

**INTRODUCTION - THE STATE ALSO RISES:
THE ROOTS OF CONTEMPORARY STATE ACTIVISM**

by

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INTRODUCTION - THE STATE ALSO RISES: THE ROOTS OF CONTEMPORARY STATE ACTIVISM

This book examines new forms of state activism across the political economies of the affluent democracies. In the past, such a subject would have been relatively uncontroversial. Andrew Shonfield's classic treatise (Shonfield 1965) portrayed the essence of "modern capitalism" as "the changing balance of public and private power" (the second part of the book's title). According to Shonfield, modern capitalism was characterized by the growth of public intervention in five areas: 1) a vastly increased influence of public authorities in the management of the economic system; 2) Keynesian demand management, a welfare state, and expanded public expenditures; 3) the "taming" of "the violence of the market" in the private sector, through government regulation, planning, and inter-firm cooperation, thereby reducing investor uncertainty; 4) public policies to increase innovation and worker training; and 5) the pursuit of intellectual coherence through long-term planning. Taken together, these five sets of public initiatives had apparently ushered in a new age of capitalism. Enduring recessions were a thing of the past; fast, steady growth and full employment were now the order of the day.

Recent times have been less kind to the practices and institutions of "modern capitalism." Slow growth and mass unemployment have reappeared, confounding the efforts of state authorities to return to the postwar "golden age." Many of the characteristic policies described by Shonfield -- Keynesian demand stimulus, nationalizations, strategic industrial policy -- have malfunctioned or been repudiated. Statist political economies, like France and Japan, have experienced profound crisis. Meanwhile, the advanced economies most distant from Shonfield's ideal, the United States and Britain, have seemingly moved from the back of the modern capitalist class to the front. Finally, even if state economic activism is deemed still desirable, such activism is widely perceived to be less practicable in a world of globalization, triumphant neo-liberalism, and US hegemony. Put simply, "the changing balance of public and private power" described by Shonfield seems to have shifted into reverse.

The contributors to this volume share the belief that many of the characteristic policies described by Shonfield are no longer practicable. The place of the state in the advanced economies is changing. But we also believe that change should not be equated with eclipse. While old forms of state intervention may be discredited and cleared away, new interventions often emerge to take their place. *The state also rises*. For this reason, the contributors to this book adopt a dynamic perspective on state activism, examining what is new about the state, not just what is old. All of the essays focus on new state activities that we believe are critical to the economic adjustment of the affluent democracies.

The dynamic perspective on state intervention that animates this book contrasts with the dominant depictions of the changing place of the state in today's advanced economies. In the next section, I review the debate about the state, showing that the main rival camps operate from a limited, static understanding of the state's role in the economy. In the second section, I identify the drivers of the new state activism. The third and final section outlines the central themes and organization of the book.

SECTION 1 - THE DEBATE ABOUT THE CHANGING PLACE OF THE STATE

The discussion of the changing place of the state has been dominated by two camps. A first camp asserts that new developments in the economy, technology, society, and ideology are driving a significant rollback of state intervention. A second camp counters that the pressures for change are weaker and the sources of inertia stronger than suggested by the first camp. Both literatures make important contributions to our understanding of the changed context for state intervention, but they also have a common

blind spot, focusing on established state policies, while neglecting the possibilities of new forms of state intervention.

Threats to State Intervention

There is a large body of literature that points to new developments that threaten state intervention in the economy. While the effects of globalization have received the most attention, the list is considerably longer. Broadly speaking, developments in four areas are seen as constraining the possibilities for state activism: 1) the economy; 2) technology; 3) society; and 4) ideology.

Globalization is the most familiar of the arguments emphasizing economic change (Ohmae 1991; Cable 1995; Ohmae 1995; Strange 1995; Keohane and Milner 1996; Strange 1996; Friedman 1999). The growth of international trade, production, and financial flows place a number of constraints on state policy. Keynesian demand stimulus becomes impracticable, since much of this stimulus leaks, benefiting foreign rather than domestic producers. Keynesianism is further constrained by the threat of capital exit, that is, by the flight of mobile investors, who disapprove of increased government spending and deficits.

Globalization also undermines industrial policy. Trade openness deprives governments of one of the key tools for nurturing infant industries, the possibility of insulating them from foreign competition. Most forms of subsidies are prohibited under the rules of the WTO or European Union competition policy. Finally, given that companies are sourcing production the world over, aid to industry, like Keynesian demand stimulus, may leak out of the domestic market, providing manufacturing jobs for workers in China or India, rather than the US or Germany.

On a more general level, globalization is said to raise the power of business relative to the state or organized labor, thereby forcing governments to accommodate business preferences for lower taxes, wage moderation, and regulatory relief. Capital is considerably more mobile than labor or the state, giving business a tremendous source of leverage. Companies can “regime shop,” locating production and investment in the most tax-friendly, labor-friendly countries. In response, governments are forced to pare back spending and economic intervention, on pain of losing investment to more business-friendly locations. The effect is to drive a “race to the bottom,” not only in social protection and wages, but also in state intrusiveness in the economy.

Globalization is not the only economic development that is said to threaten state activism. The problem of slow growth and mass unemployment has likewise strengthened the hand of business relative to other players. Governments, eager to revive the capitalist goose that lays golden employment eggs, are now paying special attention to the demands of employers, particularly when these demands are packaged as solutions to the problems of growth and unemployment. Finally, changes in the realm of production, the exhaustion of the so-called “Fordist” mass production model, have led to a crisis of the various institutional arrangements that accompanied that model (Piore and Sabel 1984). Several of the core economic vocations of the state in the Fordist era -- matching demand to the rapid growth in productivity generated by mass production, stabilizing mass markets, channeling capital for large, up-front investments in expensive, dedicated equipment -- have no place in today’s more flexible, unstable, post-Fordist economy (Glyn, Hughes et al. 1990).

Closely related to these economic arguments, many see new technologies as eroding the possibilities for state intervention. The information technology revolution has given global traders the capacity to send trillions of dollars around the world daily, far outstripping the currency reserves of individual nations (O'Brien 1992). This flood of footloose capitalism undermines the capacity of governments to sustain fixed exchange rates or to undertake policies at odds with financial orthodoxy. The ease with which money sloshes across borders also makes it governments to control tax evasion and money laundering. The Internet has further weakened government controls, allowing all

sorts of prohibited activities -- such as pornography, gambling, and hate speech -- to relocate offshore, beyond the reach of the regulators.

Changes in society are likewise portrayed as pressing in an anti-statist direction. The spread of affluence and education has made citizens less deferential toward the state (Goldthorpe 1968; Rothstein 1998). They want to control their destinies, rather than being ordered around by an intrusive “nanny state.” Citizens are also becoming more heterogeneous, hence less satisfied with the state’s uniform, one-size-fits-all benefits. Finally, they are more autonomous and self-reliant, decreasing the demand for collective provision. In short, as “citizens” have become “consumers,” the monopsonistic nanny state appears as antiquated as Ma Bell’s rented rotary phones.

The final pressure on the state originates in the political and ideological realm. We live in an age of triumphant neo-liberal ideology. Whether this triumph represents the superiority of the neo-liberal model, the political pressures of the US and associated international organizations, or simply a policy fad, the inescapable conclusion is that markets are in and states are out (Évans 1997). Across the industrial world (and beyond), state intervention is viewed with tremendous suspicion, as prone to inefficiency, corruption, and rent-seeking. The dominant theme of would-be reformers is to roll back dysfunctional state interventions, clearing the way for a market-based allocation of economic resources. The agenda of reform has moved from left to right, from advocates of more state to advocates of more markets. Taken together, then, changes in the economy, technology, society, and political ideology appear to be placing tremendous downward pressure on state intervention.

Sources of State Resilience

The claim that the state’s role in the economy is being significantly eroded has not gone unchallenged, however. A second group of scholars counters that the purported constraints on the state have been greatly exaggerated. Collectively, they put forward four arguments for the persistence of state intervention.

The first argument is that the world has not changed so much. In the context of globalization, for example, it is noted that levels of trade integration today scarcely exceed levels reached in the years prior to World War I (Hirst and Thompson 1996; Wade 1996; Garrett 1998). Although capital flows have indeed grown exponentially, most of these flows are short-term portfolio moves, with little impact on domestic loan rates. In short, financial globalization has not fundamentally altered the day-to-day operation of lending and borrowing.

Change is also limited in the political-ideological realm. Scholars note that the alleged triumph of neo-liberal values has not necessarily made its way into the minds of the electorates of the affluent democracies. In most cases, only a brief brush with neo-liberal reform has sufficed to turn public opinion in favor of higher levels of government spending redistribution, and taxation. Relatedly, Paul Pierson has demonstrated that popular support for the welfare state remains firmly in place, even in the heartland of the neo-liberal revolution -- the US under Ronald Reagan and Britain under Margaret Thatcher (Pierson 1994). Enduring public support for social protection has made significant welfare retrenchment exceedingly difficult.

Another way of making the claim that the world has not changed significantly is to argue that the constraints on state action that are attributed to recent developments actually existed in an earlier period. For example, if capital liberalization has enhanced business’s exit option, it is not as if companies were powerless previously. Government actions have always been restrained by the need to assure business confidence, to create an environment in which privately held companies would be willing to invest (GET CITES FOR BLOCK, LINDBLOM). In a similar vein, if globalization makes it difficult for a country to run sustained budget deficits, it is not as if big deficits were the macroeconomic strategy of choice in the 1960s, even for free-spending Scandinavian countries. On the contrary, needing to defend a fixed exchange rate and fearful of

inflation, most countries ran budget surpluses (Stephens 1996; Huber and Stephens 2001).

The second argument for the persistence of state intervention is that the demand for state rollback is weaker than commonly portrayed. Much of this discussion has focused on the preferences of employers, who are assumed to be the driving force behind reforms in the current period (Hall and Soskice 2001). Scholars of Germany note that employers receive many benefits from the country's highly structured industrial relations system and expansive welfare state, including a skilled labor force, labor management cooperation, and opportunities to pension off redundant workers at government expense (GET THELEN CITE). Despite the presence of a center-right government for much of the 1980s and 1990s, German employers did not push for Thatcher-style deregulation because the system worked well enough, especially for large companies. In the case of Japan, Steve Vogel shows that not only employers, but also most citizens, have opposed market-opening reforms that might bring lower prices (Vogel 1999). An important reason is that Japanese citizens have tended to see themselves as producers first, so that protecting jobs takes precedence over lowering grocery bills. Paul Pierson's analysis of support for the welfare state also operates in this spirit: the American and British publics were not nearly as enthusiastic about welfare retrenchment as the electoral successes of Reagan and Thatcher might have indicated (Pierson 1994). The broader analytical point is that key economic actors often do not hold the deregulatory preferences attributed to them by the literature on state decline.

The third argument against state decline acknowledges that the world may indeed have changed, that constraints on the state have grown, but counters that these constraints can be met with relatively small adjustments (Garrett 1998). For example, international financial markets may not allow governments to run sustained budget deficits; Keynesian demand management is much less available as a policy option. But the prohibition on big budget deficits is not a prohibition on big government: budgets can be balanced at 30 percent of GDP, as in the US, or at 60 percent of GDP, as in Sweden. Relatedly, it is noted that while business has become harder to tax, given international capital mobility, in most countries, corporate taxation represents a very small proportion of government revenues, 7-8 percent, making a fiscal crisis of the welfare state exceedingly unlikely (Ganghof 2000; Steinmo and Swank 2002; Steinmo 2003). What is more, most countries have been able to retain corporate tax revenues through a combination of simple anti-evasion measures and tax reforms that lowered rates, while eliminating exemptions and broadening the base.

The fourth argument for the persistence of state activism is one of path dependence. Institutions are sticky, and most state policies, especially costly social policies, rest on powerful political foundations. There is a reason why the US Social Security system is commonly referred to as the "third rail" of politics, and pension reform in Europe has proven even more politically parlous. Contemporary reformers do not make policy in a vacuum. They operate on a political terrain shaped by prior state policies -- policies that have reinforced or even fostered powerful interests with an enormous stake in the perpetuation of a supportive state (Weir, Orloff et al. 1988; Pierson 1994; Skocpol 1995; Pierson 2000). However persuasive the arguments of neo-liberal economists and however significant the pressures of globalization, the capacity of state authorities to roll back existing commitments is highly constrained by the interests and public expectations that have grown up around these commitments. Globalization is countered by domestic politics.

The two rival camps examined in this section make important contributions to our understanding of the changing place of the state. The first camp identifies a number of pressures and constraints confronting state authorities. The world has changed since Shonfield. The title of this book is "The State after Statism," and the phrase is meant to convey a more difficult and contested environment for state authorities. Gone is the heady optimism of Shonfield's opus, the belief that state activism is the hallmark of

“modern capitalism.” Gone, too, are many of the tools wielded by state planners in Shonfield’s day. That said, the second camp offers a valuable corrective to overblown prophecies of state eclipse. There has been far less change in the world than meets the ear, and much of this change can be accommodated with relatively limited adjustments to existing arrangements.

For all their differences, the two rival understandings share some common points. First, both camps share the presumption that contemporary changes push in a single direction, toward the reduction in state intervention. They differ mainly in their assessment of the strength of these pressures and of the capacity for political and institutional resistance, with the second camp more sanguine about the possibilities for state persistence than the first. Second, both camps measure change in the same way, as the decline of traditional forms of economic and social coordination. Finally, both camps confine politics and institutions to a kind of rearguard action. The logic of economic, technological, social, and ideological change is that state intervention should shrink; national political and institutional forces resist such shrinkage, however. Thus, politics is destined to defend an ever smaller, less relevant, and embattled sphere of state activity across time.

The contributors to this book see contemporary change in a different light. Although economic, technological, social, and ideological changes may produce demands for reduced state intervention, such forces also create opportunities for new kinds of state intervention. There is a dual-edged quality to these forces; they can push state intervention up as well as down (or in as well as out). The next section revisits economic, technological, social, and ideological changes, showing how these forces have opened the door to new state activities.

SECTION 2 - THE SOURCES OF CONTEMPORARY STATE ACTIVISM

The essays in this volume examine new forms of state intervention across the affluent democracies. *A striking feature of these essays is that the new intervention has often been spawned by the very forces identified in the previous discussion as potential constraints on state activism.* This section focuses on the opportunities for state intervention created by economic, technological, social, and ideological developments. It illustrates these opportunities by drawing on the essays in this volume.

Economic Change: Globalization and the Crisis of Mass Production

Economic change, notably globalization, has been widely portrayed as narrowing (or even eviscerating) state intervention in the economy. Scholars within this camp recognize that historically, governments have expanded the welfare state to socialize some of the costs of economic adjustment prompted by trade openness. That said, they tend to quickly note that states may no longer be able to afford such compensation in the contemporary climate of fiscal competition (Keohane and Milner 1996; Rodrik 1997). Compensating displaced workers is by no means the sum total of state responses to globalization, however. Several of the essays in this volume describe how globalization has expanded state goals and capacities.

Richard Steinberg’s essay looks at a relatively traditional form of globalization, the liberalization of international trade. For Steinberg, trade liberalization has always had an instrumental side, as the world’s leading economic powers -- first, the US, then the US and Europe -- have used the lure of market access to impose desired changes on developing countries. One example is the transformation of GATT into the WTO. This transformation occurred when the US and EU formally withdrew from GATT, founded the WTO, and announced that in order to access American European markets, countries would need to join WTO, accepting a far more constraining set of rules than under the old GATT regime. Trade liberalization was thus an instrument of power politics.

Steinberg describes how the GATT/WTO regime is forcing countries to develop new kinds of state capacity in a range of areas. These new capacities include: strategic trade institutions, anti-dumping procedures, technical standards, countervailing duty and safeguards law, intellectual property enforcement, and environmental protection. Trade liberalization also tends to shift authority within each country. Authority is shifted vertically, from the local to the national level. Authority is shifted laterally from the legislature to the executive, as illustrated by the use of fasttrack in the United States. The argument is that governments need to be able to speak with one voice and to make binding agreements when engaging in international trade negotiations. Finally, authority tends to shift within the national bureaucracy toward trade ministries and, within the trade ministries, toward external affairs departments.

John Cioffi's essay deals with another dimension of globalization, the liberalization of financial markets. Cioffi observes that financial globalization is expanding the pool of international investors, most of whom possess limited local knowledge. It is also eroding the ties between banks and industry, even in Germany, the historic heartland of Gershenkronian developmental banks. This growing relative importance of international investors, which Cioffi argues has ushered in a new age of "finance capitalism," has raised critical issues of corporate governance. "Finance capitalism" requires a corporate governance regime that allows international capital to invest with confidence. In both Germany and the US, the two cases that Cioffi analyzes, state authorities have responded with an array of new regulations and institutions to police markets, prevent insider trading, standardize accounting practices, and enhance transparency and disclosure. These reforms have extended the regulatory hand of the state into some of the most private, discrete, financial affairs of powerful multinationals. They have also imposed significant restrictions and costs on managers. The development of "finance capitalism" has occurred, therefore, in tandem with the very controversial and contested development of new state capacities.

Globalization is not the only economic change fueling new state activities. Christopher Howell describes how the breakdown of the Fordist model of mass production has led to extensive state intervention to recast industrial relations. Operating from a Regulation-School perspective, Howell argues that broad shifts in the economy, such as the crisis of mass production or the emergence of an E-conomy, inevitably pose challenges to existing industrial relations systems. Typically, there is a surge in industrial relations conflicts during these shifts because the old institutions are inadapted. While many scholars privilege the role of the social partners in adapting or recasting systems of industrial relations, Howell maintains that only the state can play this role. The state possesses critical capacities that the social partners lack.

1. The state has a privileged role in narrating crisis. Failure becomes crisis discursively, and different interpretations of situations of crisis are always available. The state has a unique capacity in privileging one or another reading.
2. The state can solve collective action problems among employers and unions, who are often timid, divided, concerned with short-term interests, and have sunk costs in existing institutions.
3. The state can extend laws and arrangements across the political economy, in effect, taking institutions "out of competition."
4. The state can use the public sector as a laboratory or demonstration effect for new industrial relations practices.

The state, for Howell, intervenes in industrial relations systems "because it cannot afford not to." State inaction risks the breakdown of industrial relations and the rise of strikes, inflation, unemployment, and generalized political crisis. In his discussion of industrial relations reform in Britain and France, Howell shows how state authorities played a central role in expanding labor market flexibility and decentralizing bargaining. State authorities, particularly under governments of the left, have also enacted a number

of reforms to take some of the harsh edges off the new industrial relations systems, expanding benefits and protections for vulnerable and low-wage workers.

Technological Change: The E-conomy

The essay by John Zysman and Abe Newman shows that new technologies, like new developments in the economy, present opportunities for state intervention. In a wide-ranging essay on the “digital revolution” or “E-conomy,” Zysman and Newman compare the effort to commodify information today to the commodification of land, labor, and capital described in Karl Polanyi’s *Great Transformation*. At a minimum, digital information is a new “lead sector,” like textiles or automobiles in the past, that will introduce new products and drive economic growth. For the digital to become a true “great transformation,” however, Zysman and Newman suggest that state authorities will have to resolve an array of thorny issues, ranging from intellectual property rights, to privacy and security, to free speech, to access. In short, the “borderless world” of the world-wide web will be planned, and much of that planning will be by the state.

Societal Change: The Decline of Deference and the “Farewell to Maternalism”

Changes in society have likewise opened the door to new state intervention. The decline of deference and rising expectations of a more affluent society have challenged established patterns of policy-making. In the case of Britain, Michael Moran characterizes the traditional pattern as “club government” or self-regulation by amateurs drawn from the country’s elites. Club government was rooted in a pre-democratic ethos, in efforts by British elites to insulate governance from the effects of the ballot box, as the masses gained the right to vote. Moran blames this pattern of self-regulation by amateurs, selected primarily on the basis of their social class, for dysfunctions in British policy-making and economic decline.

According to Moran, the election of Margaret Thatcher touched off a period of “hyper-innovation” within the British state. Thatcher wielded the power of the state to break up club government, the self-regulation that characterized so many areas of policy-making, from industrial relations, to education, to the financial sector, to the sporting establishment. More important, she and her successors have constructed a new system of policy-making, designed to create a performance-oriented state, based on management by objectives. Under this system, self-regulation has been replaced by direct state regulation, with state agencies setting explicit, quantitative performance targets -- from children’s test scores to the number of medals to be won in the Olympics -- and demanding results. Moran views this transformation as nothing short of revolutionary, borrowing James Scott’s notion of “high modernism” to suggest that British reformers have been every bit as ambitious as Stalin or Mao. Where Moran parts company with Scott is in his endorsement of the British high modernist project. The activist British state has replaced club government, a dysfunctional vestige of a pre-modern age, with a system of policy-making more open to contemporary values of democracy and accountability.

Another social change that has contributed to new state activities is the growth in female participation in the labor market described by Ann Orloff. The affluent democracies have been moving from a “maternalist” model, under which mothers were expected to stay home with their children, to a model of “employment for all,” under which women are expected to enter the labor force. Orloff captures this shift nicely with the phrase “farewell to maternalism.” It is not just changing social norms that are moving mothers into the work force, however, but also deliberate social engineering. Orloff notes that state authorities are mobilizing an array of carrots and sticks – welfare to work and labor market activation programs, tax reform, the expansion of child care facilities, the development of part-time employment, and the list goes – to coerce or attract mothers into the labor force.

The mass entry of women into the labor market has triggered a fierce debate within feminist circles as to whether paid employment empowers women, giving them an independent source of earnings, or simply adds exploitation in the labor market to exploitation and inequality at home. Orloff argues that the answer depends critically on the character of state policies, in particular on how state support for care-giving activities and employment is configured. Supporting mothers' employment presents a challenge not only politically and culturally, but also in terms of state capacities. Support for the breadwinner/caregiver family was accomplished largely through "passive" means, such as cash allowances. In contrast, encouraging or mandating mothers' employment brings the state into more "active" modes; to some extent, any employment initiatives demand more than a "check in the mail" – training, rehabilitation, job creation, and the like, are all called for. The package of resources and constraints offered by state authorities varies tremendously from one of Esping-Andersen's "worlds of welfare capitalism" to the next, according to Orloff, with significant implications for the way in which women experience the "farewell to maternalism."

Politico-Ideological Change: Economic Liberalization

Ironically, one of the biggest sources of new state activities is the agenda of economic liberalization that is so often counter-posed to state capacity. The essay by Jonah Levy, Mari Miura, and Gene Park compares economic liberalization in the two archetype statist political economies, France and Japan. Traditionally, these two countries have been grouped together, but since the 1980s, France has largely dismantled its *dirigiste* or state-led economic development model, whereas Japanese authorities have introduced limited change at best, despite mounting evidence and criticism of the dysfunctions of Japanese industrial policy. Levy, Miura, and Park argue that this divergent trajectory stems primarily from divergent approaches to social policy.

The authors show that French authorities were able to roll back *dirigiste* policies because they put in place an elaborate system of social and labor market policies to cushion the blow to displaced workers. These "social anesthesia" measures did not come cheaply. The expansion or creation of early retirement programs, labor market training, subsidies for low-income hires, public internships, a guaranteed minimum income has pushed French state spending to historic heights, despite the winding down of expensive industrial policies. That said, France has clearly broken with the *dirigiste* industrial policy model and reaped significant benefits from a more market-oriented political economy.

Japanese authorities responded in a very different manner to the onset of slower economic growth, consciously deciding not to create a European-style welfare state, out of fear of runaway government spending and diminished work incentives. The problem, however, is that lacking a safety net to protect the losers of market-led adjustment, Japanese authorities have found it difficult to move strongly in a liberalizing direction. Worse, many developmental policies have been diverted by considerations of job preservation. Japanese authorities are spending vast amounts propping up debt-laden banks, which are propping up, in turn, debt-laden companies because were those banks and their customers to shut down, millions of Japanese workers would lose their jobs, and Japan has no social safety net to take care of them. The absence of a welfare state has meant that the ruling party has increasingly relied on costly measures to preserve employment that have actually slowed down the transition to a more market-driven political economy. The broader lesson told by Levy, Miura, and Park is that getting the *dirigiste* state out of industrial policy requires getting the state into social and labor market policy. *De-dirigisation* is an exercise in state redeployment, rather than simply rollback.

The essay by Anton Hemerijck and Mark Vail offers another case of state activism to move a political economies in a more market-rational direction. Hemerijck and Vail focus on two corporatist countries, Holland and Germany. Corporatist policy-

making has been widely praised for providing social peace, wage restraint, cooperative industrial relations, and high-road production. But in the 1980s and 1990s in Germany and Holland, corporatism displayed a number of dysfunctions: it didn't deliver wage restraint and job creation; it created severe insider-outsider cleavages; and it externalized the costs of economic adjustment to society. Hemerijck and Vail show that state authorities have responded to the crisis of corporatism by moving aggressively to make corporatist practices more market-conforming or -- failing that -- to bypass or dismantle corporatist mechanisms altogether.

Hemerijck and Vail show that Dutch authorities induced the nation's social partners to restrain wages and expand part-time and temporary employment by threatening to enact legislation that would strip powers from both parties. This strategy, which the authors describe as reform under the "shadow of hierarchy," was less effective in the area of social security. Consequently, state authorities essentially evicted the social partners from the management of these programs through either nationalization or privatization. The pattern of liberalizing reform in Germany has been more modest than the Dutch, according to the authors, because German authorities are constitutionally barred from intervening in wage bargaining and because governing coalitions have been constructed on a narrower base and have often lacked a majority in the second chamber of parliament, the *Bundesrat*. Unable to wield state capacity to liberalize industrial relations, German authorities have tended to expand state policies to palliate for the failings of industrial relations, multiplying public internships, job subsidies, and labor market activation measures.

Moving from the domestic arena to the international arena, several of the essays in this volume show how international market-opening has often prompted new forms of state intervention. Richard Steinberg's account of trade liberalization, described above, relates how powerful countries have used the institutions of GATT and WTO, as well as the threat of market closure, to compel developing countries to open their markets and accept controversial rules on intellectual property. The essay by Peter Cowhey and Jonathan Richards, examining the liberalization of airline traffic and telecommunications, suggests that as formal barriers to trade fall away, governments are wielding access to scarce "property rights" -- landing slots in aviation; network access in telecommunications -- as a way of promoting and favoring domestic champions. Finally, Zysman and Newman, while firmly rejecting notions that nation-states are being marginalized by the digital revolution, see a central place for international negotiations across a variety of forums (ICANN, WIPO, WTO, bilateral US-EU) in forging the framework for the new technologies.

This section has shown that prevailing depictions of state activities as an established and shrinking stock are profoundly misleading. The state also rises. Rather than an eroding historical legacy, state intervention should be seen as a new response to some very contemporary economic, technological, social, and ideological developments. Whether state intervention is "increasing" or "decreasing," on balance, is ultimately unknowable -- or, at least, unmeasurable. But it is clear that here is much more to the story than state decline, on the one hand, or path-dependent inertia, on the other hand. The essays in this book focus on the undertold story, on the transformation, adaptation, and transformation of state activities in the contemporary period.

SECTION 3 - CONTRIBUTIONS AND PLAN OF THE BOOK

The State after Statism makes three important contributions to the study of political economy of the affluent democracies. The first is to document and characterize the new state intervention. Because scholars tend to focus on aggregate spending levels and on the evolution of *existing* policies, they often slight new public initiatives. This project, by contrast, will highlight what is new about state intervention, as opposed to what is old. Acknowledging the growth and transformation of state intervention is

important not only for scholarship, but also for democratic politics. It helps counter the myth that states are powerless to make meaningful choices, a myth that undermines the incentives for political participation and debate.

The second contribution of *The State after Statism* is to identify the drivers of the new state intervention. As we have seen, the scholarly discussion of the relationship between economic, technological, social, and political change, on the one hand, and state intervention, on the other, has been singularly one-sided. Scholars have focused on the ways in which economic, technological, and social developments *constrain* state intervention, without considering the ways in which these developments might *drive* new forms of state intervention. *The State after Statism* will provide a more balanced picture, in which -- to borrow from Schumpeter -- state intervention is marked by "creation" as well as "destruction."

The third contribution of *The State after Statism* is to restore the state and political struggles to their rightful analytical place. This approach can be seen as a friendly reply to the state-free, employer-centered perspective embodied in Peter Hall and David Soskice's new book, *Varieties of Capitalism*. Hall and Soskice argue that there are two main forms of capitalism, a "liberal market economy" (LME) embodied by the US and Britain, and a "coordinated market economy" (CME), associated with Germany. Evicted from the "varieties of capitalism" is the statist model, represented by countries like France and Japan, which are either ignored (France) or appended to ideal-types that they do not necessarily fit (Japan). Hall and Soskice not only eliminate statism as a variety of capitalism, but also evince the state and politics from discussions of how capitalist systems adjust to new challenges and changes in their environment. Instead of political struggles and the projection of power, Hall and Soskice paint a picture of seamless, bloodless, path-dependent adjustment -- or "coordination," in their language -- driven largely by employer preferences. As against the state-free, employer-centered approach of Hall and Soskice, *The State after Statism* will show that states are continuing to structure markets in important ways, that critical collective choices are still being made, and that these choices are the product of power and politics, not just path dependence and employer "coordination."

The State after Statism is organized into three main sections. Each section is composed of three chapters and probes a different aspect of the new state intervention. The first section, "Varieties of State Intervention," examines the changing role of the state within the three principal models of political economy: statism (Levy, Miura, and Park), corporatism (Hemerijck and Vail), and neo-liberalism (Moran). The second section, "State and Society," considers changes in the state's relationship to three key social groups: labor (Howell), business (Cioffi), and working women (Orloff). The third section, "State and Market," assesses the state's role in the development of markets in three areas: high technology/the internet (Zysman and Newman), the provision of public services (Cowhey and Richards), and international trade (Steinberg). In a concluding essay, Levy critically engages the Hall-Soskice approach, arguing that the state, rather than employers, has been the primarily vehicle for adjusting the political economies of the affluent democracies, even in countries like Germany, that are central to Hall and Soskice's employer-based vision.

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