance (Ansell and Bartenberger 2017). Since the turn of the century, liberal capitalism has gone through a deep crisis with its global financial markets; societies all over the world are affected by the digital revolution; climate change has become a reality which nobody recognizing empirical evidence can neglect; and new and old kinds of wars, dictatorships and governance failure in countries at the fringes of modern democratic states have caused rising immigration into affluent societies, the consequence of which bring new social cleavages in additions to those caused by an aging population. Further, in January 2020 the outbreak of the COVID-19 pandemic shocked people all over the world. As to the political order, emergent patterns of international governance are in flux, European integration is threatened by internal divides and disintegrative processes, nation states are confronted by demands for regional autonomy, and established representative democracies are exposed to changes in party systems, populism, polarization and citizens' rising discontent.

These crises and transformative processes had and still have far-reaching impacts on government and public administration. Coping with climate change, governing the internet, regulating global capitalism, restructuring the welfare state, controlling migration, resolving violent conflicts, fighting terrorism, containing the spread of pathogenic germs, holding together constituent units of multinational polities and solving political conflicts in fragmented and polarized party systems are demanding tasks. They raise 'wicked problems', which are complex, intractable, undefined, unique, persistent and unpredictable regarding their evolution and consequences (Alford and Head 2017; Danken et al. 2016). Neither experts nor parties can claim to know how to solve these problems, and even if responsible actors come to an agreement or a decision on a possible solution, no single authority is capable of its implementation without the support or acceptance of public or private actors. Yet

in a turbulent context, existing policies certainly must be adjusted to changing conditions, innovative policies need to be elaborated, and these policies have to be implemented in structures and processes reflecting the complexity of existing and imminent problems. Evidently, dealing with the challenges mentioned above requires new approaches of public policymaking in a number of fields such as welfare, public health, education, the economy, the environment, energy and fiscal policy.

Significant policy changes first and foremost concern goals, programmes, rules or instruments. However, in order to make and implement them, institutions and procedures need to be modified accordingly. Over the last decades, many governments have engaged in processes of institutional reform addressing the division of responsibilities and procedures of coordination or administrative organization. Since most of the challenges mentioned above cut across borders of existing jurisdictions, various patterns of multilevel governance emerged along with a reallocation of powers between local, regional and national governments, often in consequence of a delegation of powers to European authorities or to international organizations, administrations or regimes (Hooghe et al. 2016a, 2016b; Hooghe et al. 2010; Hooghe et al. 2019). Moreover, liberalization and deregulation of markets have led to the privatization of public utilities and services and have modified the public–private divide, with the consequence that policies addressing social costs and market failure require new institutional frameworks (Leibfried and Zürn 2005). In many states, in the EU and in international organizations, constitutions or statutes have been amended accordingly, in line with procedures and according to decision rules, which actually had been designed to protect the status quo. Public administration has gone through a series of reforms and adjustments, which started with New Public Management, followed by joined-up government or other attempts to improve coherence or coordination (Pollitt and Bouckaert 2017). Structures, responsibilities and policymaking have been adjusted to the Europeanization of administration, the rise of international public administration, the foundation of independent agencies, and changes in multilevel, interjurisdictional or public–private cooperation. In order to implement the required policy changes, new modes of coordination and control in the increasingly complex structures seem to be essential. In any case, continuing debates on the performance of public administration and the outcomes of reforms demonstrate that ambitious aims and the envisaged designs have rarely been achieved so far, and that there is still pressure for institutional change.

All these challenges and turbulences have been felt in most parts of the world, but they particularly affect highly developed Western democracies that have been embedded in international economy and politics for a long time. Governments of these states either are responsible for the global problems,

are affected by them or control the means or resources required to manage the problems. In order to cope with the major problems, they have to elaborate and implement appropriate policies which significantly depart from those that are in place. However, if finding the right response to problems is a demanding task on its own, procedures of democracy and the division of power make policy change rather difficult. And things become more toilsome since governments cannot solve problems on their own but have to manage interdependence among states and among different scales of multilevel political systems.

For this reason, whenever political scientists analyse and evaluate the performance of governance and public policies in contemporary democratic governments and the challenges of these fundamental societal or pressing global problems, they point out a gap between the need for change and the capacities for change. This kind of reasoning resonates with debates in the 1970s, when scholars diagnosed a crisis of governability. They assumed that rising demands from powerful pressure groups or citizens exceeded the capacities or resources of governments (Crozier et al. 1975) and that parliaments or governments lack the expertise necessary to regulate complex technologies. Some scholars revitalized neo-Marxist crisis theories to explain an inevitable failure of governance (Jessop 2002). Nowadays, scholars applying a society-centred approach no longer identify power relations between classes but the uncontrollable mobility of private corporations, goods and capital across jurisdictions of governments as the main causes of existing problems (Streeck 2014). The debate focuses on the incongruence between spaces of democratic politics and spaces of policymaking (Papadopoulos 2010), with the latter following functions, whereas democratic government is organized on a territorial basis. In consequence, policymaking is characterized by a plurality of actors, complex interactions and variable governance arrangements cutting across boundaries of institutions and borders of jurisdictions. With the growing interlocking of local, regional, national, European and international processes of politics, each of which mobilizes different types of actors (elected and non-elected, public and private, generalists and specialists; Piattoni 2018), the diversity of issues and interests to be taken into account, and the number of veto players to be included in decision making, has increased tremendously. This high complexity of governance makes political decisions in general – and policy change in particular – difficult.

Accordingly, governments in Western democracies seem to have run into a dilemma: On the one hand, a division of powers, accountability of policymakers and multilevel governance constitute essential conditions for governing contemporary societies. They prevent governments from ignoring the fundamental rights of citizens or the relevant interests of social groups, they provide for legitimacy and acceptance of decisions and they allow for the consideration of different impacts of policies on various stakeholders in

society and territories at different scales. On the other hand, institutional constraints due to divided responsibilities or countervailing powers, complicated processes of coordination between actors affiliated to different organizations or jurisdictions, and imminent opposition of veto players constitute obstacles to achieving meaningful policy change or innovation. Incremental evolution is said to be the rule, with significant change to occur only under exceptional, contingent circumstances (categorized as 'critical junctures', 'windows of opportunities', 'focusing events', see Chapter 3). However, given the current challenges governments have to cope with, neither gradual adjustment of policies nor the fatalist waiting for promising opportunities for change seem appropriate.

Scholars working on public administration and management have suggested interorganizational and interjurisdictional collaboration, the inclusion of stakeholders and network management as viable strategies to cope with prevailing problems (Ansell and Gash 2008; Fischer 2018; Lazega 2020; Provan and Kenis 2008; Sørensen and Torfing 2017). In contrast, scholars working on multilevel governance have raised doubts that policy innovation is feasible by these processes (Scharpf 1988). Revealing the transformation of nation states, multilevel governance has been driven by actor mobilization in the regional or international realm and the shift of power or migration of authority (Hooghe and Marks 2001). However, while dynamics of governance structures might express significant change, it is not known whether this change contributes to effectiveness of governance and policymaking. Depending on the decision rules in multilevel policymaking, policy change is defined by a powerful agenda setter, by a majority of actors in a decision making body or by the lowest common denominator resulting from negotiations. Actors who are involved in these processes need to coordinate policies, but need also to take into account rules and politics within their 'home institution' or the specific interest of the organization or government they represent. Although emerging informal policy networks cutting across organizational boundaries or jurisdictions may favour deliberation on the knowledge, opinions and preferences of the different actors and can induce policy learning, the impact of 'network governance' on final decisions according to formal procedures within governments or organizations is all but certain. For these reasons, significant change seems to be unlikely.

This dilemma of multilevel governance and the state of research appear to invite diverging normative conclusions. In general, scholars take the transformation of government into highly complex structures which include a plurality of actors as a necessary condition for managing entangled problems, but they also highlight the deficit of democratic legitimacy and search for new configurations of democracy. In the wider public, populist reasoning seems to attract increasing attention – not least in response to the debate on

the democratic deficit. It evokes calls for strong leadership, radical institutional reforms reducing power-sharing, or for curtailing the participation of organized interests, which should be replaced by the direct decisions of the people. Others are fascinated by technocratic government, with China serving as a model. Daniele Caramani clearly demonstrated that multilevel 'modes of governance provide a fertile soil for populist critique. Citizens are presented as feeling distant from processes that are complex, non-transparent and lacking democratic legitimacy, all of which justifies malaise and antiestablishment discourses' (Caramani 2017: 58). And he continues: 'From a technocratic view, however, complexity calls not simply for more popular participation but also for less and for entrusting its management to experts' (ibid.).

These suggestions are problematic from a normative and a practical point of view. They question or neglect basic principles of democratic legitimacy, although they highlight the will of the people or presume to aim at the common good. In particular, these claims appear as unrealistic, and neither the populist nor the technocratic ideal of governance can work in practice. Political leaders might have the power to change policies, but there is no guarantee that they are able to solve entangled problems, not least as populists prefer a return to the nation state. Technocrats might have expertise, but beyond that a plurality of interests have to be taken into account. Therefore, experts might propose innovative policies, but a technocratic approach cannot solve conflicts which are likely to arise.

Still no less problematic is the state of theorizing on policymaking in multilevel governance which points in different directions. Certainly, theories cannot provide substantial solutions for the wicked problems mentioned at the outset. However, since these challenges have to be addressed by governments and call for significant policy change and innovative policies, the ambivalence of research results and theoretical reasoning concerning the capacity of governments to change policies seems unsatisfactory. As long as we cannot demonstrate that significant policy change is possible in complex structures of multilevel governance, we cannot prevent public debates from falling into the traps of populism and technocratic functionalism.

These looming consequences have motivated me to write this book. Focusing not only on policy change but also on the more demanding version of policy innovation, it neither neglects the various constraints limiting governance in multilevel structures nor does it overestimate the chances of policy or institutional reforms. Far from assuming that policy innovation is the rule or can be achieved without major difficulties, I nonetheless claim that it is not impossible. *The basic argument to be elaborated in the following chapters holds that complexity in multilevel systems does not rule out policy innovation. These systems establish both favourable and constraining conditions for significant change. Whether policy ends with innovative decisions,*

gradual change or deadlock depends on the particular patterns of multilevel governance and additional conditions. In order to show that policy innovation occurs not only coincidentally but in specific patterns of governance and under conditions that can be shaped by policymakers, we need to identify these patterns and conditions. This is the aim of this book, which thus makes the claim against calls for a concentration of power in the hands of populist leaders or technocrats.

THE CONCEPT OF MULTILEVEL GOVERNANCE

This book is about policy change and innovation in multilevel governance. It does not explain how policy innovation can be achieved in general. The following chapters should contribute to research on policymaking under the conditions of multilevel governance, assuming that the structures and processes cutting across jurisdictions of governments or political organizations beyond the nation state do not rule out changing a policy, although they imply considerable obstacles for policy innovation. This specific focus is justified by the need for innovative policies in view of the wicked problems mentioned above and the fact that multilevel governance has become the '*conditio politica* of the twenty-first century' (Zürn 2010: 82).

The concept of multilevel governance emerged in different contexts of political science and has been applied in studies on comparative federalism, European integration, international relations and public administration (Bache and Flinders 2015; Benz et al. 2021; Enderlein et al. 2010; Ongaro et al. 2010). Some use the concept to label a theoretical approach, others to describe a structure of territorial politics, and yet others to characterize a pattern of governing. Over time it has lost its contours, when it 'has been thrown around by scholars like a favourite coat – a staple item in the European political science wardrobe, but perhaps one worn so often that it has now become threadbare', as Paul Stephenson (2013: 818) put it in a review of the state of research. Governance or multilevel governance has often been characterized as a network-like pattern of interaction among actors representing local, regional or national governments, the European Union or international organizations including private actors like firms, associations or NGOs. The inclusion of private actors has been said to distinguish multilevel governance from the traditional concept of 'intergovernmental relations' among executives and should imply a broader perspective on actors and structures (Alcantara et al. 2016). Accordingly, Ian Bache and Mathew Flinders highlighted two facets of the multilevel governance concept: '"Multi-level" referred to the increasing interdependence of governments operating at different territorial levels, while "governance" signalled the growing interdependence between governments and non-governmental actors at various territorial levels' (Bache

and Flinders 2004: 3). Yet the participation of stakeholders or private actors is not a distinguishing feature nor is it sufficient to understand the complexity of multilevel governance, which the concept of intergovernmental relations does not apprehend either.

In fact, a two-dimensional conceptualization appears essential (Benz 2009), one that focuses on governments but does not preclude that private actors participate in policymaking. If we consider multilevel governance in the world of democratic governments, policies are actually coordinated by executives or party leaders who interact across levels in 'boundary-spanning' roles, but remain responsible within their government, usually being accountable to parliaments and the parties supporting them. Hence the intergovernmental arena is linked to the arena of democratic politics, where the preferences of actors involved in multilevel policymaking are formulated or at least have to be accepted by assemblies of elected representatives or members holding executives to account. Like in 'intergovernmental' relations, interest groups or stakeholders may partake in these 'intragovernmental' processes, but this is not a defining feature of democratic governance, although it modifies the type of democracy. For comprehending multilevel governance, it is essential to take into account the interplay between the intra- and intergovernmental arenas; that is, the different sites of policymaking defined by specific functions, actor constellations and rules of interaction. Arenas emerge in the context of institutions but are defined by real interactions which are not necessarily congruent with institutions. Due to the different functions, mechanisms of decision making and power structures, the processes within these arenas, which are connected in multilevel governance, can produce conflicting effects which complicate policymaking and make change and innovation difficult.

POLICY CHANGE AND POLICY INNOVATION

Like multilevel governance, policy change is a widely used concept in social science without scholars having agreed on a common understanding (Hall 1993; Howlett and Cashore 2009; Jenkins-Smith and Sabatier 1993; Knill et al. 2010). Based on this literature, policy change can be defined as an amendment or replacement of existing rules or programmes that are designed to influence the behaviour of actors in state or society, including the resources of these actors. Moreover, effective change implies either a certain compliance of actors addressed by a policy or the execution of amended or new rules or programmes by responsible administrations. Compliance or implementation determine the outcome of a policy, revealed by the actual changes in behaviour of those addressed by the programme. These effects of a policy change might conform to the intentions of policymakers and solve problems at stake, or they may not fulfil the expectation. As a rule, we should expect some kind of

impact of political decisions. Change covers any deviation from the status quo of rules, programmes and their effects (outcomes or impacts), with the relevant substance of change (what changes) being defined by the agenda of a policy.

For political scientists, the concept of policy change raises three questions: What changes, to what extent does change materialize, and how effective is change? The first question concerns the substance of a policy and relates to the social field and the problems addressed. Following (Lowi 1972), policy scientists distinguish regulative, distributive, redistributive and constitutional policies. Accordingly, change can find expression in new or revised legal rules or emergent social norms, the allocation of resources, goods or services to specific types of actors (such as families with dependent children, students, the unemployed), a modification of the existing allocation of resources among groups, organizations or actors with some benefiting and others losing, or an amendment of those rules or norms that establish or define a group or organization, including basic rules of operation. Other things being equal, redistributive and constitutional policies instigate more intense conflicts and resistance than regulative or distributive policies. Furthermore, significant policy change inevitably comes with redistributive effects, and constitutional amendments can involve value and identity conflicts.

The second question points to the relation between the status quo, an agenda and the outcome of policymaking. Compared to the status quo, we can distinguish incremental, significant and transformative change. Regarding an agenda, policies can alter the means or instruments applied to influence the behaviour of actors addressed. This 'first order change' can be exemplified by the increase, decrease, abolition or replacement of subsidies, services or taxes. Moreover, the agenda can set new aims or more ambitious targets, like, for instance, the reduction of greenhouse gases. Finally, change can be expressed in a new policy paradigm (Hall 1993) and lead a transformation of a 'policy regime' including power structures and institutions.

The third aspect draws attention to the distinct processes of the policy cycle, in particular the formulation of rules or programmes, their implementation, and the compliance or noncompliance of actors addressed. Policy change can materialize in output, outcome and impact, but it can also be limited to either output and outcome or only output. Accordingly, we can distinguish effective, ineffective and failed policy change. In the first case, decisions by policymakers are implemented, and those addressed by a policy comply and adjust their behaviour with the consequence that a changed policy achieves its intended impact on a policy field or a social field. Policy change is ineffective if a decision is implemented and the actors addressed adjust their behaviour but the impact remains nonetheless limited. Finally, a failure to change a policy occurs if a decision is neither implemented nor does it achieve its goals and rather ends with unintended consequences.

The concept of policy change presumes an issue and problem which is defined in the process of agenda setting. To understand change, researchers need to consider institutions distributing powers, responsibilities and capacities to act, as well as procedures regulating processes. Last but not least, policies are changed by actors (policymakers) who work on an agenda, make decisions on alternative options to achieve their aims, implement decisions and in some way or another evaluate the outcome and impact. Certainly, there can be change without policymaking, not only in society or the social field that a policy addresses, but also in the institutions enabling or constraining policymaking or in the specific actor constellation, power structure or standard operating procedures. As a rule, these conditions change continuously, they evolve over time and drift away from the status quo, and this *evolution* can support or obstruct policymaking and policy change. Policies can contribute to evolution if they achieve incremental drift towards an envisaged aim in a series of marginal revisions of the status quo. Change can also occur in a discontinuous oscillation of evolution and decisive shifts in a certain direction, in a temporal pattern that proponents of historical institutionalism conceptualized as path-dependence and critical junctures, and that in policy science is described as punctuated equilibrium (Baumgartner and Jones 1993; Pierson 2004); that is a rather stable constellation which is interrupted by significant change triggered by 'focusing events' (Birkland 1998) or 'windows of opportunity' (Kingdon 2003: 184–90).

The basic concept of policy change simply describes a deviation from the status quo. The categories suggested to distinguish types of change are descriptive, they do not tell us anything about the evaluation of change nor its consequences. By contrast, the concept of *policy innovation* has normative connotations. Innovation is preferred to the status quo, and it is achieved by policymakers working on an agenda, although not necessarily by individuals or groups affected by the envisaged policy change. If an issue appears on the agenda, policymaking is aiming at something new, a policy that amends existing rules, services, resource allocation etc., and amendments are defined by normative criteria. Yet the attribute 'new' describes neither an objective fact nor does it generally appear as positive. An innovative policy is 'perceived as something new by an individual or other object of adoption' (Rogers 2003: 12), and it is positively evaluated by those who make the policy and aim at a significant change improving the status quo.

Beyond this very generic description of innovation, we find various definitions of the concept in the scholarly literature, mainly in economics (Fagerberg 2005) but meanwhile also in policy science and public administration (Ansell

and Torfing 2014b: 4; Jordan and Huitema 2014a; Howlett 2014; Torfing and Triantafillou 2016a: 7). The following features are particularly relevant:

- First, to qualify as innovation, policy change should lead to significant modification of programmes, laws or executive action. Compared to existing policy practices, it should 'introduce non-status quo, if not necessarily entirely novel, policy components or combinations of components which often result in new outcomes' (Howlett 2014: 396). As a rule, significant change involves a reallocation of resources, costs and benefits, or power.
- Second, a policy is innovative if it covers the agenda of policymaking and if it alters the status quo in a direction that is intended by the responsible actors. In democratic politics, these actors are accountable to the people and their intentions on policymaking should be in accordance with the will of the people.
- Third, innovation includes new ideas on how problems can be solved. It should imply substantive and relevant change, which is explicitly justified as a departure from routines and established practices. As such it should promise to solve the problems addressed or improve deficient conditions.
- Fourth, innovation leads to effective change with lasting effects (Polsby 1984: 8).

As a rule, significant policy change is associated with changes in power structures or institutions. Therefore, the concept of policy innovation should include deliberate change of formal rules of policymaking, informal standard operating procedures, patterns of interactions and power relations among actors involved in policymaking. If policy innovation is about a change of institutions, I will talk about *institutional reform*, provided that it ends with a significant, intended, justified and effective change. The general notion of reform is often used in the literature and in political practice to describe a policy change. However, I prefer to use the term in the specific sense of a revision of a 'form', that is a structure enshrined in institutional rules.

   Regardless of whether policy innovation concerns specific policies or institutions, it does not necessarily entail a radical transformation nor rapid change. Although change should be significant, it must not alter entire structures, rules, procedures, aims, programmes and measures to be considered as innovation. Moreover, time can structure the process of innovation, but it is not a defining attribute of the concept. As any process, policy innovation evolves in time, and often in cycles of progressive and regressive developments (Breznitz and Ornston 2018). In contrast to incremental or gradual evolution, innovation brings about significant changes in a direction intended by policymakers and accepted by those affected. How long this process takes is irrelevant, as long as we can actually observe significant and effective policy change.

The concept of policy innovation is often linked to other concepts such as invention, imitation or policy learning. Invention means a creative act leading to new ideas. It results from a cognitive process and finds expression in new knowledge, and it initiates and stimulates innovation processes (Fagerberg 2005: 5–6). Policy innovation, like policy change, is a political process aiming at turning an invention into practice. Imitation is often considered as part of policy innovation since it contributes to disseminating an invention or innovation within a political system or an organization, within the market or society. Thus, imitation and diffusion could lead to innovation at a higher level of a system, as they drive change in the intended direction in this wider context. Like invention, they may constitute a specific process in policy innovation (Jordan and Huitema 2014b: 391). However, imitation of a policy as such does not guarantee that ideas or new practices spread across jurisdictions. Moreover, conditions explaining imitation are different from those supporting innovation.

Closely related to policy innovation is the concept of policy learning (Bennett and Howlett 1992; Dunlop and Radaelli 2013). In order to find new solutions to problems, policymakers have to learn, but those who only adjust to new situations are also learning, even if they only adopt or copy a model or receive new information. Learning mainly consists of developing knowledge, either about ways to pursue given goals or about conditions which suggest a revision of goals (Argyris and Schön 1978). It has also been conceptualized as a change in ideas, beliefs, perceptions or opinions (Sabatier 1987). Hence, learning mainly affects the cognitive dimension of behaviour, whereas policy innovation requires a change in behaviour and affects patterns of interaction and power structures.

PLAN OF THE BOOK

Is policy innovation to be expected in multilevel governance? If so, under what particular conditions is it likely to occur? Which particular patterns of multilevel governance are conducive to innovation and which ones more or less obstruct change? These questions are addressed in the following chapters. In order to come to conclusions, the first part (Chapters 2, 3 and 4) summarizes and discusses the theoretical literature, which suggests different answers to these questions.

The next chapter reviews the literature on multilevel governance and policymaking in federal systems, the EU and transnational intergovernmental relations. The publications in this field reveal the varieties of multilevel governance and the diverse conditions that have to be considered. Among the different theoretical approaches, many tend to support a sceptical assessment of the innovative potential of multilevel governance, although we also find

arguments justifying a more optimistic view. Some theories explain dynamics and change in complex multilevel settings but focus on endogenous change of power structures and actor constellation rather than on intended innovation of policies. Other approaches on multilevel policymaking explain why incremental change can be expected at best. While we can take it for granted that policy innovation is the exception rather than the rule in multilevel governance, there are no reasons to rule out significant, effective and intended change. Therefore, we need to understand the particular social mechanisms, that is, processes which turn causes into effects, and conditions making innovation feasible or fostering innovation.

To identify mechanisms of change, Chapter 3 introduces theories of policy change and institutional change. Institutions enable policymaking by establishing enduring responsibilities, rules, norms and procedures. They stabilize interactions and enable coordinated action, but they constrain change even when ineffective institutions have to be amended. Therefore, institutionalist approaches usually explain gradual change whereas significant change is regarded as an exceptional event occurring coincidentally. Actor-centred accounts suggest different patterns of change depending on particular mechanisms. Policy theories focus on processes of change, be it collective learning, the conversion of belief systems or paradigms, shifts in power relations or a reallocation of resources. As policy change and innovation concern both the substance of a policy and the institutional context, both strands of theoretical reasoning are relevant and warrant attention.

Chapter 4 links these theories with research to multilevel governance. First it emphasizes the dynamic interplay of institutions and non-institutionalized processes in order to appropriately include theories of institutional change. Therefore, instead of institutions, the focus is on arenas; that is, actual venues of policymaking within the context of institutions. Although institutional constraints should not be neglected, it is shifts of policies and powers from one arena to another that provides potential for policy change. Whether change leads to innovation depends on additional driving forces and conditions, which will also be discussed in Chapter 4. It will conclude with an analytical framework and assumptions summarizing the theoretical reasoning.

Chapter 5 and 6 summarize findings from case studies on energy and climate policy in transnational, national and local contexts and on fiscal equalization in federal states. The cases exemplify more or less successful instances of policy changes in different multilevel systems. They reveal varying institutional settings, governance mechanisms such as regulation, negotiation, cooperation or mutual adjustment, and additional conditions that can be identified as conducive for policy innovation. Moreover, they point out the interplay of policy change and institutional change. By illustrating mechanisms of policy change and innovation in multilevel governance, and by highlighting the particular

conditions enabling or constraining these mechanisms, the studies should endorse the assumptions derived from the theoretical approach and demonstrate that significant change and successful innovation can occur in multilevel governance. However, they are not meant to test hypotheses.

Based on theoretical reasoning and the illustrative case studies, Chapter 7 systematically discusses enabling and constraining conditions of multilevel governance and processes which contribute to policy innovation. It briefly summarizes basic societal developments which explain the rise of multilevel governance and the intensifying conflicts complicating policymaking. As to structures, linkages between multiple arenas (like intergovernmental relations, executive–legislative relations, party competition, inter-administrative relations, expert panels) are emphasized. As suggested by the case studies, flexibility of the institutional framework linking multilevel and intragovernmental politics is essential, as are appropriate arrangements of processes in different arenas in order to induce innovations, manage conflicts and evade constraints.

The concluding chapter summarizes the gist of the argument and addresses implications for research and practice. One general conclusion relates to the complexity of multilevel governance and its ambivalent impact on policy-making. In general, the inclusion of many actors and volatile patterns of interactions can be a reason for governance failure. On the other hand, diversity of perceptions and ideas can contrast the confrontation of different interests, while shifting actor constellations and the pressure to avoid policy deadlock can induce creative solutions. Thus, complexity of governance should be regarded not only as a necessary evil but also as a precondition to solve complex policy problems in a democratic way.

2. Deadlocks or dynamics? The state of research on multilevel governance

The empirical phenomenon which is covered by the concept of multilevel governance has been studied for a long time. In federal systems, scholars described the rise and various patterns of intergovernmental relations (Poirier et al. 2016; Wright 1988). In unitary states, central–local relations attracted attention (Newton and Goldsmith 1987). Extensive empirical research was stimulated by the rise of territorial politics and reforms of state organizations in Western democracies. Since the 1970s, many states have gone through processes of regionalization and decentralization (Keating 2013; Hooghe et al. 2010). They adjusted their territorial structures in order to better cope with differentiated demands of regional or local economies and communities. In the 1990s, the concept of multilevel governance started its career in European studies (Marks 1996) and was later adopted in research on international relations (Zürn 2010). The evolution of the EU towards a supranational political union and the increasing number of international organizations, both of which constituted unique political systems beyond the nation state, indicated that politics and policymaking no longer could be contained in territorial boundaries of nation states. While multilevel polities have existed throughout history, regionalization and globalization in modern societies and democracies brought about various new types of governance arrangements within and beyond the state. The fact that the concept of multilevel governance travelled through many research fields in political science and public administration demonstrates the deep impact of these changes in politics and policymaking. The need to take into account the complexity of multilevel politics and policymaking in theories, empirical research and in practice is beyond any dispute.

As mentioned in the introduction, the concept of multilevel governance, which comprises a broad range of different aspects and varieties, is difficult to define. The problem starts with the notion of 'multi'. In studies on the transformation of political orders, it referred to the dispersal of power to the global and European level on the one hand and to regional or local governments on the other (Hooghe and Marks 2001). However, studies on policy coordination between levels often focus on two levels, as effective interactions rarely include actors from a third level on an equal basis. Accordingly, German designations like '*Mehrebenen-Verflechtung*' (Benz 1992) or '*Mehrebenenpolitik*' (Scharpf

1994) allude to 'more' than one level, not multiple levels. The label 'multi' nonetheless makes sense not only for the pragmatic reason that it is meanwhile an established term, but also because two-level interactions in policymaking usually are embedded in a wider multilevel context and are influenced by these 'external' conditions. However, it does not indicate a certain number of levels.

In the context of public policy and administration, 'level' refers to territorially defined jurisdictions governed by legitimized authorities. Certainly, jurisdictions within and beyond the state do not always constitute a territory of a government, they can also define an action space of special administrative authorities or intergovernmental cooperation for fulfilling particular functions (Hooghe and Marks 2003), such as, for instance, school districts in the US, *waterschappen* (water boards) in the Netherlands, or the Eurozone in the EU. Nonetheless, the boundaries of these special-purpose entities regularly coincide with the borders of states or sub-units of states. More precisely, levels or jurisdictions indicate that within these borders there is a government or administration which operates according to specific rules and routines.

A more contested notion is governance, a concept that is 'notoriously slippery' (Pierre and Peters 2000: 7). The numerous definitions concur insofar as they emphasize that governance is about the coordination of many (mostly corporate) actors contributing to a common good. This implies that actors are formally autonomous, endowed with different powers and rights, but functionally interdependent. Furthermore, they can use different strategies and means in processes aiming at coordinated action. The first aspect relates to structures, the second to processes, and the concept of governance encompasses both. It describes a structured constellation of actors interacting in processes with the purpose of achieving a common goal. Structures can be hierarchical, network-like or simply based on interdependence, and they can be more or less institutionalized; actors may come from the public or private sector, and they are relevant as far as they contribute to governance.

It is essential to take into account that multilevel governance constitutes a two-dimensional pattern of politics and policymaking. It links coordination between levels with processes shaping the interests, aims and preferences of those corporate actors who are involved or have a stake in multilevel coordination. As will be outlined in greater detail, the rules and logics of multilevel and intra-level politics differ, and their interference frequently causes conflicts and tensions. This is the reason why policy change is difficult. However, this complexity of structures and processes also entails dynamics of multilevel governance and thus favours change and innovation.

Over the last few decades, extensive empirical research on a broad range of cases of multilevel governance has stimulated theorizing (Bache and Flinders 2015; Benz et al. 2021; Enderlein et al. 2010; Ongaro et al. 2010), with theories developing into different directions. Focusing on multilevel governance in

the EU, Simona Piattoni (2010: 18–26) distinguishes three approaches. First, the concept describes an opportunity structure for political mobilization of sub-national and non-governmental actors participating in policy networks that span across regional, national and European levels of government. This mobilization changes structures of governance by causing a reallocation of political authority (Marks 1996). Second, in a structuralist turn of the first approach, multilevel governance has been interpreted as a novel form of 'polity-structuring' driven by functional requirements in the provision of public goods, by the pressure of territorially organized communities and by changes in party systems (Hooghe and Marks 2009, 2018). Third, scholars have perceived governance as politics and policymaking in complex institutional configurations and have compared types of multilevel governance and their impact on effectiveness and legitimacy of policies and political decisions (Benz 2000, 2009; Börzel 2010). The first two approaches explain the development, dynamics and varieties of structures of multilevel governance from different angles, the third one directly addresses policy change and thus is particularly relevant for the research question dealt with in this book.

STRUCTURES, DYNAMICS AND DIVERSITY OF MULTILEVEL GOVERNANCE

The first two approaches focus on changing political structures like European integration or regionalization or internationalization of political authority. Both can be traced back to the groundbreaking works of Liesbet Hooghe and Gary Marks (Hooghe and Marks 2001; Hooghe et al. 2010; Hooghe et al. 2016a; Hooghe et al. 2016b; Marks 1996). They described European integration as a process of a dispersal of powers and intensified interaction across the European, national and regional levels of governance and later confirmed their assumptions by data on regionalization in nation states and the delegation of power to international organizations. Theories elaborated within this framework explain these changes, and indicate the main forces driving the dynamics of multilevel political structures. Hooghe and Marks have not been interested in policy change or policy innovation specifically, although they discovered multilevel governance in studies on the rise of EU regional policy (Hooghe 1995; Marks 1993). Their research sheds light on the dynamics of politics inherent in multilevel structures and explicates how policies can mobilize new actors and thus set off a process of self-enforcing structural change. If we take into account that significant policy change finds expression in changes of institutions, interactions and procedures, this approach to multilevel governance can contribute to our understanding of policymaking under the condition of complexity, although dynamics of politics and structures do not necessarily support policy innovation.

Not by coincidence, EU structural policy became a crucial case in studies on multilevel governance (Bache 1998, 2008; Benz 2000; Gualini 2004; Piattoni and Polverari 2016). The 1988 reform of the funding scheme delegated power to regions and supported the inclusion of 'social partners' that include associations and businesses with a stake in regional development. This way, policy change mobilized new actors as players in the process of European integration (Marks 1993). It was no longer only national governments and private companies which influenced European policies, now regional and local governments and civil society associations got involved, and governing Europe in this policy field turned into a new kind of governance including the regional and local level. Compared to the traditional model of a federation which still influences debates on European integration, the reality of multilevel governance is less structured by a clear division of power and, rather, evolves in network-like patterns, in less formalized processes that are open to new actors, and in politics that is not only dominated by the governments of the member states endeavouring to extend or maintain their share of the funds, but is also driven by policy specialists and actors interested in enhancing competitiveness of regions or coping with social problems.

Like most case studies on politics spanning across boundaries of jurisdictions, the early studies by Hooghe and Marks used an actor-centred approach to explain the rise of multilevel governance. Later they elaborated a 'postfunctionalist' theory of European integration, the reconfiguration of nation states and the extension of transnational authority (Hooghe and Marks 2009). In line with traditional theories of European integration, they regard the pressure of policy specialists and interest groups as one causal mechanism driving the shift of authority between levels of governance. The functionalist reasoning implies that these actors can justify a redistribution of power as crucial for governing complex tasks. Usually, policy specialists and interest groups include actors who are attached to different levels but agree on the need to share power in a multilevel setting. Since the provision of many public goods requires that governments, public administration and private actors coordinate policies across different jurisdictions, the interaction of policy specialists drives authority migration to the upper level (be it the EU or international organizations) and evolves into intergovernmental relations across levels. Scholars considered this mechanism as the predominant force explaining European integration between the late 1950s and the late 1980s (Hooghe and Marks 2009: 5). Since then, the project of a European Union became a matter of mass politics, which is less about particular interests and distributional bargaining and more about 'identity' of communities and party competition. Communities claim autonomy within multilevel structures and therefore prefer self-rule instead of shared rule (ibid.: 2). Their identity is voiced by regionalist or nationalist movements challenging centralization of power and denation-

alization or globalization of markets and politics. Political parties convey the rising sense of communities in democratic processes at the national or regional level, in competition with other parties advocating European integration and the transnational cooperation of governments and societies. In consequence, party systems increasingly reveal a new cleavage between the winners and losers of globalization or European integration and between citizens preferring societal diversity and open borders and those arguing for renationalization and closed borders (Hooghe and Marks 2018; Kriesi et al. 2006).

The functionalist and community-based mechanisms drive dynamics of political structures into different directions. Political parties are divided between these alternative options, with the consequence that multilevel governance is increasingly contested and politicized. These tensions set off two particular processes: First, the conflict between the driving forces is usually solved by a division of power between levels of government, with self-rule allowing communities to defend their identities against the functionalist pressure towards integration. Second, depending on the power constellation and the degree of politicization and depoliticization, multilevel governance evolves in a cyclical process fluctuating between trends towards integration and disintegration. Despite this instability, the multilevel system persists as long as both driving forces can be kept in balance. Hence multilevel governance varies between a rise of regional and supranational authority and between the self-rule of governments and sharing of powers among policymakers representing local, regional or national governments or European or international institutions. The dynamics of structures are not determined to evolve in a particular direction, since the relative impact of the different mechanisms varies.

At this point, the theory of multilevel governance elaborated by Hooghe and Marks overlaps with William Riker's theory of federalism as a continuous bargain among governments (Riker 1964). He argued that federations, which Hooghe and Marks would label as type I multilevel governance (Hooghe and Marks 2003), are unstable because office holders at the different levels try to extend or defend their power. By engaging in continuous contests, these actors in political and administrative offices generate self-reinforcing processes that lead either towards centralization of power or towards decentralization, depending on particular circumstances. This view, and Riker's assumption that federal systems are threatened by power centralization rather than disintegration, was clearly influenced by his experience with executive federalism in the US, where presidents and governors dominate the continuous bargaining over power. Against this background, he also argued that an integrated party system can stabilize a balance of power in multilevel governance. In such a system, parties compete for votes at the different levels, they link actors holding power in central, regional or local governments by intra-party discussions, and they increase the probability that these actors move to offices on another

level. Therefore, office holders attached to integrated parties should not prefer authority migration in one direction, rather they should be interested in keeping a balance of power (Riker 1964: 136; for a more detailed elaboration of this theory see Filippov et al. 2004: 190–96).

There is no doubt that party politics and party systems shape how democratic politics and multilevel governance are linked. Therefore, changes in 'political structuring' of a society, which result from a realignment of cleavages and electoral behaviour, can have significant consequences for bargaining over the allocation of power and resources between levels of government and political competition in multilevel governance. In the US, parties which for a long time were rooted in the states became more nationalized during the second half of the 20th century, a process that had started in European welfare states earlier (Caramani 2004). Here, scholars meanwhile discovered a new cleavage between supporters of European integration and groups feeling the disadvantages of economic competition in the common market. While the former group is represented in mainstream parties, the latter find support in anti-European parties (Kriesi et al. 2006). Despite variations between member states (Hooghe and Marks 2009: 14–18), the overall trend has persisted over the last few decades. Within nation states, regionalist parties have gained ground and politics within traditionally integrated parties now appears to be more territorially differentiated (Detterbeck 2012). These changes of party systems follow from the multilevel character of public policies and the rise of multilevel governance, and party politics constitutes a significant force of power dynamics in multilevel governance.

Tensions between the functional pressure and community demands explain dynamics in the relations between the national, regional and international level, or the domestic–international dimension. In her outline of the multilevel governance's conceptual space, Simona Piattoni added two other dimensions (Piattoni 2010: 26–80). The first, which she labelled centre–periphery, covers relations between constituent entities of a multilevel system. They are characterized as uniform or diverse in terms of culture, equal or unequal in terms of resources, symmetric or asymmetric in terms of powers, and inclusive or exclusive in terms of power-sharing with higher-level governments. The other dimension relates to state–society relations, which vary between state-centred multilevel structures and patterns including private actors and associations in formalized participatory governance arrangements. Again, each dimension implies tensions fostering dynamics, as emphasized by Piattoni (ibid.: 27). As she also makes explicit, changes in the different dimensions call for different explanations, including theories of social change, theories of new regional economy, theories of interest intermediation, or theories of party politics.

As mentioned, this strand of research on multilevel governance and the theoretical approaches that have been elaborated in this context fail to tell us

much about the causes of policymaking or policy change. They explain the emergence and dynamics of structures of multilevel governance. Yet there is more we can learn from this literature, as is expressed by Piattoni's note summarizing the conceptual history of the term:

> [It] denotes a diverse set of arrangements, a panoply of systems of coordination and negotiation among formally independent but functionally interdependent entities that stand in complex relations to one another and that, through coordination and negotiation, keep refining these relations. (Piattoni 2010: 26)

On the one hand, if multilevel governance is highly dynamic this should be reflected in processes of policymaking. They are constrained by the complex institutional configuration of governments and organizations linked in multilevel governance, but these institutions do not establish a static structure. Within this institutional context, volatile patterns of interaction and power relations affect policymaking. On the other hand, the concept of multilevel governance does not cover a particular political system comparable to the concept of the state, but it includes a variety of structures or patterns of interaction. Varieties result from the division or sharing of authority between levels, from the organization of politics at the different levels, and from the horizontal relation among constituent units. Beyond that, endogenous dynamics of multilevel governance contribute to a diversity of patterns of interactions, the inclusion or exclusion of actors or effective power structures.

For this reason, it does not make sense to maintain that multilevel governance either enables or constrains policy change or innovation. Rather, we have to ask which types or patterns of multilevel governance provide conditions that are more or less favourable for policy change or innovation. More so than institutions in general, complex structures linking different institutions provide at the same time opportunities shaping a policy and constraints for policymaking. And by being involved in multilevel politics, policymakers can exploit opportunities and can change or circumvent constraints. Furthermore, as we can conclude from the second strand of theorizing on multilevel governance, the issue is not whether policies change or not, but what type of change can be expected.

POLICYMAKING IN MULTILEVEL GOVERNANCE

While research on multilevel governance revealed significant advancement of conceptual work, collection of data to describe the diffusion of authority, and theorizing to explain this process, the increasing need and practice of coordination across boundaries of jurisdictions within states, in the EU and in international politics, stimulated studies on policymaking in these new kinds

of political systems. These studies built on approaches developed in policy science and federalism studies, but against the backdrop of particular conditions of governance beyond the state, they inspired innovative theorizing. In contrast to studies revealing the dynamics of structures of multilevel governance, influential theories on policymaking in multilevel governance suggested that significant policy change cannot be expected. They even seem to explain why multilevel governance comes with a high risk of deadlock. An obvious reason for that outcome seems to be that coordination of policies across levels of government can be obstructed by many actors holding the power to veto a decision. However, this is an overly simplified conclusion which is not supported by empirical research and advanced theorizing. To take a closer look, deadlock may occur, but policy change is possible. The real issue is whether significant change is possible as well. If we focus on this more precise question, we find that most theories of policymaking in multilevel governance do not consider policy innovation as a likely outcome.

In multilevel governance, policymakers are confronted with a fundamental problem, as Robert Putnam indicated in his influential article 'Diplomacy and Domestic Politics' (Putnam 1988). Departing from the predominant view which took states, governments or leaders of governments as drivers of international policymaking, Putnam analysed international politics as a 'two-level game', or, in the terminology used here, a process influenced by politics in two different arenas: international and domestic politics. In consequence, the challenge for policymaking consists of the need to harmonize decisions made in both arenas so that, at the end, decisions contribute to achieving a common purpose. For Putnam, policymaking was not determined by the primacy of international politics or legislation within states, it was a 'game' played by actors involved in politics at both levels. The appropriate strategic action of leaders of governments could solve the problem of a 'double-edged diplomacy' (Evans et al. 1993). Certainly, governments or policymakers in multilevel governance are subject to constraints set by institutions or effective power structures. These constraints vary depending on the type of multilevel governance, but they hardly eliminate any room for manoeuvre for actors. Nonetheless, leaders of governments are involved in divergent rule systems established or emerging in the domestic and international arenas and causing different logics of interaction. The challenge actors face in multilevel governance is to conform to these rules and logics at the same time. This can be quite complicated.

The Joint-Decision Trap

In 1988, when Putnam's seminal paper was published and stimulated research on international politics, Fritz W. Scharpf's ground-breaking article on 'The

Joint-Decision Trap' in German federalism and European integration appeared (Scharpf 1988). It dealt with a specific pattern of multilevel governance, which Scharpf discovered in the German federal system and later identified in the European Community. In both cases, policymaking developed incrementally, at best, during the 1970s and 1980s, not least because decisions required the consent of governments. Joint-decision making, as Scharpf called this pattern, is based on power-sharing between federal and regional governments or governments of the European member states which compels them to negotiate agreements either according to constitutional or European law or because complex problems cannot be solved and tasks cannot be fulfilled within a single jurisdiction. In Germany, the participation of *Länder* governments in federal legislation via the Federal Council (*Bundesrat*), and the participation of the federal government in the improvement of regional economies, agricultural structures and (until 2006) university construction, are typical cases of joint-decision making established by the constitution. In the European Community, legislation in the Council of Ministers could be considered as a similar constellation of multilevel governance, as − until treaty reforms of the 1990s − representatives of member state governments had to decide unanimously.

Within these institutional contexts, policies are negotiated among executives speaking and acting for a government. In democratic systems, these actors should pursue the public interest of citizens of the respective state, region or local community. Yet even if this normative claim holds in real policymaking and executives are not guided by their special interests, conflicts intensify due to the multilevel character of policymaking. The public interest is defined in political processes organized at the different levels and within different jurisdictions. In multilevel policymaking, it is turned into preferences of governments. Therefore, interests expressed in multilevel governance are likely to diverge. This is not necessarily due to the rational behaviour of executive actors, but rather because they cannot neglect policies legitimized in 'domestic politics'. In established democracies, elected representatives express the will of peoples, and executives responsible to their government and parliament are expected to act accordingly. Negotiating agreements with other governments is made quite difficult, as negotiators have to comply with these expectations.

Nonetheless, executives involved in negotiations on joint decisions not only have to defend the specific public interest of their constituency or implement mandates of their government, they are also expected to cope with matters beyond their jurisdictions by appropriate accords with representatives of other governments. In consequence, they are confronted with a 'mixed-motive' situation. In joint-decision systems, all participants or at least a significant minority of them can veto a decision that interferes with the interests of their constituency. But likewise, all are expected to come to an agreement in order

to solve problems. For this reason, diverging institutional incentives prompt strategic action in joint policymaking.

If deadlock occurs, it is neither caused by multilevel governance in general nor by the number of veto players alone. It is the conditions established by politics and governance within jurisdictions, not least the particular pattern of democracy or autocracy, that significantly constrain policymaking. Veto power is inherent in negotiations among executives who aim at an agreement, though negotiations often do not rule out majority decisions. Yet external players like cabinets or parliaments can also have power to prevent decisions, since they regularly have to approve a joint decision resulting from multilevel governance. Whereas the veto power of negotiators in practice is used as bargaining power, and thus affects the substance of package deals or compromises but rarely prevents a joint decision, vetoes of 'external veto players' (Benz 2004: 880) tend to cause deadlock in multilevel policymaking, because these actors or decision bodies can only accept or reject a proposed decision. Depending on the linkage between multilevel and domestic politics, external veto power can restrict the negotiation mandates of participants in joint-decision making, modify the bargaining behaviour towards a confrontative style, or cause an agreement by governments or parliaments to fail in domestic ratification. Party competition in democratic states or the internal politicization of redistributive consequences of joint-decision making regularly increases the probability of deadlocks.

The real problem which Fritz W. Scharpf revealed in his empirical research on multilevel governance in German federalism and in the European Community was not deadlock of policymaking but ineffective outcomes of joint-decision making. In line with his analytical approach, which he later elaborated as actor-centred institutionalism (Scharpf 1997), he traced back these effects to policymakers' responses to institutional constraints. In the 'mixed-motive situation', they want to evade a deadlock in intergovernmental negotiations, and therefore settle conflicts by compromises that can be accepted by all governments. Usually such a result is achieved through package deals, by sharing costs and benefits on an equal basis, or by avoiding significant changes of the status quo. Yet by ruling out redistributive consequences of policies, policymakers cannot effectively manage social or economic imbalances among territories or cope with external effects resulting from decentralized policies. Although policymakers are aware of these problems of joint-decision making, a revision of the institutional conditions is unlikely to materialize in this constellation of multilevel governance. Scharpf's notion of the Joint-Decision Trap conceptualized this dilemma. Compelled to come to agreements, policymakers accept ineffective decisions, and at the same time avoid institutional reforms since they are aware that any separation of shared power goes at the expense of one level of government and will be blocked by

a veto. While policies can be changed incrementally, institutions establishing joint-decision making cannot. In Scharpf's words, a joint-decision system is:

> an institutional arrangement whose policy outcomes have an inherent (non-accidental) tendency to be sub-optimal − certainly when compared to the policy potential of unitary governments of similar size and resources. Nevertheless, the arrangement represents a 'local optimum' in the cost–benefit calculations of all participants that might have the power to change it. If that is so, there is no 'gradualist' way in which joint-decision systems might transform themselves into an institutional arrangement of greater policy potential. In order to be effective, institutional change would have to be large-scale, implying the acceptance of short-term losses for many, or all, participants. That is unlikely … . (Scharpf 1988: 270)

In his studies on German federalism, Scharpf pointed out that the detrimental effects of joint-decision making vary between types of policies. The risk of failure is particularly high in redistributive policies (e.g., change of tax rates if the revenues are shared between federal and *Länder*/local governments, fiscal equalization) or in policies with prevailing redistributive consequences (e.g., federal legislation that implies fiscal burdens for *Länder* governments responsible for implementing the law). Moreover, negotiations are complicated if intergovernmental agreements on a policy have effects beyond this specific policy field and call for coordination within governments. In this case, the responses of external veto players, be it ministers or civil servants from departments in government not participating in joint-decision making, can obstruct an intergovernmental agreement or its implementation.

Fritz W. Scharpf's article on the Joint-Decision Trap broke new ground in research on multilevel governance and inspired empirical studies on policymaking in the EU multilevel system (Falkner 2011; Héritier 1999; Peters 1997), as well as comparative studies on policymaking in federal systems (Benz 2016a; Blom-Hansen 1999; Painter 1991). This research revealed how actors can escape the trap and how constitutional rules requiring agreements can be modified. As Scharpf always emphasized, his theory covers a specific mode of multilevel governance (Scharpf 2011). In a comparative perspective, power-sharing enforcing cooperation, like joint-decision making in the EU or German federalism, appears as a particular constellation. Except for constitutional amendments, it rarely appears in other federations where powers are separated and governments coordinate their policies in informal negotiations or mutual adjustment. In unitary or regionalized states, executives generally interact in the 'shadow of hierarchy', which allows the central government to solve intergovernmental conflicts and avoid deadlocks by unilateral decisions. In the EU, this constellation appears in market regulation (Börzel 2010), whereas in international politics, governments need to come to agreements, but can also revert to unilaterism by making policies on their own if negotiations

fail. If powers are separated and governments decide unilaterally, the management of interdependencies occurs through adjustment of their policies, and the same mode of governance applies if governments compete for resources (tax competition; Tiebout 1956) or best practices (yardstick competition; Salmon 2019). In these instances, they respond to policies of other governments in sequences of action and reaction.

Nonetheless, regardless of the institutional structure and the mode of coordination, multilevel governance implies that no government or political organization is fully sovereign or able to make policies autonomously. Governance in the sense of coordinating policies across levels of politics is embedded in a 'polycentric' structure. Regardless of their formal independence, all engaged actors are in some way or another dependent on other actors and outcomes are determined by processes of interaction (Stephan et al. 2019). This mutual dependence not only applies to relations across levels. In the context of democratic states, actors representing governments are accountable to parliaments, but they also have to find the support of political parties or interest groups as well as to consider public opinion. In consequence, the number of actors involved and the logics of interactions make policymaking rather complicated. Therefore, even if multilevel governance does not require joint-decision making, significant policy change seems hardly attainable.

Competition and Level-Shifting

However, this complicated interplay of multilevel governance and democratic politics varies according to the type of democracy and the mode of coordination in multilevel governance (Benz 2019; Benz and Sonnicksen 2017). Majoritarian democracy in parliamentary systems seems to provide favourable conditions for policy change. In consensus democracies, the room for manoeuvre of governments, which search for agreements in negotiations or intend to adjust their policies to the decisions of other governments, is constrained by their commitments to coalition agreements or accords with private interest groups. So far, comparative research on multilevel governance has not systematically taken into account different patterns of democracy (Benz and Sonnicksen 2021). Due to the growing interest in intergovernmental relations in comparative federalism and varieties of governance in the EU, we know more about the impact of modes of coordination on policymaking. Obviously, cooperation in the shadow of hierarchy or voluntary cooperation with exit options increase the probability of policy change compared to joint-decision making (Painter 1991; Scharpf 2001). In decentralized structures, governments can support experimental policies and competition for best practices, as is explained in theories of 'laboratory federalism' (Kerber and Eckardt 2007; Oates 2005).

This theory seems to be particularly interesting for research on policy change in multilevel governance. It explains a particular mechanism of coordination based on mutual adjustment that may be conducive to innovation. However, it also illustrates that the effects of mechanisms depend on the conditions under which they operate. The concept of laboratory federalism presumes that policymakers change and improve their policies in response to incentives of yardstick competition. This particular type of competition is determined to improve the overall outcome of decentralized policymaking, an outcome that should be achieved by incentives for governments to learn from others and adopt best practices. In the market, these incentives result from the possibility to increase profits; in democratic politics, yardstick competition motivates policymakers to implement higher-quality standards because this increases their chances to win elections. As Pierre Salmon (2019) has extensively discussed, yardstick competition requires that elected executives in governments can be held accountable by voters and that voters base their decisions in elections on a comparative evaluation of incumbent governments.

There are reasons to assume that citizens compare policies across jurisdictions, and governments have to take this into account. With the rise of a 'monitory democracy' (Keane 2009: 686–98) owing to the growing number of organizations publishing comparative evaluations and data on governance performance, and with regular opinion polls on specific policies conducted or made public by the media, Salmon's focus on government–citizen relations (Salmon 2019: 48–9) might be justified. As Jack A. Walker discovered (Walker 1969: 893–5) and as Andrew Karch confirmed in his study on policy diffusion in the US, national public organizations provide a decisive source for information, communication and comparative evaluation of governments. However, as elected executives and members of parliaments are interested in getting re-elected, an incumbent government might be led to deviate from policy innovations in other jurisdictions (Karch 2010). Even if assessments gained from comparison would influence the voting behaviour of citizens, they affect policymaking of governments only in those policies that are salient for voters. In parliamentary systems, accountability to parliaments constitutes a distinctly more effective mechanism to transform lessons drawn from other jurisdictions and rankings or ratings of policy outcomes into incentives for governments to change policies. If we take elections as the procedure by which citizens hold governments accountable, the general performance of an incumbent government, and not a particular policy, is decisive. However, parliaments hold governments accountable for particular decisions. In presidential systems, executive–legislative relations are comparably less interconnected and it is primarily the pressure of interest groups and lobbyists that influence decisions of governments (Karch 2010: 145–91).

As Andrew Karch convincingly explained, information about best practices has an impact on the agenda of a government, but innovative policy models are 'customized' (ibid.: 147) in internal processes of legislation and implementation. At this stage, parliaments evaluate policies of the executive in party competition, and so do interest groups as well as lobbyists pursuing their particular aims. Therefore, as in joint-decision making, different mechanisms of politics interfere in the two-dimensional structure of decentralized governance. Comparative evaluations of policies across different jurisdictions may influence democratic processes within governments, but majority and minority parties usually interpret or exploit them in different ways. At least in the US states, domestic interests clearly dominate legislative and administrative processes. These internal forces significantly weaken the incentives for policymakers to change a policy, which in principle are generated through yardstick competition. In the context of party competition an incumbent government is regularly not willing to disclose information about deficits, and in parliamentary systems the majority parties have no interest in enforcing performance evaluation. Executives and majority parties tend to defend their policy against the opposition. Certainly, comparative policy evaluations can be conducted by central government agencies or private organizations. Such externally induced processes of yardstick competition contribute to reduce information asymmetries between executives, parliaments and citizens in accountability relations, and this is their primary function. By uncovering serious deficits in public policies, these processes can initiate policy change, and public discussions instigated by comparative information can stimulate policy learning as a matter of course. Accordingly, yardstick competition constitutes a mode of multilevel governance which is compatible with democracy. Yet if we take into account the context of party and interest politics, this mode of governance seems insufficient to generate policy innovation, although it can contribute to public discourses and improve the quality of democracy (Benz 2012).

As mentioned, multilevel governance has to be conceived as a two-dimensional structure and process. Apparently, policy innovation in multilevel governance does not result from competition among governments if this process collides with 'domestic' (intra-governmental) politics. Competition influences a government's policy if it compels adjustments to external pressure. This is the case in 'institutional competition' which concerns the resources of a government, like tax competition in a free market with highly mobile taxpayers. But policy change induced by this mechanism is not always intended and, in the long term at least, can reduce the capacities of governments to respond to economic, social or environmental problems within their own jurisdiction. Adjustments induced by yardstick competition result from the voluntary participation of governments, but this is the reason why the number of domestic veto players and the interference of intra- and intergov-

ernmental processes often impedes significant policy change. Nonetheless, we should not underestimate the dynamics caused by competition among governments, in particular as it impacts on agendas of politics, contributes to generate knowledge and information, and influences policy ideas.

Another source of policy change or innovation results from the interaction of decentralized and centralized intergovernmental negotiations in a policy field, if they proceed in distinct arenas and processes that are only weakly linked though exchange of information. Such a constellation regularly exists in multilevel governance beyond the state, where institutionalized linkages between levels are less dense compared to multilevel governance within states. Here, governments use the framework of international organizations or international regimes as a venue for meetings. Results of intergovernmental negotiations are summarized in declarations, not in formal agreements, decisions or contracts. This way, executives can gain significant autonomy from their parliaments and parties, as processes at the international and the domestic level are only loosely connected. Autonomy increases when bodies of experts prepare intergovernmental policies. In spite of this formal separation of levels, coordination is possible by way of 'soft governance'.

The 'Open Method of Coordination' (OMC) introduced by the European Commission in 2000 can be considered to be one such type of soft mode of governance, although it was probably meant as a more direct mode of coordination, and in some policies was strengthened through 'blaming and shaming' of national governments. In general, the Commission established a process determined to monitor the performance of member states' policies in selected fields and expected that the results could instigate debates in national parliaments or influence public opinion on necessary reforms. Research on the OMC revealed mixed effects (e.g., Barcevi et al. 2014; Tholoniat 2010; Zeitlin et al. 2005). Apparently, national governments and parliaments had their reservations about the ambitions of the Commission in areas that fall under the jurisdiction of member states. Yet similar policy effects can also result from multilevel processes without a formal procedure of coordination. In a project on financial market regulation after the 2008 crisis, Renate Mayntz and her partners described a case of soft governance in a loosely coupled system of multilevel governance (Mayntz 2015). In case studies on regulatory policy, the research group exposed how national governments uploaded their policies to the European or international level in order to circumvent institutional constraints within their jurisdiction. Via the influence of their experts in the policy field, they transferred their reform agenda to international committees, international organizations or conferences of governments. On the other hand, bodies of international organizations or advisory committees, which lack the power to execute a policy, downloaded their policy to national governments via their contacts to responsible actors in national governments. In turn, these actors

profited from being supported by international expertise when pursuing their reform policy against resistance within the national government or legislature. This dynamic interplay of policymaking in different bodies or arenas and the sequential shifts between levels explain why regulation could be amended at least partially in a policy field, where rather complicated issues had to be dealt with and where many powerful actors with vested interests or veto rights could prevent change. In such a 'multilevel action system', national, European and international arenas of policymaking framed and shaped decision making at the other levels, and with every shift of a policy from one level to another, its substance changed (see also Kudrna et al. 2014).

Policymaking under the Condition of Complexity

Similar conclusions have been drawn by scholars who applied complexity theory to federal systems or multilevel governance (Bednar and Page 2016; Schneider 2012). In public policy and governance, complexity finds expression in a concurrence of institutional differentiation of power and functional interdependence of policies. In multilevel governance, the vertical and horizontal differentiation of territorial structures responds to varieties of regional or local conditions, but more often than not the tasks assigned to governments or administrations span the boundaries of their jurisdictions and transcend the scope of political power. Managing interdependence under the condition of diversity and interdependence appears as the basic challenge of complex governance. Scholars have suggested that 'polycentric governance', an interaction of multiple decision centres, constitutes an appropriate pattern to manage complexity. These centres constitute formally independent units. But faced with overlapping jurisdictions, responsible actors holding power in these units should take into account the consequences for other units. They deal with conflicts in processes of competition and cooperation and thus become connected (Thiel et al. 2019). In contrast to institutionalist or actor-centred theories of multilevel governance, complexity theory presumes that the cross-cutting of institutional or territorial and functional boundaries and emergent patterns of interactions creates connectedness, while differentiation and variety of tasks generates behavioural diversity (Bednar and Page 2016). Under these provisions, actors are required to continuously adjust to the dynamics of emergent structures and interactions. Accordingly, multilevel governance is characterized by processes of coordination in which actors mutually learn and change policies in the context of structures that are highly flexible.

Complexity theory mainly explains the stability or instability of systems and aims at finding conditions for the robustness or resilience of governance (Bednar 2009). Scholars applying this approach are mainly interested in principles for designing complex systems that are appropriate to the tasks at

hand. Accordingly, they assume that policies continuously change in multi-level systems, or they postulate the need for change, but their theory does not explicate the causal mechanisms of policy change. They assume that complex systems emerge and adapt when actors cope with interdependence in differentiated structures. With the emphases of interdependence, connectedness, diversity and adaptability, the theory highlights important conditions for policy change in multilevel governance, although on a high level of conceptual abstraction. By considering complex systems as dynamic, it points out that policy change is necessarily linked to change in structures.

Notably, scholars working on joint-decision making in multilevel governance came to a similar conclusion. In her studies on the EU, Adrienne Héritier, for instance, has discovered that actors tried to find escape routes in order to avoid being trapped in deadlocks of policymaking (Héritier 1999). Furthermore, she described processes of interstitial change of institutions, which occurs in periods before or after institutional reforms, when actors are confronted with the challenges of division and sharing of power and find ways to cope with diverse, often contrasting rules or requirements (Héritier 2007). Accordingly, policymaking in complex multilevel governance results in implicit institutional changes and adjustments.

In his theory of joint-decision making which he elaborated based on case studies on federal–*Länder* cooperation in Germany, Fritz W. Scharpf already pointed out different ways in which actors who are compelled to cooperate can avoid decision traps (Scharpf 1976). In their empirical studies, Scharpf and his co-authors showed that policymakers usually define issues in a way that reduces the level of conflict, for instance by precluding or compensating redistributive effects of a policy, by avoiding decisions which discriminate among participants, or by postponing controversial issues. In his theory, Scharpf also mentioned ways in which actors can change procedures or actor constellations, for instance by forming coalitions in negotiations, by the sequential treatment of issues, or by bilateral negotiations with pivotal actors. Later research on joint-decision making has demonstrated that changes in the effective structure of policymaking are essential to make multilevel governance work. Accordingly, if powers are shared and coordination has to be achieved in negotiations, a variation of actor constellation should be possible if the policies are made in multiple arenas (political and administrative bodies, coalitions, sub-committees, advisory bodies). Adjusting structures appears as decisive for finding agreements, so that confrontation of executives representing parties or governments can be counterbalanced by bargaining among policy specialists in administration or deliberation among independent experts. Experts and civil servants can 'depoliticize' negotiations, whereas political executives can link different issues to package deals that are acceptable for parties and parliaments (Benz 2016b). Thus, like complexity theory, actor-centred theories of inter-

governmental policymaking accentuate the relevance of complex structures and adaptation in multilevel governance.

However, neither of these theories explains policy innovation. Regarding policy outcomes, most of them suggest that gradual change is the rule in complex systems and multilevel governance. Complexity theory indicates that significant changes in policies may be driven by changes in structures or actor constellation. In contrast, the theory of joint-decision making suggests that incrementalist policymaking is likely to reinforce structures that constrain policy change.

CONCLUSION

In general, multilevel governance does not establish favourable conditions for policy innovation. The emergence of structures in complex, polycentric governance and the many constraints established in the intergovernmental and intragovernmental dimension of a multilevel system seem to render significant and intended policy change rather difficult. That we have to understand multilevel governance as a dynamic political structure does not contradict this conclusion. Nonetheless, theories and empirical research on multilevel governance also do not rule out that policy innovation is possible (e.g., Daniell et al. 2014). But we have to presume that it materializes only under specific conditions.

Given the state of research, we cannot draw general conclusions as to whether the increasing complexity of governance within or beyond the nation state increases or decreases the chances for innovative policies. The diversity of patterns of multilevel governance speaks for a differentiated analysis, which will at best lead us to theoretical models covering specific constellations. In consequence, a general theory of multilevel governance consists of partial explanations linked by a conceptual framework. The multifaceted nature of multilevel governance requires us to consider different causal mechanisms which either drive or impede change. The next chapter reviews theories explaining changes of policies, political structures and institutions in order to identify relevant mechanisms. Beyond that, conditions which facilitate or impede significant policy change need to be taken into account, as will be outlined in subsequent chapters. A comprehensive explanation of policy innovation in multilevel governance can only consist of 'modular constructs, combining and linking several theoretical "modules" to account for complex and potentially unique empirically observed phenomena or events' (Scharpf 1997: 30). Such a methodological approach proves to be particularly suitable when we are looking at exceptional events.

3. Mechanisms, conditions and outcomes: theories of policy change

This chapter does not focus on multilevel governance. It widens the perspective on mechanisms of policy change, that is, political processes leading to decisions of executives, parliaments and civil servants which alter the status quo in a policy field. For a long time, political scientists have been interested in these kinds of decisions because elected representatives regularly promise to improve policies but struggle to really change existing ones, not least under conditions of institutional and societal complexity. Certainly, whenever responsible actors holding political office make a decision, they normally act, and actions cause change. We cannot rule out that politics results in non-decisions or inaction (Howlett and Cashore 2014: 17), but if a matter is on the agenda of a government or another political organization, this is not an attractive alternative for responsible executives, who are accountable to parliaments or citizens and supervised by the media. However, even if these actors are willing to decide on issues, they do not always change the status quo as intended.[1] In democracies, they have to take into account a plurality of competing interests, and many organized interest groups have capacities and means at their disposal to influence the decision of a government. In addition, institutional and partisan veto players can thwart or slow down policy change.

Whenever political scientists have studied or theorized policy change, they have in mind decisions which redirect the course of a policy and significantly modify the status quo.[2] This is an issue which particularly deserves attention in democracies. On the one hand, meaningful free elections always can lead to a change in government, and this implies that voters expect a corresponding change of policies. On the other hand, changing a policy to a significant extent is difficult in democratic systems where power is divided and governments are subject to the rule of law and face pressure from organized interest groups. Accordingly, most theories addressing policy change in complex political systems tell us that gradual change is the rule and significant or radical change is the exception. Path-dependence of institutions, rigidity of power structures and patterns of interactions such as policy networks or public–private policy communities emerging in a stable institutional framework, or powerful veto players have been identified as the main causes. As Charles Lindblom argued,

incrementalism should be taken as an appropriate strategy of policymaking in the face of complex agendas (Lindblom 1959).

Even if a government is able to change a policy, this does not necessarily lead to a solution of the addressed problems. Deficits of implementation can undermine the effectiveness of a new policy. Lack of administrative capacities, inappropriate procedures or powerful opponents using their influence on the implementation process to obstruct a policy can water down the execution of a new law or programme compared to the original intentions. In addition, a policy may turn out as inappropriate to 'steer' societal actors, groups or subsystems of a society as envisaged. Sociological theories mainly consider social, technical or environmental conditions as relevant factors enabling or inhibiting problem solving by public policies, although they also might reflect that these conditions affect conflicts, power relations or interactions in the political process of governance (Mayntz 2016). As we are interested in multilevel governance, we can leave aside the discussion on whether, how or to what extent these societal conditions impact on policy change or policy innovation. We will touch upon these questions in the context of theories explaining change as a sequence of stability and critical events and when discussing conditions. However, the focus of this chapter will be on the process of policymaking and on mechanisms driving and shaping this process.

Over the last few decades, theories explaining policy change became more differentiated and more precise in their description of mechanisms and conditions (Capano et al. 2019). On the one hand, scholars have taken into account different aspects of policymaking and have analysed the interplay of institutions, interactions and ideas. On the other hand, studies on institutions and politics have increasingly addressed or emphasized dynamics rather than stability or rigidity. Research has revealed that political decisions may initiate self-reinforcing processes in policy fields leading to sequences of change. Moreover, it has drawn attention to the fact that policymakers can shape the conditions constraining their power to make policies and can create new options for significant change, which may also result from 'policy dynamics'. Furthermore, the 'ideational turn' in policy science has drawn attention to the relevance of knowledge, to communicative processes and policy learning (Dunlop and Radaelli 2020). All these processes might even amount to a transformative development, which is triggered by significant change of a policy regime, affects values, institutions, power relations and interrelated substantial aspects of a policy, and over time advances towards a new path of evolution or a transition towards a new regime (Meadowcroft 2009). The following sections draw on these different theories, outline mechanisms of policy change and discuss selected conditions affecting the operation of these mechanisms.

MECHANISMS OF POLICY CHANGE

In social science, mechanisms explain the causal relationship between an initial condition and an effect or outcome. Without going into the details of the debate on mechanisms, whether they are real or just theoretical constructs and whether we can observe them or not (for a summary, see: Broschek and Paquet 2018), I use the 'core meaning' that John Gerring has identified in a review of the literature. Accordingly, a mechanism is 'the pathway or process by which an effect is produced' (Gerring 2008: 178). As social processes, mechanisms are activated by individual or collective actors and evolve according to a particular 'logic' of interaction. Effects can be observed in the behaviour of individuals, in the activities of collective actors (organizations, associations), in changes of structures (power relations, allocation of resources) or in the operation of systems (institutions, regimes, social systems). Interested in policy change and innovation, we can qualify effects as outcomes in relation to the status quo, as intended or not intended, as effective or failed regarding the task to be fulfilled, and as lasting or short-lived (see Chapter 1). Policies can evolve in linear processes but can also reveal inherent dynamics through feed-back effects. For this reason, an outcome is not determined by a single cause. It is causal processes which matter. Moreover, the effects of a mechanism vary depending on the conditions. They will be considered in the next section.

Theories of policymaking and institutional change delineate different mechanisms, although they are not always spelled out as such. Moreover, mechanisms and conditions are often not clearly distinguished. The critical review of the literature demonstrates that this confusion can lead to unfounded conclusions. In order to understand the dynamics of policymaking and the impact of different conditions, it seems to be suitable to differentiate between mechanisms maintaining continuity, which implies incremental or gradual change, and mechanisms resulting in substantial change. Mechanisms are set in motion by actors and the interactions of actors, which are subject to particular constraints, pursue strategies and communicate with others. These three categories of interaction can be used to map mechanisms. Rather than using them as an alternative explanation, we should consider them as causal processes which usually co-evolve and mutually reinforce their particular effects.

Policymaking as Constrained Interaction

The first set of mechanisms implies that actors are subject to institutions or rules, pressure from organized interests and power structures inherent in policy regimes. In general, these constraints prevent actors from significantly changing a policy. From a normative point of view, constraining the power

of policymakers responsible for providing public goods or solving collective action problems is ambivalent. On the one hand, there are good reasons why policymaking is guided by rules and why institutions divide and balance power to make and implement decisions. There are also good reasons which speak for the participation of private actors having a stake in a policy and providing expertise. On the other hand, constraining action by rules or stakeholder participation can prevent policymakers from effectively fulfilling their tasks or mandates and from solving problems, not least if rising conflicts or public debates call for significant revision of an existing policy. By establishing rules and norms, institutions enable coordinated actions of policymakers, but an increasing discrepancy between constraints and the need for change can create a critical situation, which facilitates or prompts disruptive developments.

This ambivalence of constraints is reflected in the widely discussed dilemma between effectiveness and legitimacy in multilevel governance (Scharpf 2000) or between differentiation and interdependence in complex organizations (Lawrence und Lorsch 1967). It finds expression in processes oscillating between periods of continuity or incremental change and periods of radical change. This sequential evolution has surfaced as an influential concept in theories on institutional change and policy change. Accordingly, constrained action maintains continuity, that is, it safeguards stability or adjustment through gradual evolution, as long as all actors representing crucial interests profit from compliance with rules or as long as balanced power structures prevent change. If this is no longer the case, disruptive change can occur.

Historical approaches in particular draw attention to the fact that political decisions materialize in the creation of institutions, and institutions shape the further evolution of politics according to their own logics. By solving collective action dilemmas, they provide essential functions for policymaking. In sociological terms, they constitute a framework of recognized principles and norms guiding actors towards common goals, reducing uncertainty and restraining conflicts. In economic terms, they constitute investments which generate increasing returns and reduce transaction costs, whereas changes cause uncertainties and high costs of transformation (Pierson 2004; Thelen 1999). In policy science, scholars use the concept of 'regime' to indicate that over time policies condense in a configuration of programmes, budgets, interest constellations, patterns of interactions and power structures (May and Jochim 2013). Such arrangements have been identified in economic policy (Hall and Soskice 2001), environmental policy (Jahn 1998) and, not least, in social policy. In his seminal book on worlds of welfare capitalism, Gøsta Esping-Andersen argued that policies coping with the social conflicts of industrialized societies and capitalist market economies not only materialized in rights and benefits for people in need, but also in institutions and power structures among collective actors. Thus they became 'powerful societal mecha-

nisms which decisively shape the future' (Esping-Andersen 1990: 221). The 'trajectory' of social policy is defined by the particular welfare-state regimes, 'each organized around its own discrete logic of organization, stratification, and social integration' (ibid.: 3). Peter J. May and Ashley E. Jochim pointed out that 'key components of durability are the path-dependence of institutional structures and funding that are put in place, and the interest support that works to hold overseers accountable and resist efforts to weaken policy implementation' (May and Jochim 2013: 433). In research on agenda setting, the balance of power, emergent policy communities and a predominating 'policy image' – that is the way in which participants in a policy process perceive problems – have been highlighted as modules of social mechanisms preventing change (Baumgartner and Jones 1993).

Neither institutions nor policy regimes are durable per se, but they establish mechanisms fostering stability which are summarized as path-dependent evolution or positive (self-reinforcing) feedback processes maintaining an equilibrium of power relations. Consequently, significant change is explained as the interruption of these continuities. Scholars interested in historical political development or historical institutionalism introduced the concept of a 'critical juncture'. In policy science, a similar concept was characterized as a 'punctuated equilibrium', which implies that change results from an intermittent dissolution of an existing balance of power stabilizing the agenda of a government and the policies ensuing from this agenda (Baumgartner and Jones 1993). The punctuation of stability occurs under particular circumstances, when a 'window of opportunity' to deviate from an established policy opens (Kingdon 2003), or when a sudden, rare and potentially harmful 'focusing event' calls for revising or expanding the political agenda and mobilizes interest groups against existing policy communities (Birkland 1998). Therefore, time and sequences constitute fundamental dimensions to be considered in studies on institutional and policy change. Yet, in order to go beyond a pure analytical description of change, theories have to uncover different mechanisms of policymaking in order to understand the processes leading to these crucial situations and to explain their consequences.

Obviously, changing institutions or the constitution of a political system is more difficult than changing the substance of a policy. This finds expression in the popularity of the concept of path-dependence in historical institutionalism. It comprises stabilizing mechanisms like norm-oriented interaction, socialization and routinization, or increasing returns of collective actions guided by rules. The notion of a critical juncture refers to an exceptional situation, an opportunity to deviate from an existing path of development and to significantly change institutions. Yet like a juncture of a rail track, this situation does not determine the future development. Apart from different options to proceed,

it offers a choice between deviating from the old path or keeping the direction, between changing institutions and sustaining them. Accordingly,

> critical junctures are characterized by a situation in which the structural (that is, economic, cultural, ideological, organizational) influences on political action are significantly relaxed for a relatively short period, with two main consequences: the range of plausible choices open to powerful political actors expands substantially and the consequences of their decisions for the outcome of interest are potentially much more momentous. (Capoccia and Kelemen 2007: 343)

Although scholars have tried to understand what happens in these crucial situations, most of them highlight the 'contingency' with the consequence that neither the choice of actors nor the future development can be predicted or explained (Mahoney 2000: 513). In contrast to 'path-dependence', the concept of critical junctures does not point out particular social mechanisms.

Theories of policy change presuming a sequence between continuity and change are confronted with the same problem. When Frank Baumgartner and Brian Jones, for instance, characterized dynamics of agenda setting in a policy process as a punctuated equilibrium (Baumgartner et al. 2017; Baumgartner et al. 2009), they explained longer periods of stability by the complexity of issues and the bounded rationality of policymakers. Complexity is reduced by institutions and framing of issues. Moreover, governments assign special policies to different departments, which cope with interdependence among the divided policies by incremental adjustments of their decisions. These adjustments between specialized policy communities reveal bounded rationality. They allow the maintenance of patterns of interactions and cognitive-normative frames of policymakers, both of which emerge in normal interactions of actors belonging to a particular community. From time to time, however, this gradual development within a stable microstructure of interaction and power does not suffice to meet the demands for change, provoked by 'social processes' and expressed in politics by parliaments, cabinets or presidents which are responsible for the overarching goals of public policy. While continuous adjustments between policy sectors and policy communities can maintain an equilibrium of power, tensions with high politics and the institutions of government lead to short periods of disruptive change. When it comes to explicating the mechanism linking tensions and significant policy change, Baumgartner and Jones, like proponents of historical institutionalism, introduce actors without explaining how they initiate, control or accomplish significant policy change.

A similar temporal pattern of the policy process has been conceptualized with the 'multiple streams' approach. It can be traced back to concepts which John Kingdon formulated in his policy studies (Kingdon 2003) and which have been further elaborated and developed into a theory explaining far-reaching or rapid policy change (Zohlnhöfer and Rüb 2016). According to this theory, the

situation triggering significant change does not result from tensions between the incrementalism of constrained policymaking and pressure from social processes, but from the conjunction of three processes: first, the rise of a problem; second, the dynamics of politics driven by election campaigns, pressure from interest groups or party competition; and third, the evolution of policy ideas and policy alternatives. The opportunity for change arises from the linkage of these 'streams', when the focus of attention is directed to particular problems, when powerful political actors support a solution of the problem, and when policies are at hand that are technically feasible, financially viable and acceptable for those affected. The coupling of these processes should open a 'window of opportunity' which can be used by 'policy entrepreneurs' in order to advance a new policy. These actors not only advocate a new policy but also serve as 'power brokers and manipulators of problematic preferences and unclear technologies' (Zahariadis 2007: 71). Thus, agency matters, because individual or collective actors have to respond to the coincident concurrence of the streams. When the policy window opens, political actors have to shape the agenda of politics and select decisions from the set of alternatives. If they miss the opportunity, the status quo remains in place or incremental policymaking continues. Acting under time constraints, guided by an institutional context and involved in policy networks, policymakers have to rely on policy entrepreneurs who should mobilize coalitions supporting change.

'Path-dependence', 'punctuated equilibrium' and the 'multiple streams' are instructive models to comprehend processes of institutional and policy change, processes which usually are closely linked. Scholars have extensively discussed what these approaches can explain if they are meant and applied as theories. On a closer look, they provide frameworks which include different theoretical concepts and assumptions on causes and effects. They take into account structures, processes and actors, consider micro- and macro-phenomena, and identify conditions and social mechanisms. On the one hand, they provide a menu of arguments to explain change; on the other hand, they plausibly describe the interplay of continuity and change over time. This is the reason why these approaches became popular. When scholars apply them to particular cases, they regularly emphasize specific mechanisms and conditions (Herweg 2013). However, they rarely distinguish clearly causal mechanisms, conditions or endogenous or exogenous factors driving the change of even independent and dependent variables. As Giliberto Capano rightly concludes: 'The most sophisticated models of policy change and development, due to their underlying combinative causal logic, tend to design causal mechanisms which mix (but too often simply sum up) both types of explanatory variable' (Capano 2009: 17).

If we take these 'theories' as 'mechanismic' approaches to explain change, they first and foremost refer to the sequential nature of the process which

matters, a sequence which is created by tensions between the stabilizing effects of an institutional configuration or policy regime and events triggering change (see Benz and Sonnicksen 2018). In general, these approaches confirm that significant change is the exception rather than the rule, at least under the condition of complex institutions, interdependent issues and the number of veto players and stakeholders involved in policy processes. Yet the coincidence of critical junctures, streams falling together or tensions arising from political pressure to deviate from incremental policy adjustments alone cannot sufficiently explain why and how significant change occurs. The focus on actors and choice underestimates power structures established in formal institutions and implementation processes. If we are interested in policy innovation, crucial situations can only be taken as the context of favourable or unfavourable developments.

To explain policy change, we need to know what happens after institutional constraints had relaxed, after an agenda of a government had changed and after responsible actors had decided to revise policy. For a long time, this aspect was addressed in implementation research, in studies determined to investigate why ambitious programmes often lead to limited effects. Yet while implementation deficits mostly confirm the incremental evolution of policies by pointing to adjustments of policies to local contexts, another theory has drawn attention to a particular source of dynamics. It emphasizes feedback mechanisms between output and input in sequences of policymaking, or − to put it in another way − it takes effects of a previous policy regimes as a cause of ensuing policymaking.

The notion of 'policy feedback' surfaced in studies on policymaking in the US federal system, when Paul Pierson introduced and defined the concept (Pierson 1993). Starting from the theoretical claim that 'policies produce politics' (ibid.: 597) − a remarkable modification of Theodore Lowi's statement that 'policy determines politics' (Lowi 1972: 299) − Pierson discerned various mechanisms implied in this claim, such as incentives resulting from previous policies, the mobilization of interest groups that are attracted by public benefits and services, increased governance capacities allowing office holders to expand their activities, extended power for executives to initiate or implement additional programmes, and changed perceptions and expectations of mass publics in response to economic or welfare policies. Accordingly, existing policies induce governments, interest groups and citizens to learn, and to revise their preferences, perceptions and ideas. In the course of time, these mechanisms modifying politics influence future policymaking. Scholars who have advanced this theory differentiate between positive and negative feedback, with the former stabilizing a policy and the latter causing self-reinforcing dynamics (Béland and Schlager 2019; Daugbjerg and Kay 2020; Jacobs and Weaver 2015; Jordan and Matt 2015).

Understanding feedback effects has turned out as particularly relevant to explain reform policies. They evolve in a 'dynamic process in which forces seeking to protect a reform may be opposed by forces seeking to undo it' (Patashnik 2008: 25). By considering these processes, researchers shed new light on the character of policy change. Reforms of existing institutions and regulations, a reallocation of funds or modification of tax laws or service delivery 'reconfigure the political dynamic' (ibid.: 155). Regardless of whether they are successful or they fail, reforms produce change on their own. New institutional settings, redistributive effects, revised power constellations among interest groups or social learning of actors affected by a changed policy can contribute to a post-reform development. As Andrew Karch and Shanna Rose showed in their study on policy reform in US federalism, the interaction of governments in a multilevel constellation constitutes a particular source of policy feedback, both positive and negative (Karch and Rose 2019). Studies on constitutional change have revealed that processes aiming at amendments of the law have effect on the real constitution regardless of whether amendment laws have been passed or not (Benz 2016a: 177–98). The concept of the 'Europeanization' of policies in EU member states (Radaelli 2003) highlights a similar dynamic effect of reform, since the adaptation of national governments, administrations, parties or interest groups to the rising authority of European institutions changes the conditions for multilevel policymaking.

These feedback mechanisms result from the interplay of continuity and change and the sequential or recursive development of policymaking. They emerge because actors face multiple constraints such as norms and rules, power structures or pressure arising from contingent situations. However, policymaking is also constrained, because actors are mutually dependent on each other and therefore compelled to react to others' decisions or actions. In contrast to institutions or policy regimes which support continuity as long as their self-reinforcing dynamics is not interrupted, mechanisms inherent in patterns of interactions can be conducive to either continuity or change. Other things being equal, cooperation leads participants to stick to the status quo but encourages permanent adjustment, unlike competition which drives actors to change and stimulates innovation.

Certainly, governments, administrations and private actors can cooperate to implement a new policy. Executives from different departments can form a coalition to build pressure for policy change against those who defend an existing policy or policy regime. However, in order to change the status quo, these actors have to come to an agreement on a new direction of a policy. In principle, cooperation aims at pooling resources and power in order to better achieve common goals, but more often than not, individual actors have their own preferences on a policy. Hence mixed motives drive their behaviour in negotiations. On the one hand, they prefer an agreement on a policy to uncoor-

dinated action, on the other hand, they pursue their own interests or the interests of the group, organization or government they represent. Revising an existing agreement either requires that actors change their preferences or settle their disputes in package deals, whereas compromises often end with the lowest common denominator defined by their overlapping preferences (the 'win set', that is 'the set of outcomes that can defeat the status quo' [Tsebelis 2002: 21] if every participant can exercise veto power). In policymaking, actors usually are not free to change their preferences because they are bound to mandates or are committed to a party, government or interest group. Package deals are difficult as they usually require the extension of an agenda and involve increased transaction costs. Hence compromises on gradual change seem to be the most likely outcome. Actors can avoid this tendency to incrementalist policymaking by threatening to exit or by really ending their cooperation. However, institutional rules requiring cooperation or effective mutual dependence may rule out this option. The Joint-Decision Trap outlined in the previous chapter occurs under these particular conditions (Scharpf 1988).

In economics, competition appears as a mode of coordination which promotes innovation. Joseph A. Schumpeter once characterized the capitalist market economy as a process of 'creative destruction' through competition, a process, 'which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of existing firms but at their foundations and their very lives' (Schumpeter 1943 [2010]: 74). Thus, he emphasized the pressure for innovation inherent in the market mechanism, and he observed the same mechanisms in party politics which had evolved in liberal democracies. Contemporary proponents of institutional economics would argue in a more differentiated way and point out the persistence of firms as organizations and the rigidities caused by routines and rules. Nevertheless, they would agree that actors or organizations facing competition are compelled to adjust their behaviour and revise their activities to improve their position in relation to others.

In policymaking, governments compete, such as, for instance, regional governments in a decentralized federal state or national governments in international relations. Within governments, party competition affects decisions of parliaments and of the executive, even if it does not, as Schumpeter suggested, determine politics. In general, these mechanisms of politics generate their own dynamics. They encourage change and punish those who stick to the status quo. However, policy change does not occur under all conditions in a process of competition. Competing actors interact in a 'non-cooperative game'. Without having the opportunity to exchange information in negotiations and with limited knowledge about the consequences of their decisions or actions, governments or parties coordinate their policies via mutual adjustment, because they are motivated or compelled to react to the policies of rivals,

with whom they compete for limited resources or for benefits such as mobile taxpayers, recognition in public or votes in elections. The direction of change can be influenced by actors who take the first step of altering a policy in the iterative game of action and reaction. Yet those who take the lead do not always profit from the first-mover advantage. When governments of states or local governments try to attract firms by lowering taxes, investing in utilities, extending public services or promising subsidies, they might be forced to increase public debts and lose elections when citizens doubt that this policy will pay off.

In democracies, both cooperation and competition are complex processes including multiple actors, patterns of interactions and mechanisms. More often than not, competitors cooperate in alliances or coalitions, although they remain and behave as rivals. This is a typical situation in coalition governments or in a federal system where governments supported by opposing parties have to negotiate agreements. In general, partners in cooperation and rivals in competition are agents and accountable to 'principals'. While they profit from information asymmetry, they nonetheless cannot thoroughly enjoy autonomy as they act for others. Policymakers have to take account of the will of parliaments or majority parties, electorates and organized interest groups. Likewise, public or private organizations are affected by the responses of members, supporters or clients to their decisions or performance. Therefore, additional social mechanisms influence how cooperation and competition shape policymaking and outcomes. In his study on the dysfunctional operation of firms, organizations and states, Albert O. Hirschman discerned 'exit' and 'voice' as typical reactions of customers, party members or citizens to deficient performance or processes of decline (Hirschman 1970). In politics, exit is an option available for individual actors, voice might be raised by individuals (for instance by submitting an objection against an administrative decision, by sending a petition to parliament or by making an argument in negotiations), but in view of public policies, it generally becomes effective as collective action.

In competition, exit, whether it is threatened or carried out, intensifies pressure for change. Private firms often announce they will leave a municipality, city, region or country if the incumbent government refuses to alter a policy running against economic interests. Yet, in general, it is not exit which influences the policies of a government. Rather it is the prospect of attracting investors and taxpayers by providing appropriate goods and services. For a similar reason, governments in well-off countries try to prevent the immigration of peoples from countries where responsible office-holders fail to provide peace and basic public goods or violate the fundamental human rights of citizens, because they expect increasing fiscal burdens. Closing borders is an option for avoiding the pressure of competition, although it has significant negative side effects for a government. Likewise, exit bears high costs for citizens and firms.

Hence it is more likely that citizens or firms raise their voice and that public opinion or protest motivates a government to change policies when facing competition, while exit remains a last resort.

Cooperation evolves in negotiations and therefore allows participants to articulate their interests. Bargaining and arguing (Elster 2000) constitute the main modes of voice in this context. As a rule, they contribute to achieve modest policy change, with the bargaining behaviour of participants allowing only incremental deviation from the status quo, whereas arguing increases the probability of innovative decisions. Exit is an option in cooperation, which actors can bring into play with different intentions. However, it can lead to unintended consequences. By threatening to leave negotiations or cooperation, actors can improve their bargaining position if this is a credible strategic move. This way, they can advance policy change, if this conforms to their preferences. On the other hand, if the other participants do not respond with sufficient concessions, actors may be forced to actually exit. In any case, exit threats lead to confrontation. In consequence, coordinated action is blocked, and if coordination is essential for making a policy, exit prevents even marginal change. As Hirschman pointed out, the loyalty of members of a group, organization or citizens to a political community (a nation) increases the costs and reduces the probability of exit (Hirschman 1970: 77) and hence the credibility of a threat of this move. Accordingly, it motivates actors to raise their voice. Yet loyalty can also preserve groups or coalitions which support the persistence of policies or policy regimes. In general, it favours continuity.

Most theories of policymaking outlined so far emphasize constrained inter-action as a cause of continuity, and they locate these constraints in institutions and interactions. Of course, other factors constraining action can prevent policy change, such as a lack of resources, limited powers or rules entrenched in constitutional law. In contrast to these given conditions, institutions and interactions do not determine policymaking but establish mechanisms that prevent actors from uncoordinated and arbitrary behaviour and that actors can influence to a certain extent. While continuity prevails under usual conditions, change is possible over time, when specific circumstances allow actors to initi-ate change and when they exploit critical events to change routinized processes of interaction. Like sequences of institutional development and recursive processes in complex policy regimes, the effects of loyalty, exit and voice vary over time. When loyalty weakens, actors opt for voice and exit in a sequence of reactions (Dowding et al. 2000: 473–5). Therefore, actors can find ways to surmount or circumvent different constraints inherent in institutions and interactions. They do this by strategic action and this changes interaction in policymaking.

Policymaking as Strategic Interaction

Strategic action is targeted at specific objectives, which are approached in a series of planned steps, often in an indirect way, by adjusting to constraints or circumventing them, and by seizing favourable occasions. Its relevance in theories of policymaking can be explicated by briefly discussing veto players and the theory based on this concept. George Tsebelis elaborated this theory in order to compare how different systems of governments work, or, more precisely, how the various institutional configurations enable or constrain policy change (Tsebelis 2002). Unsatisfied with the usual typologies of comparative governments, he reduced institutional variation to the quantity and types of corporate actors whose assent is necessary to make decisions on policies. Chambers in bicameral legislatures, majority parties or parties cooperating in a coalition, and executives in joint-decision making are cases in point. Although Tsebelis does not spell out this aspect, his institutionalist explanation implies a mechanism of interaction, a process in which veto players express their preferences, search for issues they can agree upon, and finally come to their vote.

Veto player theory states that the more actors with veto power are involved in policymaking and the more these actors' preferences diverge, the lower the probability of a policy change or the narrower the scope of change (Tsebelis 2002: 136–60). Considering a large number of policies, this claim may be true, as Tsebelis and others have confirmed in comparative research, usually by operationalizing change with the number of significant laws passed in a certain period of time. However, political actors responsible for a policy and accountable to citizens or affected groups have an interest in avoiding deadlock and therefore tend to refrain from using their veto power. More often than not, they search for compromises in negotiations, and, in consequence, veto power turns into bargaining power. Whenever a policy is on the agenda of governments, incremental change is more likely than no decision. For this reason, the number of laws passed in a certain time span is not a good indicator for measuring the policy effects of veto players. Rather it is the quality and the deviation of a policy from the status quo which can be explained by this theory. Beyond institutions, strategic interactions have to be taken into account in an explanation of change.

It should not be denied that the strategic interaction of veto players rarely brings about significant policy change. In fact, it makes incremental adjustment possible in an institutional setting which is prone to cause deadlocks. Theories of historical institutionalism and punctuated equilibrium suggest another conclusion. They introduce strategic actors to understand what happens in exceptional situations, which facilitate or enforce significant change but also increase uncertainties and complexity. In these analytical frameworks, 'policy

entrepreneurs' appear as facilitators and drivers of change. These particular actors actively participate in policymaking and profit from a high degree of autonomy, authority and knowledge, although they cannot necessarily rely on formal power or resources. They should contribute to overcome the constraints of institutions or structures and the lock-in effects of polarized negotiations, find ways to solve collective action dilemmas, and moderate the power of veto players or the effects of self-reinforcing feedback in policy dynamics. With their 'knowledge, power, tenacity and luck', they are 'able to exploit windows of opportunity and heightened levels of attention to policy problems to promote their "pet solutions" to policymakers' (Cairney 2012: 271). Interested in providing a public good (John 2012: 185) rather than pursuing egotist aims, and endowed with strategic skills, they are expected to prevent policymakers from ending in decision traps. In addition, they should help to avoid frictions, turn tensions into productive energies and find innovative solutions. In literature influenced by management studies, policy entrepreneurs are defined as 'energetic actors who work with others in and around policymaking venues to promote policy innovations' (Mintrom 2019: 1) or actors who 'catalyse dynamic change' (ibid.: 11).

Besides defining the functions of policy entrepreneurs and indicating their different roles in policymaking or their relevance in different stages of policy processes, scholars have also tried to categorize characteristic abilities and activities (Mintrom 2019: 8–20). The concept has found particular attention in literature on transition management (Loorbach 2007). There is no need to go into the details of this literature. It will suffice to note that theories explaining significant policy change apparently need to include actors and strategic interaction. Entrepreneurial actors drive change, irrespective of their formal position, by adopting leadership, either due to their power or as independent experts. They invent solutions for problems or conflicts, find ways to circumvent constraints and encourage other actors to take the risk of innovative decisions.

The strategies of veto players and policy entrepreneurs differ as the latter focus on outcomes and the former on decision making. Entrepreneurial behaviour is particularly important to prevent policymakers from falling into the traps of social dilemmas, like, for instance, the Joint-Decision Trap (Scharpf 1988) or the 'negotiator's dilemma' (Lax and Sebenius 1986). In this case, it is not expertise which is relevant but the preparedness to take the risk. Political leaders who express that they are willing to negotiate or who make concessions in negotiations risk failing with this strategy or losing in the bargaining process. Party leaders advocating policies promising future benefits at significant short-term costs risk losing elections. Heads of private organizations or speakers of civil society associations risk being forced out of their position when they conclude agreements with a government or an administration and

accept compromises. However, exactly these strategies can work to overcome a looming gridlock in policymaking and to achieve significant changes to the benefit of those affected by policies. If these strategies prove successful, the outcome can be ascribed to the merit of a policy entrepreneur.

In management literature, strategic actors pushing for institutional change are called 'change agents'. James Mahoney and Kathleen Thelen used this term in their actor-centred version of institutionalism to categorize different types of actors and to explain different processes and outcomes of institutional change. Some of these agents seek to preserve institutions, but unintentionally contribute to change because they undermine rules, either by using them in an opportunistic way or by acting contrary to the spirit or purpose of institutions. Others intentionally infringe rules or mobilize for reform (Mahoney and Thelen 2010: 22–31). Obviously, most of these strategies are linked to particular policies, which demonstrates that policy change cannot be separated from institutional change and institutions often change in the course of policymaking. They can constitute a particular strategy to renovate an established policy regime.

In contrast to strategic use of veto power and strategies provoking endogenous and gradual change, entrepreneurial strategies are rare in policymaking. More often we find coordinated actions to defend an existing policy or to initiate change. Networking appears as a typical defensive strategy supporting continuity. Often considered as a way to increase individual profit in private business, it mainly serves to form advocacy coalitions for particular policies in government and public administration. Networks link actors by relations of trust and exchange of information, and these relations can remain dormant for some time before they are activated to set in motion coordinated actions. The continuity of these structures and the underlying consensus holding them together explain their conservative effect. Usually, policy networks defend an existing policy and provide for their continuity. However, strategic actors also mobilize networks and form coalitions in order to initiate policy change.

Paul Sabatier's 'Advocacy Coalition Framework' highlights the relevance of these actors and networks (Jenkins-Smith and Sabatier 1993; Sabatier 1987; Sabatier and Weible 2007). In his view, a policy field is characterized by different policy networks and a policy is stabilized by a particular power constellation among 'advocacy coalitions'. Decisions are based on proposals of different coalitions. They coordinate their conflicting strategies and find compromises with the help of 'policy brokers'. Shared beliefs or perceptions provide the glue holding together a coalition, while they cause divides between different coalitions. Under ordinary conditions, the balance of power in the policy system contributes to maintain continuity. Change is triggered by external events affecting the allocation of economic resources, social conflicts, public opinion or decisions in other policy subsystems.

However, triggering change does not mean that it actually occurs. Sabatier and his co-authors certainly considered institutional rules and resources constraining action, but their focus is on belief systems guiding the behaviour of policymakers. To explain the change and continuity of a policy, Sabatier suggested distinguishing different dimensions of the 'belief systems' emerging in a coalition. In processes of socialization, individual members adopt fundamental world views. Related to the particular policies they are responsible for, they share a stable core of basic normative and ontological convictions with their fellows in a policy system. In addition, members of an advocacy coalition accumulate, continuously revise and advance knowledge on secondary aspects such as policy instruments or specific information. Accordingly, significant change of a policy requires that the dominating coalition revises its core beliefs, at least those related to a policy. This can be expected if the coalition risks losing power or if external events or crises compel participants to modify their basic assumptions. But in any case, changing core beliefs requires communicative interaction within an advocacy coalition.

Policymaking as Communicative Interaction

Sabatier and other scholars, who have applied and advanced his approach, developed a complex analytical framework which includes several mechanisms and conditions. What seems to be essential in this theory is the cognitive and normative dimensions of action. Yet in policymaking, it is not individual action which matters, but interaction. Accordingly, beliefs, that is 'views or opinions held by political actors that are relatively limited in scope or relate to relatively circumscribed areas of politics' (Berman 2013: 223–4), have to be turned into collective belief systems of a policy community or advocacy coalition. We can trace back a change in policies to processes in which actors revise their normative principles and assumptions about the causes and consequences of problems. But this only makes sense if we regard advocacy coalitions as intensely communicating groups of actors. External events might induce individual actors to learn, but policy learning results from dialogues and it affects the whole community of cooperating policymakers.

Other scholars have argued in a similar vein, although by using different terms (Berman 2013). The concept of core beliefs relates to the notion of cultures which integrates individuals into a community through processes of socialization and cooperation over a longer period. Policy-specific beliefs of individuals can turn into ideologies of groups. Unlike cultures, they are 'designed to achieve particular goals' (Berman 2013: 224). In the broad literature contributing to the ideational turn in policy studies and institutional theory, the same concept is designated as ideas, probably because ideologies used to be a term referring to fundamental political contests in a society or

party politics. 'Ideational processes' are said to socially construct problems and issues. They influence the policy agenda and shape assumptions about how problems have to be solved or issues dealt with. Furthermore, ideas appear as 'discursive weapons' in political processes (Béland 2009: 702–5).

Ideas can be considered as a characteristic feature of institutions (Smith 1995: 137–9). Whereas organizations are defined by their purpose and rules, which are determined to coordinate actions, institutions integrate actors by a common 'spirit', which implies that they recognize specific principles and rules as appropriate, as 'at least under some conditions, functional and consistent with people's values and moral commitments' (March and Olsen 2013: 486). Rational actors abide by rules in order to avoid costs, whereas socialized actors accept them as consistent with their normative evaluation. Both the 'logic of consequence' and the 'logic of appropriateness' constitute mechanisms of path-dependence of institutions. The first can break off this continuity in a 'critical juncture' opening leeway for strategic action, the second can trigger change by communicative action. This can result in either a gradual or a significant, if not disruptive change.

In the ideational version of institutionalism elaborated by Vivien A. Schmidt (Schmidt 2010), actors are engaged in permanent discourses on the meaning and justification of institutions. In 'coordinative discourses', they construct ideas in the sense of shared cognitive frames, narratives and interpretations of rules. In 'communicative discourses', they reflect and revise their ideas. Both discursive processes overlap and combine to a continuous adjustment of the scope of action within the limits of acknowledged interpretations of rules. These mechanisms produce the same path-dependent evolution which is explained in different versions of historical institutionalism. Except for extraordinary events, discourses can neither transform power structures nor abolish or replace formal rules. Thus, they contribute to institutional continuity. However, in critical junctures, they might demarcate a new path of development.

> Discursive institutionalist scholars who engage with the HI (Historical Institutionalism, AB) tradition, then, like HI scholars, also speak the language of institutional rules and regularities, critical moments and incremental change. It is just that they infuse these 'structures' with 'agency', by focusing on the ideas of real actors that help explain changes or continuities in institutions, at critical moments or incrementally over time. (Schmidt 2010: 13)

Robert Lieberman outlined another ideational approach to correct the bias of institutional theories which emphasize stability (Liebermann 2002). To this end, he takes ideas and institutions as distinct aspects of the social reality. Looking at political systems as a differentiated configuration of various 'layers' of institutions, he follows Paul Pierson when he argues that these layers

result from a historical logic of change with new institutions being added to old ones. In addition, he concludes that ideas justifying institutions survive with old institutions while new ones emerge. Therefore, ideas and institutions do not form a coherent order, rather they constitute 'multiple concurrent orders' (Lieberman 2002: 702). At times, the ideological patterns and rules may fit together and complement each other, but at other times 'they will collide and chafe, creating an ungainly configuration of political circumstances that has no clear resolution, presenting actors with contradictory and multidirectional imperatives and opportunities' (ibid.). Hence there is a permanent tension between ideas and institutions (see also Orren and Skowronek 2004).

Radical change can occur if ideas evolve in a direction which contradicts the rules and norms enshrined in institutions and thus generate 'frictions'. They can also reveal a clash of diverging ideologies pertaining to an institution or conflicts with different layers of 'intercurrent' rules and authorities (Orren and Skowronek 2004: 118). Accordingly, a path-dependent evolution of a stable institutional order conceals tensions which can accumulate into rule conflicts or ideological antagonisms. In contrast to historical institutionalism, which is based on economic or sociological concepts of constrained actions, Lieberman presents a political science view highlighting internal contests for power and predominating narratives and justifications. By differentiating between institutional adaptation and communicative action as distinct and often contrasting mechanisms, he explains significant change as an endogenous process within institutions. This explanation takes communicative interaction not as a discourse in the sense of negotiation and arguing, but as a confrontation of, and contest for, ideas.

In policy studies, Peter Hall elaborated a similar line of theorizing when he introduced the concept of 'policy paradigms' (Hall 1993). In contrast to beliefs or ideas, paradigms signify the correspondence of continuity and change. Hall regards policy change as the result of a process of social learning in a policy field. Usually, learning evolves in an incremental process and affects the application and adjustment of policy instruments. Processes of these types of 'first and second order learning' involve policy specialists. 'Third order learning' leads to a change in policy paradigm and pertains to the basic assumptions and goals of a policy. It signifies a break with an existing policy and therefore gives rise to political disputes. Triggered by controversies among experts, the choice between an old and new paradigm turns into a matter of politics. Beyond scientific evidence or expertise, power becomes decisive for the outcome of a policy change. Yet it is not strategic action which drives change. Political actors have to decide on conflicting opinions of experts, and the 'authority' of these experts is a crucial factor influencing decisions (Hall 1993: 280). Therefore, providing reasons supporting one avenue of a policy compared to another is essential, and policy change does not result from a pure power game but rather

from communicative interaction. This process diverges from the continuous discourses in that it is marked by contests and confrontation. It responds to failed policies and unintended or unexpected outcomes, and it challenges the arguments, if not the reputation, of policy experts. As Peter Hall put it,

> the movement from one paradigm to another that characterizes third order change is likely to involve the accumulation of anomalies, experimentation with new forms of policy, and policy failures that precipitate a shift in the locus of authority over policy and initiate a wider contest between competing paradigms. This contest … will end only when the supporters of a new paradigm secure positions of authority over policymaking and are able to rearrange the organization and standard operating procedures of the policy process so as to institutionalize the new paradigm. (Hall 1993: 280–81)

The distinction of different 'orders' of policy learning suggested by Peter Hall points out different mechanisms. In terms introduced by Vivien A. Schmidt, first and second order learning result from routinized communicative or coordinative discourses, that is in processes in which members of a policy community reflect on a policy and adjust instruments and implementation or revise a policy in order to better achieve their goals. Yet at some point, these discursive processes of policy learning by gaining experience and accumulating knowledge are interrupted, when communicative action turns into a debate on paradigms. One of the reasons for this disruption has to do with the fact that policy communities can become 'victims of group think' (Janis 1972), because their communication shields them from external influences and prefers information, interpretations and reasons which support the shared knowledge and opinions of the group. In these processes, knowledge evolves into a policy paradigm, which, as a social construct in general, implies self-reinforcing tendencies. However, it is exactly due to its growing rigidity that it also creates the cause for its contestation.

For Peter Hall, this contestation is triggered in the interface between state and society, in party politics and interest intermediation characterized by ideological competition. However, there is another important source of policy learning which may challenge existing policy paradigms. Lessons can be drawn from abroad (Rose 1993), by observing policies in other states, regions or local governments. Although a transfer of policies from one context to another regularly does not work due to different conditions, it can challenge conservative policy communities and instigate a process which, by way of introducing a new paradigm, can dissolve a policy regime. The monetarist approach in economic policy, which Hall used to illustrate significant change in the UK after the election of the Thatcher government, and the rise of New Public Management in public administration at about the same time can

Table 3.1 *Mechanisms of policy change*

Process	Mechanisms maintaining gradual change	Mechanisms producing substantial change
Constrained interaction	• path-dependence • positive policy feedback • cooperation (voice and loyalty)	• sequential process (punctuated equilibrium) • negative policy feedback • competition (voice and exit option)
Strategic interaction	• politics of veto players	• politics of political entrepreneurs
Communicative interaction	• continuous renegotiation of ideas • routinized discourses • group think in epistemic communities	• frictions between ideas and institutions • paradigm shift • policy learning

demonstrate these particular kinds of policy learning. In both cases, the new paradigm started its career in the US and left its mark in many Western states.

Table 3.1 summarizes the mechanisms which can be drawn from the broad literature on institutional and policy change. Given the multitude of publications during the last three decades and the growing differentiation of analytical approaches, conceptual frameworks and explanations, it is hardly possible to clearly discern particular theories. There is much more overlap than divergence and broad agreement between scholars using different labels to brand their explanation of change. In empirical research, theories have been further elaborated and refined (see, e.g., Broschek et al. 2017; see also Beyer 2010; Pierce et al. 2020; Skogstad 2011; Weible and Sabatier 2017). Notably, we find significant correspondence between theories explaining institutional change and those explaining policy change. This is not surprising if we acknowledge that policy change results from interaction of different kinds of actors, from an interplay of constrained, strategic and communicative interactions, and that it affects institutions. Therefore, rather than selecting one of the proposed theories and denying others, it seems more promising to combine them into a conceptual framework for empirical research, a framework which allows us to derive hypotheses for particular cases or comparative case studies.

CONDITIONS OF POLICY CHANGE

As mentioned above, mechanisms operate under varying conditions which can be decisive for the outcome in a particular case. Including conditions does not mean that we can only explain individual cases without being able to generalize findings of empirical research. Not only can we discover mechanisms as causal processes operating in different cases, but we can also identify types of conditions presuming that they have similar effects in multiple cases.

Literature on policy change points to a set of such conditions. They can arise from external developments or can be created by the strategic action of policy-makers, and their impact depends on whether influential actors in a policy field perceived them as relevant or not. Here, I will focus on external developments which elude strategic action and can hardly be ignored by political actors.

Social, economic, ecological and technological developments constitute a first set of conditions affecting policymaking. There is no doubt that governments in democracies have to respond to social conflicts, that their capacity to govern depends on resources collected in public and private economy, that pollution of soil, water and air became a primary challenge for governments and that dealing with these challenges depends to a significant extent on available technologies. Turbulence resulting from international politics can be added in this list of conditions. Changes in these external conditions certainly can make policy change indispensable. However, for a number of reasons is it impossible to draw generalizable conclusions. First, none of the external developments constitutes objective determinants for politics, as nowadays even Marxists would admit. Whether the consequences resulting from them are defined as issues of government is a matter of politics on its own. Beyond the power to make decisions, the 'mobilization of bias' in the agenda-setting process is the second face of power to be considered in politics (Bachrach and Baratz 1962: 949), the power to define issues as relevant for politics or not. Second, governments often do not react to these challenges immediately and often with significant delay. Social policy in the face of demographic change and energy policy in view of climate change are cases in point, not to mention issues like the social and racial discrimination of particular groups in society. Third, governments do not react as coherent collective actors. More often than not, problems are on the agenda of departments or expert bodies before they appear as an issue in cabinets or in legislation, and the different timing of responses within governments is a reason for the punctuated evolution of agenda setting, as described by Frank Baumgartner and his colleagues (Baumgartner et al. 2017). Of course, the effects of societal conditions on policymaking should not be neglected. However, as regards policy change, we cannot generalize on these effects.

Social developments often become manifest in a crisis, and crises are often regarded as situations enforcing significant change. There is no doubt that they can shock a society and destabilize a political system. Whether they prompt a government to change its policy or increase the pressure for change, as is often assumed, is another question. In the US, the New Deal of President Roosevelt in the 1930s or President Johnson's 'War on Poverty' in the 1960s might exemplify a significant policy change in a social crisis, and in many Western states social policy made big strides after the two world wars. But in these exceptional situations, much depends on bold political leadership

and fiscal and administrative capacities. In a crisis, governments usually concentrate power at the central level, in the executive or special staffs, and the public regularly calls for leadership. In democracies, however, crisis management puts political leaders under pressure of public opinion (Carlisle et al. 2017), and a consensus in society and among parties remains fragile (Boin et al. 2016), as has become evident in the COVID-19 pandemic. Faced with significant uncertainty about the causes and development of a crisis and the appropriate consequences of policies, governments often tend to avoid high risks and rely on established practices. This was the case after the fall of the Berlin Wall in 1989 had accelerated the collapse of the communist regime in the German Democratic Republic and the process of German unification. Thereafter, federal and *Länder* governments transferred the portfolio of established policies to East Germany and avoided all reform experiments. More often than not, crisis management proceeds in an incremental way, and soon after the immediate shock has calmed down a consensus on the need for policy change or institutional reform fades away in disputes on the assessment of, and the responses to, the crisis (Boin et al. 2016: 126–44; Peters 2016).

In a crisis of a political system or an institution, a critical juncture can open. The collapse of a regime, the dissolution of a federation into independent states or the unification of states to a federation are cases in point, as are scandals revealing the ineffectiveness of particular institutions or control deficits. Even in stable states, crises can create a 'constitutional moment' (Ackerman 1993). Under these conditions, existing rules and practices either no longer work as designed or they come under attack in cabinets, parliaments or public discussions. In consequence, 'protean power' can emerge 'as the effect of improvisational and innovative responses to uncertainty that arise from actors' creativity and agility in response to uncertainty' (Seybert and Katzenstein 2018: 4). However, where this power comes from and how it can be organized is all but clear. Therefore, as outlined above, critical junctures do not necessarily prompt a significant change in policy. As Vivien A. Schmidt rightly emphasized, such a situation sets off a political process with the outcome depending on the discourses on different alternatives (Schmidt 2010: 13). While institutional constraints are weakened and power relations might change accordingly, strategic and communicative interaction prevails. Yet strategies might fail and discourses can turn into bargaining or confrontation. Actors might miss the opportunities of a critical juncture, or they avoid the risks which come with significant policy change and modify the institutional form but not the substance of a policy.

A change of government after an election seems regularly to lead to a policy change. In any case it is the function of elections to enable a revision of policies. When a majority of voters removes an incumbent government, they do not aim to replace the office holders in the first place, rather they use this pos-

sibility provided by democracy to achieve a new policy. Unlike as suggested by a minimalist understanding of democracy (Przeworski 2019: 5; Schumpeter 1943 [2010]: 241–5), competitive elections are not merely a contest for power but a process of holding elected representatives accountable for their decisions and of determining the future direction of policymaking. Therefore, from a normative point of view, one should expect that elections concern the substance of policies, and a change in government should bring about a substantial change in policy.

However, this is not always the case. Even if we assume that parties offer distinct programmes and that the party in power is able to implement its programme and related policies, those holding governmental offices or a majority of votes in the legislature do not simply implement the 'will of the people' or of the majority of voters, irrespective of whether they have any clue what this will means. Interested in getting re-elected, they intend to pursue the public interest instead of an aggregation of individual interests expressed in an election. In representative democracy, members of parliaments or directly elected executives are not committed to an imperative mandate of their voters, rather they are − ex post − accountable for the policies they have made and for the outcomes they are responsible for. Therefore, they are and should be relatively autonomous in the way they govern. When they deviate from a presumed will of the voters, they do not necessarily face negative consequences in elections. By engaging in debates with opposition parties, interest groups and the media, majority parties and members of the executive can explain and justify their proposed or realized decisions and actions in policy-oriented public discourses (Majone 1989; Scharpf 2000: 118–20).

For this reason, elections do not necessarily stimulate policy change. A newly elected government operates under the same constraints as the previous one. While in majoritarian democracies it is more likely that a change in government brings about a policy change, in pluralist democracies with proportional elections parties have to form coalition governments and find compromises on policies. In federal democracies, bicameral legislatures may endow opposition parties with veto power, and governments have to negotiate agreements in intergovernmental relations. Policies might reveal the 'kinder and gentler qualities' of these 'consensus democracies' (Lijphart 1999: 300). However, continuity may become a burden for democracy, which requires the possibility for effective policy change, whenever elections had signalled that a majority of citizens prefers a new course.

Various institutional and situational conditions can trigger policy change, but this does not mean that at the end of a process which is driven by various mechanisms policies have really changed. Moreover, triggering events regularly have no impact on the direction in which a policy develops. They can facilitate intended change, but these events can also set off unintended

Table 3.2   Outcomes of policy change

	Gradual	Substantial	Transformative
Intended (successful)	adaptation	*amendment*	*transformation*
		policy innovation	
Failed	rigidity	deadlock	regression
Unintended	drift	evolution	crisis

processes and outcomes (for an example: Benz and Sonnicksen 2018). In any case, they rarely favour policy innovation. In complex multilevel governance, we often find many conditions having an impact on policymaking. For these reasons, external factors need to be considered, but explanations have to be based primarily on mechanisms.

FROM GRADUAL CHANGE TO POLICY INNOVATION?

Policy change finds expression in outcomes which diverge from the status quo in some way or another. In the previous sections, I have distinguished incremental and significant change, which may materialize intendedly or unintendedly. Significant change can affect the substance of a policy but can also relate to structures and institutions established in a policy regime. In the latter case, it has transformative implications. Moreover, intended change can succeed, but it can also fail. Table 3.2 locates policy innovation in this analytical framework categorizing different outcomes of policymaking. As indicated in the table, substantial and transformative change can result as unintended consequences of governance, particularly when responsible actors lose control. Failure of incremental or gradual change can prevent adaptation with the consequence that either a policy drifts in a direction that is not envisaged by responsible office holders or results in increasing rigidity within a policy regime. Failed innovation is revealed in a deadlock of an amendment and turns into a regressive development when opponents of a transformation exploit the opportunity of such an occurrence to return to a previous path-dependent development. When the promises which a government has made with an innovative policy agenda turn out as exaggerated, disappointed actors can try to advance their aims outside established institutions and procedures, although they risk unintended consequences by proceeding in this way. Thus, unintended and uncontrolled substantial and transformative dynamics and failure of an innovative policy can lead to a serious crisis of a government, if not a political system. Therefore, understanding the mechanisms of policy innovations and the causes for failure are highly important.

What are the mechanisms which are conducive for policy innovation and which conditions appear favourable for this kind of change? As a review of the growing literature on public sector innovation reveals, varieties of strategic and communicative interaction appear to be main drivers of innovative policymaking. Proponents of New Public Management have emphasized competition for best practices, monitoring in decentralized structures and feedback from peer reviews as essential procedures to make public administrative not only efficient, but also innovative. Meanwhile, scholars have raised doubts about these assumptions. Instead, collaboration, networks and discourses are praised as patterns of governance stimulating new ideas and practices and promising to solve problems (Ansell and Torfing 2014a; Sørensen and Torfing 2015; Torfing and Triantafillou 2016b). We also find models of innovation processes, most of them being derived from theories of policy learning or diffusion of innovation (e.g., Daniell et al. 2014). Change agents, innovation brokers or policy entrepreneurs are considered as most relevant actors in innovation processes in this context.

Without going into further details of this literature and research field, it seems obvious that policy innovation results from strategic action which is determined by, and capable of, overcoming obstacles of institutional rules, self-reinforcing dynamics and lock-in effects resulting from interactions in exclusive networks or policy coalitions, routinized practices and prevalent policy paradigms. In short, strategic action in this context aims at revising incrementalist logics of policymaking. In addition, patterns of communicative interaction are essential to stimulate inventions of new policies, to change belief systems of policy communities and to enable a paradigm shift in public policies. Communication also serves to persuade actors to adopt innovation and to circulate relevant information in a policy regime.

Presumably, innovative policies are more likely to emerge in communication among experts and in so-called 'epistemic communities' (Haas 1992), provided that experts can work independently or at a certain distance from politics and administration. On the other hand, experts might not be heard in policymaking if they provide ideas which do not relate to a specific problem to be solved or a particular context. For this reason, expertise alone is not sufficient. Rather, it is the structuring of communication which both differentiates epistemic communities from communities of policy officials and links these communities with regular communicative processes in politics and administration. In a recursive process coupling these arenas of communication and negotiation, it is possible that contests in party politics, conflicts among different departments in administration or disputes among special interest groups challenge experts to find new solutions in a discursive process. When the outcomes of this discourse are fed into political processes, they can dissolve confrontations and modify bargaining processes by challenging the rigid

claims of actors. Unlike theories of agenda setting and policymaking suggest, which trace back significant change to coincident focusing events or windows of opportunities and the existence of policy entrepreneurs in these situations, the structuration of communicative interactions in a policy regime seems to be more relevant to bring about policy change and innovative solutions to problems at hand.

However, new paradigms or ideas do not suffice. They have to become effective under the constraints of institutions, politics and existing public policies. Therefore, strategic action and interaction are relevant as well. In view of the rigidity of institutions and path-dependent dynamics, scholars working on institutional change have drawn attention to particular strategies to circumvent constraints. In her research on governance in the EU, Adrienne Héritier has discovered 'interstitial institutional change' occurring between formal rule revisions (Héritier 2007: 45–51). In studies on constitutional policy, a similar process has been conceptualized as 'implicit change' (Voigt 1999) or the amendment of a constitution by non-constitutional means (Lazar 1997). This process evolves within existing institutions, it is driven by endogenous forces and usually leads to incremental adjustment of informal rules or interpretation of rules in 'communicative discourses' (Schmidt 2010: 3) among actors applying rules. However, as Héritier suggests, and as has been confirmed in research on constitutional change (Benz 2016a), a reinterpretation or adjustment of rules can also mean a step towards a more comprehensive renovation, as institutions constitute 'incomplete contracts'. Therefore, 'informal rules which emerge in the specification and renegotiation of an existing formal institutional rule in a second time may also affect the next bargaining round in the revision of the formal institutional rules and lead to a formalization of the "interstitial change" that has occurred' (Héritier 2007: 47). In general, Héritier expects 'that formalization will happen when all actors agree that the informal rule should be formalized because it is beneficial to all' (ibid.: 48). But even in cases of disagreement on the precise formulation of new rules, emergent new practices can exert significant pressure on veto players in the ensuing reform process, not least if advocates of innovation can draw attention to a divergence between ideas and realities of institutions.

This strategy works to change institutions and constitutions, depending on the density of formal rules and the latitude of actors to implement rules. In normal policymaking, comparable strategies come to limits, because implementing actors working in different local contexts are not able to coordinate their practices and interpretations. Nonetheless, discrepancies between intentions and the implementation of a policy can induce a revision initiated by opposition parties or regional or local governments. What has been discussed in the literature as policy feedback can turn into a strategy aiming at policy innovation. The institutional differentiation of central policymaking and

decentralized implementation and established linkages between both arenas constitute essential conditions for this strategy to become practicable.

Regarding strategic action, political leadership seems to be of particular relevance to advance policy innovation. However, even charismatic leaders of governments or parties who come to office with new ideas have to realize the constraints of institutions, power relations and policy legacies. In presidential systems like the US, political leadership may be able to induce significant change (Orren and Skowronek 2004; Skowronek 2008), but as President Obama's health care reform exemplifies, the fate of a policy innovation nonetheless depends on the support of an administration, the power of interest groups, the majority in a legislature and, last but not least, the implementation by administrative or regional or local authorities (Jacobs and Skocpol 2014). While political leaders have the power to define an innovative agenda of policymaking, the process of innovation requires actors who are able to strategically orchestrate the collaboration of different participants, appropriately link arenas and sequences, moderate conflicts without suppressing disputes, facilitate negotiations on policy proposals and prevent the watering down of innovative elements in bargaining processes. In view of the variety of challenges to be met, a steering committee of actors with different competences seems to be better suited than an outstanding political leader. Accordingly, Sørensen and Torfing recommend a combination of adaptive and pragmatic leadership of actors who adopt the roles of 'convenors', 'facilitators' and 'catalysts' (Sørensen and Torfing 2015: 156–61). The politics of policy entrepreneurs or progressive advocacy coalitions promoting a new policy also contribute to innovation as far as they mobilize support for change, initiate or design processes, and create a supportive environment in politics and public administration.

In their comprehensive volume on innovation in the public sector, Jacob Torfing and Peter Triantafillou suggest a transformation of public governance so that policy innovation and institutional reform become feasible (Torfing and Triantafillou 2016b). The authors make the case for collaboration within the public sector as well as between public agents and private stakeholders. Furthermore, they argue for institutional diversity to stimulate competition and experimentation and a trust-based management supported by political leadership. Their theoretical framework combines the core concepts of institutions, governance and innovation in order to define structures and processes that are both conditioning or constraining and transforming:

> Institutions are characterized by a relatively high degree of stability, and governance is predicated on the presence of a relatively stable set of rules, routines and procedures that facilitate interaction and give rise to particular modes of governance, while allowing for some degree of flexibility in the concrete acts of governing. By

contrast, innovation involves a deliberate effort to disrupt stable ideas and practices and create new ones in the hope that these will outperform the previous ones ... (P)ublic governance is conditioned by the institutionalization of rules, norms and procedures that guide and channel the process of governance, which in turn condition the attempts to innovate. Successful innovation will sometimes transform the structures and forms of governance, which will in turn transform the institutional underpinning of public governance. (Torfing and Triantafillou 2016a: 22–3)

The contributions to their edited volume discuss the different patterns of interaction, structures and strategies which Torfing and Triantafillou deem relevant in policy innovation. Most of the authors find ambivalent effects of these patterns such as leadership, collaboration in networks, public–private cooperation, monitoring and accountability relationships. This demonstrates that particular factors or mechanisms alone cannot guarantee policy innovation. Apparently, it is the combination of stability of institutions, dynamics of strategic interaction and discursive processes revising the substance of a policy which ultimately provide an appropriate setting for policy change. In order to avoid the scenario that constrained interaction prevents change and that strategic action makes change a matter of power politics, a dominance of these processes over communicative interaction needs to be avoided. This is possible if policymaking is organized in distinct arenas characterized by different actor constellations and different modes of interaction, and if the processes in these arenas are linked in an appropriate way (Benz 2016a).

If innovation can be generated by an appropriate 'meta-governance' of distinct processes, not only the substance but also the dynamics of policymaking itself changes, as has been highlighted in innovation studies focusing on firms and markets (see Fagerberg et al. 2005). It is less the 'creative destruction' (Schumpeter 1943 [2010]: 73) of a competitive process, but rather the fact 'that every new innovation consists of a new combination of existing ideas, capabilities, skills, resources, etc.' (Fagerberg 2005: 10) which matters. This dynamic process, which is fed by strategic and communicative interaction, can over a longer run affect a whole policy regime and end in a transformative change. In the public sector, a revival of conservative forces working against innovation and transformation is more likely than in private firms, as long as policy change is not supported by a change in power structure and institutions.

CONCLUSION

This review of theoretical approaches to explain policy change and innovation only covers a small part of the literature in a booming research field. Still, many of the contributions to this literature either suggest that the usual gradual evolution of institutions and incremental policy adjustment is interrupted under a particular concurrence of external events, endogenous development and the

strategic action of political leaders or policy entrepreneurs. However, in the different models of this sequential process, the shift from continuity to disruptive change appears under contingent, uncontrollable circumstances which are not foreseeable. Concepts such as focusing events, windows of opportunity, punctuated equilibrium or critical junctures all reveal this indeterminacy in the explanation. The inclusion of strategic actors does not fully close this gap. Patterns like networks, advocacy coalitions or discursive coalitions need to be included to understand why a policy changes in a particular direction and why innovation might occur.

Hence the linkage of different patterns of interactions in distinct arenas should be taken into consideration. In consequence, irrespective of whether creative actors, political leaders or inventive policy entrepreneurs as well as policy networks or experts and advisory bodies contribute to policy change, it is the complexity of institutions and governance that constitutes an essential condition for significant policy change and innovation. Complexity allows the combination of different mechanisms of policymaking contributing to the generation and implementation of new ideas, rules, procedures, policy instruments and practices. In view of the particular complexity of structures and processes, it stands to reason that multilevel governance is especially conducive to significant change. I will discuss this assumption in the next chapter.

NOTES

1. The status quo in a policy field can also change significantly without political decisions, not only because governments fail to address problems but also because they willingly avoid deciding on issues. For an example of the latter alternative see Hacker 2005: 49–68.
2. As this chapter outlines the causes and conditions of policy change and discusses relevant theories, there is no need to discuss different proposals and methodological problems to measure policy change (see Howlett and Cashore 2009).

4. Continuity and change in multilevel governance

In this chapter, theories of multilevel governance and theories of institutional and policy change will be linked in order to design a framework for analysing policy change and innovation in complex structures and processes. As outlined in Chapter 2, multilevel governance disperses authority among governments and among institutions within governments, it includes many actors participating in policymaking, it regularly incorporates more veto players than a unitary government, and it combines processes that operate in different contexts and according to different logics. For these reasons, policies are made under various constraints. However, the diversity of multilevel governance not only compels actors to cope with these constraints, but it also provides ample opportunities for strategic action. Depending on the scope of a policy, the complex multilevel structure consists of local, regional or national governments, with either democratic or non-democratic political systems, international organizations, and private associations or corporations. Actors interacting in multilevel governance depend on resources from these governments, organizations or associations and have to comply with their rules and policies. At the same time though, the position of these actors in boundary-spanning roles allows them to exploit the strategic options which are available in the 'two-level game' of intergovernmental (or international) and 'domestic' politics (Putnam 1988).

Domestic and intergovernmental politics proceed in 'arenas', that is fields of interactions demarcated by institutions and policies (Timmermans 2001). Arenas develop 'a characteristic political structure, political process, elites and group relations' (Lowi 1964: 689–90). Yet they are neither, as Theodore Lowi argued, determined by policies nor are they identical with, or part of, institutions. They usually overlap with institutions. It is primarily the interactions among actors involved in policymaking and the established procedures and norms that constitute and delineate the boundaries of arenas, rather than formal rules.[1] Although arenas, like institutions, include and exclude actors, their boundaries are flexible. For instance, we can consider a system of government or a parliament as an institution, whereas an arena would result from the interplay of different actors who are involved in elaborating a policy proposal within a government, and the interaction of executives, members of parliament and interest organizations in the process of legislation.

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Multilevel political systems are characterized by a particular diversity of multiple arenas, as some of them exist within governments (intragovernmental arenas) and others in the interface between governments (intergovernmental arenas). Usually, institutions are stronger within national and sub-national governments as they legitimize powers by defining their scope, execution and control, whereas multilevel relations tend to be less institutionalized and reach beyond boundaries of institutions. Linkages between both types of arenas usually are not established in particular institutional rules. The interactions through which these linkages materialize include 'boundary-spanning' actors who are influenced by intragovernmental institutions and intergovernmental patterns of interaction such as institutions of parliamentary or non-parliamentary democracy on the one hand, and intergovernmental councils, committees or informal meetings of executives on the other hand. The effects of these institutions – which boundary-spanning actors, that is usually executives from governments or international organizations, need to take into account – can be more or less intense, but they are in any case ambivalent. Although actors can exploit this ambivalence arising at the interface between different policy arenas, they might also face serious dilemmas due to conflicting rules and diverging expectations resulting from particular modes of governance and expectations of political constituencies within jurisdictions.

To get a sense of the evolution of policies and the chances of policy change or innovation in multilevel governance, we need to consider the interplay of these various arenas. By establishing diverse patterns of interaction and coordination, they necessarily do not multiply constraints, but rather provide opportunities for strategic and communicative interaction. This is particularly the case if processes of policymaking shift from one arena to another, from those in which institutions and established modes of politics limit discretion to those where communicative processes promise to bring about new ideas or to dissolve stalemate in policymaking. For good reasons the room for manoeuvre of executives is constrained to their sphere of competence, by scrutiny through parliaments and by the jurisprudence of courts in those arenas where political power is located and formally executed, that is, in the territorial jurisdiction of a democratic government. The need to manage interdependence between levels of government by coordinated policies creates additional constraints in the arena of intergovernmental relations. A clash of different constraints of politics in intergovernmental and intragovernmental arenas of multilevel governance cannot be ruled out. However, this situation can be avoided by strategic interactions coping with these constraints, and actors can rearrange processes in such a way that they find creative solutions in arenas where unconstrained communication is possible. The options of shifting policies between arenas can be more or less restricted by institutional conditions of policymaking which exist within the different arenas. Certainly, actors cannot

avoid formal procedures in legislation or ignore the constitutional division of powers. However, the policy cycle proceeds through different arenas comprising varying actor constellations. The sequence of the different phases of this cycle is not fixed, and it is even more variable in multilevel governance than within a government. Executives, in particular, interact in variable patterns of governance, which prove to be comparatively flexible in cases of conflicts.

The following two sections explain this variation in rigidity or flexibility regarding the intragovernmental and intergovernmental dimension of a multilevel political system.[2] By looking at processes linking these arenas, the final section includes the temporal dimension of multilevel governance.

INTERGOVERNMENTAL DIVISION OF POWER AND MODES OF GOVERNANCE

Following Liesbet Hooghe and Gary Marks, we can describe the intergovernmental dimension of multilevel governance by two characteristic features. First, we find territorially organized (type I) and function-specific (type II) varieties (Hooghe and Marks 2003). The first has mostly emerged in processes of regionalization and federalization in nation states, the second is the result of specific patterns for cooperation among jurisdictions within states and beyond the state. With the exception of the UN system and federations of states like the EU, which are developing in other world regions too (Lenz and Marks 2016), international politics has given rise to function-specific forms of multilevel governance. Compared to them, territorially organized forms of multilevel governance reveal more complex structures, since they link governments and include actors who act for their government. In functionally organized types, executives, private interest organizations or non-governmental organizations predominate processes, with all of them being specialized in policy fields. Obviously, the distinction between territorial and function-specific structures of multilevel governance is relevant when we discuss linkages between inter- and intragovernmental structures. In general, function-specific forms are embedded in structures of a state, although there are instances of 'private government' without the state. As mentioned in the introduction, I will focus here on territorially organized multilevel governance in the world of democratic governments.

The second feature of intergovernmental structures concerns the distribution of powers between levels. Accordingly, we can distinguish more centralized and more decentralized polities and describe the evolution and dynamics of multilevel governance either as the decentralization of unitary states (in particular the rise of regional governments; Hooghe et al. 2010; Hooghe et al. 2016b) or as centralization, that is the delegation of authority to the EU or international organizations (Hooghe et al. 2016a). However, rather than

centralization or decentralization, it is the distinction between shared rule and self-rule which determines mechanisms of governance and this therefore is rightly emphasized in the studies by Hooghe and Marks. Self-rule means that powers are separated, and decentralized competences for policies imply the right of the respective governments or constituent units to autonomously decide and act. Shared rule requires joint-decision making among governments, or at least the effective participation of constituent units of a multilevel political system in policymaking at the central level. In this case, policies are negotiated in intergovernmental relations and governments decide in agreement.

As power which can be executed autonomously is only legitimized in a democratic government, self-rule seems to presume the institution of a state, whereas European legislation and international law require the assent and compliance of member states. Indeed, multilevel governance beyond the state regularly implies shared rule which is institutionalized in intergovernmental councils representing member state governments. Scholars have discussed whether European or international executive bodies like the European Commission and their agencies or secretariats of international organizations can act independently from member states. Although they lack legal power to enforce decisions, they have achieved 'expert authority' (Busch und Liese 2017; Sendling 2017) or 'moral authority' (Barnett and Finnemore 2004: 25–7). However, they use this power mostly in multilevel relations with national administrations.

Shared rule establishes coordination of policies across levels of government, either by constitutional rules or by acknowledged practice. These rules or arrangements compel governments to find an agreement. Even if constitutional law provides for self-rule, mutual dependence of policies or tasks can make joint-decision making in multilevel governance inevitable (Scharpf 1997: 143–5). Therefore, governments can either lack the power to decide on their own, or they face a situation in which going alone in policymaking would launch a vicious circle of thrust and riposte in intergovernmental relations, with the consequence that, as in a game of 'chicken', the outcome can be disastrous for all. In a less strict or less formalized mode, shared rule means that governments from one level are invited to participate in policymaking at another level. In this case, cooperation is voluntary and does not rule out the exit of individual governments of constituent units. The exit option changes the conditions for negotiations, because the number of veto players is reduced to those actors representing governments that need to be included in shared rule in order to solve problems or fulfil joint tasks. Usually, necessary participants include the central government. Beyond that, veto power can be executed in voluntary cooperation by governments acting for jurisdictions where many people live, where important economic resources or activities are located, or where the problems to be coped with are concentrated.

As already mentioned in Chapter 2, stalemate is most likely in joint-decision making, particularly if governments stand for competing parties and if bargaining in intergovernmental relations is hampered by a confrontation of self-interested actors, so that policymaking turns into a zero-sum game (Scharpf 1997: 87). In consequence, actors tend to evade conflicts and in view of distributive effects of any policy change, they achieve gradual change at best. Voluntary cooperation reduces the hurdles to achieve an agreement. Nevertheless, negotiations among the essential participants might become rather complicated. Shared rule precludes unilateral decisions of a central authority, and mutual adjustments of decentralized policies do not lead to an effectively coordinated joint policy, when cooperation has failed.

Self-rule is based on a separation of power. However, it neither prevents overlaps of competences or interdependence of policies made at the different levels, nor does it make intergovernmental relations and coordination super-fluous. Compared to shared rule, different modes of coordination materialize under this institutional condition. If authority is more centralized, top-down modes take shape as central regulation, which is addressed to lower-level gov-ernments. Unilateral action by a superior authority can enforce decentralized policies. However, even in centralized power structures, multilevel governance regularly involves governments from 'lower' levels, either according to consti-tutional principles (which typically apply in federations) or by way of interest intermediation. Given a functional division of powers, a central authority acts in a principal–agent relationship, for instance when programmes or laws need to be implemented by transposing them into decentralized policies. In prin-ciple, a central authority can decide autonomously, but it lacks the necessary local information and capacities to put a policy into effect. Therefore, policies are coordinated, either by cooperation in the shadow of hierarchy or by mutual adjustment of programming and implementation.

Bottom-up coordination occurs under the condition of self-rule, when powers are more decentralized and the central authority is limited to super-vise, support or motivate, and can intervene in policymaking of lower-level governments in the last resort. It can use unilateral power to initiate and organize yardstick competition, with standards, informal consultation or fiscal incentives serving to influence the direction of expected policy change. To avoid intervention from the centre, governments of constituent units or member states can engage in horizontal joint-decision making. Otherwise, they cooperate in an intergovernmental council or less formal relations or deal with external effects by trans-border cooperation. Finally, interjurisdictional competition and policy transfer remain as options for coordination.

In separation of power systems, central power is not constrained by veto power from lower levels like in joint-decision making. Therefore, significant policy change seems to be possible if powers to self-rule are either central-

ized or decentralized. However, neither assumption is fully convincing if we take seriously the multilevel character of governance. For central regulation this follows from the fact that rules need to be applied to specific cases and particular contexts, and the varieties of cases and context conditions cannot be covered by general rules. Furthermore, regulation in a policy field usually affects other policies, and though a bill is coordinated among the different departments of the responsible government or regulating authorities, policy interdependence reappears in implementation. For both reasons, feedback effects occur between levels of government (Pierson 1993). In consequence, central regulation evolves in iterated processes of adjustments. Implementing authorities adjust general rules to particular cases; central regulation responds to what governments or legislatures perceive as implementation deficits and adjust general rules accordingly. This interplay of regulation and implementation constitutes a source of policy change on its own, but this mechanism usually tends to stabilize a policy, because gradual mutual adjustment aims at reducing its failure.

In theories of multilevel governance, central regulation appears as 'hard governance'. Yet faced by information asymmetries or limited regulative competences, central authorities often apply 'soft modes' of governance. They set goals or standards for decentralized policymaking and monitor their implementation. 'Naming and shaming', that is, public recommendations of best practices and critical evaluation of underperforming policies, should drive the involved governments to direct their policymaking to common goals and make efforts to meet standards. Financial incentives can complement this instrument of coordination. When incentives are provided on the condition of positive evaluation, soft governance gets hardened towards 'governance in the shadow of hierarchy' (Bakvis 2013; Börzel 2010; Héritier and Rhodes 2011). In view of the diversity of contexts of decentralized policymaking, evaluation by peers and communication of the results appear often as a more effective way of coordination in a multilevel system than central regulation. Consultation acknowledges the autonomy of subcentral governments and the diversity of contexts in different jurisdictions. Most importantly, it can induce processes of lesson-drawing and the diffusion of innovative policies (Karch 2010).

If powers are decentralized, governments can manage interdependent tasks by horizontal intergovernmental negotiations or cooperation or by mutual adjustment. Governments of neighbouring jurisdictions within or between states negotiate agreements and often set up special bodies for cooperation, in particular to utilize and preserve common resources or to provide public goods (Blatter and Clement 2000; Zimmerman 2011). Intergovernmental councils represent another form of cooperation, have become a common practice in federal states (Behnke and Müller 2017; Schnabel 2020), and constitute a characteristic feature of transnational federations. In federal states,

these assemblies usually operate on an informal basis and serve to exchange information and to consult on common issues. The councils established in the EU and assemblies of international organizations are institutionalized bodies which commit participating governments to engage in joint-decision making. As under the condition of shared powers, these intergovernmental bodies not only include all governments of constituent units, they also decide, at least in practice, unanimously and prevent individual governments from opting out. Therefore, whenever governments coordinate policies by negotiations and cooperation, self-rule can turn into shared rule, and the other way around. Accordingly, the conditions for policy change and innovation can improve or deteriorate.

In principle, decentralized self-rule permits responsible governments to act unilaterally with the consequence that interdependence of policies can give rise to interjurisdictional competition. In the economic theory of fiscal federalism, as in economics in general (see Chapter 3), competition has been praised as a mechanism to increase the effectiveness of governments and to reduce the intervention of politics into the market economy (Weingast 1995). However, this theory presumes the mobility of actors, goods and capital, which could react to regulative and distributive policies by migrating to those locations where they find efficient and market-preserving governments. Generally, this assumption seems plausible for capital. The mobility of actors and goods is higher at the local level than between regions or nation states, where only specific groups or goods are mobile to a significant extent. Hence competition between regions and states might affect particular policies but cannot be considered as a general mechanism of coordination. From another point of view, competition tends to lead to a race to the bottom of regulation which privileges mobile taxpayers. Again, this assumption has been contested in research and the results of empirical studies remain inconclusive so far (Woods 2021: 240–43). Therefore, the effects of this market-like competition among governments striving to gain or maintain benefits for their jurisdiction ('institutional competition'; Höijer 2008) depend on various conditions. There is no doubt that this kind of competition is likely to induce policy change, but this change would be enforced by external causes and not by independent governance in the sense of self-rule. It is unintended and therefore not an indication of policy innovation.

Therefore, the mode of 'yardstick competition', mentioned in Chapter 2, has attracted growing attention in studies on multilevel governance. Pierre Salmon (2019) emphasized its relevance to reduce information asymmetries between executives and parliaments or citizens. In other publications, contests for best practices appear as mechanisms generating innovative policies and supporting the diffusion of these innovations to other jurisdictions. In the 'second generation theory on fiscal federalism' (Oates 2005), constituent units

of federal systems are considered as laboratories of experimental governance, and competition for the best performance in a policy field instead of competition of governments for mobile taxpayers or tax resources should encourage innovation. However, in contrast to competition in a market, performance contests have to be organized for specific policies, performance indicators have to be defined, comparative data have to be collected and evaluations need to be published. The causal mechanism promising innovation has to be created by appropriate procedures and rules, and more often than not it is a central authority that provides for the institutional framework. Those governments or administrations addressed by yardstick competition have no intrinsic incentives to participate in such processes, they rather tend to avoid comparative evaluations of their policies and eschew performance rankings (Benz 2012).

Empirical research on the horizontal dimension of multilevel governance has focused on diffusion of policies or policy transfer rather than on processes of competition (for these concepts, see: Porto de Olivera 2021). In this context, different conditions and mechanisms have been identified. Territorial or cultural proximity or distance seems to constitute one relevant condition, others include the similarity or diversity of contexts and the institutional or political settings affecting the adoption and success of a new policy. Mechanisms identified in research range from direct communication, emulation and recommendations from independent organizations or central authorities to competition for best practices (Berry and Berry 1999; Holzinger et al. 2007; Jordan and Huitema 2014; Karch 2010; Simmons and Elkins 2004; Volden and Shipan 2008). While self-rule and decentralization by themselves do not necessarily favour innovation, they seem to encourage the diffusion of innovation. However, it is an open question as to whether mechanisms stimulating diffusion and policy transfer increase or undermine the potential for innovation within self-ruled jurisdictions. They can also lead to the solidification of a particular pattern.

The categorization of modes of coordination in multilevel political systems, summarized in Table 4.1, reveals a considerable variety. Accordingly, multilevel governance provides different opportunities for or constraints of policy change, as different mechanisms of coordination lead to different policy dynamics:

- There are good reasons to assume that joint-decision making considerably constrains policy change and does not favour innovation. There are, on the other hand, also reasons to argue that unilateral action reduces the hurdles for change. Both assumptions can be based on the veto player theory (Tsebelis 2002) and the theory of joint-decision making (Scharpf 1988).
- Among the different ways to apply unilateral power, central regulation in the form of 'soft governance' promises an avenue for policy innova-

Table 4.1   *Modes of coordination in multilevel governance*

	Shared rule	Self-rule	
		More centralized	More decentralized
Unilateral action	(Should be ruled out)	Central regulation, based on consultation with lower-level governments	Yardstick competition
Negotiations without exit option	Joint-decision making	Joint-decision making	Horizontal joint-decision making
Negotiations with exit option	Intergovernmental cooperation	Cooperation in the shadow of hierarchy (governance by standards and monitoring)	Trans-border cooperation, intergovernmental councils
Mutual adjustment	(Not relevant)	Central regulation, decentralized implementation	Interjurisdictional competition, policy transfer

tion, but it cannot overcome the problem of information asymmetries. Governance by yardstick competition generates information and appears a more promising mechanism to advance policy innovation. However, it depends on the willingness of governments to participate in comparative evaluations of their policies.

- Intergovernmental cooperation appears as conducive to policy innovation, if negotiations turn from the bargaining mode into the arguing mode (Risse 2000) or if cooperation evolves in the shadow of hierarchy. In both cases, the existence of policy communities, that is, groups of actors who share values, norms and perceptions of problems and aim at problem solving (Scharpf 1997: 130–32), makes agreements feasible. At the same time, these modes of coordination favour such policy communities to emerge. The communicative processes in these communities can advance policy learning and incrementally revise an existing policy paradigm (Coleman et al. 1996). However, it is not unlikely that policy communities tend to succumb to group think and that their perceptions and decisions become more and more self-referential and conservative.

- Likewise, processes of mutual adjustments between regulation and implementation can lead to positive feedbacks driving change, but they can also end in gradual adjustment or, in the longer term, iterate between progress and regression. Interjurisdictional competition seems to enable innovation, but this is all but certain. In regulation and tax policies, both a race to the top and a race to the bottom is possible.

If we take the two-dimensional nature of multilevel governance into account (see Chapter 2), it is not sufficient to analyse modes of intergovernmental coordination. They are linked to processes evolving within jurisdictions and governments. In democratic states, governmental actors in multilevel governance are accountable to parliaments, need the support of legislatures, or have to be aware of citizens initiatives and referenda. Other actors might represent the specific interests of members of an association and address governments either at one level or different levels at the same time. The processes of agenda setting, formulation of a policy or definition of interests within governments, parties or interest groups interfere with policy coordination across the boundaries of jurisdictions. Thus policy change in multilevel governance is driven by an interplay of intra- and intergovernmental mechanisms. Of particular relevance is the division of power in democratic governments.

DIVISION OF POWER AND POLITICS IN DEMOCRATIC GOVERNMENTS

Democratic governments reveal significant variations, not the least if research covers the multidimensional division or fusion of powers among institutions and diverse processes of interaction and coordination among those institutions and actors involved in politics within the institutions (Bochsler and Kriesi 2013). To simplify the analysis with regard to the core actors in multilevel governance, we can focus on the legislative–executive dimension. In a study on policy change, there are good reasons to leave courts out of consideration. Although they can solve conflicts between political actors and exercise veto power, and they might influence the agenda of politics, courts do not drive policy innovation and their jurisprudence does not constitute an arena that is decisive for policy change. In contrast, it is necessary to include administration in research on policymaking, as is expressed in a growing literature on multilevel administration (Trondal and Bauer 2017). In addition, associations of private interests and experts play a particularly significant role in multilevel governance. Yet there is an important difference between these 'non-governmental' actors and executives and legislatures affecting their impact on multilevel governance. The latter interact in processes of representative democracy within the context of their territorial jurisdiction, whereas interest organizations and experts are not necessarily bound to a territory and maintain only loose ties with governments.

Presumably, the relevance of governmental and non-governmental actors varies in different types of multilevel governance. At this point, the distinction between territorially based and functionally focused types of multilevel governance (or, in terms of Hooghe and Marks, multilevel governance type I and type II) warrants revisiting. The first type exists in decentralized or regional-

ized and federal states as well as in transnational federations. The crucial actors in these cases are executives speaking and acting for governments. Even when these actors are engaged in policy processes spanning boundaries of levels and jurisdictions, they are committed to 'domestic' institutions, rules, procedures and decisions made in this context. In democratic states, their power to act must be legitimized in the election accountability circuit where representatives face party competition and public debates. In contrast, function-specific multilevel governance includes actors who are responsible for a certain policy and who derive their legitimacy either from their authority as experts or from elections by a particular community or association, but not from governments or representative democracy within a state or its sub-units.[3] A typical example exists with multilevel governance arrangements in the science sector of Western countries, where universities and research institutes have established a kind of self-government to distribute research funds, to implement standards of good scientific practices and to implement these standards in peer-review evaluation on a national and transnational scale. Another example are various forms of private regulation in global markets determined to set standards for the production of goods and services, for financial trade or the internet communication (Cutler et al. 1999). International regimes can also be classified as a function-specific type of multilevel governance.

Yet regarding autonomy from governments, the difference between territorial and function-specific types of multilevel governance should not be overrated. Science depends to a considerable extent on financial resources from governments. Universities and research institutes work in specific local or regional contexts and interact with governments, private firms, associations and civil society. Private regulations of international markets are more and more integrated in international treaties and state law, while at the same time private actors and NGOs became acknowledged as participants in international politics (Stephen and Zürn 2019). Distinguishing territorial and sectoral types of multilevel governance is relevant in order to map and explain changes in structures, in particular in order to highlight the difference between the rise of regional governance within the state and the emergent multilevel governance beyond the state. In studies on policymaking in multilevel governance, the differences appear as gradual because governments play a role in most of the function-specific types and private actors participate in territorially organized forms, though to a varying degree. Therefore, I suggest that we conceive of this variety of multilevel governance as more or less strongly tied to democratic governments. Function-specific forms of multilevel governance tend to constitute loosely coupled systems of governance, whereas territorial forms often tightly couple democratic politics and intergovernmental coordination. However, the intensity of coupling depends on additional attributes.

As with patterns of multilevel policymaking and coordination, patterns of democracy differ between more competitive, majoritarian and more consensus-oriented varieties (Lijphart 1999), between governments where power is concentrated and those where power is divided (Bernauer and Vatter 2019; Gerring and Hacker 2008). In a majoritarian democracy, which has evolved with the Westminster Model in the UK, power is concentrated in the political executive (the Prime Minister and his cabinet) supported by a majority party or party coalition in parliament. In Canada, it is combined with federalism in a unique system of multilevel governance. Whenever heads of governments or ministers negotiate intergovernmental agreements, they act in the shadow of the supremacy of parliament. As long as they decide in accordance with the will of the majority party, agreements are legitimized. Certainly, party competition and the divergent party affiliations of governments influence negotiations which tend to proceed in the bargaining mode. In the likely case that opposing parties form a government at the central level and in the constituent units of a multilevel system, policymaking in multilevel governance can be burdened by confrontation, depending on the extent of the polarization of party politics.

The same interference of intergovernmental negotiations and party politics has been observed in parliamentary systems, where power concentration is moderated by proportional elections and parties in parliament have to form coalition governments. In this case, the hands of the executive in multilevel policymaking are tied by coalition treaties, which significantly constrains strategic interaction (Benz and Sonnicksen 2021). Polarization and confrontation of executives in multilevel governance is less likely, all the more so if party constellations in coalition governments overlap. While overlapping intergovernmental and party-political cleavages open opportunities for cross-cutting agreements in cooperation, joint-decision making including all participants is much more difficult under these conditions.

In administrative policymaking, close cooperation between a department and specific interest groups, that is clientelist public–private networks in a policy field, has similar constraining effects on multilevel governance. The strength of ties in these networks can reinforce the power of specialists in intergovernmental relations in a policy field, although these ties can also undermine the effectiveness of interdepartmental coordination. Parliamentary scrutiny and party politics can thwart the operation of these patterns of administrative policymaking. The self-reinforcing dynamics of public–private networks and sectoral intergovernmental relations are more likely in democratic systems where executive and legislative powers are separated. Here, research has discovered a fragmentation of policymaking between sectors and a disassociation of an executive dominated multilevel policymaking from parliamentary scrutiny.

Governance in US federalism is a case in point. However, with the increasing nationalization and polarization of American party politics, the technocratic policy networks are increasingly drawn into the political contests along party lines (Conlan 2017). The reason for this development is the dualist nature of politics, which can be traced back to the fact that members in legislatures and heads of governments are determined in majority elections. While institutions diffusing power between the executive and legislature as well as between the federal, state and local governments should compel actors to find a consensus or compromise, party politics constrains governance no less than in parliamentary systems, where the interference of intergovernmental policy coordination and party competition in democratic government have been discussed for a long time (Benz 2015; Lehmbruch 2000; Sharman 1990).

Regardless of the varieties of democracy, the interplay of representative democracy and multilevel governance causes tensions in policymaking. Beyond the fact that democracy and multilevel policymaking relate to distinct arenas, they materialize in different processes. In democracy, competition for ideas, policy proposals and offices divide parties. A dualist competition dominates in majoritarian democracies with governments formed by one party, while others form the opposition. In the so-called consensus democracies, agreements among parties reveal compromises on the lowest common denominator or package deals linking different policy proposals in a coalition accord. In this way, the democratic process selects actors who execute power and enable political decisions which are presumed to conform to the will of the people. In multilevel policymaking, executives representing democratic governments have to coordinate the will of different peoples, those incorporated in local, regional or national jurisdictions. As there is no procedure to democratically legitimize a coordinated policy cutting across jurisdictions, executives can only justify outcomes of multilevel governance by claiming that they conform to the interest of all participating people. However, if politics is about distributive or redistributive issues, the presumed interest of all peoples concerned violates the interests of at least one community, to a greater or lesser extent. Certainly, outcomes of distribution or redistribution can be justified with good reasons and recognized norms of justice. However, in democratic processes within jurisdictions that are linked in a multilevel system, these reasons are regularly contested in debates among competing parties and organized interest groups. Whenever chief executives cannot prove that they have strongly defended the interests of their government and the people they represent against claims of other executives, be it in negotiations or in other patterns of multilevel governance, they risk public blame and loss of their position.

This dilemma between effective multilevel policymaking and democratic legitimacy of territorially organized governments, or 'output legitimacy'

and 'input legitimacy', has been extensively described and discussed in the literature (e.g., Benz and Papadopoulos 2006; DeBardeleben and Hurrelmann 2009; Papadopoulos 2010; Scharpf 1999, 2009). In practice, it finds expression in tensions between inter- and intragovernmental politics and conflicts, if not confrontation among actors in multilevel governance. Certainly, multilevel governance neither fails on a regular basis nor does it suffer notoriously from a democratic deficit. However, rising conflicts and confrontation can significantly reduce the problem-solving capacity of governments and the effectiveness of multilevel governance under the condition of democracy.

There are two reasons why multilevel governance does not fail due to these tensions. On the one hand, executives can adjust policymaking to the diverse constraints they are subject to. On the other hand, they can exploit the potential to find ways to escape these constraints inherent in the diversity of arenas in multilevel governance. The first option constrains policy innovation whereas the second stimulates the creativity of actors.

As already mentioned, and revealed by research on multilevel governance (Chapter 2), actors responsible for policymaking try to avoid deadlocks, irrespective of the intensity of conflicts. As a rule, they engage in multilevel governance because there is a need for coordination, be it to prevent negative external effects, to profit from positive external effects, to provide public goods at a scale transcending existing jurisdictions, or to reduce unjust distribution of resources and economic or social disparities among territories. Within nation states, regional or local governments cannot ignore the negative consequence of their policy for others nor significant inequalities between jurisdictions because they risk the intervention of a central government. In international governance, unilateral action of one government provokes reactions from others, and an escalation of action and reaction can turn out disastrously or can come at a high price for all affected governments. When powers are shared, failing to solve these problems by not finding an agreement means that responsible policymakers appear unable to accomplish their tasks. Therefore, although representatives of governments – of democratic governments no less than autocratic ones – are expected to optimize the outcomes for their people, they participate in multilevel governance with mixed motives. Although they try to maximize their benefits, they prefer coordinated to uncoordinated policymaking. Conforming to both expectations, to solve problems resulting from interdependence and to pursue the distributive interests of their constituency, requires appropriate strategic action. Depending on the institutional conditions of multilevel policymaking and democratic politics in governments, different strategies are appropriate. In joint-decision making and intergovernmental cooperation, executives tend to compromises that they can achieve by avoiding the distributive consequences of policies; under the condition of self-rule, central governments can govern by standards or leave ample

room for decentralized policy implementation in regulation, while decentralized cooperation or mutual adjustment based on informal consultation provide ways to manage interdependence by averting the centralization of power. All these and similar strategies regularly reduce the chance for significant policy change. Incrementalist policy development is most likely as a result.

Often underestimated is the second reason why multilevel governance works despite the tensions between intergovernmental and domestic politics. Executive actors can transgress the double-bind situation of policymakers in multilevel governance under the condition of democracy by creative solutions. They require that they induce governments and private actors to reconsider their policy preferences, to change the cognitive and normative frames of their policies, and to 'think outside the box'. For instance, a reframing of agricultural policy from supporting farmers against international competitors towards improving the environment and biodiversity significantly restructures conflicts. Such a revision in the policy frames, ideas and paradigms opens opportunities to overcome threatening deadlock of intergovernmental coordination and promises to avoid frustration in democracies due to unsatisfying compromises. However, changing prevailing perceptions of problems, ideas which are taken for granted, fixed definitions of interests, routinized procedures and established policy regimes (Hall 1993) seems a rather unrealistic claim. It implies that in order to significantly change policies in multilevel governance, actors should find ways for policy innovation. If this reasoning does not lead into a '*contradictio in adiecto*', we have to answer the question of where innovation should come from and how significant policy change can become feasible in multilevel governance under the condition of democracy. We find an answer when we consider the diversity and dynamics of multilevel structures.

GOVERNANCE IN MULTIPLE ARENAS

As explained in the previous chapter, policy innovation should not be expected to result from external pressure or a crisis, as governments usually concentrate power in these situations and change policy in a reactive rather than a prospective and intended way. In multilevel governance, the challenge of policymaking is generally not to invent new solutions for existing tasks, since in a pluralist society and in complex governance arrangements these new solutions are usually available. They continuously emerge at different locations by creative actors. Inventions are stimulated by ongoing debates and deliberative communication. Not all inventions prove promising and many fail feasibility tests or are ignored in the mainstream of public opinion and political discussions. The real issue of policy innovation is to discover and select appropriate inventions and to implement them by significantly changing existing policies

including power structures and patterns of interaction entrenched in policy regimes.

Rather than from pressure or shocks, the discovery, selection and implementation of inventions is likely to result from a combination of strategic and communicative interaction in a rather stable but diverse institutional environment. Communicative interaction serves to find new ideas and policy proposals which seem to be appropriate to cope with the problems at hand; strategic action and interaction can circumvent constraints caused by institutions, power structures or situations. If strategies aim at finding new ways to solve conflicts, and at challenging existing policy regimes by initiating a new direction of public policy, they have to foster communication, both in order to discover appropriate inventions and to endorse a selected invention by expertise and good reasoning. Under the condition of a stable environment, this is possible by shifting the policy process from one arena, where interaction is constrained by institutions, to another arena, where actors deliberate on alternative solutions to problems. In the further course of the policy process, a reverse shift to established institutions takes place, when ideas and inventions need to be transferred into political decisions and implemented in public policies. This occurs in arenas, where the power to make decisions is located and where decisions can be legitimized.

The diversity of arenas in multilevel governance results from the twofold division of power between governments and within governments. The real complexity increases, as the division of power among levels is often reflected in structures of a democratic government, and the division of power within a government translates into a differentiation of intergovernmental arenas. Within a government, the multilevel character of a political system can find expression in the electoral system designed to guarantee a proper representation of the constituent units in a legislature, be it within a parliament or in a second chamber. In response to intergovernmental politics, parliaments have established special committees for dealing with matters of multilevel governance, and cabinets have instituted offices for external affairs or intergovernmental relations. Beyond the organization of legislative and executive institutions, the vertical organization of parties and party systems mirrors the division of power between the levels of governments, as has been observed in federal systems (Chhibber and Kollman 2004; Detterbeck 2012; Thorlakson 2009). More often than not, quasi-governmental organizations or private interest associations adjust their structure to the multilevel organization of politics (Detterbeck et al. 2016), as scholars have observed, for instance, in the course of European integration (Eising 2008). Likewise, the internal division of governments translates into patterns of multilevel policymaking, in particular by a separation of tasks between political executives and specialized administration. Parliaments of nation states or regions communicate on matters of

multilevel governance, either in parliamentary assemblies of international organizations that include delegates from national parliaments (Rocabert et al. 2019), in continuous inter-parliamentary relations, in meetings of parliamentary committees, in contacts of individual members of national or regional parliaments, or in vertically integrated parties (Benz 2017).

Both within governments and in multilevel governance arrangements, experts or councils of experts are regularly invited to provide evidence-based information and evaluations. With their epistemic authority, experts can contribute to depoliticizing conflicts. In multilevel governance, bodies of experts can constitute an arena of deliberation, if participants are not directly involved in intergovernmental negotiations. They can, for instance, support a central government in elaborating appropriate standards of governance or in monitoring the decentralized implementation of regulations or standards. In addition, they can contribute to a fair process of competition and policy diffusion in decentralized processes of mutual adjustment. Thus, they are part of a complex structure combining multiple arenas.

Presumably, systems of multilevel governance evolve into a matrix-like structure characterized by a redundancy of diverse interconnected policy arenas, in which conflicts are framed and dealt with in different procedures and actor constellations. Diversity, connectedness, and redundancy are essential conditions for a system's adaptiveness and resilience (Ansell 2017; Bednar and Page 2016; Landau 1969). Yet they also allow policymakers to evade constraints of institutions and policy regimes and to combine strategic and communicative interaction. Thus, they provide necessary conditions for experimentation, change and innovation.

While the potential for innovation in multilevel governance is based on the diversity of arenas, it is the opportunities of shifting policymaking among the different arenas which is decisive, as has been demonstrated in research on policy change. Frank Baumgartner and Bryan Jones, for example, emphasized the relevance of 'venue shopping' to change 'policy images' that shape agendas of governments (Baumgartner and Jones 1993: 25–8). Without focusing on multilevel governance, they describe 'federalism as a system of policy venues' (ibid.: 216), although having in mind the separation of powers among federal, state and local governments and not multilevel policy coordination in intergovernmental relations. In research on multilevel governance in the EU, this concept of venue shopping has been adopted to explain policy change (Princen 2013). From another perspective, Ellen Immergut points out the relevance of different arenas within democratic politics which result from the division of power. While she suggests regarding political systems as 'sets of interconnected arenas' (Immergut 1990: 396) and policymaking as a chain of decisions made in these arenas, she draws attention to the interface of arenas where she identified 'veto points'. As the policy process has to pass through

interconnected arenas, pressure groups can exploit these crucial points to pursue their particular interests in public policy. Likewise, policymaking in multilevel governance passes through intergovernmental and intragovernmental arenas and strategic actors can address different veto points. However, rather than private interest groups it is executives which control the interface between arenas. Multilevel policymaking is also more complex than, for instance, legislation within a democratic state, as it often proceeds in diverse arenas at the same time and allows feedback loops. Nonetheless, 'venue shopping' or the shifting of a policy from one arena to another as such does not guarantee that policies can be significantly changed as intended. Policy dynamics generated in multilevel governance can be proactive or defensive (Kurdna 2013: 201). Policy innovation can only be expected if strategic actors not only use linkages of arenas to reduce or circumvent constraints but also include arenas that support communicative processes and protect them against the intervention of powerful actors. They have to combine processes in different arenas so that both communicative and strategic interaction have a meaningful impact on decision making, but do not override formal rules of legitimate politics or undermine institutions limiting political power. Without going into details, a few hints should substantiate this hypothesis:

• In the vertical dimension, the division of power between levels determines which government or political organization is responsible for final decisions and outcomes. Nonetheless, policymaking can be more centralized or more decentralized. These shifts of processes without a reallocation of power are possible due to overlapping competences or in the course of the policy cycle due to a functional division of power. While these flexibilities of multilevel structures can lead to 'authority migration' and can destabilize a balance of power, they also can support policy change by using diversity without risking the integration of a political order or impeding coordination of policies. Decentralized processes allow policies which are adjusted to various conditions, they facilitate 'experimentalist governance' (Sabel and Zeitlin 2008), encourage innovation by competition for best practices or stimulate innovation by mutual learning among governments. In order to avoid decentralized experimentation triggering uncontrolled processes of ineffective and controversial adjustments in a competitive process, a strategy of decentralization has to leave open the option of a reverse shift of policy to the central level or to intergovernmental negotiations, to prevent rising confrontation in competitive processes and to encourage innovation (see Daniell et al. 2014: 2432). Therefore, instead of a delegation of power, arena shifting across levels should be limited to what Renate Mayntz and others have labelled 'downloading' and 'uploading' of a policy (Mayntz 2015: 14), a shift of specific tasks and

functions in policymaking to an upper or lower level without changing the allocation of competences. Uploading is a common strategy in national and international multilevel governance, when governments responsible for a policy meet to consult on possible solutions and negotiate non-binding agreements in voluntary cooperation, which they introduce as policy proposals into their national agenda. Downloading occurs, for instance, when national or regional governments adopt policy proposals which have been elaborated in international bodies or in an agency of the upper-level government or when a central government encourages experimental policies in smaller jurisdictions by special arrangements. In the second case, decentralized policies which prove successful can be uploaded and thus stimulate bottom-up policy learning (Bednar 2011). Downloading can be pushed by incentives or the assignment of responsibility to governments, whereas uploading usually works on a voluntary basis. Both processes of policy shifting may be constrained, but less by a distribution of power than by political resistance within the governments concerned.

- In the horizontal dimension of a multilevel governance system, policy transfer between constituent units can be considered as a corresponding way to shift policies. It means that governments emulate decisions or policies that other governments successfully implemented. This process of 'lesson-drawing' (Rose 1993) usually only leaves its marks on the agenda of a government, or influences political discussion on the general direction of a policy, or extends the set of alternatives considered. By affecting ideas and perceptions of actors in a policy regime, it is likely to challenge defensive policy coalitions by promising alternatives and relaxes confrontation among parties when new options appear on the agenda. Hence transferring or 'crossloading' of policies does not mean imitation, it rather implies that actors take note of how other governments deal with problems at issue and that they use the diversity of multilevel governance as a source of policy options. By exploiting this source, by discovering inventive policies and by introducing them in the agenda of their own government, responsible executives or members of parliaments can evade deadlocks due to confrontation or compromises at the lowest common denominator resulting from bargaining processes. Instead, they enrich discussions on policies by opening a comparative perspective.

- In the functional dimension, multilevel governance mirrors, at least in certain aspects, the differentiation of arenas of democratic politics, which are linked in the policy process. In joint-decision systems as well as in intergovernmental cooperation, negotiations among political executives are regularly prepared by meetings of civil servants from the departments of the involved governments. In addition, governments often invite independent experts to provide information and advice. In consequence, the

impact of party politics is reduced. Executives may even turn from confrontation or bargaining towards arguing, when they rely on the know-how of specialized civil servants, search for advice from scientists or include representatives from civil society associations. Organized private interests rarely participate in intergovernmental negotiations but they may be invited to submit statements. To what extent these options are used depends on the political executives. As Edgar Grande observed in EU policymaking (Grande 1996), they prefer the engagement in intergovernmental politics to avoid the pressure from private interest organizations. Others have pointed out that executives tend to commit themselves in multilevel governance in order to gain autonomy in relation to parliaments and parties (Wolf 1999). Nonetheless, norms and rules of democracy limit these strategies and executives have to cope with the tensions between domestic and multilevel politics. One way to do this is to shift negotiations to the administrative arena or expert bodies. In these contexts, controversial issues are dealt with by actors who are motivated to solve problems, and conflicts are managed in a professional rather than politicized manner. Therefore, multilevel administrative relations are essential. For the same reasons, intergovernmental coordination by mutual adjustments works when civil servants or experts provide information that they have gained in informal communication with their counterparts in other governments. This is the reason why competition for best practices (yardstick competition) proves effective if the focus is on particular policy sectors or specific public services provided by administrative bodies. In contrast, political executives and parties avoid these contests, and if they are initiated and carried out by independent agencies, participants in the political process regularly use the results as arguments in party competition, but not as justifications to change a policy.

Shifting a policy between arenas contributes to circumventing veto power in a multilevel system provided that this does not occur arbitrarily but rather follows a particular strategy. Appropriate selection or arenas and their linkage in a sequence of policymaking is crucial. One strategy would be to build coalitions against potential veto players at the first stage. Within a government, the usual procedure requires the executive to seek an agreement with members of parliaments or second chambers who are pivotal for supporting an envisaged policy. Such informal consultations are particularly relevant in federal systems, when the executive negotiates an intergovernmental accord which has to be implemented in legislation, or when a federal parliament passes a bill which requires the approval of representatives of constituent states, be it by a consent in a council of state governments or by a ratification by state parliaments. Another strategy would be to influence 'veto points' at the interface between the executive and the legislature. In line with Ellen Immergut's

observation that pressure groups use 'weak links' in the representation chain of a democracy to gain de facto veto power (Immergut 1990: 396), we can also observe that executives negotiate deals with representatives of organized interest groups to mobilize support for a bill that they intend to initiate in legislation. This practice can contribute to managing societal conflicts, but it also risks predetermining the decisions of legislative bodies or policymaking and the accountability of the executive, and therefore undermines democratic legitimacy. In multilevel governance, different types of 'negotiation democracy' (Armingeon 2002; Czada 2003, 2015) can concur in overlapping arenas, which either include political executives and private interest associations in corporatist arrangements, competing political parties in a coalition or legislation under the condition of minority governments, or executives in intergovernmental relations. Each of these arenas shape politics and policymaking in a particular way. In combination, strategic political actors can arrange them to alter the process of policymaking and to evade the constraints of institutions and power structures (see the case of German energy policy, Chapter 5).

The diversity of multiple arenas in multilevel governance can not only open 'escape routes' (Héritier 1999: 8) from decision traps, they also provide opportunities to modify modes of interaction, enrich agendas and extend alternative courses of action. As regards policy innovation, arenas of negotiation and deliberation are particularly relevant as they can support an 'argumentative turn' (Czada 2015: 240) in a policy process. Consultative bodies included in multilevel governance can extend ideas, information and policy proposals and thus can become a source of policy innovation on their own. Likewise, they can also create legitimacy for a policy initiated by the executive as they can endorse a proposed policy by reasons which are acceptable as long as they are not contested by good arguments. Such bodies do not constitute a form of 'deliberative democracy', nor should they be condemned as governance by technocrats. As Roland Czada has observed in Germany, the strategy of an incumbent government to deal with conflicts by establishing expert commissions and consultation with representatives of private interests or civil society often serves the government 'as instruments of political marketing and governance with a strong public relations impact' (ibid.: 244). Nevertheless, it is exactly for this reason that policy innovation can prevail against the power of veto players interested in maintaining the status quo. The mobilization of epistemic authority in arenas of communicative interaction increases the chance for inventions and for advancing a progressive policy in multilevel governance, despite the constraining patterns of bargaining, confrontation and competition, and despite the power of veto players interested in maintaining the status quo.

However, nor is deliberation among experts alone sufficient to make policy innovation feasible, nor does the various ways to develop a policy in different

arenas per se increase the chance of changing a policy. The strategic interaction of creative actors with the power to shape processes has to be combined with the communicative action of actors searching for new solutions for problems, and both modes of interaction have to lead to decisions by office holders within institutions and procedures destined to guarantee democratic legitimacy. When diverse arenas which enable these different modes of interaction, are linked, it is essential that neither should arbitrarily dominate. Power mobilized and exerted in the different arenas needs to be justified by particular functions and should not determine processes in other arenas. This balance of power cannot be guaranteed but it can be enabled if arenas are loosely linked to a polycentric structure where different processes can mutually influence each other. This way, the diversity, redundancy and connectedness of multilevel governance can contribute to innovative, effective and legitimate policymaking.

CONCLUSION: COMPLEXITY AND INNOVATION

There is never a guarantee that these approaches of governing in multiple arenas will succeed under all circumstances. However, they certainly increase the probability of policy innovation in political systems, which in general constrains the power to significantly revise policies in place. Theories of complex adaptive systems support the conclusion that complexity is not the problem of multilevel governance, rather it bears the potential for solutions. This theory highlights dynamics which are inherent in variously differentiated organizations, actor constellations or political systems (Bednar and Page 2016; Burnes 2005; Page 2011; Schneider 2012) but explains system maintenance rather than policymaking. Hence it emphasizes the adaptability of complex systems to external challenges due to its internal elasticity. This adaptability results from the interplay of multiple mechanisms which can control aberrations from stability. Whereas this theory explains gradual change of a system, it nevertheless provides reasons to assume that managing internal tensions and the adaptation of structures to external challenges by elastic structures increases the potential for policy innovation or institutional reform.

The theoretical framework outlined in this chapter is not meant to reject theories of policy change. On the one hand, it is based on these theories in so far as it takes into account the different mechanisms driving change. Moreover, rich empirical evidence provided by policy studies reveals that many conditions enable or obstruct policy change and innovation. On the other hand, when applying policy theories to multilevel governance we find that neither a mobilization of advocacy coalitions, policy entrepreneurs or political leaders nor the dissolution of policy regimes and the relaxation of formal rules in times of crisis or in a critical juncture constitutes necessary conditions for significant change or innovation. What certainly is a necessary condition within these

complex structures is the possibility to move policymaking processes among the diverse arenas. This flexibility is essential in order to avoid threatening confrontation and deadlocks when politics in multilevel structures interferes with politics in democratic government. Strategic policy entrepreneurs or political leaders can contribute by exploiting these possibilities. As far as they include arenas of communicative interaction, there is a realistic chance for policy innovation.

In the context of multilevel governance involving democratic governments, two assumptions can be derived from the above considerations: (1) Policy shifts among arenas of a democratic government − from the plenary of a parliament to committees; from the political executive to administration; from government to public–private consultation or committees of experts, etc. − can help to overcome or avoid deadlock in multilevel coordination though joint-decision making and cooperation, and they can open room for manoeuvre in allowing governments to mutually adjust policies or engage in yardstick competition and policy transfer. However, the internal dynamics of democratic governments are necessarily constrained by constitutions and institutions and therefore allow compromises and adjustment, but do not favour policy innovation. (2) Therefore, the dynamics of multilevel governance are essential. Policy shifts between levels – that is uploading, downloading or crossloading of a policy – open additional escape routes from traps of decision making and often induce policy innovation. As in democratic government, these options are inherent in modes of governance implying sufficient flexibility of structures and processes.

The following case studies should illustrate how these mechanisms and conditions materialize in reality. However, they can give only a limited impression of the varieties of multilevel governance, those which limit policy change to gradual steps and those which are conducive to significant change and innovation. In the context of two policy fields, energy and climate policy and fiscal equalization, they analyse processes that aim at substantial policy change or transformation in order to cope with complex problems and, accordingly, include governments and other actors at different levels.

Efforts to reduce greenhouse gases in order to mitigate climate change appeared on the agendas of international and national politics in the 1980s. Meanwhile global warming turned into one of the most pressing challenges for contemporary societies. Reducing emissions and the adaptation of public and private actors to climate change requires the transformation of the carbon-based generation of energy and the introduction of new ways to manage the consequences of rising temperatures or damaging weather events. The complexity of the challenge is obvious, as are the redistributive impacts of both a continuation of old policies and the transformation of an established policy regime. As will be explained in Chapter 5, policy innovation in specific

sectors of the broad and complex policy field and in countries leading the way essentially contributed to initiating a transformative development, despite serious backlashes.

The second issue concerns the redistribution of wealth within societies and fiscal resources among governments in order to moderate the negative effects of economic disparities. These are not new problems, but they have to be dealt with in the turbulent context of globalized markets and intensified economic competition among nation states. The case studies presented in Chapter 6 focus on a specific dimension of distributive justice, namely fiscal equalization among territories in federations. They discount the whole field of social policy, while highlighting an aspect that many would consider to be marginal in this context. However, in research on multilevel governance, redistribution between territories constitutes a fundamental problem. On the one hand, the globalization of the economy has increased disparities among regions and local governments with the consequence that the territorial dimension of distributive justice appeared on the political agenda in many federations. On the other hand, political decisions on fiscal equalization have to be coordinated between governments or require joint decisions among them. Fiscal equalization also has a strong emphasis on institutional and constitutional change. Hence both the type of the policy and the institutional conditions make innovative solutions unlikely. Fiscal equalization is particularly interesting as it is the least likely case for policy innovation. That it is not impossible will be illustrated in selected case studies.

NOTES

1. In order to emphasize the aspect of structures and interactions, I prefer the term 'arena' to the term 'venues', which is also used in literature on policy change and multilevel governance. In theories of agenda setting, a venue is defined by 'its own language, set of participants, and limitations, leading to evolving sets of strategies among those who would try to affect the agenda-setting process' (True et al. 2007: 162). Yet an arena is also a setting, in which power is concentrated to turn an agenda into an effective political decision.
2. As this book focuses on multilevel governance in politics, on processes of policy coordination within or between democratic states, the terms intra- and intergovernmental are appropriate. Although multilevel governance can and often does include private or non-state actors, structures are mainly defined by institutions of governments. In research on organizations, scholars distinguish accordingly between inter-and intraorganizational structures and processes. If an association determined to pursue private interests participates in policymaking, it is confronted with the same problem of harmonizing relations with political actors and the collective interests of members defined in internal debates and negotiations. It has to cope with a conflict between the 'logic of membership' and the 'logic of influence' (Schmitter and Streeck 1999), depending on the properties of the participating organization (see also Mundlak 2020).

3. In the discussion on democratic legitimacy of the EU, scholars have suggested reorganizing or reconceptualizing the EU as a functionally differentiated multilevel political order. Bruno Frey and Reiner Eichenberger proposed a model of 'functional competing overlapping jurisdictions', in which popular referenda should legitimize power (Frey and Eichenberger 1999). Philippe Schmitter made the case for governance arrangements for particular policy fields with power being legitimized by the participation of 'stakeholders' (Schmitter 2006). Both concepts prove the need to solve the democratic deficit of function-specific governance arrangements. Whether this is a realistic option can be disputed.

5. Transformation of a policy regime: energy and climate policy

Energy and climate issues have been on the agenda of international, European, national, regional and local politics since at least the turn of the century. The brief outline presented in this chapter can only provide a rough sketch of the patterns of multilevel governance and developments of policies during the period of time considered. After a short overview on the international and European context, the study will analyse instances of policy change in central–regional/local relations in Denmark, Germany and Canada and on policy innovation in cities that has been influenced by emergent patterns of multilevel governance (here with a focus on Germany). These changes and innovations in different sectors of a policy field spanning multiple levels can be traced back to particular triggering events, which increased the pressure for change and encouraged political leaders and administrators to exploit the options for strategic action and policy learning in multiple arenas. However, these triggers set off change in specific sectors and locations and did not affect the whole regime of energy and climate policy. The transformation of this policy regime was slowed down by resistance in other sectors or revisions of innovative policies. This demonstrates that turning policy innovation into a new path of development in multilevel governance is certainly the real challenge for a transformative policy.

GLOBAL AND EUROPEAN MULTILEVEL GOVERNANCE

Energy and climate policy concern an issue with a global dimension. Therefore, all levels of governance are involved in influencing the outcome. In the 1970s, the access to fossil energy resources such as coal, oil and gas located outside the industrialized parts of the world emerged as a matter of international politics. At about the same time, the use of nuclear power became another topic due to the dual use of enriched uranium for energy generation and nuclear weapons. The powers to cope with these still unresolved and serious problems had been delegated to international organizations (the International Energy Agency, the International Atomic Energy Agency). During the 1990s, climate change appeared as another global problem, which is closely connected to

energy policy. The consumption of fossil fuels has been identified as the main reason for global warming, and a transition towards renewable energies is therefore the primary aim of climate policy. Meanwhile, the adaptation of societies to imminent climate change constitutes another sector of this policy.

Global political efforts taken so far to prevent climate change have a rather poor reputation. Starting in the 1990s, a number of international conferences ended with results that not only disappointed experts and civil society organizations engaging in climate policy, but also received a great deal of criticism by the media in many democratic countries. Meanwhile, most people have realized that the climate has actually changed; they are confronted with data showing the rise of temperatures, they notice the increase of periods of drought and the probability of heavy thunderstorms or flooding, and they receive information about the melting of glaciers and the arctic ice shield followed by a change of ocean currents. All these messages seem to indicate a failure of global efforts to reduce greenhouse gas emissions in order to stop the warming of the planet.

When looking at the outcomes of a series of international conferences, some of them ending with agreements and some of them not, such an assessment seems well justified. However, global governance of energy and climate cannot be evaluated simply in terms of impacts that actually are not caused at the global level. Although the literature on international politics has discovered authority beyond the state, there are no international organizations with the power to change policies in nation states, not to speak of the regulation of industries and consumers. The results of international climate politics crystallize in goals, standards and the commitments of national governments, and the authority of international organizations depends on the recognition they achieve in member states (Zürn 2018: 45–8). Beyond that, they materialize in a multilevel regime established to guarantee the continuation of global policy-making that is linked to corresponding national activities.

The UN Climate Regime has existed since 1992, founded on the United Nations Framework Convention on Climate Change (UNFCCC) and further developed with the Kyoto Protocol of 1997 and the Paris Agreement adopted in 2015 and in force since November 2016. Nearly all the states of the world are party to the Regime, including all large states after the US government rejoined the Agreement following the inauguration of Joe Biden as President. These member states are committed to the guiding concepts and principles, not least to the aim to limit global warming to 'well below' 2ºC and to make efforts to limit increase of temperature to 1.5ºC. To this end, governments should provide plans of their 'nationally determined contributions', and the governments of developed states are expected to take the lead. In order to track and reinforce progress by the parties in fulfilling obligations, mandatory review processes evaluate the achievements of the nationally determined con-

tributions to global greenhouse gas reduction. In addition, governments should take actions to adapt to the imminent impacts of climate change.

Certainly, although the Paris Agreement, like previous accords, implies legal commitments to be implemented by national governments, it appears to be a 'covenant without a sword' (Hobbes 1651 [1985]: 223) since there is no international authority to enforce compliance. However, the UN Climate Regime consists of continuous meetings of representatives of governments and experts. Part of this governance structure is the International Panel of Climate Change (IPCC), an expert body mandated to assess the evolution of climate change and to provide recommendations for good practices of climate mitigation. Political representatives of member states meet annually in the Conference of the Parties (CoP), which is responsible for periodically taking stock of the progress concerning the implementation of the Paris Agreement. In addition, intergovernmental cooperation should be used as an instrument to exchange experiences, to establish emission trading systems or to transfer credits for emission reductions between countries. Finally, and most importantly, governments are required to regularly report on the sources and development of anthropogenic emissions and the implementation of their national contributions to reducing global emissions. These reports are the basis of expert reviews (Klein et al. 2017).

National energy and climate policy is embedded in this international regime, if not by legal commitments established in agreements, then by processes of negotiations and communication among national and international executives and experts. These recurring meetings and the publications of the state of progress or regress characterize this governance regime more than legal commitments. It operates by processes in which 'communicative and symbolic devices are explicitly recognized, by its architects and promoters, as *core instruments* in the agreement's implementation' (Aykut et al. 2020: 3; emphasis in the original). Comparative evaluations serve as a kind of benchmarking of national efforts and performance to reduce greenhouse gas emissions and thus influence public discourses in democratic societies. Even autocratic regimes in industrializing countries cannot neglect their commitments in international politics, which at the same time are promises made to their citizens and include performance standards indicating their country's success or failure in international competition. Therefore, while global climate policy evolved in an incremental process and under various constraints of a de facto joint-decision system, it increasingly influences national policymaking in this field and induces policy changes. Whether these changes appear as gradual, substantive or transformative depends largely on national politics. But the international realm serves as an emergent level of governance where communicative interactions contribute to shape policy agendas of national, regional

and local governments, to generate and transfer information, knowledge and ideas, and to expose national policies to critical evaluation.

The energy and climate policy of the EU evolved in this global context (Eberlein 2008; Fischer 2017; Schreurs and Tiberghien 2007; Schubert et al. 2016). In the 1990s, efforts to deregulate energy markets predominated and significantly changed the conditions of national energy policy. In response to national policies aiming at a transition to renewables, the Kyoto Protocol, and the rising public awareness about climate change, the European Commission pushed for a joint European policy in this field, although EU competences remained limited. As at the global level, governance by standards prevailed, although European standards had a stronger legal force when passed as directives (Oberthür 2019). In 2003, the European Emission Trading System launched, which remained ineffective until an EU-wide cap on acceptable emissions increased the costs of certificates as of 2013. In 2007, the European Council under German presidency agreed to take action in order to reduce greenhouse gas emissions by 20 per cent by 2020 compared to the year 1990 and to expand renewable energies by 20 per cent. These goals, which became more ambitious in the following decade, did not specify the measures member states must take to achieve them. However, the European Council formulated a detailed list of tasks addressed to the Commission. In 2014, the President of the European Commission announced the start of the 'European Energy Union', which was to include climate policy in addition to the traditional aims of energy security and market integration. In this context, and in view of the impending negotiations on the Paris Agreement, the European Council passed the 2030 Energy and Climate Framework in the same year. It upgraded the emission target to 40 per cent and defined a regressive reduction path until 2030. Following this decision by the head of member state governments, the Council of Ministers and the European Parliament passed a series of directives initiated by the Commission to implement the Framework. Still, the member state governments remained responsible for regulating their energy mix and deciding how to phase out non-renewable sources. Efforts by the Commission to 'harden' the soft governance approach have had limited effects so far (Knodt 2019; Oberthür 2019).

Like global climate governance, multilevel governance of European energy and climate policy evolved gradually. The need for joint decisions by member state governments explains this incrementalism. The Paris Agreement depends on the willingness of governments to participate in the established regime and is threatened by the exit of individual countries. Exit is not an option in European energy and climate policy, but its implementation by member states cannot be guaranteed. Nonetheless, while global and European policy are constrained by joint-decision making, the policy change is advanced by the mutual adjustment and influence of policymaking at the European and national level

(Skjærseth et al. 2016). From the bottom up, progress is driven by governments taking the lead as pioneers in this policy field, and the governments of countries lagging behind are pushed to follow suit. From the top down, change in international and European energy and climate policy is further supported by the dynamics of multilevel policy regimes (Solorio and Jörgens 2017). Council governance by heads of states and ministers is supported by agencies. They provide the administrative capacities to organize continuous exchange among experts, who are attached to governments or independent institutions, and to turn communicative interactions among these actors into policy proposals. National governments integrated in these regimes, in institutional terms as members adopting commitments and in continuous policymaking by experts and delegates in committees, are not forced to take particular action. However, they are put under pressure in national politics to adapt their energy and climate policy.

This brief account of the evolution of global and European energy and climate governance raises the question of how policy innovation of pioneering governments evolves. In addition, we have to ask whether and how adaptation on policies in member states, regions or local governments turns into innovation. In order to meet the challenges of climate change and energy transition, governments have to change policies in a more substantive way than merely adjusting them to the gradual development of European legislation and international agreements; they have to contribute to transformative policy by policy innovation in their jurisdiction. The problem is that these policy innovations are complicated by established national energy regimes, which are determined by technologies, organized interests, and the division of power between both the public and private sector. In climate policy, significant policy change affects a wide range of interests in different sectors of politics and society. The following sections cannot cover all aspects and thoroughly evaluate policy change. The case studies focus on energy transition in two member states of the EU – Denmark and Germany – where we find remarkable progress before the EU engaged in energy transition. These cases are contrasted by a brief outline of energy policy in the Canadian federation. In addition, a study on the responses of German cities to the challenges of climate policy illustrates how multilevel governance generated innovation in local politics.

ENERGY TRANSITION IN DENMARK, GERMANY AND CANADA

Energy transition is generally acknowledged as the most important approach to reduce greenhouse gas emissions and to prevent a further rise in the temperature of the globe. While until the 1970s nation states exploited fossil fuel resources to an unlimited extent, the rise of the crude oil price controlled

by the OPEC challenged this practice in European countries that depended on imported oil and gas. Advances in energy technologies paved the way to convert energy generation from non-renewable fossil sources to renewables. There is hardly any doubt that this transition constitutes the core of a policy determined to stabilize the global climate. However, the transformation of an energy system confronts any society with tremendous economic and social consequences, including significant redistributive effects. Moreover, renewables come with social costs and have negative impacts on the environment, although more at the local than at the global level. Indeed, they have different local, regional, national and international consequences. Energy transition has to be governed in a multilevel setting, and changing the energy system is a contested matter of politics.

Meanwhile, many states have entered a process of energy transition (Araújo 2017; Eberlein and Doern 2009; Hager and Stefes 2016). Policies introduced or changed are rather variegated and concern different aspects of energy generation, distribution and consumption, including effects on the economy, social inequality and the environment. In order to reduce complexity, the following study will focus on policies designed to foster the generation of electricity from renewable sources. Debates about the potential of these sources started in the 1970s, but in most countries policy did not leave its mark on agendas of governments before the first decade of the 21st century. Denmark was the exception, and Germany followed during the 1990s. Innovations in both countries have been affected by EU policies and have also influenced European energy policy (Dryhauge 2017; Fischer 2017; Voggenpohl et al. 2017). Pioneering innovations, however, profited from the multilevel structures, which in Denmark supported a transformation of the old policy regime. In Germany, the federal system did not prevent innovation but slowed down the transformation process. In clear contrast, a Canadian energy transition was delayed and is still not consolidated as in Denmark, although the separation of power in the federal system and a majoritarian democracy provided institutional conditions that are conducive to policy change.

Denmark

Multilevel governance is well established in the Danish state. Although a unitary system, the local governments profit from their political and administrative autonomy (Ladner and Keuffer 2021: 226; Ladner et al. 2015). However, their power also rests on established cooperation with the central government. The division of power reveals more shared rule than self-rule. The typical approach of policymaking by 'negotiation and dialogue in central–local relations sits easily with a political and administrative culture that emphasizes consultation and consensus' (Callanan 2012: 411). This pattern

of coordination by cooperation between levels differs from the German type. Here, federal and *Länder* governments are involved in joint-decision making in many policies without the participation of local governments. Energy policy in both countries was centralized, in accordance with an energy system which largely depended on the import of resources and big corporations. In the more loosely linked multilevel governance in Denmark, energy transition set off from the local level, and cooperating governments did not have to cope with the constraints of the Joint-Decision Trap (Blom-Hansen 1999).

In both countries, energy transition became a topic in the 1970s. In Germany, experts in the federal administrations discussed ideas for decentralized energy systems in rural areas based on renewable resources, but these ideas did not turn into a policy agenda. This was different in Denmark, where the oil crisis of 1973/4 hit the national economy and consumers hard. The central government responded with a programme to switch energy generation from oil to nuclear power and coal. This policy caused resistance at the local level where governments traditionally had been responsible for providing electricity and heat. While environmental groups protested against the introduction of nuclear power, local actors initiated cooperative efforts to develop wind power. These initiatives from below brought together 'inventive citizens, including farmers, blacksmiths, machinery manufactures, and environmentalists' (Araújo 2017: 151) who shared technical and entrepreneurial skills, ideas and a sense of community. As emphasized in the literature (see also Dyrhauge 2020: 5; Meyer 2007: 351; Sovacool 2013: 838), private actors played the leading role, but the local governments were responsible for the planning of onshore wind turbines, and they used their significant autonomy, which increased during the 1970s (Hooghe et al. 2010: 77–8, 180), to support the transition to renewables.

Soon, however, the cooperative policy at the local level fed back to the national government which revised its course in energy policy and supported the transition to renewables. First, it initiated and funded research on technologies to use renewable energy sources and it introduced taxes on electricity to subsidize technology development. Second, it founded the Danish Energy Agency with the purpose of assisting local authorities in controlling the development, supply and use of energy. Third, after the second oil-price shock in 1979, parliament increased the taxes on oil and electricity consumption and passed a programme to promote wind power, solar power, biogas and heat pumps, followed by the 1981 Energy Plan which extended subsidies for wind power and defined a target for future development. Fourth, the Minister of the Environment ordered grid providers to guarantee the access of power from small wind turbines, and in 1992 parliament decided on an obligatory 'feed-in tariff'. In the 1990s the focus of Danish energy policy was on stabilizing the path of transition by providing loan guarantees for large wind energy projects, by adjusting existing subsidies for renewable energy technologies and by

introducing a carbon tax. Efforts included the improvement of the coordination between national and local policy, for instance by requiring local governments to develop a plan for the siting of wind turbines. In 1995, parliament decided that nuclear power should no longer be considered as an option for energy policy (for details see Araújo 2017: 150–58).

In 2000, up to about 10 per cent of Danish electricity was provided by wind and solar power, and by 2019 this share increased to nearly 60 per cent, mainly due to the expansion of wind power (IEA data: https://www.iea.org/countries/denmark). This development is remarkable as with the turn of the century the consensus on energy transition in society eroded and people increasingly protested against the installation of wind turbines. In 2001, national elections led to a change in government, and the centre–right coalition under Anders Fogh Rasmussen preferred a market-based energy system. At that time, this was in line with the energy policy of the European Union. The Commission had exerted its legal power to liberalise the European Common Market, inter alia by requiring member states to deregulate energy provision and to guarantee unrestricted access for providers to the grid. In Denmark, the government revised plans for additional offshore wind parks, opened the market for renewables to international firms, and replaced subsidies for renewable sources with a market premium to be paid by consumers as surplus to the electricity price. This policy stopped the expansion of wind power until 2008, when the centre–right government revised its energy policy and parliament passed a programme with a nearly unanimous vote promising to generate energy supply in total – that is including electricity, heating and fuel for transport – by renewable sources. Meanwhile, another aim, that of providing 50 per cent of electricity from wind power by 2020, has been achieved, as mentioned above. Thus, the energy transition has continued despite growing political contestation.

Rising contestation of energy transition revealed that the new energy policy was not as consensual as it seemed. Behind the opposition against fossil fuel energy and nuclear power, a divide emerged between those who profited from wind turbines and those who did not but nonetheless had to pay rising prices for power and tolerate the negative effects of onshore wind parks. Moreover, not all local governments had a chance to participate in the economic benefits of energy transition. This conflict led to a backlash after 2000, but it did not turn into a political confrontation. The established cooperation between central and local governments (represented by strong local government organization which solved the collective action problem of decentralized policy) and between public and private actors remained stable and moderated the political divides that found expression in party politics. Rising awareness of climate change after the turn of the century made it impossible to abandon the path of energy transition.

The groundwork for the continuous transition path towards renewable energy was laid with the policy innovation in the 1970s and the ensuing transformation of the energy policy regime in an interplay between local and national politics. At the local level, traditional structures of energy provisions increasingly turned into cooperative structures including private entrepreneurs and citizens. These cooperatives became the source of inventions and the nodes of policy change. The national government promptly decided on a radical turn of its own policy and since 1976 has supported green energies. This policy innovation at both levels was not coordinated in negotiations, although we can assume that parties, civil society associations and organizations of industry worked as intermediaries and facilitated communication. The multiparty democracy in Denmark, on the other hand, prevented political divides from burdening the consensus-based energy policy. The change in public opinion and in government after 2000 did not significantly destabilize the consensus, as it was now entrenched in a new policy regime. The former export-based energy regime reduced the power of the national and local governments, whereas the new regime based on domestic resources includes new actors, a new division of power between national and local governments and new relations between the public and private sector. Small firms, local entrepreneurs, cooperatives, public–private partnerships and civil society organizations are strong players in Danish energy policy, and they have pushed for change and have developed countervailing power against potential vetoes. Local governments gained additional powers for planning and controlling energy supply and used this power to the benefit of wind energy and biogas. Research institutes and the Danish Energy Agency, established in 1976 to support the government's efforts to reduce carbon emissions, provided independent expertise for responsible policymakers. Policy innovation was initiated by inventions and experimental activities at the local level, where public and private actors cooperated. Moreover, it was supported by civil society associations, research institutes and associations of industry, and it was put into effect by legislation, executive directives and financial support from the national government.

Germany

As in Denmark, the oil-price shocks of the 1970s left their mark on Germany's energy policy, but it was not sufficient to induce large-scale change. Beyond coal and crude oil, nuclear power constituted the third main power resource. For a long time, energy policy aimed at stable and low-cost energy provision, which was considered as a basic precondition for economic growth, and therefore relied mainly on these three sources. To guarantee a low-cost energy supply, government and industry cooperated in corporatist structures in which large corporations and unions had de facto veto power. The parties dominat-

ing German politics until the 1990s, the Christian Democrats, the Liberals and the Social Democrats, had no interest in departing from the old path of energy policy, although for different reasons (Illing 2016: 35–61). The federal system of Germany was a further obstacle to change. Although legislation on energy was and still is largely a matter of federal politics, governments of the *Länder* have a significant influence either in intergovernmental cooperation or joint-decision making. Some of the *Länder* governments had particular economic interests. Nuclear power plants had been located along the big rivers in the south and west and in Northern Germany. Coal was processed in North Rhine Westphalia, a *Land* that had been the stronghold of the Social Democrats until the 1990s, the Saarland and Lower Saxony. After German unification, Brandenburg, Saxony-Anhalt and Saxony joined this group of *Länder*. Thus, the old energy policy regime was characterized by two overlapping political arenas where *Länder* governments and industry and unions had powerful positions to obstruct policy change. Energy policy, like federal policy in general, revealed a strong path-dependence, with incremental adjustments favouring a 'policy of the middle way' (Schmidt 1987).

Nonetheless, with the turn of the century significant change occurred in German energy policy. In 2011, the term '*Energiewende*' (turnaround of energy policy) appeared in public debates, after the government under Chancellor Angela Merkel decided on a phase-out of nuclear power by 2022 and to immediately shut down seven power plants, in response to the reactor disaster in Fukushima. Political scientists adopted the term '*Wende*' to describe a rapid change of a policy (Rüb 2014) which significantly deviates from a previous policy. In fact, it was not the 2011 decision of the federal government which set off the transition to an energy system based on renewables. Actually, Chancellor Merkel and her coalition government of Christian Democrats and the Liberal Party only revised an earlier legislation they had initiated in 2010 that allowed an extended operation of nuclear power plants. At that time, this legislation overruled a previous change in energy policy under the coalition of Social Democrats and the Green Party led by Chancellor Gerhard Schröder (1998–2005). It was this policy which actually advanced energy transition, firstly with the 2000 decision to phase out nuclear power, and, secondly, by establishing an innovative approach to promote power generation from renewables. Starting from this significant change, German energy policy went through twists and turns of policymaking, and changes in government appeared as the decisive factor explaining this development. The so-called '*Energiewende*' of 2011 does not meet the criteria defining a policy innovation, and neither does the energy policy of the Merkel government after 2009. As to the real innovation, the change of government after the 1998 federal elections alone – when for the first time a red–green coalition won

a majority – can also not explain this significant policy change, which in the following years altered the energy policy regime.

Rather than occurring in a rapid turnaround, the effective innovation of German energy policy took shape in a longer and multifaceted process (Hirschl 2008; Stefes 2014). It resulted from combined policies made at different levels and in different institutional settings which culminated in the 'red–green revolution' (Morris and Jungjohann 2016: 197). It also needs to be emphasized that transformative effects were concentrated on the rise of renewable power, although energy and climate policy aimed at energy efficiency and more recently addressed the transport sector, as well. Moreover, unlike in Denmark, the path of transformation was significantly slowed down and delayed by powerful opponents.

In a long-term perspective, changes in the global energy market and the pressure of public opinion seem to have been the decisive drivers of German energy transition. In 1968, the first report of the Club of Rome on the limits of fossil resources instigated intense discussions in Germany on the sustainability of the energy supply. A few years later, the oil crisis demonstrated the dependence of Germany on imports from countries with unreliable governments. At the same time, rising protests against the construction of nuclear power plants intensified and turned into a social movement against nuclear power in general. Experts began to discuss the prospects of alternative energy sources, and technological innovations promised to make such ideas become reality. However, until the 1990s energy policy focused on managing the crisis of hard coal production and coping with growing opposition to nuclear power (Illing 2016: 127–90). As mentioned, change was hindered by the corporatist arrangement between governments, industry and the unions. The liberalization of the energy market in the late 1990s in the context of the EU's Common Market programme did not significantly alter these structures, rather it put energy provision by local governments under pressure. At that time, economic and technical developments and public opinion had a stronger impact on energy policy than EU policy. In 1998, the Green Party, which started its career in local and regional parliaments in the 1980s and turned the social movements against nuclear power into a political organization, became a governing party at the federal level, as 'junior partner' of the Social Democrats. But being part of the parliamentary majority and the coalition government did not mean that the party could significantly change a policy, in particular under the institutional conditions of the German government and the rules of the European Common Market.

As mentioned, the innovative approach to energy transition of the red–green government rested on two decisions: the promotion of renewables in the energy market and the phasing out of nuclear power. Both decisions provoked controversial reactions from industry and the unions. The promotion

of renewables affected the *Länder* governments, which, for instance, had to decide on the locations of wind turbines. The end of nuclear power directly concerned regional economies in seven *Länder* in the southern and in the northern and north-eastern parts of Germany, not least in Baden-Württemberg, Bavaria and North Rhine-Westphalia. Against this background, the odds were highly stacked against a successful policy innovation in this area. Deadlock in joint-decision making was unlikely, but compromises with *Länder* governments could have watered down the ambitions of the federal government (Scharpf 1988). To explain why this outcome was avoided, we have to enquire into how multilevel governance was shaped by strategic action and adopted an earlier invention.

The invention materialized before the 1998 change in government. In 1990, the federal parliament (*Bundestag*) passed the Electricity Feed-in Act. The law compelled the companies that in those days supplied energy and operated the grid, to feed into the grid power generated from renewables by small power plants (maximum five megawatts). In addition, it obliged the grid operators to remunerate green energy at a defined rate. Drafted by two Bavarian members of the federal parliament and officially initiated by members of the Christian Democrats, the law passed without significant delay and without being noticed in public. Members of the parliament considered this regulation to have minor effects. It was not perceived to significantly change previous energy policy, but rather was expected to cause negligible costs for energy companies and no costs for government (Deutscher Bundestag 1990: 3). However, this incremental policy change eventually met fierce resistance from big power companies, when they realized that the share of renewables and the amount of guaranteed remunerations were increasing. They took legal action against the law, but both the Federal Constitutional Court in 1996 and the European Court of Justice in 2001 dismissed the legal claims. Moreover, the EU Commission accepted feed-in tariffs as conforming with EU law (Hirschl 2008: 136, 146–8).

The Electricity Feed-in Act included three instruments which in combination signified a new approach to regulating the energy market. First, it guaranteed market access for small companies, in 1990 primarily for those in rural areas generating power from biogas and water. Second, it provided for fixed reimbursement for renewables to make them competitive. Third, remuneration for renewables defined by the law was financed by the consumers, who had to pay a surcharge on the regular electricity price. Although not intended in this way, financial support for investments in renewables was combined with incentives for consumers to save energy. In view of the unexpected effects of the law, it was not surprising that, after the change in federal government in 1998, the red–green coalition renovated this policy approach with the Renewable Energy Sources Act by significantly differentiating and expanding the feed-in tariffs

compared to the original law. This way the invention turned into a crucial element of a policy determined to transform the old energy regime.

The 2000 law required the approval of the *Bundesrat* in which at that time *Länder* representatives from parties opposing the federal government formed the majority. The risk of a *Bundesrat* veto was significantly reduced because the red–green coalition government linked legislation on renewable energy sources with the decision to phase out nuclear power, the second element of policy transformation. Both decisions of the cabinet and the ensuing legislation resulted from negotiations in different arenas. The law phasing out nuclear power was based on a negotiated agreement with the affected private power companies concluded in June 2000. This project was essential for the Green Party but was contested among the Social Democrats and rejected by the opposition parties. Chancellor Gerhard Schröder used the public–private agreement to discipline his coalition and his own party. Moreover, he weakened the opposition of the *Länder* governments in the *Bundesrat* which in this case had no veto right but could have compelled the federal government to negotiate a compromise with the affected *Länder* by convening the mediation committee. The agreement with the power companies fixed the agenda, tied the cabinet's hands in legislation and committed the parliamentary majority. Moreover, the phase-out of nuclear power was supported by a majority of citizens, not least since public opinion had clearly turned against this energy source after the Chernobyl disaster of 1986. With this conflict settled, the Renewable Energy Sources Act was a necessary corollary, as it laid the ground for a progressive approach to enhance power supply from renewable sources (solar, wind, biofuel and geothermal power), together with other instruments to support solar power and research in energy technologies.

There is no doubt that the change in government mattered in this case. With the Green Party in power, there was significant pressure on the Social Democrats to change the course of energy policy. However, the Social Democratic Party was divided on this issue, and the voice from the *Länder* profiting from the generation of coal-fired electricity and nuclear power could not be ignored. Unlike in 2011 when the liberal–conservative government proclaimed their turn to renewable energies in the wake of the Fukushima disaster, there was no focusing event supporting energy transition under the first red–green coalition. The policy innovation was made possible by a strategic shifting and sequencing of policymaking between three arenas that usually structure the process of federal legislation: the cabinet and the majority coalition in parliament, the federal–*Länder* interactions in the bicameral legislature, and the negotiation with private stakeholders. This strategy undermined the power of many veto players opposing the scope of change. Within the cabinet and the coalition, the Social Democrats' Minister for the Economy and his supporters in the parliamentary group warned against the negative effects for industry. In

the *Bundesrat*, the red–green coalition faced a majority controlled by *Länder* governments which due to their party complexion opposed or at least did not support the federal government. Particularly important was the opposition from governments of those *Länder* which significantly profited from nuclear power, among them governments led by the Christian Democrats. Finally, the power companies threatened to take legal action against a shutdown of their reactors. In the end, negotiations in the overlapping arenas helped to prevent a deadlock. The sequence of the process, which conformed to legal rules of legislation but deviated from the common practice of cooperative federalism, confronted the *Länder* governments with accomplished facts and thus significantly weakened their power. Initiatives to convene the mediation committee of the *Bundesrat* and the federal parliament failed.

The new energy policy turned out to be rather successful as it instigated a transformative process. Subsidized, cost-related tariffs made new technologies competitive in the electricity market. They enabled small firms, farmers and house owners to participate in a market so far dominated by big industries. Adjustment of the feed-in tariffs to technological and market development by several amendments of the law prevented windfall effects which could have obstructed the mechanism. By using a surcharge on energy prices to cover the costs of the guaranteed tariffs, the financial burden of energy transition was allocated to the consumers and not the government. This was important because an increase of taxes would have caused significant conflicts and, depending on the type of tax, would have required the consent of the *Bundesrat*. Thus, the regulated market turned out to be the core mechanism driving energy transition, and although the European Commission favoured an auction-based mechanism to regulate market access, the feed-in tariff and the surcharge to be paid by consumers became a model of renewable energy promotion for other countries. In 2007, 19 EU member states had adopted this approach (Voggenpohl et al. 2017: 51).

The development of energy transition demonstrates the transformative effect: The annual share of renewables in gross electricity consumption has significantly increased since 1990 from 3.4 per cent to 42.1 per cent in 2019 (Federal Ministry for Economic Affairs and Energy 2020: 10). But more important are the changes in the policy regime. Some of these changes can be traced back to the liberalization of the energy markets enforced by EU regulation. The grid is now in the hands of four companies which are responsible for planning and investing in grid expansion and balancing demand and supply of power in an electricity stock exchange. The Federal Network Agency participates in the planning of transmission lines proposed by grid operators and supervises the electricity market. As a result of the new energy policy, the industry structure and interest intermediation in the energy sector changed as well. New, mostly small and medium-sized firms entered the markets of solar

panels, wind turbines, biogas, batteries, etc. The interests of this new industry sector are organized in associations. Moreover, independent institutes provide expertise and knowledge for governments, industry and consumers. These new organizations significantly influence public–private communication as the exclusive energy corporatism has turned towards a more pluralist pattern of interest intermediation (Mautz 2012).

However, energy transition proceeded not without obstacles. In 2005, the red–green coalition lost its parliamentary majority in federal elections, replaced by a 'Grand Coalition' of Christian Democrats and Social Democrats. After the next federal elections in 2009, a new coalition government formed by Christian Democrats and Liberals revised energy policy. It extended the lifetime of nuclear power plants but continued the promotion of renewable energy sources. The use of nuclear power was a contested issue within the Christian Democratic Party, whereas it was supported by the Liberals. After the disaster in Fukushima, the opponents of the changed energy policy in the coalition pressed the government to abandon this policy. In the context of the ongoing policy transformation, what the media labelled a 'turnaround' in effect appears more as a step back to the policy path taken by the previous 'red–green' government. For this reason, the coalition did not have to expect disagreement by the opposition in the federal parliament. Rather the *Länder* governments affected by the immediate shutdown of seven nuclear power plants, most of them led by the Christian Democrats, resisted the new policy. The federal government secured support in informal and bilateral negotiations with these *Länder*, although the *Bundesrat* had no veto power in this legislation. That there was more continuity than change was proved by the strategic concept for energy transition, which the federal cabinet elaborated in 2010 without the explicit involvement of *Länder* governments or civil society. Over the following years, amendments to the Law on Renewable Energy Sources adjusted the feed-in tariffs. The *Länder* governments participated in the negotiation on the bills as they increasingly engaged in energy transition.

Nevertheless, while we observe in Denmark the rise of multilevel governance by a decentralization of power and an intensification of communication and coordination of policies of the central and local governments, German energy policy revealed an opposite trend in federal–*Länder* relations. Starting with the strategy of the red–green government, the federal government evaded the constraints of joint-decision making by using legislative powers and by privileging intragovernmental to intergovernmental policymaking. This does not mean that the *Länder* had been excluded from policymaking and that local governments did not play a role. As a matter of fact, they contributed to energy transition by complementary measures to promote solar power and biogas generation, to reduce fossil fuels for heating and in public transport, and many

more. They also decided on the location and approval of wind turbines, which, as in Denmark, became a contested issue.

In Denmark, the acceleration of energy transition at the local level called for central government to improve coordination via guidelines and regulation, the latter following European directives and the requirements of the Nordic electricity market in which the country is integrated. But the cooperative relations between central and local governments remained essential to stabilize the new policy. In Germany, cooperative federalism revealed increasing tensions. They reflected the territorial disparities between the *Länder* in unified Germany, but also the deficits in joint-decision making which led the federal government to promote centralization. Energy policy was centralized from the beginning, but energy transition affected the *Länder* in different ways. The replacement of nuclear power with renewable energies considerably changed the territorial structure of the German energy system. Confronted by this development, the *Länder* governments elaborated their own concepts for energy transition, and defined goals and measures in programmes for climate protection. However, these policies have been coordinated neither among the *Länder* governments nor with the federal government. Accordingly, goals and measures taken have diverged considerably (Ohlhorst 2015).

At the same time, the federal government established its own platform for managing energy transition. It set up advisory committees and consultative bodies for all relevant aspects of energy transition, which included representatives from business, civil society and in most cases also from *Länder* and local governments. In addition, the government sponsored private organizations promoting energy transition (Krick 2018). When the federal ministry for the environment drafted the plan for climate protection (Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety 2016), designed to implement Germany's commitments resulting from the Paris Agreement, the *Länder* governments and civil society had the opportunity to issue opinions and suggestions in an organized dialogue (Bohn and Heinzelmann 2017). These actors also participate in working groups that have been set up by the Federal Ministry of Economics for energy policy and the Ministry of the Environment for climate policy, on an equal basis with representatives from the private sector and civil society. Finally, the law determining the phasing out of coal mining and the complementary law on structural policies in the affected regions passed in 2020 were prepared by a commission of independent people representing different sectors of society before they were presented to the governments of the concerned *Länder*.

Most of the patterns of coordination between federal and *Länder* governments remained informal. Governments regularly consulted in conferences of the responsible ministers and in diverse administrative committees. This dense network of communication allowed for mutually influencing policies. In

legislation, *Länder* governments had a voice in the *Bundesrat* and could delay decisions by a suspensive veto or by convening the mediation committee. Via pre-legislative negotiations, which at some points led to substantial compromises, the federal government prevented *Länder* governments from using these powers. In decisions on the adjustment of the transmission grid to the changed territorial structure of power generation, *Länder* governments have to agree with a majority in the *Bundesrat* to a federal law defining the need for new power lines. Like local governments and private actors, they can issue their opinion in different stages of the planning process which is delegated to the Federal Network Agency (*Bundesnetzagentur*).

Although these processes seem to continue the typical pattern of German consensus democracy and cooperative federalism, they mainly serve to gain acceptance and appear as 'consensus management' from above. So far, they have failed to effectively manage social and territorial conflicts. Social conflicts have been expressed by business and consumers complaining about the high costs of energy transition. Territorial conflicts have delayed grid expansion and the phasing out of coal-based power generation. In the latter case, disputes have finally been settled by compromises increasing the costs for taxpayers. In consequence, the current state of energy transition appears as ambivalent, notwithstanding the undeniable success of the transformative energy policy in Germany. The societal consensus, which for a long time had supported energy transition, is fading.

However, multilevel governance is not to blame for these developments. The policy of the red–green coalition demonstrated that a strategic linkage of different arenas of negotiations in German federalism enabled a turn in energy policy. Innovative policy succeeded, when the potential clash between the federal coalition government and joint-decision making in federal legislation was counterbalanced by negotiations of the federal government with private firms in a third arena. Later, conflicts between governments, delays in implementation and obstacles in the path for transition demonstrated that federal governments failed to adjust patterns of multilevel governance to the exigencies of a transformed energy regime and instead centralized governance. Indeed, under the label of 'joint task energy transition', the executive established a 'platform' consisting of different working groups. However, this top-down and rather technocratic approach of governance by informal executive networks reached its limits when territorial and party-political conflicts in energy policy intensified.

Canada

For different reasons, Canadian energy policy contrasts with the cases of Denmark and Germany. It is not that Canada is not integrated in a transnational

federation like the EU or its geographical conditions, which make a relevant difference. To explain policymaking and policy change, the institutional context of multilevel governance in the Canadian federation and its type of democracy matter. Although Canada is a latecomer in energy transition, we find significant policy changes. However, so far they have not led to a transformation of the old energy policy regime.

Canadian federalism is characterized by separation of powers and significant autonomy of provinces, in particular concerning natural resources. The central government's power to regulate energy is limited. The Constitution confers 'the exploration of non-renewable resources' and 'the development, conservation and management of sites and facilities in the province for the generation and production of electrical energy' to the provinces (section 92A of the Constitution Act), whereas the federal government has the power to regulate trade and commerce (section 91). Concerning the regulation of greenhouse gases, the provinces are responsible for buildings, business, firms and intraprovincial transportation. Competences of the federal government in this field result from its right to regulate toxic substances. Moreover, it can justify activities in environmental policy by its general power to 'maintain peace order and good government' (Becklump 2013). In consequence, competences relevant for a transformation of the energy system are divided. In order to make a coherent policy, the provincial and federal governments have to coordinate their decisions.

However, multilevel coordination in Canada is encumbered by a lack of institutionalized patterns of intergovernmental relations. Collaborative relations have evolved in a number of policy fields, including in environmental policy (Schertzer et al. 2017), but they have been poorly managed and remained highly dependent on the discretion of federal ministers. If governments negotiate an agreement on a policy, they are not compelled to come to joint decisions but cooperate on a voluntary basis. Majoritarian democracy is another reason for coordination deficits. Party competition in the parliamentary system has regularly turned negotiations into bargaining, if not confrontation. 'In general, […] meetings have tended to be for position-taking rather than joint-decision making. While governments may come to agreement on generalized principles in a policy area, substantive multilateral intergovernmental agreements are rare' (Simmons 2017: 580). In this particular variety of 'executive federalism' linked to a parliamentary democracy, there is always the risk that a minister or premier cannot rely on the support of the parliament for a compromise settled in intergovernmental negotiations. Yet in case of disagreement, each government is able to make its own policy (Adam et al. 2015).

Under these institutional conditions, the provinces became the driving forces of change in energy policy. However, as long as the federal government engaged in international climate policy it had an interest that governments

at all levels took appropriate measures to reduce greenhouse gases. The provinces defended their power to decide on energy resources, although they accepted that the federal government regulated emission from greenhouse gases. Federal and provincial governments can use their tax power to introduce a carbon tax, but until recently the federal government left this option to the provinces. While the pressure to harmonize policies between levels of government has increased, for a long time either the provinces opposed federal intervention and preferred interprovincial coordination or the federal government had no interest in transforming the energy system.

Beyond institutional conditions, intergovernmental coordination in energy policy has been burdened by diverging interests of governments. More so than in Germany, the Canadian energy system is characterized by an extreme regional diversity (Gattinger 2009; Macdonald 2020). British Columbia, Manitoba, Newfoundland and Labrador, and Quebec cover a large share of electricity demand by water power − Hydro-Québec is even able to export electricity to the United States. Alberta profits from rich oil and natural gas reserves, like Saskatchewan which can rely on more diversified deposits of natural resources including coal and uranium. Both provinces benefit from exports of these resources to the US and other countries. In Ontario about 60 per cent of electricity is generated by nuclear power, which has only limited relevance in other parts of Canada (Natural Resources Canada 2020: 5). Accordingly, a transition to renewable energies affects the provinces in different ways, either because they already produce green energy from water power or because their economy is heavily dependent on oil and gas.

Apart from this objective diversity and the different policy preferences of provincial governments, policy coordination has been burdened by a deep divide between the federal government on the one hand and the provinces, first and foremost Quebec and Alberta, on the other. The conflict intensified in the early 1980s with the unilateral attempt by the federal government under Prime Minister Pierre Trudeau to centralize power in order to implement a National Energy Policy (NEP). This policy was intended to manage the global oil crisis by reducing oil exports to the US, to limit oil prices for Canadian consumers and to increase federal revenues from energy generation. Designed without the participation of provincial governments, the policy was met with fierce resistance in western provinces, in particular Alberta. Although the NEP finally failed and was abandoned under the conservative government of Brian Mulroney in 1984, this unilateral action strained federal–provincial relations in energy policy for decades.

Since the mid-1980s, Canadian energy policy manoeuvred between a liberalization of the energy market determined to increase economic growth by exporting oil and gas and a climate policy aimed at reducing greenhouse gases (Broschek 2019). Market liberalization was in accordance to provincial auton-

omy and the decentralized control of energy resources, while climate policy was advocated by the federal government but required multilevel coordination. After Canada had signed the Kyoto Protocol, the federal government negotiated an intergovernmental accord with the provinces, the 2002 Climate Change Plan for Canada. In the following years, Canada failed to meet the ambitious goals defined in the agreement. After the federal elections in 2006, the conservative government of Stephen Harper abandoned this strategy. It clearly focused on fossil resources in order to make Canada an energy superpower. In 2011, the government announced its withdrawal from the Kyoto Protocol.

In this context, a new policy to transform the energy system emerged from below, although with considerable delay compared to energy transition in Germany and Denmark and with repeated setbacks. Nearly all provinces introduced measures against climate change. Alberta's conservative government initiated the Climate Change Emission Management Act which passed in parliament in 2003, and in 2015 a NDP government decided to end coal-fired power generation in the province. An ambitious approach to energy transition was introduced in 2009 in Ontario, where a Liberal government emulated the German feed-in tariff system to promote renewable energy (Stokes 2013) and decided to phase out coal power. In 2018, a conservative government abolished the feed-in tariffs. Other provinces subsidized wind power or expanded water power facilities. As a consequence, Canada has seen a rise in the share of renewable energy since 2015. In addition, provincial governments aimed at reducing greenhouse gas emissions by regulated prices. British Columbia introduced a carbon tax in 2008, Quebec established a system to cap and trade emission, in cooperation with US states, in which Ontario has participated since 2017. Thus, a broad range of instruments has been introduced to promote renewables and to increase the costs of fossil fuel energy.

These decentralized policy innovations certainly have been facilitated by particular conditions in provincial politics, such as the low number of veto players in a majoritarian democracy, advocacy coalitions in the public sector, and favourable economic development. However, the context of multilevel governance contributed to stimulate change. Provincial governments could use significant discretion which the federal government left to them in energy and climate policy. They used their powers to advance 'horizontal federalism', thus increasing the effectiveness of their policies and defending their domain by interprovincial cooperation. Some provinces extended this cooperation across the Canadian border to US states which also promoted green energy in opposition to a conservative federal government. Other governments 'downloaded' climate policy (feed-in tariffs, carbon tax, cap and trade emissions) from the international level and emulated approaches to promote renewable energy from other countries or the EU. To a certain extent, they entered into a

'race to the top' in a policy competition for innovative approaches to cope with the challenges of energy and climate policy.

However, these decentralized policy changes resulted in a heterogeneous and volatile patchwork of regionalized regulations and incentives, and this prevented these innovations from turning into a transformative path. The provinces never managed to really coordinate their strategies to transform the energy system across Canada. The Council of the Federation, a bi-annual meeting of heads of governments which was established in December 2003 to improve interprovincial cooperation, focused on energy transition since 2007. But it took until 2015 for premiers to agree on a 'Canadian Energy Strategy', a paper concealing divergent interest behind ambivalent statements and rather vague visions (Canada's Premiers 2015). Measures to implement this vision were far less than ambitious and the progress reported by the Council of the Federation remained limited (see communiqués on: http://www .canadaspremiers.ca/canadian-energy-strategy/).

The federal elections in 2015 changed the political context of multilevel governance in Canada. The new premier, Justin Trudeau, revived federal–provincial cooperation in order to address climate change, after his predecessor Stephen Harper had preferred a clear separation of power and abandoned regular meetings among first ministers. Immediately after becoming premier, Trudeau invited the prime ministers of the provinces and territories to discuss the challenges Canada is facing due to climate change. In their meeting in March 2016, the heads of governments launched a process of negotiation and consultation including representatives from Indigenous peoples, business, civil society and experts. This discursive process, which allowed interested people to issue opinions via a web page and to participate in meetings that were held across Canada, was managed by four intergovernmental working groups. As a result, first ministers passed the Pan Canadian Framework on Green Growth and Climate Change in December 2016, which was signed by all governments except those of Saskatchewan and Manitoba. Among the different measures designed to reduce greenhouse gas emissions by at least 30 per cent in 2030 below the 2005 level, a Canada-wide carbon tax stands out. To implement this tax, the intergovernmental agreement established cooperation in the shadow of hierarchy. It left it to the provinces to design their own policies but allowed the federal government to introduce a system of carbon pricing if decentralized policies prove insufficient to meet the target and meet standards defined in the agreement. The legal basis for federal action constitutes the Greenhouse Gas Pollution Pricing Act which the federal parliament passed in 2018. In 2019, the federal government used this conditional power to impose a carbon tax in New Brunswick, Ontario, Manitoba and Saskatchewan that came into effect on 1 April 2019. The conservative governments of Ontario and Saskatchewan

responded with harsh criticism and took legal action against the federal legislation, but to no avail.

Beyond this legislation, the Federal Ministry of Natural Resources, responsible for energy transition and climate policy, established a broad range of policies to stimulate technological innovation, investments in renewables, energy efficiency and the reduction of greenhouse gases, most of them directly addressing private actors or initiating public–private activities. The precise effect of this federal policy is difficult to evaluate, not least as implementation is still under way. However, it demonstrates how the Canadian multilevel governance in energy policy combines patterns of voluntary negotiations, decentralized policy competition and policy shifts between levels. This variability of intergovernmental policymaking can respond to fluctuations caused by government changes in majoritarian democracy. Both flexible federal–provincial cooperation and competition and parliamentary democracy with one-party governments encourage policy change and innovation. However, they obstruct a transformation of a policy regime which is entrenched in constitutional law and supported by economic interests and decentralized party politics.

LOCAL POLICY INNOVATION IN CLIMATE POLICY: CITIES IN MULTILEVEL GOVERNANCE

Climate change, which to a considerable extent is caused by energy generation from fossil fuels, is a global problem. However, its perceptible impacts mainly materialize at the regional and local level as heat, drought, heavy storms or floods (Rosenzweig et al. 2018). While national governments have made efforts to coordinate their policies on a global level and to transpose the agreements into national law, effective measures to reduce emissions and to protect people against the evident and imminent effects of climate change have to be implemented at the regional and local level, where not only the impacts on the environment but also economic and social consequences are felt. Hence local governments found attention in global and European climate governance, and at the same time they discovered the potentials of engaging in diverse patterns of multilevel governance (Hughes et al. 2018; Johnson et al. 2015).

City governments may have limited power to address the causes of climate change, but they have ample options to mitigate its consequences. This is meanwhile acknowledged by local politicians as well as national governments and international organizations. However, notwithstanding their potential as places of experimental policy, when it comes to policymaking on site, conservative interests often prevail or obstruct change. For this reason, a number of efforts have been launched to stimulate local climate policies. They have led to various patterns of multilevel governance. Beyond top-down approaches to regulate local policies, so-called soft modes of governance emerged which

have been designed explicitly to stimulate policy change by learning from information exchange and best practice models.

Research on local government has drawn attention to multilevel governance (or central–local relations) since the 1970s. The transnational dimension surfaced as a research topic with studies on international city networks and the participation of local governments in EU and international politics (Bouteligier 2012; Ewen and Hebbert 2007; Heinelt and Niederhafner 2008; Kern and Bulkeley 2009; Lee and Koski 2015). These supralocal policy arenas gave rise to unique patterns of multilevel governance, particularly in climate policy. The state of research allows us to discern the following types:

- At the national and regional level, cities are involved in local government associations, in which they formulate shared interests and represent them vis-à-vis the regional or federal government or the European Commission. Processes of interest intermediation do not aim at policy coordination or change in the first place. Local government associations constitute a kind of overarching network, which not only serves to accommodate interests of diverse cities but also develops standards of good governance. They cannot be expected to be particularly innovative on their own nor to induce local policy innovation. Instead, they are compelled to make compromises in order to do justice to the different interests of various city governments. They provide expertise, articulate specific problems of local governments and advocate local autonomy against interference from central governments.

- In contrast to these general-purpose associations, city networks focus on specific policies. They are likely to emerge in new policy fields, as climate policy clearly demonstrates (Betsill and Bulkeley 2004; Giest and Howlett 2013; Kern 2014; Kern and Bulkeley 2009). These policy networks are not established to pursue local interests, but first and foremost serve to generate knowledge, exchange experience, and develop ideas and instruments for innovative policy (Bauer and Steurer 2014; Bouteligier 2012). Their purpose does not rule out that local actors use them to play a strategic two-level game. Climate policy specialists in a city administration can gain 'epistemic' authority within local politics through their linkages in policy networks, either if they get support for their own policy proposals in a supralocal city network or if they transfer a policy via this channel.

- Vertical intergovernmental relations have evolved in relations of cities with the EU, national, federal or regional governments, primarily in the context of the funding of local projects (Zerbinati 2012). They are mainly related to specific issues concerning the implementation of funds and are negotiated bilaterally between a local administration and the funding authority. Grants for special purposes are spent as incentives for new

policies, but it is not certain whether they really induce change or serve to enable a local government to implement its plans.

- Cities participate in yardstick competition. These processes are organized by the EU and national ministries in particular policy areas, including climate change policy. International city networks can also stimulate competition for innovation by labelling or awarding best practices. While grants are determined to achieve goals or standards defined at higher levels by appropriate local policy change, yardstick competition has the potential to invent new policies in a contest for innovation.

Considering theories of multilevel governance and policy learning, and considering different varieties of multilevel governance in terms of their cognitive (learning) and political (agenda-setting, conflict resolution, decision-making, implementation) consequences, we have reason to assume that special policy networks and yardstick competition are more likely to promote policy innovation at the local level than the traditional linkages in local government associations or incentives from central governments. Policy networks constitute epistemic communities in which knowledge is generated and actors can learn by exchanging experiences (Papin 2020). Yardstick competition stimulates policy innovation through a combination of communication and incentives (Benz 2012). Financial support from the central government and 'downloading' recommendations of local government associations can be used by policymakers to overcome resistance against policy change within local politics. Another strategy is to 'upload' policies, which they deem as innovative, into supralocal networks, and thus 'upscale' local experiments and best practices (Kern 2019). Policymakers in local governments do not distinguish the different patterns of multilevel governance or mechanisms behind them, but they are aware of the prospects of supralocal action.

These processes do not rule out that political parties, organized interests or departments in administration oppose policy innovation and that local veto players cannot be convinced. The main reasons for opposition refer to the costs of policy change. Costs are also a reason why engagement in multilevel governance may have ambivalent consequences for policymakers. Participation in local government associations and applications for grants have costs, not least in terms of time and staff resources, but also benefits in terms of support and fiscal assistance. Policy networks and yardstick competition generate more diffuse benefits in terms of ideas, information and learning, whereas for cities engaging in these processes the costs of staff time and travel expenses can be significant. This raises the question of whether the rather loose linkages between local and supralocal levels via policy networks and yardstick competition attract sufficient participants and can be stabilized. Proponents of policy change, usually actors in local administration, have to play the ideational

resources gained in supralocal action against the constraints in local governance. Whether this ultimately succeeds depends to a considerable extent on the particular local conditions (Krause 2010).

A study on policy innovation in local climate policy in German cities with more than 100,000 inhabitants tried to answer these questions.[1] Policy innovation was operationalized regarding three dimensions of a policy regime: (1) the existence of a policy programme defining the basic ideas of climate policy, that is, the goals and steps to be taken in climate policy; (2) institutional changes in local administration (pooling of tasks related to climate policy in one organizational unit, increase of staff in this policy field); and (3) the various measures to implement climate policy in areas like city planning, transportation or energy. Innovation was measured by the ratio of completed activities to potential activities, that is, all activities identified by a survey. Beyond the engagement of local actors in supralocal arenas and processes, local conditions such as the size of a city indicating administrative capacities, the perceived problems caused by climate change, and party politics (the votes for the Green Party in local elections) were considered as conditions affecting policymaking (Kemmerzell 2018; Kemmerzell and Hofmeister 2019).

As survey data revealed, 67 of the 71 cities covered by the survey (out of 85 addressed) had passed climate policy programmes. Some of them published their programmes in the 1990s, at a time when international associations of cities started to set up special working groups and policy networks dealing with climate change, but most of them (44) introduced their climate policy after 2008, the year when the German federal government published its Climate Action Strategy (Federal Government of Germany 2008). Since 1990, a significant number of German cities have set up a special unit responsible for climate policy, and in 2015, 57 had expanded their administrative capacities for climate policy. In 40 cities, this change occurred after 2008. The third and particularly relevant dimension of climate policy encompassed the activities implemented in a city in relation to the 33 activities overall that the cities initiated since 1990. They can be combined in five categories: (1) monitoring of CO_2 emissions and energy consumption; (2) energy reduction and renewable energies in public premises and services; (3) regulation and incentives for private investors; (4) activities to reduce greenhouse gas emission in transportation; and (5) advice and support for private engagement in climate mitigation. The ratio of potential and actual climate change activities and the coverage of these five categories measured the degree of policy innovation, and 37 cities reached a threshold[2] that indicated significant change.

Data analysis to explain policy innovation in these cities by a Qualitative Comparative Analysis (QCA; for methodological details and results see Kemmerzell and Hofmeister 2019: 100–103) revealed that local pressure resulting from perceived problems cannot explain an innovative policy. Not

surprisingly, administrative and financial capacities and the strength of the Green Party facilitated policy innovation. Yet these conditions explain only 43 per cent of the pertinent cases. More cases could be explained if the analysis includes multilevel governance, here the involvement of a city in different forms of supralocal action, that is 'vertical' interactions among cities and upper-level authorities determined to receive grants from the EU or federal funds and 'horizontal' interactions in policy networks of cities[3] or yardstick competitions. The number of contests in which a city participated, the frequency of contacts in networks, and the intensity of commitment (informal contacts, simple membership, special roles adopted by representatives of a city) in activities within European and international arenas indicated variations in the extent and intensity of involvement of cities in supralocal action.

In general, intensity of participation in supralocal action appears to encourage policy change in cities. Certainly, innovation can also be observed in cities where the local government has not been involved in multilevel governance. This occurs particularly under perceived pressure of problems. However, this does not prove that such pressure constitutes a necessary condition for policy innovation. Local climate policy can also turn out as innovative if responsible local actors do not perceive themselves compelled by climate change to take action. In cities where the Green Party is comparatively strong, involvement in horizontal patterns of communicative interaction reinforce the policy orientation of local politics and administration towards climate change. Vertical relations, that is the support via European and federal funds, lead to an extension of activities in larger cities. By including multilevel activities of local government in the analysis, the coverage of the explanation improves significantly and extends to 68 per cent of the cases. These results indicate that the multilevel context and the strategic use of the supralocal arenas by local actors constitutes not a necessary but a sufficient condition for policy innovation.

As regards intra-local conditions, it is certain that the perceived challenge of climate change and financial and administrative capacities influence climate policy, but they cannot explain policy change in this field. Party politics seems to have an impact, and the size of the electorate preferring the Green Party in a city seems to stimulate an active climate mitigation policy. However, majorities in city councils regularly are formed by varying coalitions. Unlike coalitions in a parliamentary government, parties at the local level cooperate in informal agreements which hardly determine politics, and members of city councils often cooperate to support specific issues regardless of the position of their party. There is rarely a divide between majority and opposition parties. Local politics is characterized not by ideological or programmatic conflicts, but rather by a pragmatic search for agreements (Holtkamp 2008). This heterogeneity of local party politics and the need to negotiate decisions make policy change difficult. For this reason, innovations are rarely spurred by elections at

the local level. They rather depend on the engagement of local actors in supra-local arenas, with communicative interaction in this context inducing change in local politics.

More than parties, 'policy entrepreneurs' seem to play a role in climate policy. The respondents to the questionnaire mentioned civil servants in 69 cities as actors who over several years stand out to advance climate policy. Individual members of city councils (46) and representatives of civil society (associations and citizens' initiatives; 45) also seem to be particularly committed in this policy field, while mayors were mentioned in 19 cities only. If we take into account that different activities are often developed and implemented in cooperation with experts, firms and civil society associations, it seems plausible to assume that communication in national and international policy networks is connected to local networks in climate policy. Highly committed political leaders contribute to changes in climate policy under structurally unfavourable conditions and in the absence of engagement of a local government in national and international arenas. However, they are hardly able to compensate for constraints such as a lack of financial resources or coalitions of parties opposing new approaches of climate policy. Nonetheless, in the empirical study on climate policy in German cities, the inclusion of policy entrepreneurs as a relevant condition of policymaking improves the explanatory power of the QCA model, so that now 76 per cent of the cases of innovative climate policy are covered.

Overall, the results of this comparative analysis support the assumptions derived from theories outlined previously (Chapter 4). However, nine cases of innovative cities cannot be explained by the conditions outlined above. Moreover, among the 35 cities which according to the data appear as non-innovative, no less than 22 are also involved in intergovernmental relations with the federal government and the EU and participate in supralocal policy networks or yardstick competition. Certainly, if we discover conditions causing particular effects, this does not exclude that different effects also materialize under these conditions. As case studies on selected cities showed, policy innovation is constrained in particular by a lack of sufficient financial resources. Especially mayors or city managers confronted with poor economic prospects address upper-level governments or the EU Commission to procure grants. Competing for grants is a demanding task and negotiations with funding authorities on the conditions to be fulfilled do not always stimulate policy innovation. Hence, the comparative analysis of the cities does not demonstrate that multilevel governance is a necessary condition for policy innovation; it indicates that it is one driver of significant change. The effect of this driving force can be reduced or overridden by countervailing forces operating in local politics. Whenever the perceived costs of engagement in policy networks exceed the benefits, cities will concentrate their activities on gov-

ernance initiatives which promise the best return (Gordon 2016). Moreover, institutional constraints or political opposition within cities can undermine the effects of supralocal action. It is the balance of multilevel policymaking and intragovernmental structures and processes which is essential to explain policy change.

MULTILEVEL ENERGY POLICY, CLIMATE GOVERNANCE AND VARIETIES OF DEMOCRACY

By and large, our findings on policy innovation in local climate policy in German cities are in accordance with findings reported in literature on policy transfer, diffusion and convergence (Berry and Berry 1999; Dolowitz and March 2000; Evans 2009; Holzinger et al. 2007; Strunz et al. 2018; Volden and Shipan 2008). They confirm the relevance of policy networks and exchange of best or good practices, but in particular they highlight the vertical dimension of multilevel governance and the opportunity of uploading and downloading policies (Busch 2015; Kern 2019). Likewise, Andrew Karch inferred from his study on policy diffusion among US states that innovation is fostered by a dynamic interplay of communicative processes at different levels. He discovered that states often adopt proposals from their associations, although all innovations are created in states, the 'democratic laboratories' of federalism. Therefore, policy diffusion actually evolves across levels, in a bottom-up and top-down process.

> [It] occurs, when the policy innovation percolates upward to the national level, at which national decision makers debate the merits of the innovative program. This is the bottom-up element of the agenda-setting process. National policy debates increase both the visibility and political salience of a policy innovation, and these controversies frequently prompt lawmakers in state houses across the country to consider the innovation. This is the top-down element of the agenda-setting process. (Karch 2010: 197)

The same can be said for policy innovation in cities and nation states in the context of global or European governance.

After moving onto the agenda, a policy innovation has to find acceptance in intra-governmental politics. It must 'navigate the customization and enactment process' (Karch 2010: 197). This explains why communicative interaction in supralocal or intergovernmental arenas does not guarantee that governments of states, regions or cities implement innovative policies. Politics within the constituent units of multilevel governance can particularly obstruct coordination which aims at turning an innovative policy into a transformation of a policy regime. Therefore, as pointed out in the previous chapters, the 'domestic' conditions of multilevel policymaking deserve special attention. The case studies

on energy and climate policy illustrate how various patterns of democracy and politics within governments influence policy change and how they adjust to the rise of multilevel governance.

Empirical research has so far exposed constraining effects of democratic politics on multilevel policymaking. Apparently, the findings need to be revised for city governments. At the local level, patterns of democracy are founded on the division of power between the mayor, the local council and the administration. They also differ according to the party system and the structure of local society. For this reason, varieties can be observed despite identical constitutions in a state or region. The case studies on climate change in German cities, complete in the project mentioned above, exemplify what research on local politics has revealed (Loughlin et al. 2011). It is the elasticity of power structures in a local democracy which explains why central-local and intra-local governance rarely cause tensions and instead mutually adjust.

Two cases exemplify this elasticity. The first referred to a city government, in which the survey data discovered an innovative climate policy despite the city's unfavourable financial situation. Although civil servants responsible for climate policy confirmed their integration in policy networks and the participation of the city in competition for best practices, they called attention to another mechanism that they regarded as decisive for policy change. Politics and in particular climate policy had been strongly influenced by an active civil society. Apparently, the mobilization of citizens can be traced back to serious and meanwhile visible consequences of climate change in the city, where geographical conditions increase the risk of heat and heavy rain. Hence, impulses from supralocal networking resonated with the citizens' commitment and pressure to take action despite the fiscal constraints. Both processes reinforced each other and communicative interaction in public–private policy communities and supralocal epistemic communities supported policy innovation against the opposition from parties and administrative departments.

Another case study endorses these interactive effects, but also discloses significant tensions between multilevel policymaking and domestic politics. In this city, climate policy did not prove innovative, despite favourable economic and environmental conditions and despite the city administration's intense participation in policy networks and yardstick competition. As the in-depth enquiry clarified, local party politics and institutional constraints explain this unexpected finding. Parties in the local council were primarily interested in transport problems and the social aspects of urban development. In consequence, departments of local administration responsible for these policies did not show an interest in coordinating with other departments to advance an integrated climate policy. Nonetheless, the civil servants who engaged in supralocal policy networks profited from the information and knowledge they gained in this context and used these resources to create a niche of innovation

within the city administration. Thus, they were able to induce at least gradual changes of local climate policy. It is not unlikely that, over time, these policy changes led to a shift in power within local administration with consequences for politics. A further case study brought to light such self-enforcing dynamics. In this city, the elaboration of a climate policy programme, new activities to implement this programme, and institutional reforms of the city administration occurred at a time when local actors had been active in supralocal networks. Meanwhile, this engagement appears no longer useful since policymakers, parties and public opinion focuses on other issues of urban politics. This case indicates that the loose ties between local politics and supralocal networks, which are conducive for policy innovation, are difficult to maintain over a longer time span, not least in view of the costs that accumulate over time. It is also probable that these policy networks lose their innovative potential and cause lock-in effects not unlike those that have been observed in transformative regional policy (Grabher 1993).

The case studies on energy transition in Denmark, Germany and Canada also shed light on the interplay of intragovernmental politics and multilevel governance, which likewise has consequences for European and global governance. It should be noted that nation states reveal distinct patterns of democracy (Lijphart 1999). Rooted in political history and entrenched in constitutions, they are characterized by rather constant mechanisms of politics and established practices to cope with conflicts and to make decisions. For these reasons, they are less adaptable than local democracy, and tensions between multilevel governance and democratic politics are more likely to persist and influence policy change. Progress and delay of energy transition in the three countries considered can be explained by these structural conditions.

In Denmark, as in other Nordic states, multilevel policymaking is linked to a consensus democracy at the central and local level. A pluralist party system and proportional representation in parliament precludes one-party majority governments as well as a rigid confrontation between majority and opposition. Parties form coalitions, but particular rules of constituting the executive make minority governments most likely. Therefore, legislative decisions have to be negotiated and are not determined by secure majorities. When it comes to negotiations with local governments, the central government's hands are not tied to the position of a coalition, but the government has to privilege those options that promise to be supported by a parliamentary majority. For local governments there is always the risk that the national parliament overrules an agreement. Although cooperating in strong associations, they cannot exploit their power as a rather coherent veto player, as they cannot know for sure what the parliament will accept. The government, on the other hand, cannot ignore the will of local governments represented by their associations. However, it can manipulate the policy process by changing the sequence between intergov-

ernmental and parliamentary arenas and thus define where policies are shaped (Blom-Hansen 1999: 45–9). This way it can avoid a deadlock in joint-decision making. But as a minority government, it cannot exploit the shadow of hierarchy resulting from the power of the parliament to legislate. Therefore, central and local governments are motivated to find a consensus which they can present as the common will.

In Germany, a similar parliamentary system prevents one-party governments, but minority governments are the exception and are considered as a deviation from the norm. Therefore, intergovernmental negotiations are strongly influenced by predefined policy preferences of executives. They either express territorial interests or party positions. More often than not, both overlap and reinforce the rigidity of preferences. In coalition governments, executives can rely on their majority in parliament, but they must also take into account that representatives from all governments are committed to the will of their parliamentary majority. For this reason, they can only seek a compromise which reflects the common denominator of policy preferences and therefore is acceptable for all. Under these conditions, a policy with redistributive consequences, as is inevitable when a policy is changed significantly, is hardly possible (Scharpf 1988). In order to achieve policy innovation, a government must find ways to circumvent the joint-decision constellation. The most promising strategy is a manipulation of the process passing through the arenas of negotiation in the cabinet and coalition, in intergovernmental relations and in corporatist settings, which is a conventional proceeding in Nordic democracies (Blom-Hansen 1999). In Germany, this way out of the intricacies of joint-decision making is less usual.

In Canada, single-party governments are the rule. This has led to a characteristic type of executive federalism. Policies to be coordinated between the federal government and the governments of the provinces are negotiated among the Prime Minister and premiers or their ministers. Like executives in Germany, they can rely on parliamentary support. Parties in the Canadian federation tend to express territorial interests and thus reinforce conflicts between governments. Joint decisions are likely to fail under these conditions and, as a rule, they are avoided. Governments either prefer bilateral agreements or agreements which allow individual provincial governments to opt out. Competition and mutual adjustment to unilateral policies still prevail. They allow the changing of policies, in particular after a change in government. The stop-and-go policy typical of the Westminster type of parliamentary system explains the volatility of Canadian policymaking (Broschek 2021). It favours policy change and innovation but renders it remarkably difficult to stabilize a changed policy. This explains why Canada still has not managed to transform its energy policy regime.

CONCLUSION: POLICY INNOVATION AND TRANSFORMATION

Over the last two decades, the political pressure to transform the energy system and address the causes and consequences of climate change has increased in all parts of the world. For this reason, the significant policy changes described in the case studies as well as the dynamic evolution of multilevel governance in this field come as no surprise. They appear instead as necessary consequences of the measurable global warming and its perceptible effects as well as the opportunities brought about by technological development. Different trajectories of policy change in nation states or sub-national governments, however, need to be explained by multilevel and intragovernmental structures of politics and processes of policymaking.

The policy dynamics, which we observed in national energy transition and local climate policy, are not caused by, but are certainly supported by, the transnational 'multilevel action system' (Mayntz 2015), the UN climate regime and European energy governance. For different actors in national and sub-national politics, they constitute arenas of communicative interaction. In addition, they provide standards and guidelines for policymaking at other levels of governance. Loosely linked by informal processes rather than institutionalized power sharing or processes of joint-decision making, they encourage bottom-up processes of 'uploading' of policies to transnational arenas and corresponding top-down processes of 'downloading' knowledge or policy proposals. Comparable dynamics have been described for the 'dual' federal system of the US, where intergovernmental relations in policymaking are based on informal interactions between executives from local, state and federal government (Karch 2010).

The system of multilevel governance which has emerged in global and European energy and climate policy is not the direct result of a delegation or migration of authority, which has been observed as a general trend in international politics (Hooghe et al. 2019) and in federations (Bednar 2004). It reflects partly the efforts of the EU and national governments to advance coordinated policy at all levels of government, and partly the strategic actions of local policymakers interested in pushing policies addressing the challenges of climate change. Policymaking at the different levels is not coordinated by negotiated agreements to harmonize decisions and action. Policies are linked by communicative processes which aim at innovation and experimental policymaking, at shaping agendas, at increasing knowledge of actors and at influencing existing policy paradigms.

Policy innovations can be observed at all levels. They come to light where governmental and non-governmental actors participate in communicative

interaction and constitute overlapping epistemic communities. Local and regional governments are sites for experimental policies, while innovation on a broader base is promoted by policy networks and yardstick competition (often organized in the context of networks). They generate processes to communicate knowledge and ideas from which civil servants benefit when they try to advance a new policy within their administration and seek approval in politics. Arguing for a new policy with claims which are endorsed in national or international policy networks, or with comparative evaluations and experiences obtained in competition for best practices, can enrich debates in politics, although it might not convince party members who are uninterested in a topic. However, 'uploading' – that is connecting the elaboration of innovative policy approaches to high-level expert discourses – and 'downloading' ideas or policy proposals from these external sources can mobilize other actors inside local administration, politics or in civil society for a new policy. Therefore, the effect of these patterns of 'soft governance' on policymaking is often an indirect one.

Effective change and permanent transformation of policy regimes can only be accomplished by governments of nation states, even if the policy is connected to global governance and local policymaking. Global multilevel governance systems certainly contribute to advance transformation, due to their functional division between those levels where discursive policy processes prevail, and those where power to change policies effectively is located, for one, and due to the corresponding functional division of patterns of coordination in politics and administration, for another. However, national, regional and local governments are authorized to make binding decisions on policies and institutions constituting policy regimes. Here is the place where inevitable redistributive conflicts arise and have to be managed. As illustrated by the cases of Denmark, Germany and Canada, the success of transformative policies largely depends on the logics of multilevel and democratic politics.

As energy policy in Canada demonstrates, governments in a majoritarian democracy which enjoy autonomy because powers are separated can be expected to be more innovative than governments in consensus democracies where powers are shared between central, regional or local governments. However, the lack of continuity of multilevel governance and the see-saw changes typical for Westminster systems of government prevented governments from converting innovations into transformation of a policy regime in coordinated action. In contrast, the German combination of coalition governments and cooperative federalism constrains policy change, but when a government is able to circumvent these constraints it is likely that effective coordination can stabilize the evolution of a new policy and achieve transformation. The Danish system of government combines innovation and stability

of coordination. And this has certainly contributed to the successful energy transition in Denmark.

NOTES

1. The project was funded by the German Research Foundation between 2015 and 2018 (BE 1667/17-1 and KN 458/6-1).
2. Innovativeness, that is, the ratio of potential and actual activities, was calculated for each of the five categories. Each category was treated as equally relevant. Therefore, the sum of the ratios was divided by five. In a possible range from zero to one, the threshold determining innovativeness was fixed at 0.63.
3. Policy networks that are relevant for climate policy in German cities and considered in the research project include: 'Climate Alliance' (founded 1990), 'Energy Cities' (founded 1994), 'Cities for Climate Protection' (established by the International Council for Local Environmental Initiatives in 1993), 'C40 (Cities Climate Leadership Group)' and the working group on 'Air Quality, Climate Change and Energy Efficiency' of the network 'Eurocities' (founded 1986). Also included was the 'Covenant of Mayors for Climate and Energy', which after its foundation by the European Commission in 2008 became a supralocal platform in climate policy and which has promoted the development and implementation of municipal 'Sustainable Energy Action Plans', mainly by publishing good practices.

6. Changing a redistributive policy: renewal of fiscal equalization

In federations, fiscal equalization aims at balancing fiscal disparities between levels and jurisdictions resulting from the territorial variation of economic development and societal conditions. The redistribution of revenues between federal and state governments and among states follows principles entrenched in the constitution and rules defined by federal law. In general, the money transferred is not provided for specific purposes, although special grants can have equalizing effects.

For a long time, fiscal equalization of fiscal transfers between governments has been considered as a technical matter of public finance. Scholars have debated about the need for equalization, as well as further related matters such as the appropriate extent and criteria of redistributing fiscal revenues, the consequences of equalization for fiscal policy of constituent units, and the economic effects for the federation (Boadway and Shah 2007). From a normative point of view, fiscal equalization implies a trade-off between autonomy and distributive justice. It aims 'at reducing fiscal inequalities between constituent units without threatening their fiscal and policy-making autonomy' (Béland and Lecours 2014: 304). Whereas a balance of these basic institutional principles is entrenched in the federal constitution, the particular distribution of fiscal resources between governments is a matter of continuous political dispute. Decisions on the criteria of distributive justice among jurisdictions and the application of these criteria affects resources of governments. They are also a matter of concern for citizens. As taxpayers, they expect that their money is spent by the government they have elected. As beneficiaries of public services, they expect to be treated as equals regardless of where they live. The first expectation is addressed to state governments, the second to the federal government. For this reason, these redistributive decisions need to include all governments in joint decisions, and they need to be legitimized in democratic processes within governments.

Multilevel governance and democratic legitimacy of fiscal equalization complicates decision making on a redistributive policy for three reasons. First, as it affects fiscal resources of all governments in a federation, there are good reasons that all governments have a say and that they negotiate an agreement. Although the design of a fiscal equalization system must finally, as a rule, pass

in the form of federal legislation, the proposal for legislation should express a consensus among all governments. De facto, if not according to institutional rules, fiscal equalization is a matter of joint-decision making. Second, executives negotiating an intergovernmental agreement are accountable to parliaments, and members of parliaments or parties in parliament speak and act for the people of a jurisdiction. Therefore, negotiating executives have all incentives to bargain for the profit of their government and their people and to prevent all decisions leaving them worse off. Third, although executives tend to behave as rational egotists, they have to justify their bargaining position by norms of distributive justice. However, in contrast to many other instances of distribution in societies (Walzer 1983), there is no single norm that applies for fiscal equalization. Instead, different norms are appropriate. This follows from the conflict between autonomy and solidarity in federations. Depending on how these basic values are assessed and prioritized, redistribution of fiscal resources can be evaluated according to per capita equality, the needs of governments to provide public services, or efficiency of revenue collection and public spending.

In view of these obstacles for decision making, fiscal equalization appears as a least likely case of policy change, not to mention innovation. However, fiscal equalization has to be regularly adjusted and revised. Adjustment can be built into a system of fiscal equalization and then result from indicators of economic and societal changes determining how available resources are shared. However, the modes and the extent of equalization cannot be taken for granted. They express political decisions which are regularly disputed because assessments of parties differ and public opinion on fiscal equalization varies. Territorial effects of economic developments and a significant shift in fiscal burdens between governments due to new problems or tasks affecting jurisdictions differently are likely to prompt these disputes. Hence while rule-based adjustment stabilizes fiscal equalization, a revision has to be expected from time to time, and in fact the issue regularly appears on the agenda in federal systems. Revising equalization is, from the point of view of governments at least, a purely redistributive issue. Any change of fiscal equalization ends with winners and losers, with more or less significant effects for the individual governments. These effects have to be justified in parliaments and in public. In general, policies with redistributive effects are difficult to change in multilevel governance. The particular institutional conditions of politics of fiscal equalization increase the difficulties.

Nonetheless, when comparing established federal states, we discover change, which in some cases is significant and intended. As the following case studies on Germany, Australia and Switzerland demonstrate, fiscal equalization, when established, is regularly contested but is stabilized by the institutional conditions of joint-decision making, which usually combine 'technocratic', that is,

expert dominated, intergovernmental processes and processes dominated by 'topocrats', that is, executives accountable to parliaments (for these categories see Beer 1978: 18). Due to institutional structures, the evolution of fiscal equalization is highly path-dependent, but innovation is nonetheless possible in processes of reform.

In all three selected federations we can observe processes ending with a reform of fiscal equalization. However, the outcomes of these processes in terms of scope and substance of change vary. In Germany, fiscal equalization was introduced in 1951, when the federal government started to provide grants to those *Länder* governments that had been particularly burdened by post-war immigration of refugees from Eastern Europe and by the division of East and West Germany. Since 1955, it is entrenched in the constitution. The law as well as the constitutional rules have been amended several times, and the system which exists nowadays resulted from a series of incremental changes (Feld and von Hagen 2007; Renzsch 1991). Redistribution leads to a significant equalization of revenues, while disparities in fiscal needs remain. In Australia, the federal government started to support states and territories in response to a secession referendum in Western Australia in 1933 and established the Commonwealth Grants Commission to institutionalize the task. The whole system was entirely revised in two reform steps in 1999 and 2007 and now combines revenue and need-based equalization. In Switzerland, the federal government supported the cantons by special grants. In 1991, the federal Department of Finance initiated an evaluation of transfers and discovered that, on balance, the rich cantons profited from these grants more that the poor cantons. A new system of fiscal equalization aiming at revenues and needs was enacted in 2008, in the course of a substantial reform of the federal constitution. Table 6.1 summarizes institutional conditions of fiscal equalization politics and policy change and the basic features of the system in the three federations.

FISCAL EQUALIZATION IN GERMANY'S FEDERALISM REFORM

In Germany, the Basic Law (*Grundgesetz*), the federal constitution, establishes fiscal equalization in order to reduce the dependence of *Länder* governments in less developed regions on federal grants. It should contribute to achieve equivalent living conditions for citizens in all regions of Germany, an aim which the mainstream parties appreciated as an essential element of the welfare state during the first two decades after World War II. After basic principles had been constitutionalized in 1955, a series of constitutional amendments made the rules of equalization increasingly detailed. They oblige the federal legislature to adjust the vertical allocation of the value added tax (VAT) revenues

Table 6.1   *Fiscal equalization in Germany, Australia and Switzerland*

	Institutional conditions	Policy change	Basic features of fiscal equalization	Fiscal disparities and redistributive effect of equalization*
Germany	Federal law with veto right of *Bundesrat* (joint-decision making)	Several gradual adjustments (last 2017)	Mainly revenue equalization	1.7 → 1.1
Australia	Intergovernmental agreement and federal law (joint-decision making in the shadow of hierarchy)	Reforms 1999 and 2007 significantly changing the existing system and continuous revision	Revenue and needs-based equalization	7.5 → 1
Switzerland	Constitutional amendment and federal law (joint-decision making in the shadow of majority [referendum] democracy)	New fiscal equalization with effective equalization effects (2008)	Revenue and needs-based equalization	4.3 → 2.6

Note: * Fiscal capacity of richest state in relation to poorest state before and after fiscal equalization in 2012 (OECD 2013: 99–116).

in order to enable federal and *Länder* governments to cover their necessary expenditures, or, to put it in another way, to avoid a vertical fiscal imbalance. Moreover, they provide for a horizontal equalization of revenues of the *Länder* on a per capita basis. Third, the federal government can allocate additional general grants to *Länder* with special needs.

Before the last reform passed in 2017, horizontal equalization was meant as a transfer of finances from *Länder* with revenues above average per capita to *Länder* whose revenues fall short of average. To a certain extent, this was achieved by distributing part of the *Länder* share of VAT revenues. In addition, transfers from *Länder* with relatively high revenues per capita to those with relatively low revenues per capita should further reduce fiscal disparities. From the *Länder* governments' point of view, fiscal equalization was clearly a redistributive policy. As long as all of them profited from economic growth and the amount of redistributed money remained small, this was acceptable for governments and parliaments in the rich *Länder*. When the economy went through a series of recessions in the late 1960s and 1970s, and when the structural change of the German economy hit some regions seriously and led to increasing disparities, the redistributive effects of fiscal equalization became an issue of intergovernmental politics. Nonetheless, governments found agreements on amendments of fiscal equalization, not least because the federal government increased its 'supplementary grants' to the *Länder*. Against their

original purpose to respond to the fiscal needs of *Länder* governments, these grants became an additional and growing source to equalize revenues of the *Länder* (for details see Renzsch 1991).

This policy of incremental adjustment resulted from joint-decision making of federal and *Länder* governments, the typical mode of multilevel governance in German federalism. In federal legislation on fiscal equalization, the *Länder* governments are involved via the *Bundesrat*, which in this case has veto power. In practice, ministers of finance negotiate an agreement, which then is initiated as a bill in parliament and usually passes both legislative chambers. Over time, *Länder* governments have realized that they profit from speaking with one voice against the federal government. In order to find a compromise on horizontal equalization, the ministers turn this redistributive problem into a positive-sum game by linking horizontal equalization with vertical equalization. They either request an increasing share of the VAT revenues for the *Länder* or an increase of federal grants. Confronted with the united *Länder* governments and their veto power, the federal government usually concedes to bear the fiscal burden which an agreement among *Länder* governments implies. Interested in avoiding conflicts and preventing a deadlock, the federal Minister of Finance regularly approves the requested money, aware of the fact that in contrast to *Länder* governments, the federal government has sufficient power to increase taxes.

This pattern of policymaking allowed governments to cope with the economic and fiscal divide between East and West Germany after the unification of the country in 1990. Starting in 1995, fiscal equalization was applied to unified Germany without notable revisions of the rules. Despite the disparities between *Länder*, which had been unknown in the West German Federal Republic, and the ensuing fiscal imbalance, this inclusion of the new *Länder* governments was possible because the federal government granted a large amount of supplementary funds for East Germany (Altemeier 1999; Renzsch 1998). Later, the federal government increased its share with the so-called Solidarity Pact II and the amended fiscal equalization law of 2001. Presuming that the economy in the East should recover and profit from an integrated market, these additional federal grants were determined to incrementally decrease and finally run out at the end of 2019. In consequence, the fiscal equalization system had to be renegotiated by this date. Soon after German unification, disputes among the *Länder* governments intensified, and some of them instituted legal proceedings at the Federal Constitutional Court. Yet neither the decisions of the Court nor ensuing amendments of fiscal equalization law led to noteworthy changes. Knowing that, sooner or later, the whole system of fiscal federalism was to be substantially revised, neither the federal government nor any of the *Länder* governments were willing to engage in a substantial reform. However, the longer a reform was postponed, the more

the pressure increased with the approach of 2019. This deadline finally became a decisive factor affecting negotiations.

In fact, a revision of fiscal federalism had been on the agenda of German politics since the turn of the century. In 2003, the federal and *Länder* governments decided to engage in a 'modernization of the federal system'. In order to achieve this ambitious project, both legislative chambers set up a 'Joint Commission of the *Bundestag* and the *Bundesrat*', with 16 members elected by the federal parliament and the same number of members elected by the *Bundesrat*, one from each of the *Länder* governments. The Commission de facto institutionalized the interplay between party politics and intergovernmental relations, which is typical for politics in German federalism (Lehmbruch 2000). Party groups and the *Länder* executives prepared plenary sessions of the Commission in separate meetings. Delegates of the federal government participated in the Commission without a right to vote, but federal ministries influenced discussions by providing expertise from special departments. The prime ministers of the *Länder*, who regularly attended the plenary meetings, were assisted by civil servants who provided knowledge in constitutional law. In addition, the Commission invited 12 experts from the academic sector, among them eight lawyers. Like the few members representing *Land* parliaments and local governments, experts participated as consultative members. Aiming at influencing the decisions on a reform of federalism, several public or private organizations held public conferences on particular matters. Furthermore, interest associations and individual citizens submitted opinions to the Commission. However, there are no indications that these communications mattered. Nor did they alter the character of negotiations between parties and governments, and nor did they affect outcomes. The Commission more or less replicated the usual structures of joint-decision making in German federalism (Auel 2010; Benz 2008, 2016a: 77–86; Burkhart 2009; Scharpf 2009: 69–116).

It was therefore not surprising that the Commission started its work on the premise that the allocation of financial resources between governments should not be changed by the reform. Although the second hearing of the experts and a special meeting behind closed doors concerned fiscal federalism, the Commission decided not to pursue this topic further and in particular not to deal with fiscal equalization. Nonetheless, the Commission failed to come to an agreement on a constitutional amendment, since federal and *Länder* representatives could not solve their dispute as to how to divide powers in education. Negotiations on reform continued after the 2005 federal elections, when the Christian Democrats and Social Democrats formed a coalition government. The new government introduced the draft, tabled by the two Commission chairs in November 2004, in a slightly revised version as a bill in parliament, which – again with some minor revisions – passed both legislative chambers.

The constitutional amendment entered into force in September 2006. It modified the distribution of legislative powers and the conditions under which the *Bundesrat* has a veto right in federal legislation. As to legislative powers, the federal government was pressed to make concessions to the *Länder* governments by decisions of the Federal Constitutional Court, which revised its interpretation of the subsidiarity clause for concurrent powers in favour of *Länder* governments (Scharpf 2009: 94–8). However, fiscal equalization was not affected by the reform.

Immediately after this first reform, the *Bundestag* and the *Bundesrat* decided to continue the process and installed a second Commission which worked from March 2007 to March 2009. This time, fiscal federalism was to be the main issue to be dealt with. Yet the agenda demonstrated the impact of administration, as it included specific topics like responsibility for road construction and IT infrastructure. Considering fiscal federalism, the Federal Constitutional Court gave an impetus of its own to the reform process. In a judgment on a case initiated by the *Land* Berlin against the federal government, the court denied the claim of the *Land* to receive federal assistance to cope with fiscal distress, but required legal provisions to prevent *Länder* governments from running into such a situation. The Commission took this as a clear order to amend the constitutional rules on deficit spending and to find an early-warning mechanism in budget policy.

Although the Commission took its mission seriously by discussing all aspects of fiscal federalism, including a reallocation of taxation powers, it again excluded fiscal equalization from its agenda. In the end, the main proposal for a reform was a new debt rule as well as a new federal–*Länder* institution, the 'Stability Council' which became responsible for supervising the budget policy of the federal and *Länder* governments (Korioth 2016). A group of administrative experts prepared detailed criteria and proceedings, which the Commission and the legislature ultimately endorsed (Heinz 2016). As a result, the second reform of federalism fulfilled the requirement of the Federal Constitutional Court by amending the legal constraints for fiscal policy and by introducing an evaluation procedure for budget policies. However, it again did not address the pending problem of fiscal equalization.

When in 2013 the Christian Democrats and the Social Democrats formed a 'Grand Coalition' government at the federal level, they envisaged advancing negotiations between the federal and *Länder* governments on fiscal equalization. In their coalition accord, they announced their intention to establish a new commission to deal with fiscal federalism in a broader perspective, including the competences for revenues and expenditures (Coalition Agreement 2013: 95). In fact, this commission never took shape. Instead, fiscal equalization became a primary matter of intergovernmental negotiations. The process followed the traditional pattern of the German version of executive federal-

ism. Prepared by civil servants of the responsible departments, ministers of finance of the federal and *Länder* governments met in private to discuss the existing equalization scheme and proposals for its renovation. In this process, a number of experts commissioned by the *Länder* governments and party groups presented concepts for a renewal of fiscal equalization (Geißler et al. 2015, in particular the articles by Eichel et al., Behnke, Lenk, Geißler, Färber and Scheller). Yet as far as can be assessed from the outside of the process, these proposals had only marginal impact on the negotiations and the outcome.

Already in 2012, before the official start of the reform process, the inter-governmental council of *Länder* ministers of finance addressed the issue. In October of that year, they met for their annual conference and decided on an agenda for reform. Effective work eventually commenced in summer 2014. At that time, heads of *Länder* governments and the federal chancellor discussed fiscal equalization in a meeting, which indicates that the topic had gained priority in the politics of federalism. The heads of government mandated the ministers for finance to elaborate reform proposals. At the same time, they agreed that negotiations should proceed in private, without including representatives from local governments or experts. However, until the next official meeting of the Chancellor and the *Länder* premiers in December 2014, there was neither an agreement in sight nor any substantive proposals on the table.

In the meantime, the federal Minister of Finance stepped in with the intention to advance negotiations on fiscal relations between federal and *Länder* governments before distribution between the *Länder* should be dealt with. Together with the mayor of the city state Hamburg, he published a paper that suggested sharing the surcharge on income tax, which the federal government introduced after German unification, with *Länder* and local governments and to relieve the *Länder* governments from expenditures for a number of social services. However, most *Länder* governments rejected the proposals, and thus the federal Minister's initiative failed. In consequence, the federal government left it to the *Länder* ministers to find an agreement on equalization among the *Länder* before it would resume negotiations on federal–*Länder* distribution. To advance the reform, the federal Minister of Finance signalled that the federal government was willing to concede an additional share of the VAT revenues to the *Länder*, which should amount to 8.5 billion euros.

In September 2015, CDU- and SPD-led *Länder* governments issued contrasting proposals, the former aiming at abolishing horizontal transfers between the *Länder* and the latter abolishing the reallocation of the VAT fund. At this time, party politics seemed to divide the *Länder* and weaken their bargaining position against the federal government. Yet it did not take long for them to come to a joint proposal, which was achieved finally in December 2015, after several meetings of the *Länder* prime ministers (Bösinger 2016). The paper presenting the agreement among the *Länder* governments was telling. Beyond

listing a number of suggestions for amending the constitution and the law on fiscal equalization, it contained a table showing the prospective fiscal effects of the envisaged amendments. The results of the calculation revealed on the one hand that *Länder* governments regarded the outcome in terms of money as decisive. On the other hand, they expected that all of them should be better off compared to the status quo and that the federal government should bear the burden of around 10 billion euros per year, i.e., more than conceded by the federal Minister of Finance thus far.

In the subsequent year, the *Länder* and the federal governments resumed their negotiations. At the end, the federal government accepted the *Länder* proposal, but not without tabling additional issues to be included in a package deal. In compensation for the extra money that it was required to provide, the federal government demanded new powers in highway administration and rights to control the spending of federal grants and the implementation of tax law by *Länder* administration. Given the pressure to find an agreement and to renew the law on fiscal equalization, the *Länder* governments had no alternative but to accept.

When the reform on fiscal equalization had passed the federal legislature with a majority in the federal parliament and the unanimous assent of the *Bundesrat* in June 2017, it was praised as a major breakthrough because it abolished the former horizontal equalization between the *Länder*. On closer inspection, the law only revised the procedures for equalization. Instead of transfers from so-called donor to recipient *Länder*, fiscal disparities are now reduced by a reallocation of an increased *Länder* share of the VAT revenues, with the per capita share being reduced for the rich *Länder* and increased for the poor *Länder*. The principles and rules of distribution remained the same, although the law modified details of the calculation of fiscal capacities. Effective changes concerned the supplementary federal grants. Those dedicated to supporting the transition of the state-controlled economy towards a market economy in the East German *Länder* were replaced by grants for *Länder* with fiscally weak local governments and with deficits in research funding. The package deal implemented with the law also continued other special grants.

There is no indication that ministers and heads of governments discussed the principles of fiscal equalization or intended to revise them. Throughout the negotiations, they focused on the measurable outcome. Apart from the above-mentioned paper presented by the *Länder* governments in December 2015, another aspect is revealing in this respect. Part of the federal government's share of the additional 10 billion euros was achieved by a redistribution of the VAT revenues between both levels of government. According to the constitution, this should be done in response to developments in the revenue–expenditure ratio of governments. Now it was clearly used to avoid negative

redistributive effects of the reform for individual *Länder* governments. The law determines the VAT shares of the federal, *Länder* and local governments for the coming years and beyond 2027 as fixed amounts. This indicates that the development of future revenues and expenditures no longer matters as criteria and that the outcome reflects a deal among bargaining executives. No justification is provided in the publicly available materials.

The new fiscal equalization in Germany can hardly be considered as innovative. After three reform processes and long discussions, governments came to an agreement under the pressure of time (Benz and Sonnicksen 2018: 150–51). Although the reform came with an amendment of no less than 13 provisions of the constitutional law, it did not change the existing system substantially. It improved neither its effectiveness regarding the existing fiscal disparities nor its transparency or fairness (Lenk et al. 2017). When the federal Minister of Finance introduced the bill in parliament, he declared:

> What we did not achieve in these negotiations was an agreement that would make the overall system, the complicated system of equalization between the federal government, the *Länder* and the municipalities, a bit more transparent, a bit more systemic as well as more predictable and, above all, to improve incentives in the system. That was the ambitious plan of the federal government. In any case, we have not come to a resounding success, to say it cautiously. (Deutscher Bundestag 2017: 21769, translation AB)

Overall, attempts to modernize in German federalism ended with incremental change. The three stages combine in a particular sequence of policies which did not lead in an intended direction, but at the end appears contradictory and finally backward oriented (Benz and Sonnicksen 2018). Unintended by policymakers, the sequence developed when parties and governments reacted to disappointing or problematic outcomes of the reform processes by starting a new round of negotiations. Throughout this sequence, the pattern of traditional intergovernmental policymaking of political executives and their specialists in administration increasingly gained ground. The first reform commission can be interpreted as an attempt to institute a new arena of constitutional policy, but actually it only replicated the traditional federal–*Länder* bargaining. More than the first, the second commission insulated the intergovernmental arena against external influence. In the third stage, governments definitively returned to the traditional intergovernmental mode among executives. Like the actors involved, the issues addressed and the reform ambitions shrank from one stage to the next, although the problems of federalism remained the same. Whereas the increasing exclusivity of the actor constellation would have been appropriate if the reform had proceeded in consequential steps – from negotiating constitutional principles and rules, followed by implementation of the revised constitution in specific laws (as observable in the Swiss case, addressed further

below) – this logic has not guided the course of federalism reform in Germany. Rather the process can be explained by failures to solve problems in previous stages when important issues had been postponed. Concerning the fundamental problems of fiscal federalism, these efforts were doomed to fail.

REFORM OF FISCAL EQUALIZATION IN AUSTRALIA

As in Germany, fiscal equalization has a long tradition in Australia. In both countries, the evolution of social policy in the late 19th century shaped the federal system, although in a different way. In Australia, the long hegemony of the Australian Labor Party expressed a broad consensus in society on a welfare state based on ideas of social liberalism (Sawer 2000). These ideas justified the highly equalizing allocation of federal grants to states[1] which the federal government had granted since 1933. After 1999, this 'top-down' approach was transformed into a coherent system of fiscal equalization, including consolidated specific federal grants. This result was not achieved in one single step but in two separate reform processes. Although not intended as a consequential sequence, the second reform complemented and advanced the first one.

The relevance of fiscal intergovernmental transfers and fiscal equalization can be traced back to two particular features characterizing Australian federalism. First, since the foundation of the Commonwealth of Australia, the division of power has caused a significant vertical fiscal imbalance to the benefit of the Australian government. This imbalance increased over time. Nowadays, the federal government collects a large share of taxes, whereas the states and local governments are responsible for delivering and financing public services. In consequence, they are dependent on federal grants. Second, the federal government used the allocation of grants to states as a tool to hold together the federation, which during the first decades of its existence was threatened by a divide between Western Australia and the rest of the country. In contrast to the cultural conflicts with Aboriginal peoples, this divide had its roots in divergent economic structures and conflicts on the allocation of fiscal resources. In 1933, the government of Western Australia organized a referendum in which the people had to decide on a proposed secession from the Commonwealth. Although a majority of voters supported secession, it was never implemented by the Labor government which came to power in the state immediately after the referendum. Instead, the state and federal governments settled the conflict with an agreement which foresaw an improvement of horizontal fiscal distribution of federal funds to the states. The federal government established the Commonwealth Grants Commission (CGC) which was commissioned to determine the fiscal needs of states claiming federal assistance. Since then, the CGC, an independent body of experts from the public sector, guaranteed continuity in the redistribution of funds (Williams 2005).

The CGC designed a policy supporting states with 'fiscal disabilities', thus applying a needs-based approach to distributing federal funds (McLean 2004: 22–3). Right from the beginning, the Commission's work was guided by the aim to enable state and local governments to provide public services according to equal standards. This was in line with the egalitarian attitudes of Australian people, which resonated in social policies of the early 20th century that were approved by both the Liberals and the Labor Party (Sawer 2000: 301–7; Swain 2013). Since the 1980s, the Senate and the High Court defended this policy against neoliberal trends which prevailed at that time (Castles and Uhr 2007: 114). In 1973, federal legislation endorsed the CGC's policy by stating that federal assistance should enable a state, by reasonable effort, to provide services on a standard not significantly diverging from the standards of other states. While these rules and the 'epistemic authority' of the CGC contributed to legitimize fiscal federalism, the Australian government used special purpose grants to intervene in states' policymaking. Corresponding to general tendencies in the jurisprudence of the High Court on federalism (Aroney 2017), this practice contributed to an increasing centralization of powers. However, although there are certainly good reasons to consider Australia as a centralized federation (Fenna 2012b), one should not overlook the fact that states retained their competences to provide public services, with a few exceptions such as responsibility for tertiary education (Braun 2011). Therefore, not unlike in Germany, the evolution of federalism in a welfare state has led to a division of functions between levels of government with centralized legislation and decentralized implementation. The interdependence between these functions and fiscal imbalances increased the need to coordinate policymaking in multilevel governance, in which the Australian government clearly is in a leading position vis-à-vis the state governments.

Significant changes occurred after 1990, when the federal government turned from a hierarchical towards a more cooperative approach of governance. Regardless of whether Labor or the Liberal and National Party were in power, the federal government in principle accepted this approach. In 1992, Prime Minister Bob Hawke initiated the foundation of the Council of Australian Governments (COAG), a standing intergovernmental forum (Phillimore and Fenna 2017). This core institution of the new cooperative federalism became the central venue where federal and state governments negotiated and concluded intergovernmental agreements, among them the 'National Competition Policy' and the 'Mutual Recognition Scheme', which both aimed at advancing an integrated market (Painter 1998). As in a typical joint-decision system, the Council's decision rules require the assent of all governments. With few exceptions, governments have applied these rules and implemented agreements (Anderson 2008; Towmey and Withers 2007: 29). Although the existence of the COAG itself was founded by an intergovernmental agreement,

its operation depends on the voluntary participation of governments, and its decisions cannot bind the federal or state parliaments.

The COAG was established as an institution to promote reform. Considering Australian federalism, a substantial reform was accomplished with the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations. This agreement, signed on 9 April 1999 by members of the COAG, significantly changed horizontal fiscal equalization. The reform process started with negotiations between the federal and state executives, when governments realized the need to consolidate sales taxes and excise duties, which so far had been collected by both the Commonwealth and the states. State taxes had been levied on a shaky constitutional basis. In 1997, a decision of the High Court of Australia invalidated state franchise fees on petroleum, tobacco and alcoholic products. In order to cope with the detrimental consequences of this court ruling, the federal government announced a renovation of the system. The centrepiece of this reform was a new Goods and Service Tax (GST), which was to replace diverse sales taxes. After a series of meetings of the prime ministers and a special Premiers Conference in November 1998, the agreement was settled.

This intergovernmental agreement not only changed the tax system but also revised fiscal equalization. The new GST, introduced by a law which was passed in parliament in March 1999, is collected by the federal tax administration, but distributed, on a monthly basis, to the states (for details see Spasovejic and Malcolm 2013). It alleviated the dependence of the states on special grants and on the will of the federal government and instead established a reliable fiscal resource. Consistent with the intergovernmental agreement, the federal law also states that the rate and the basis of the GST should not be altered without the consent of all state governments. In turn, state governments agreed to abolish a number of indirect taxes. The GST revenues are distributed among individual states on the basis of valid principles of horizontal fiscal equalization to ensure that all states have the capacity to provide an approximately equal level of services to their residents. The precise shares of the GST for individual states are determined by a joint decision of the COAG following a recommendation of the CGC.

A further amendment of fiscal relations in the Australian federation concerned the special purpose grants (Fenna 2012a; McQuestin 2012, 2014). It was initiated by Labor Prime Minister Kevin Michael Rudd. In December 2007, about one month after his election as head of the federal government, Rudd announced key elements of his reform programme in a meeting of the COAG. The federal government initiated this reform in order to gain control over states' expenditures and policy outcomes. It intended to change the rules for providing conditional grants according to section 96 of the Constitution. Before this reform, the federal government co-financed specific, narrowly

defined purposes, and the grants had been spent via line administration without involvement of the Treasury. The federal departments used them as instruments to precisely prescribe a policy which state governments had to implement. Moreover, they could penalize ineffective implementation by withholding money. This coercive mode of intergovernmental relations was considered not only as centralist, but also as ineffective and non-transparent. Since about 2000, state treasurers issued proposals for a reform of the grant system, and later the COAG and think tanks joined in the discussion and encouraged the federal government to adopt a more cooperative grant policy. After the 2007 general election, state governments took the opportunity to push for their reform proposals, given the willingness of the Rudd government to change federal grants. Actually, the Prime Minister extended the agenda he had presented during his election campaign, which aimed at more transparency in the policymaking of federal and state governments in ushering in a new era of cooperation. What at first appeared as an abstract idea of a renewed cooperative federalism now turned into a significant and effective modification of fiscal federalism (McQuestin 2014: 105). The Prime Minister initiated a review of the whole system of federal funding of states' policies. The scope of financial reform was extended by an approach to change the administration of grants. Hence, federal and state treasuries, which had a significant interest in the better management of finances spent by line departments for specific purposes, became the central actors in the process.

Again, first ministers were the driving forces of the reform process and the COAG served as the central platform for negotiating the revised intergovernmental agreement. This time, however, federal and state treasurers joined intergovernmental negotiations at the highest political level. Working groups gathering deputy heads of treasury departments turned out to be an important arena to pursue negotiations. They elaborated the reform proposal and reported to the four COAG meetings which took place in 2008. This structure of the reform process signifies the effort to avoid a sectoral division of the reform policy in ministerial councils, where line ministers meet. Representatives of governments still relied on the advice of their administration, but the political nature of the reform process was obvious: 'At many meetings under the Rudd government there were periods where bureaucrats were not even sitting behind the leaders but were outside the room, invited only to be told what decision had to been made rather than, as in the past, what outcome first ministers want officials to reach' McQuestin 2014: 101).

The outcome of the reform continued the horizontal fiscal equalization scheme based on the GST, which was complemented by a revised scheme for federal grants. Instead of the coercive system of funding by more than 100 special grants, the federal government now provides, on a permanent basis, grants for five broad policy areas which include core services of the

public sector. Based on so-called 'National Agreements', federal grants assist state governments in developing skills and workforce, providing disability services, implementing programmes to prevent homelessness and to make housing affordable, and in advancing health policy reform. Moreover, states can receive additional grants which are determined to initiate and assist policy reforms in their areas of responsibility, provided that they fulfil the aims, benchmarks and procedures negotiated between federal government and the government of an individual state ('National Partnerships'). The payment is based on bilateral agreements between the responsible line ministries of the federal government and the government of the state concerned, and funding is provided for a fixed term. Both types of grants require state governments to fulfil standards or output goals, and the implementation and performance have to be analysed and evaluated by a new COAG Reform Council. Thus, input control by detailed rules and conditions defined by the federal ministers were replaced by monitoring of the service quality and reforms accomplished by state governments.

Whether these policy changes can be considered as significant or incremental depends on the perspective. The intergovernmental agreements as such, the introduction of the GST and related tax reforms at the federal and state level, as well as the consolidation of special purpose grants and the performance based National Partnership payments, combined with the institutional changes in intergovernmental relations, in particular the establishment and evolution of COAG, add up to fundamental modifications of fiscal equalization in Australia, not least when compared to the incremental changes in German federalism. On the other hand, horizontal equalization was continued according to principles and rules that have evolved over decades. These principles still reflect a stable consensus, implying that public services for residents of each state should be guaranteed at a level of quality that does not substantially diverge from the standards achieved in other states. Moreover, the implementation of National Partnership grants has come closer to the former practice of top-down governance pursued by line ministries than to the bottom-up or cooperative approach intended by the reform – the reasons being insufficiently defined performance criteria, the lack of an output-oriented administrative culture, the expectations of parliaments and the public to achieve visible results in the short term, and deficient evaluations of policies (McQuestin 2014: 130–36). In line with this development, the COAG Reform Council, established in 2010 to provide comparative performance data, was abolished in July 2014, and the task of monitoring was delegated to the Department of the Prime Minister and Cabinet. On balance, fiscal equalization reforms in Australia should be characterized as policy innovation without transformative effects. Although intergovernmental agreements had the potential of leading to a significant change in policy, implementation did not conform to the ambitious goals in every respect.

Since this reform has been accomplished, the system of fiscal equalization proved rather stable and appropriate to cope with economic disparities between Australian states and to diminish the vertical fiscal imbalance in the federation. Until 2019, the COAG has accepted the recommendations of the CGC for horizontal equalization, despite the governments of New South Wales, Queensland, Victoria and Western Australia criticizing their share of the GST as insufficient. Soon after the 2007 reform took effect, federal institutions called for a review of fiscal equalization with regard to its impacts on state services and reform policies. On 30 March 2011, Prime Minister Julia Gillard announced a review of the GST allocation (Warren 2012). A panel of three independent experts, who were commissioned to carry out the review, consulted academic experts, representatives of state governments and other interested parties. In its report submitted to the Treasurer, the experts overall endorsed the existing system and suggested limited amendments (Australian Government 2012). Some years later, disputes revived when Western Australia faced a decline of its revenues that was not immediately compensated by the GST distribution, because regular adjustments of fiscal equalization become effective with a time lag. In response, the Australian government commissioned the Productivity Commission, an independent advisory commission, with an inquiry and to suggest solutions. The Commission issued its report in May 2018 (Productivity Commission 2018) and recommended the reduction in the extent of equalization to the average fiscal capacity of all states. However, after coming to an agreement with state governments, the Prime Minister announced legislation which should introduce a cap for donor states that should prevent them from falling below 75 per cent of their original GST share. In order to avoid negative effects for poorer states, the government increased the fund from its own sources.

Despite continuous discussions and reviews, fiscal equalization has never become a matter of party politics, not least as opinions diverge more within parties than between parties. In academic circles, the system has been defended by some and criticized by others as inefficient, both regarding the incentives for state governments and the bureaucratic costs for the Commonwealth. The calculations of the fiscal capacities and needs in the 'black box' of the CGC has been assessed as overcomplicated and opaque (McLean 2004; Warren 2012). Yet the system was never questioned in total. When in 2015 the federal government under Prime Minister Tony Abbott launched a Discussion Paper on a reform of Australian federalism, started negotiation with the states in the COAG and encouraged a public debate among experts (Bruerton et al. 2017), proposals concerned the allocation of tax powers in order to increase the autonomy of the states, an attempt which finally failed (Carvalho 2021). Fiscal equalization was not a matter of this reform. The basic idea of equalization, to provide public services on an equal standard in all parts of the Australian

Commonwealth, remains accepted. Policy innovations during the period of cooperative federalism proved sustainable.

Institutional conditions of policymaking and patterns of multilevel governance in Australian federalism resembled joint-decision making in German federalism. Nonetheless, policies of fiscal equalization were revealed to be more innovative than those resulting from reforms we observed in Germany over the last two decades. One reason might be political leadership. In contrast to Germany, where the federal government at best responded to reform pressure from the *Länder* governments and where chancellors had never been intensely engaged in this matter, Australian prime ministers put federalism at the top of their agenda and promoted a reform of fiscal federalism. To a certain degree, the different role of political leadership can be traced back to institutions, that is, the difference between the consensus type of parliamentary democracy in Germany and the Westminster type that exist, in a modified version, in Australia. In addition, Australian pragmatism – the shared expectation of political and societal actors that problems have to be solved and output is more relevant than formal rules or procedures – clearly contrasts with the German legalist approach (Benz 2008; Hollander and Patapan 2007).

Without neglecting these conditions, other factors appear more important in explaining Australian policy innovation. In Germany, federalism and fiscal equalization had never been based on a clearly expressed and widely shared idea defining their purpose. Fiscal equalization in particular has been steadily contested, and when it came to a revision it was a matter of bargaining on redistribution without any explicit reference to norms of distributive justice. In Australia, this norm emerged very early, and it was preserved by an independent institution, the CGC. Hence the principle of equalization was never seriously disputed. Accordingly, politics of fiscal equalization were about applying this principle, and this task was delegated to the independent CGC, that is, the redistributive policy was 'depoliticized'. When Australian governments focused on reforming basic elements of the system of equalization, such as the funds to be redistributed, the rules for providing federal grants, procedures to implement or evaluate state policies induced by federal grants, and institutions committed with particular tasks, the outcomes in terms of fiscal resources did certainly matter. But as long as governments relied on the rationality of the CGC (Morris 2002) and recurring reviews by experts, the basic consensus among federal and state governments prevailed.

Beyond that, the institutional differentiation of arenas, the parliamentary arena of the Australian government, the intergovernmental arena of the COAG, and the administrative arenas of working groups in the reform process and the CGC in implementing fiscal equalization has led to the compensation of party competition and intergovernmental bargaining by deliberative processes. Moreover, although not planned, the system of fiscal equalization was changed

in two consequential steps, and both addressed institutional conditions of the policy. This institutional and temporal differentiation of policymaking, in combination with the path-dependent evolution of the guiding principle and its institutionalized basis in the CGC, can explain the rather successful reforms and innovative policy, whereas the complementary structure of monitoring and reviews by independent bodies can explain the continuity of the adjustments.

NEW FISCAL EQUALIZATION IN SWITZERLAND

In Switzerland, fiscal equalization appeared on the agenda of federal politics in the context of efforts to comprehensively reform the constitution. During the 20th century, the decentralized federal system with its small cantons and local governments had to be adjusted to the requirements of a modern welfare state and an internationally competitive economy. However, Swiss citizens tended to prefer decentralization, although they often voted for the centralization of power in constitutional referenda (Vatter 2018: 169–86). A comprehensive revision of the constitution had been on the political agenda since the 1950s, including a territorial reorganization of the federation. A 'creeping centralization' (Kriesi and Trechsel 2008: 35) and the increasing interlocking between federal and cantonal politics and policymaking became a matter of continuous debates. However, when the federal council (Swiss government) finally initiated a comprehensive overhaul of the constitution in 1985, it excluded the allocation of power and fiscal equalization from the project. These issues should be addressed in a separate reform process (Freiburghaus 2012: 55).

Fiscal equalization became an issue of constitutional policy in 1991, when federal and cantonal executives, assisted by experts, raised doubts that the federal grants to cantons reduced horizontal fiscal imbalances (the following is based on Benz 2016a: 70–77; Braun 2009; Freiburghaus 2012; Vatter 2018; Wettstein 2012). A report published by the Federal Department of Finance revealed not only a confounding practice of co-financing cantonal tasks, but also endorsed the assumption that these transfers widened rather than diminished the fiscal gap between poor and rich cantons (Wettstein 2012: 81). In consequence, federal and cantonal governments agreed that fiscal relations had to be revised. They also concluded that in order to restore the federal balance, intergovernmental cooperation and the allocation of power also had to be addressed. The agenda of the reform therefore covered all three issues, so that separating them would not be an option for the actors involved.

The Federal Department of Finance initiated official negotiations on a constitutional reform, which started in 1994 within the Conference of Ministers of Finance of the cantons. They adopted the agenda which civil servants of the Federal Department of Finance had proposed. Negotiations did not follow an explicitly determined policy design. Instead, they evolved in line with the

standard operation procedures of Swiss government and politics, institutional rules of constitutional amendment and pragmatic decisions in response to particular situations. In retrospect, however, the process revealed a certain logic and proved effective. This explained the significant change of the federal constitution, in particular of fiscal equalization.

Soon after the reform process had started, the federal and the cantonal governments set up a 'project organization' to analyse the problems of Swiss federalism and for drafting the framework of the reform. It was headed by a project team which guided specialized working groups and integrated their conclusions in reports. The sub-units of this organization included civil servants from the federal financial administration and the cantonal administration. The project team submitted the results of the working groups to the federal and cantonal ministers of finance and, subsequently, to the Conference of Federal and Cantonal Governments.

Instead of focusing on the redistribution of power and finance right from the outset, the executive first elaborated 'Guidelines' for the reform. They defined the general approach and basic principles. In view of the professional background of civil servants and participating experts, it was not surprising that theories of fiscal federalism and new public management had a strong impact on the framework. However, this was not a theoretical concept; it defined in a pragmatic manner the key concepts for a comprehensive and coherent revision of federalism. Moreover, the framework provided the reasons for a change in power and fiscal equalization.

The final version of the guidelines was discussed and approved by the federal government and the Conference of Cantonal Governments. It was then subject to public consultation. Cantonal governments, political parties and civil society organizations were invited to participate, and more organizations than those officially addressed submitted opinions. The consultation proved to enjoy widespread support for the reform and a broad consensus on the guiding principles.

Following this consultation, a second phase of the reform started in 1997. The project organization was adjusted to the new task and committed to transform the guidelines into proposals for detailed revisions of the constitution. The team coordinating the project presented its final report to the federal and cantonal governments. When the governments had approved this report, it was again published for the consultation of cantons, parties and civil society. In this process, some groups raised objections against particular proposals. After settling the disputes in bilateral negotiations and in the intergovernmental process, the executive elaborated drafts for a constitutional amendment bill and ordinary bills on fiscal equalization. In November 2001, the federal government introduced the drafts in the legislature and thus gave the parliament a voice in the process for the first time. Some criticized the reform process

as dominated by experts and the bureaucracy. However, members of federal and cantonal parliaments had ample opportunities to get involved either in public consultation or in informal contacts to the executive, which they used (Wettstein 2012: 89).

The draft proposal finally passed the federal legislature and then was subject to the required constitutional referendum, which took place in November 2004. Apparently, governments and parties succeeded in convincing a clear majority of Swiss citizens in the referendum campaign. Sixty-four per cent of citizens casting their vote approved the amendment, including a majority of voters in three of the six cantons which the new fiscal equalization burdened as net payers. The low turnout (35.5 per cent) signified that citizens accepted the reform and that no important group or party mobilized opposition (Freiburghaus 2012: 75). When the constitutional amendment was in force, the reform was implemented in legislative and administrative decisions.

Compared to similar constitutional reforms in other federal or regionalized states where joint decisions of central and regional governments had to secure the required qualified majority in legislation (Benz 2016a; Benz and Knüpling 2012), the outcome of the Swiss reform was astonishing. It not only substantially changed the distribution of powers between the federation and the cantons and introduced new rules for inter-cantonal cooperation in order to make decentralized policies more effective, but in particular it introduced a new and widely accepted system of fiscal equalization. Inter-cantonal redistribution and the allocation of federal grants follow clear criteria related to fiscal capacities and the fiscal needs of the cantons. Ultimately, the federal government had to concede additional long-term compensations for those cantons which on balance lost financial resources by the reform compared to the status quo, but still the new fiscal equalization scheme evidently improves fiscal federalism in Switzerland significantly. The transfers are no longer allocated as specific grants, but as general grants in order to equalize fiscal resources and to compensate for the particular burdens of individual cantons. Fiscal equalization addresses disparities of both revenues and expenditures in a coherent system. Although some cantonal governments regularly complain about the horizontal redistribution of revenues, the reform has contributed to stabilizing Swiss federalism against tendencies towards centralization and fiscal imbalances. It has changed the constitutional status quo significantly. The positive public evaluation and the unproblematic implementation process indicated a successful policy change in line with the intentions of governments.

This policy innovation is even more astonishing on account of the constraining institutional conditions of multilevel governance established by Swiss federalism and democracy. In contrast to parliamentary federations in Australia and Germany, the consensus democracy in Switzerland, where positions in the federal cabinet are distributed among mainstream parties

according to proportional rule, allowed the federal and cantonal governments to proceed without the pressure of elections or the competition of vote-seeking parties and government-vs.-opposition dynamics. Therefore, the executive had all the time to elaborate a reform proposal and to manage conflicts. Parties expressed different opinions on particular aspects of the reform, but disputes had not been ignited by election campaigns. The political culture facilitated negotiations aiming at a consensus among all political and societal groups (Freiburghaus 2012: 76). However, these particular institutional conditions alone cannot explain the fact that significant redistributive conflicts, which in similar cases obstructed ambitious constitutional reform projects, could be managed. Therefore, other conditions need to be considered. What is striking in this case is the differentiated structure of constitutional negotiations, which went through expert-dominated, intergovernmental, parliamentary and consociational processes (Wettstein 2012).

Upon closer inspection, this process not only stands out for its long duration, but also for its organizational features. While constitutional politics and normal politics are hardly distinct in the consensus democracy of Switzerland, the process of reforming federalism and fiscal equalization differentiated them. This was achieved, first and foremost, by the decision to proceed sequentially. The first sequence of the reform focused on the aims and general principles guiding the renovation of federalism. After they had been fixed, the second sequence focused on the details of constitutional amendments. Finally, after amendments had been ratified, legislation and executive decisions implemented the new constitutional rules. This sequential process implied that the process of policymaking was divided and took place in distinct arenas.

A comprehensive change of a federal constitution runs the risk of failing because of its complexity. By affecting a variety of interests of powerful actors, it tends to favour bargaining on package deals. Yet the sequential process organized in Switzerland implied not only a temporal but also a substantial differentiation of negotiations. By separating decisions on principles from decisions on a redistribution of powers and on new rules for financial transfers, the process prevented distributive bargaining among governments dominating from the outset. In negotiations on the guidelines, all actors developed a shared understanding of the general premises and the normative framework justifying the reform. This differentiation of constitutional principles and rules created a 'veil of ignorance' (Freiburghaus 2012: 77) concealing redistributive consequences in the first phase. Therefore, the arguing behaviour of all actors involved predominated in negotiations and encouraged participants to find a basic consensus. In the ensuing negotiations dealing with the details of fiscal equalization and the particular powers to be reallocated, this consensus on a normative framework significantly reduced the scope for distributive bargaining. Although representatives of cantonal governments now tried to

gain as much as possible for their canton, they had to justify their claims as being in accordance with the guidelines.

Another characteristic feature of the Swiss reform process was a differentiation between the administrative and the political tier of the executive, and between executive, parliamentary and consociational arenas. As outlined above, the federal government set up a project team responsible for managing and coordinating the committees and sub-committees of the federal–cantonal Conference of Directors of Finance, which worked on specific aspects of the reform. Thus, from the very beginning, civil servants from the federal and the cantonal ministries of finance cooperated closely, supported by academic experts who provided the theoretical basis for the reform programme. These actors shared the mission to achieve a significant reform of Swiss federalism and, as a team, promoted the reform. Next, ministers of finance and heads of government negotiated on the proposals, and their agreements legitimized the proposal submitted by civil servants. In a further step, the reform guidelines and, in the second stage, the legislative package elaborated in the executive were discussed with representatives from interest groups, as required by the established practice of Swiss democracy. Finally, the legislature debated and voted on the reform. Both the decision on principles (the guidelines) and the decision on detailed amendment proposals passed these four arenas.

As in Germany, the reform of fiscal equalization in Switzerland implied constitutional amendments, and thus the negotiated agreement had to be ratified according to amendment rules, that is, by both houses of the federal legislature and in a referendum. In the Swiss consensus democracy, however, neither parliamentary decisions nor outcomes of a constitutional referendum are determined by the negotiated proposal. Majorities in both houses of the legislature result from issue-specific coalitions among parties in parliament. Therefore, governments cannot rely on the support of a majority or anticipate vetoes in legislature when negotiating an amendment bill. But for the same reason, constitutional negotiations are hardly burdened by party confrontation. Executives can also not anticipate how people will vote in a referendum, despite consultation with interest organizations which can mobilize their members. Therefore, while promoters of a reform can negotiate without being committed to party positions or interest groups, they have to provide compelling reasons in the legislative process and in particular in the referendum campaign. At the same time, governments, parties and civil society organizations supporting the reform have to convince citizens in public discussion by explaining the rationale of the reform rather than declaring what they may gain or lose. Ratification thus constitutes another arena of communicative interaction (Linder and Mueller 2021: 173–86).

The different arenas of deliberation, strategic bargaining, consultation and decision making were linked in such a way that policymaking increasingly

opened up to new actors and to a wider range of interests. It started with exclusive, 'technocratic' negotiations among specialists, and continued with including political representatives, before parties, organized interest groups and civil society participated. Thus, the process became more and more inclusive. This way, it not only generated legitimacy but at the same time made the complexity of affected interests manageable. Overall, the process comes close to the model of 'negative coordination' (Wettstein 2012: 86–7), which allows affected actors to raise objections to a proposal but not to participate in the elaboration of the proposal. In fact, it combined 'positive coordination', that is, negotiations among federal and cantonal executives, with negative coordination in parliamentary and consociational arenas. This arrangement appears to be most effective for dealing with complex issues (Scharpf and Mohr 1997).

Also remarkable in the Swiss case is the loose coupling of arenas linked in the sequence of the reform process. Politics in executive negotiations do not determine the democratic process, which on the other hand does not determine but influences the pre-parliamentary process. The actors negotiating on a constitutional reform had to search for the presumed general will of the people; they could not behave like agents of veto players, that is, parties or parliamentary coalitions. Although fiscal equalization was about winning or losing in a redistributive policy, experts, civil servants and representatives of governments at all levels acted cooperatively, and cooperation was the appropriate strategy to find acceptance in legislation and in the referendum. The shadow of majority decisions which are difficult to anticipate in Swiss democracy explains the particular culture of consensual policymaking, a culture generated and reconfirmed in institutions and in the political practice of the political system. This culture is unique to Swiss federal democracy. Nonetheless, the successful innovation of fiscal equalization cannot be explained by this culture alone. It was the particular organization of multilevel policymaking which appears essential to cope with the intricacies of redistributive policy.

This multidimensional differentiation of arenas and processes did not rule out bargaining processes and strategic interaction determined to promote particular interests. Governments of the economically well-off cantons, which expected to lose under the new fiscal equalization scheme, supported the reform, albeit unwillingly, but only after the federal Social Democrats had announced their intention to introduce a bill on tax harmonization and thus threatened to reduce the tax autonomy of the cantons. Furthermore, the Federal Department of Finance accommodated opposition from these cantons by compensating reduced transfers for a long time (Cappelletti et al. 2014). Concerning the envisaged separation and decentralization of power, the federal and cantonal governments finally accepted more power sharing than originally intended (for details see Freiburghaus 2012: 67–70). After the reform, debates among cantons and the federal government have continued, further changes

have been suggested, and some adjustments have been accepted (Vatter 2018: 199–203). However, intergovernmental bargaining and compromises never deviated from the principles and reasons justifying the reform. The basic goals, the guidelines, the overall substance designed in the agenda and the coherence of the project could be maintained. By moving from one arena to another, governments found increasing support for the reform project, as they had to justify their proposal repeatedly. By communicating the reform in media campaigns, the federal executive contributed to this generation of a consensus on the reform.

CONCLUSION

The results of fiscal equalization policy in the three federations differ according to the scope of change compared to the status quo, the conformity with the policy agenda, the innovativeness of the guiding ideas, and the sustainability of policy change. In Germany, the fiscal equalization system was only modified in details, although the replacement of transfers from so-called donor to recipient *Länder* by deductions from, and additions to, the VAT revenues of individual *Länder* was meant to be substantial. In processes of decision making, there was neither a real agenda nor any defined ideas guiding the reform. The new law should remain valid for at least ten years. In Australia, the consolidation of a number of indirect taxes, the introduction of the GST, and the substantial revision of federal grants significantly changed the existing fiscal equalization system including the institutional framework. The reform was implemented as planned and guided by ideas derived from a 'social-democratic' approach to fiscal federalism. So far, the system has survived attacks from state governments and critical evaluations. In Switzerland, a new system of fiscal equalization replaced non-transparent federal grants in a reform process which from the beginning followed a clear agenda and ideas of 'liberal' fiscal federalism (for details on these ideas, see: Harmes 2019: 30–56). In line with these ideas, equalization still leaves disparities between cantons (see Table 6.1) and does not undermine tax competition among them. Despite ongoing debates and a recent review of the new fiscal equalization, the system seems rather stable.

To explain change, many conditions are mentioned in the literature. All the reforms followed a recession in the economy; in Germany, however, with a significant delay. Here, the pressure of time due to the sunset clause of the existing law finally pushed policy change, but it cannot explain the substance of change. Changes in government had an impact in Australia, but not in the other federations. The Federal Constitutional Court repeatedly influenced debates on fiscal equalization in Germany, but it did not intervene in the last reform process. Likewise, a High Court ruling provided an impetus in Australia, but this did not require a reform of fiscal equalization. In all cases,

we find triggering events but no critical juncture or focusing events. Finally, the duration of the process did not really matter. The most innovative policy of fiscal equalization in Switzerland resulted from a process, which started in 1994 and finally ended in 2008 when the new system was in place. In Australia, two reforms emerged after comparatively short negotiations, but the overall change took about a decade to be accomplished. In Germany, the fiscal equalization reform which was passed in 2017 had been an issue since at least 2012, after it had been postponed in previous reforms of federalism.

All these factors cannot explain the different qualities of policy change. What makes a difference is how the process was organized in the multilevel systems. Remarkably, the most complex process, which we observe in Switzerland, has led to the most innovative outcome. A process which replicated the routinized joint-decision making in the executive has constrained policy change in Germany. Here, political representatives of the *Länder* negotiated a compromise, followed by a compromise in negotiations of the *Länder* with the federal government. The federal parliament saw no chance to modify the reform proposal of the executive, not least as it was supported by the *Bundesrat*. In consequence, the recent reform of fiscal equalization followed the tradition of incremental policymaking. In Australia, the intergovernmental arena dominated as well, but the process of intergovernmental negotiations was depoliticized by a differentiation between the political and the administrative arenas. In Switzerland, the organization of the policy process combined arenas of political bargaining with those where experts argued on reform options, and the loosely coupled arenas maintained their unique patterns of interaction. The sequencing of decisions on principles and decisions on constitutional and legal rules further limited institutional constraints and strategic action in intergovernmental or party-political processes.

NOTE

1. In this section, the term 'states' refers to the six Australian states (New South Wales, Queensland, South Australia, Tasmania, Victoria, Western Australia) and – for reasons of simplification – includes the two self-governed territories (the Australian Capital Territory and the Northern Territory).

7. Conditions and processes of policy innovation in multilevel governance

The empirical studies presented in the previous two chapters report on policymaking in different institutional settings of multilevel governance, with different governance mechanisms operating under different conditions. Nevertheless, they are not meant to allow a systematic comparative research designed to prove or test a theory. They should only illustrate the relevance of the approach suggested in Chapter 4 and provide some empirical evidence for the theoretical conclusions drawn from the state of research.

It is particularly important to note that the cases do not allow for the evaluation of multilevel systems, where power is dispersed across jurisdictions, in comparison to unitary political systems which enable a concentration of power. As mentioned in the introduction, this book should explain that complex political systems can not only adjust to a turbulent environment, but can also cope with difficult problems by policy innovation. It cannot prove that multilevel governance promises more effective policies than 'centripetal' democracies (Gerring and Hacker 2008). However, it makes the case for a more differentiated evaluation of complex governments and multilevel governance than is suggested by quantitative comparative research based on institutionalist approaches or veto player theory. As Liesbet Hooghe and Gary Marks convincingly argued, multilevel governance arises in response to an increasing territorial differentiation and functional interdependence of societies. Therefore, it has to be taken as a fact and as result of a transformation of political authority, irrespective of the form of the governments involved in multilevel governance. Hence the challenge is to find appropriate institutions and procedures of coordination, in view of the societal conditions of politics.

This chapter starts by summarizing the fundamental developments in society which impact on politics in multilevel governance. It then discusses how a multilevel system and processes of governance can be shaped to increase the feasibility of policy change or innovation. This discussion will not lead to a recommendation of an appropriate 'model' of multilevel governance. As follows from the theories outlined in Chapters 2, 3 and 4 and as the case studies illustrate, innovative policymaking cannot be guaranteed by institutions or procedures. Much depends on how actors strategically cope with institutional constraints and political conflicts and how they shape processes. Therefore,

the following reasoning implies an actor-centred approach to multilevel governance which takes societal and institutional conditions as crucial, but as conditions to which actors can adapt or which they can influence.

SOCIETAL CONDITIONS

With their 'postfunctionalist approach' to explain the rise of multilevel governance, Liesbet Hooghe and Gary Marks (2009; Hooghe et al. 2016a, 2016b) highlighted three fundamental conditions which can be traced back to changes in society: the functional interdependence of the causes and consequences of political decisions across levels; the political demands for autonomy expressed by communities; and the polarization of politics. The first condition results from growing transactions and external effects across borders of territorially organized states and their sub-units. Claims for autonomy reflect the loyalty of citizens to a political community. Political polarization results from cleavages in a society which find expression in party systems. In principle, trans-border movement of people, interchange of goods, capital or services and externalities have always been an issue for states, and governments have tried to control these processes, with different means and varying effects and costs. Likewise, politics has always implied the formation of communities as well as their integration or disintegration. And polarization has always threatened political stability, whenever fundamental conflicts have divided societies and, in consequence, shaped party systems and party politics. Controlling mobility and externalities across borders, ensuring the loyalty of citizens in order to integrate communities, and structuring politics in party systems are processes which shape state formation and which also drive the transformation of states and the evolution of multilevel governance (Bartolini 2005; Rokkan 1999). And yet, conditions for multilevel coordination have changed significantly.

First, waves of democratization in nation states and the globalization of markets since the 19th century dramatically reduced the power of national, regional and local governments to use borders as an instrument of control. What started as a liberalization of societies and advancement of equality has meanwhile revealed its ambivalent consequences. On the one hand, citizens in democratic political systems are free to move around, although immigration into nation states is still regulated by national law. Constraining mobility through border control would be against the fundamental principles of liberty. Global trade and communication have increased the prosperity of citizens, corporations and governments, while guaranteeing fair and liberal market economies has become a matter of international politics and trade treaties. On the other hand, mobility and global trade have caused negative externalities. They threaten the social balance of welfare states, the stability of the economy, the security of citizens and communities, and the sustainability of the global

ecological system. As responses by governments to migration and their efforts to mitigate the COVID-19 pandemic show, controlling state borders is still an option for politics in nation states, but it is an option that contradicts basic legal and political principles. In consequence, coordinating policies in multilevel governance is inevitable and appears as 'functional'. However, it requires coping with the ambivalences of freedom and political regulation, which become particularly challenging as multilevel governance has turned out as increasingly 'politicized', that is, a matter of disputes and contestation.

The contestation of functional justifications for multilevel governance is grist for the mill of movements or parties claiming autonomy for their community. Such claims are raised by ethnic groups which feel excluded from multilevel governance and demand acknowledgement in politics and participation in policymaking. In contrast, national communities which define their identity by a distinct language or a particular political history, and perceive themselves as a minority in a larger society, call for sovereignty, at least on specific matters, and thus reject external influence, in particular by upper-level authorities. Consequently, they refuse to participate in multilevel coordination. Minority nationalism is not only driven by identities, but also by interests, and therefore it evolves under specific economic conditions. While for a long time it was predominantly observable in peripheries of states or federations (Hechter 1975), it appears meanwhile mainly in prosperous regions which defend their resources or welfare against external competitors, immigration or requests for redistribution (Keating 2004). This kind of economic nationalism is also on the rise in international relations of states. In consequence, policymaking in multilevel governance is burdened by territorial conflicts among governments and, accordingly, the risk of deadlock in the management of interdependence has increased. In reaction to these divides, states prefer exclusive agreements to multilateral coordination, particular communities or nation states opt out from intergovernmental agreements or they insist on minority rights. In this case, structures of multilevel governance tend to become asymmetric.

As indicated, minority nationalism can also be caused by economic disparities, and the nationalism in prospering regions challenges multilevel governance in total. Yet growing economic and social disparities (Milanović 2011; Piketty 2020) also affect policymaking in multilevel governance. Within states, local and regional governments facing deficient fiscal capacities call for distributive justice by fiscal equalization. In international politics, governments representing underdeveloped countries tend to link substantial policy issues with demands for financial compensations, which, for instance, emerged as an important topic in international climate negotiations. Such package deals are feasible in joint-decision making or cooperation and help to avoid deadlock. However, as they result from distributive bargaining, significant change or

policy innovation is unlikely under these conditions in which negotiating governments try to limit redistributive effects burdening their taxpayers.

Changes in party politics have reinforced territorial conflicts. In Western democracies, scholars have observed a new territorial cleavage leading to a transformation of party systems. Post-materialist values and ecological issues are now finding greater resonance in party politics, and these issues concern problems at different scales. Mainstream parties representing the basic consensus on the welfare state are increasingly challenged by parties supporting the globalization of markets and parties claiming to defend national or regional resources or speaking for those who are left behind in globalization. This new cleavage and the rise of territorial politics impacts particularly on European integration (Kriesi et al. 2012). The multilevel political system of the EU, which until the 1990s was based on a 'permissive consensus' within the member states, has turned into a matter of contestation, if not political polarization. Within nation states, regionalist or ethnic parties have gained ground in many Western democracies as well as in Asian countries. Although these parties are often integrated in consensual politics and multilevel governance (Breen and Thomas 2021), and although they increase diversity which can stimulate innovation, predominating value conflicts and contrasting constitutional ideas can increase the risk of deadlock in policymaking. In general, it is an open question whether this new divide obstructs governance or whether parties find a compromise on an appropriate division of power between levels. Be that as it may, the politicization of territorial conflicts makes policy coordination more difficult. Instead of advancing intended innovations, significant change can have disruptive effects and can contribute to the disintegration of multilevel governance.

A final condition of multilevel governance has so far been widely neglected in research. One cause for interdependence across boundaries of jurisdictions is digitalization and the development of the World Wide Web. By improving and accelerating communication and by reducing transaction costs, digitalization has led to an expansion of international trade and has dramatically transformed global financial markets. States, regions and local communities increasingly rely on a digital infrastructure to control public utilities, connecting administrative organizations, linking administrations to citizens and enabling interactions with other parts of the world. In consequence, they also have to face new risks which require national and transnational regulation and coordination. Digital communication also changes policymaking in multilevel governance, in different ways. Regulation of the internet is partly privatized and partly in the hands of governments or international authorities. Thus, a unique kind of multilevel governance has emerged. Moreover, actors in traditional forms of multilevel governance profit from the new options to communicate. Yet the type of communication has changed, with effects that

are hardly understood still. Presumably, the intensity and speed of information exchange have increased and have improved the management of crises, as can be observed in the COVID-19 pandemic. However, digital communication lacks the potential of personal relations to build trust, which is essential to solve conflicts. Given the state of research (Chadwick 2020; Roy 2021), we can only speculate about the positive and negative impacts of digitalization on multilevel governance, but the consequences for policymaking and policy change should not be underestimated.

To conclude: While interdependence of policies across levels of governments and beyond nation states has led to new structures and processes of multilevel governance, coordination of policies has become more and more difficult under changing societal conditions. These conditions vary by state and world region, but also by policy fields. Nevertheless, it seems that functional reasons for multilevel governance are increasingly disputed, and that the intensity of conflicts has generally increased. For this reason, searching for appropriate institutions and processes of coordination has gained in importance.

INSTITUTIONAL CONDITIONS

Institutional conditions of multilevel governance can be discussed under three categories: the division of powers, the institutions of governments involved in multilevel governance, and the linkages between multilevel and domestic (intragovernmental) politics. Beyond these institutional 'dimensions', the rigidity or flexibility of institutionalization affects the opportunities for policy and institutional change.

The division of power determines the degree of interdependence to be managed across jurisdictions and the modes of coordination available to cope with external effects and redistributive problems. Other things being equal, the larger the territory of the jurisdiction and the wider the portfolio of public policies falling under the responsibility of an authority, the less the need for cross-border coordination. Irrespective of the territorial structure of jurisdiction, centralization of powers reduces interdependence (or internalizes external effects), while decentralization has the opposite effect. However, the larger the jurisdiction, the greater the diversity of the territories it encompasses, and the more policies of the centre have to be differentiated according to geographical, economic, social and cultural aspects. Therefore, with the increasing size of a polity, powers should be divided between levels of government in order to avoid overload of the central government.

Yet this is a very abstract and general argument. Scholars working on multilevel or federal systems have long debated the advantages or disadvantages of a particular division of power. They found reasons speaking for centrali-

zation or decentralization but, in the end, different reasons have to be taken into account and pondered, and the result of this assessment depends on the political aims pursued by governments (Treisman 2007). The same applies to the discussion about separation or sharing of power, the former meaning that authorities at each level can unilaterally decide on policies within their domain, and the latter requiring joint policymaking. Power separation is often preferred, because democracy presumes autonomy of governments and because executives take full and clear responsibility for their decisions towards parliaments or citizens. However, it is less the degree of autonomy characterizing these different ways to divide powers but rather the modes of multilevel governance enabled by them that is crucial for effectiveness or legitimacy of governance. Whereas shared rule privileges intergovernmental cooperation, often by excluding the exit options of individual governments, separation of power tends towards governance in the shadow of hierarchy or decentralized competition, but does not rule out voluntary cooperation. In reality, neither shared rule nor self-rule determines the modes of coordination.

In terms of the division of power, multilevel governance is typically characterized by a functional differentiation. Decisions on standards, goals and rules are to a considerable extent centralized, whereas their implementation is decentralized. Redistributive policies affecting the whole polity call for central decision, whereas the provision of services and public utilities needs to be decentralized, depending on their territorial scale. This functional division reflects the complexity of problems surfacing in contemporary societies, and it causes interdependence of policies made at different levels. Powers are divided according to functions, because policies have to address general and specific aspects of societal problems. To cope with these problems effectively, divided functions have to be fulfilled in a coordinated way. Therefore, this kind of division of power structures policymaking in multilevel governance. The typical division of functions in multilevel governance finds reflection, in turn, in the dynamic interplay between agenda setting, the definition of principles or rules, and the discourses about experiences and best practices at the global or European level on the one hand, and binding decisions and implementation of principles, rules or policy recommendations at the national, regional and local level on the other. This interplay can be observed in energy and climate policy. In pure redistributive policies like fiscal equalization, functional division is revealed in the responsibility of central governments to guarantee a fiscal balance across territories in which regional or local governments provide public goods and services.

The second institutional dimension concerns the form of governments and domestic politics within jurisdictions. Executives interacting in multilevel governance are subject to the rules and norms of their government. In autocracies, political leaders can ignore such constraints, but this does not mean

that autocratic rule is compatible with multilevel governance. When policies are coordinated by intergovernmental agreements, the hands of delegates of autocratic political leaders are more strongly tied in negotiations than the hands of executives representing democratic governments. In governance by competition, autocrats are under pressure to profit from multilevel governance, because they depend on output legitimacy. At the same time, they tend to insulate their government from performance evaluations even if they claim ostensibly to accept standards of good governance.

In democratic governments, executives are accountable to, and have to take into account the will of, parliaments or public opinion. In parliamentary democracies, their hands can be tied by mandates defined by the majority in parliament, and they may be confronted by a critical opposition when they make concessions in intergovernmental negotiations or adjust policies in response to interjurisdictional competition. As research on comparative federalism has revealed, tensions between multilevel governance and democracy are particularly intense in parliamentary democracies, either because the discretion of executives is constrained by the will of the parliament or because a parliament can veto policies or blame the executive in public for decisions resulting from multilevel governance (Lehmbruch 2000; Sharmann 1990). In democracies where the powers of the executive and legislature are separated, the former has a stronger position in multilevel governance and is more inclined to respond to public opinion, which rarely determines the policy preferences of the executive. However, the differences should not be overestimated (Benz and Sonnicksen 2021). In general, multilevel governance and democratic governments operate according to distinct rules and procedures and include different actor constellations, and the resulting policy processes interfere and cause mutual constraints and tensions.

How these linkages between multilevel governance and democratic governments affect policymaking in multilevel governance largely depends on the degree of institutionalization, or, to put it in another way, the flexibility of institutions for managing the tensions. Highly rigid constellations usually result from the combination of a parliamentary system with institutionalized power sharing requiring joint decisions. Even under these conditions, strategic actors may find ways to escape the Joint-Decision Trap, although usually at the cost of ineffective policies and democratic deficits (Scharpf 1988). Yet executive–parliament relations do not necessarily determine the policy preferences of actors in multilevel governance. In majoritarian democracies, the executive can often rely on the majority of one party and is not necessarily bound to coalition agreements. In consensus democracies, the executive may be able to settle compromises with varying parties if it needs support for decisions in multilevel governance. The risk that executives dominate negotiations on intergovernmental agreements committing their government can be reduced

if individual governments have the right to opt out. Informal preparation of joint decisions in inter-administrative relations can moderate the influence of party competition on policymaking in multilevel governance and thus partially separate executive governance and democratic politics, which can be harmonized in a process of mutual adjustment.

Regardless of the patterns of democracy or autocracy, considerable flexibility can be achieved by variation in patterns of multilevel coordination. This applies in particular to political systems where powers are separated between levels and where multilevel governance rests on emergent norms rather than formal rules. Cooperation is voluntary per se, and cooperation in the shadow of hierarchy implies that, in cases of disagreement, a central authority decides. Yardstick competition and policy transfer are highly open for various outcomes. Yet even if powers are shared, regular meetings or informal processes of cooperative or competitive interaction among executives, civil servants, party representatives, members of parliament or private actors can add to institutionalized joint-decision making. Intergovernmental councils, for instance, are established organizations which have gained in importance in federations due to the increasing interdependence of policies. They imply no binding commitments for joint decisions but can prepare these decisions. Founded on agreements among participating governments, members can renegotiate or reinterpret the rules of coordination whenever it appears appropriate. In all these patterns of multilevel governance, communicative processes complement strategic politics, and the outcomes of these processes serve as reasons to justify policies in democratic politics, even if these reasons, like ideas, can be used as 'discursive weapons' in the political process (Béland 2009: 702).

In general, institutionalization of multilevel governance is lower in international governance than within states or federations (Westerwinter et al. 2021). Still, negotiations among heads of governments and international agreements can significantly constrain democratic politics, and similar constraints result from competition among states. Flexibility of multilevel governance is clearly higher the more levels are linked. Under these conditions, policy processes can 'bypass' an intermediary government in order to avoid formal procedures and to open arenas for communicative processes. The US federal government, for instance, provided grants directly to cities after President Johnson had initiated the 'war on poverty' (Robertson 2012: 132). The EU Commission directly addressed and communicated with governments of regions or cities when implementing its structural policy. Local and regional governments, on the other hand, contact European or international organizations when pursuing their interests or search for assistance (Tatham 2010).

This flexibility makes multilevel governance work and allows actors to accommodate effective governance with democratic legitimacy. In addition, it creates opportunities for innovative policies. Policy innovation, however,

results from processes, and processes in different arenas need to be arranged in a way that reduces constraints inherent in complex multilevel governance and takes advantage of the flexibility of loosely coupled arenas.

PROCESSES

Significant policy change, which is intended by policymakers, rarely results from an abrupt and rapid revision of established practices. Inventions need time to mature, and when they crop up they often remain an issue in discussions among experts, and many also disappear for some time in the long lists of proposals rejected in political processes, before they are rediscovered. In multilevel governance they may be implemented in one or a few jurisdictions or may be identified as best practices by external review boards or authorities, without inducing policy change on a larger scale. As convincingly explained by theories of policy or institutional change (see Chapter 3), inventions turn into innovations after a balance of power within a policy regime or among competing policy communities has become unstable, after a gradual evolution of policies along an existing path has proved ineffective and unsustainable, and after a crisis of governance, protests or threats of disintegration have created a critical situation, after ideas justifying policies have been contested, or after external events have triggered change. While these processes drive dynamics of policymaking, new ideas or a revision of a predominating policy paradigm channel policy change in an intended direction. In energy and climate policy, the politics of the liberalization of markets and the paradigm of economic growth was challenged by new knowledge on the causes and possible effects of climate change. Reforms of fiscal equalization, which went beyond a gradual adjustment of existing legislation, followed explicitly stated principles of distributive justice and effective provision of public goods and services.

All these causes and conditions can also initiate change in multilevel governance. In these structures, however, particular processes are set in motion which can either constrain or enable and drive policy innovation. The case studies presented in the preceding chapters reveal that these processes differ according to institutional conditions and the type of policy, but that flexible, loosely coupled or 'redundant' structures of multilevel governance provide enabling conditions for actors to shape the policy process in a way that makes change feasible.

Multilevel governance in climate policy reveals flexible and inflexible structures, if we consider that the whole governance system affects all levels, from global to local politics. The international climate policy regime, which has emerged over the last few decades, is based on intergovernmental politics among state governments but meanwhile includes an internally differentiated forum for discursive processes including executives, experts and NGOs that

have continuously influenced the negotiations of national governments. To an increasing extent, these 'epistemic communities' have been connected to regional and local policymaking. They have inspired discussions, policy agendas and politics on these sub-national levels, although international treaties commit national governments in the first place. Local policy innovations have been stimulated by supralocal policy networks or best practice contests organized by the EU or international associations of cities. Multilevel governance in this field is characterized by processes of information exchange and vertical and horizontal policy transfers, by the 'uploading' of local policies to international arenas and 'downloading' ideas and recommendations from these arenas to local governments. City governments in particular serve as places of experimental policy, and transnational arenas as processes of critical review, comparative evaluation and mutual learning. This rather loose linkage of local and international governance and the opportunities to shape policies in different arenas avoided tensions between multilevel interaction and local democracy, because the former neither constrained the competences nor determined the politics of elected city councils. Nonetheless, communicative multilevel interactions have evidently contributed no less to policy innovation than governance in hierarchy, that is, legislation or climate programmes of national governments.

Energy transition has been coordinated in different processes of multilevel governance. Aiming at a significant reduction of emissions causing global warming and climate change, it requires that national, regional and local governments effectively harmonize their policies. Conflicts of interests among different branches of industry, energy providers and consumers, territorial variations of energy systems, and the challenges of transition and party competition within governments complicate multilevel governance. In order to transform an energy system, mutual interference between processes of coordination and democratic politics needs to be managed. This was apparently possible in Denmark, where policy innovation in local governments induced the central government to change its course of energy policy and to respond with regulation and incentives supporting renewable energy. Policy coordination was not formally institutionalized but established interaction between the Danish government and local government associations contributed to bring into line the new policies of central and local energy policy. The processes of the consensus democracy helped to stabilize the new path of energy policy, even after citizen protests and a change in government boosted opposition. Thus, cooperative intergovernmental policymaking, 'public–private' negotiations between governments, industry, unions and civil society organizations, and negotiations between parties in parliament or city councils opened ways to manage the multidimensional conflicts in a highly flexible, multilevel governance regime.

In Canada, energy policy has been divided and multilevel coordination remained weak for a long time because, within governments, competitive politics prevailed. As the provinces exploit different energy sources, the policies of the 'carbon provinces' diverge substantially from those of the 'hydro provinces' (Macdonald 2020). Lacking appropriate direction of the conservative federal government, some provinces engaged in energy transition, but these policies had neither significant effects on other provinces nor was there policy stability in the majoritarian democracy of the provinces. When after 2015 the federal government revived intergovernmental coordination after a decade of disengagement, it achieved an agreement, but some provinces refused to comply with important elements. The political process in a Westminster model of a parliamentary system concentrates power in the executives. With its support of a majority in parliament, an executive can change policies within its jurisdiction. But executives are also committed to their party in parliament, and in intergovernmental negotiations they have to defend their policy in bargaining processes. This explains why intergovernmental relations are hardly institutionalized in Canada (Bolleyer 2009), and why agreements can be innovative but never guarantee a continuous implementation. Multilevel governance is highly flexible but difficult to control.

In Germany, intergovernmental negotiations and parliamentary democracy constitute a rather rigid system of multilevel governance. However, processes in energy policy have been characterized by considerable dynamics. One reason was that power over energy is more centralized than in Denmark or Canada. Moreover, the federal parliament passed legislation to promote renewable energy and to phase out nuclear power by avoiding joint-decision making with the *Länder* governments. In negotiations within the federal coalition government and in public–private negotiations, the federal government initiated the transition towards energy generation based on renewable sources. This policy was clearly innovative and transformed the old policy regime. While Canada lacked stable cooperation between the federal and provincial governments and between the provinces to manage conflicts of interests, the German joint-decision system was weakened by centralization and unresolved conflicts among *Länder* governments. Federal and *Länder* policies have been coordinated in informal consultation among specialized administration and external experts, and binding decisions result from cooperation in the shadow of hierarchy. In these processes, energy transition continues by gradual change.

Politics of fiscal equalization represents a purely redistributive policy and concerns resources of governments. It is unique as de facto it requires joint decisions regardless of the division of power in general. Federal legislation regularly ratifies intergovernmental agreements negotiated by the federal and all regional governments. As the German case demonstrates, bargaining among executives makes significant policy change next to impossible. The

Länder ministers, aware that they all have to justify the outcome in their parliament and in public, formed a status quo-oriented policy coalition against the federal government. In other federations we should expect the same bargaining behaviour of executives negotiating on fiscal equalization. However, if the policy process is differentiated in functional and temporal terms, innovative solutions of conflicts can be achieved. Differentiating an arena where experts meet from the arena of negotiations among political executives is one important condition. Another is the separation of decisions on the funds available, on the rules of redistribution of the funds, and on the application of these rules to determine the shares of each government. Arena and process differentiation, in combination with negotiations in the shadow of an obligatory referendum, explains the 2008 reform in Switzerland. In Australia, the substantial reform of the equalization funds and the later revision of the grants system was also elaborated in political and administrative negotiations, but more important was the implementation of fiscal equalization by an independent commission. In addition, the distribution of federal grants based on bilateral contracts between federal ministries and state governments and performance evaluations encouraged problem-oriented cooperation. In a way differing from the Swiss case, this multilevel governance process separated decisions on principles and rules from decisions determining the particular shares of each government. This way, communicative interaction was encouraged and defended against strategic bargaining and party competition in ratification within a loosely coupled arrangement of processes.

These cases support the theoretical assumption that structural differentiation of multilevel governance opens opportunities for policy innovation. Under the condition of sufficient institutional flexibility, actors can shape processes so that they can profit from the innovation potential of communicative interaction, use strategic action to promote the implementation of innovations, and nonetheless conform to institutional rules in order to legitimize new policies. The probability of innovative policies increases if these different processes are linked in a sequence, which first allows ideas of policy paradigms to materialize, which then sets a frame for strategic policymaking to substantiate a new policy. This way multilevel governance can make policy change possible against all odds of multidimensional conflicts and institutional complexity.

CONCLUSION

The rise of multilevel governance reflects the increasing complexity of problems in contemporary societies. In consequence, various conflicts afflict policymaking in multilevel governance. The functional division of power increases interdependence, whereas representatives of governments, who are involved in multilevel governance, defend their autonomy, in democracies no

less than in autocracies. Therefore, the interplay of multilevel and domestic politics causes tensions, which can only be managed in a highly flexible institutionalization of multilevel governance.

Under these conditions, policy innovation depends on processes opening ways to evade the inherent constraints in multilevel governance. Separate but connected processes can be arranged in the multiple arenas that result from a division of power between levels and a differentiation of patterns of interactions into those involving executives, specialists in administration, members of political parties, parliamentarians, or private interest organizations. Depending on the particular actor constellation, some processes might enable problem-oriented communicative interactions (policy discourses), others are designed to cope with conflicts in bargaining processes or mutual adjustment in competitive relations, and, finally, decisions on policy proposals are taken in formal proceedings. The differentiation of processes allows a sequential coping with issues, such as principles and allocation rules in redistributive policies or standards and legal rules in regulative policies, but also increases feedback effects between sequences. The diversity of arenas with different actor constellations corresponds with a diversity of framing of policies in different processes. They can be more politically or expert oriented, more influenced by territorial conflicts or determined by party competition, and geared more towards generating ideas and testing policies in experiments or making binding and legitimate decisions.

Against common knowledge but also many, if not most, theoretical expectations, the complexity of structures and processes facilitates policy change and innovation. Of course, such complexity can also cause turbulence, and policymakers can lose control over dynamics of governance. Yet complexity itself is not the cause of deadlocks, impasses or 'bad deals'. Rather, it is more likely that central authorities, sovereign parliaments, powerful leaders of governments or bureaucrats cause deadlocks or only gradually modify established policies by their efforts to maintain control.

8. Conclusion to *Policy Change and Innovation in Multilevel Governance*

This book addresses a fundamental challenge for contemporary politics: On the one hand, we observe the rise of multilevel governance within and beyond the state, in response to the increasing complexity of issues to be dealt with in politics. Within these structures, powers are divided, and executives and administrations have to coordinate policies across boundaries of their jurisdictions. At the same time, they are subject to the rules of their government. In democracies, executives who make policies in multilevel governance are influenced by parties and interest groups and accountable to parliaments and citizens. Policymaking is thus constrained by the division of authority and by effective power structures and procedures shaping coordination between levels of government on the one hand as well as by the institutions, practices and power affecting politics within government on the other. Changing an existing policy is rather difficult under these conditions, not least if redistributive conflicts have to be solved. On the other hand, significant policy change with inevitable redistributive effects seems to be necessary to cope with the consequences of technological, economic, social and ecological developments, and to manage the resulting societal problems and political turbulence in global, national and sub-national politics. Based on theoretical and empirical research, this book tries to explain whether, how and under which conditions appropriate change in policies is achievable in multilevel governance.

Policy innovation – defined as intended and significant change of policies – regularly not only revises the substance of a policy but also modifies the structures of a policy regime, and sometimes finds expression in larger institutional change. Research on policy change and organizational or institutional change has uncovered many mechanisms of policymaking restricting change to gradual evolution or incremental adaptation. It also suggests that innovation can be expected if particular situations (critical junctures, windows of opportunities, focusing events) suspend institutional constraints and prevent powerful actors from defending the status quo, if 'political entrepreneurs' or 'change agents' exploit favourable opportunities and drive change, and if structures exhibit a high degree of diversity and disputes among policy coalitions which contest established ideas and provoke a shift in a policy paradigm. Multilevel political systems in national or international contexts per se are structurally

differentiated and characterized by diversity. However, they also include a large number of veto players with different interests which can obstruct innovation. Networks of executives spanning across levels and jurisdictions reveal a self-stabilizing tendency and over time and tend towards a path-dependent evolution. Epistemic communities of civil servants cooperating in multilevel governance stick to prevailing ideas and an existing policy paradigm. Significant changes in policies, policy regimes or institutions therefore seem unlikely. For this reason, either we have to wait for a dramatic culmination of problems or call for a concentration of power in a strong political leadership. Yet neither of these options is advisable nor very promising.

Certainly, multilevel governance complicates policymaking. However, it also constitutes dynamic and differentiated structures providing various options to cope with inherent complexity. Research on multilevel governance initiated by Liesbet Hooghe and Gary Marks has explained shifts in power from the nation state to the European (or international) level and to domestic regions, as well as adjustments in party systems, interest organizations and interactions of executives and parliaments. While uncovering these various dynamics of multilevel governance, this research also points out difficult conditions for coordination, when communities involved in a multilevel setting claim autonomy or party competition polarizes politics. Another strand of research, instructed by the works of Fritz W. Scharpf, has focused on policymaking under the conditions of multilevel governance. Scharpf's influential theory of the Joint-Decision Trap explained the limited problem-solving capacity of multilevel governance in Europe and cooperative federalism as well as its institutional rigidity, but it also recognized the adaptability of interlinked policies and varieties of multilevel governance (see Chapter 2). Comparative research on multilevel policymaking has demonstrated how actors escape the trap. Scholars meanwhile are interested in understanding change and innovation under the conditions of multilevel governance. In the relevant literature, we find many case studies and case-related explanations but rarely analytical or theoretical perspectives that can lead to more general conclusions.

Taking into account the various modes of coordination in multilevel governance, such as central regulation, joint-decision making, cooperation within or without the shadow of hierarchy, or interjurisdictional competition (to mention only the basic patterns, for details see Chapter 4), competition between jurisdictions inducing experimental policies seems to be most conducive to policy innovation. This is only the case, however, if competition relates to policies or public tasks (yardstick competition) and if it is not forced by the market. Tax competition leads governments to adapt policies but does not stimulate innovation. Composite modes of coordination linking different arenas of policymaking appear more promising in multilevel governance. Experimentalist governance, for instance, should be guided by goals or standards set by

central authorities, provided that they grant sufficient discretion for competing governments and encourage or reward innovation. In intergovernmental cooperation or joint-decision making, new ideas can be communicated by experts or by stakeholders participating in multilevel policymaking. Since executives meeting in intergovernmental relations usually have to rely on different and competing parties, new ideas, which within a government often are confronted with the ideology of a majority party, encounter a heterogeneous spectrum of opinions in which new policies can be advocated. Finally, innovation can be generated if bargaining among political or administrative executives is complemented by deliberative processes, for instance in a permanent advisory council of independent experts who regard problem solving as their task. The multilevel systems of national, European and global climate and energy policy provide ample examples for such processes.

Yet the generation of innovative policy proposals (invention) does not guarantee that they are adopted and implemented in multilevel policymaking. Many structural constraints affect the complex process of multilevel policymaking, such as the number and diversity of veto players, the responsibility of governments to parliaments and electorates, and the influence of party competition. In general, these constraints explain gradual policy development. This raises the question of how policymakers can avoid the tendency towards incrementalism when significant policy changes or reforms are needed.

Both theoretical reasoning and empirical evidence indicate that the chance of innovative policies is highest if actors exploit the opportunities of multiple arenas in multilevel governance. These opportunities are inherent in the structural complexity which is reflected not only in the heterogeneity of actors or the large number of veto players, but also in the differentiation of processes in which political decisions are prepared, negotiated and authorized. More often than not, we find parallel interactions of civil servants in specialized administrations, heads of administrative departments, political executives (ministers) and heads of governments. In addition, representatives of integrated parties, interest groups or civil society groups organized at different levels of government, members of parliament or parliamentary committees engage in multilevel communication. The establishment of expert panels or committees can increase structural complexity of multilevel governance.

Beyond these vertical and horizontal interjurisdictional connections, politics within governments constitutes an arena on its own which is essential to legitimize policies. In some cases, these arenas are closely linked, for example in the joint-decision making of executives that pursues policy preferences defined in party competition within a parliamentary system of government. With party politics determining preferences, bargaining processes constrain the policy option in multilevel governance. In other cases, arenas are only loosely coupled, that is, primarily linked by information exchange and communi-

cation. In these systems, executives and other actors involved in multilevel coordination are not subject to any binding commitments or mandates tying their hands, but at best are influenced by expectations or recommendations. The political power to make binding decisions is necessarily constrained in formal institutions of government determining the roles and competences of the executive, parliaments and courts, decision rules, and rules of accountability. But the other stages of the policy process are characterized by strategic and communicative interaction. Loosely coupled multilevel governance allows for the alternation of modes of interaction and coordination in diverse and redundant policy arenas. This way, multilevel coordination and politics within governments can be balanced and accommodated in a pragmatic way. This significantly increases the chances for policy innovation and reduces the risk of deadlock.

Usually, political conflicts constrain policymaking in intergovernmental negotiations and in polarized party politics. Yet even under these circumstances the risk of stalemate can be reduced by shifting processes to arenas where actors communicate and negotiate in a deliberative manner. In administrative committees, bodies of experts or policy communities that span boundaries of jurisdictions and thus operate outside intergovernmental and party politics, new ideas and solutions for problems can surface in communicative interaction, that is, in task-related and pragmatic discourses among participants. To advance these ideas and policy proposals, executives need to advocate them in political processes, where strategic interaction privileges interests, but where reasons for new policies can also contribute to settle conflicts. New ideas and perspectives on policy issues can also materialize if governments upload policies to upper levels, for instance to international policy networks, administrations of international organizations or advisory bodies of intergovernmental councils, or if they download best practices from peer-review evaluations, policy recommendations from international organizations or national ministries.

Highlighting these opportunities for policy innovation in loosely coupled multilevel governance does not mean that the theories of policymaking and policy change discussed in Chapter 3 are irrelevant. Nor can it be denied that changes in belief systems holding together advocacy coalitions or processes of policy learning can induce or support policy change, that policy entrepreneurs can drive change under favourable conditions, and that frictions between ideas and institutions or the contestation of a policy paradigm can challenge established policy regimes. These mechanisms can also drive policymaking in multilevel governance. Here, the diverse arenas offer venues where new advocacy coalitions or policy networks can emerge, where new ideas or paradigms can evolve, and where political entrepreneurs can mobilize countervailing power against opposing veto players. In loosely coupled structures, these mechanisms

can influence the outcome of policymaking and can be reinforced by feedback between arenas and sequences. In joint-decision systems which are tightly linked to polarized party politics within governments, actors are caught in the dilemma to find an agreement among actors with contradictory positions.

It is important to note that a strategic shift of policy between arenas can also lead to a creeping shift of power, which has been described as 'authority migration' between levels or as executive dominance over parliaments. Such structural imbalances can undermine the adaptability of multilevel governance. However, although they may be inherent in the political dynamics of multilevel governance, it depends on political or social conflicts whether they have a destabilizing effect.

Governance in general and multilevel governance in particular are characterized by complexity. This explains the adaptability of governance. Complexity can also increase the innovative capacity of politics, provided that the differentiated arenas of policymaking are loosely rather than tightly coupled. Nevertheless, even in highly flexible constellations of multilevel governance, incremental policy change predominates. We should also not underestimate the status quo bias of existing institutions and policy regimes. In vertically and horizontally differentiated democratic systems of government, significant policy changes are rare under normal circumstances. Nonetheless, the need for reform or new approaches to wicked problems does not justify calls for strong political leadership or a concentration of power. On the one hand, democratic forms of multilevel governance are likely to offer better opportunities for policy innovation than most theories of political science assume. On the other hand, they induce and enable policymakers to adapt regulations and services to changing problems and thus reduce the need for far-reaching changes. They ensure system stability, continuity and the continuous amendment of policies, as well as innovativeness. The conditions under which this balance of stability, continuity and significant change can be maintained in multilevel governance need to be further explored in research.

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