

Globalization as an Enabling Force

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States in the Global Economy: Bringing Domestic Institutions Back In. Edited by Linda Weiss. Cambridge: Cambridge University Press, 2003. 378 pp., \$65.00 cloth (ISBN: 0-521-81913-X), \$24.00 paper (ISBN: 0-521-52538-1).

Does the increased economic openness associated with globalization reduce the capacity of the state to manage the economy? The contributors to Linda Weiss's *States in the Global Economy* consistently answer this question with a fairly strong "no." In the process, they point to the importance of domestic institutions as a critical—perhaps the critical—mediating variable in determining how states manage openness. Why do the contributors see domestic institutions as a decisive source of difference? Clearly not because they accept the usual globalization story—which sees capital mobility and an ever tightening web of international trade and investment agreements as a constraint on state policy and a force for homogenization that reduces state capacity. Instead, as Weiss points out in her extensive opening essay, they see globalization as an enabling force. Specifically, by increasing economic insecurity, globalization generates political pressures for increased social protection and economic pressures for innovation. But domestic institutions bring diverging normative orientations and organizational capacities with their responses to globalization. As a result, domestic institutions generate great differences as states translate these globally sparked domestic political pressures into new policies.

Does this mean that divergent state responses to globalization will also generate heterogeneity among economies rather than convergence? Here Weiss's interesting conclusion ultimately reflects her earlier work (Weiss 1998) and her association with Michael Mann (1986). In her concluding essay, Weiss argues that the analyses in the book show that a convergence on a new model is indeed occurring, but it is not the neoliberal model long predicted by the crude globalists she critiques. Instead, Weiss argues, the book's chapters demonstrate a growing convergence around "governed interdependence." Governed interdependence is an institutionalized relationship of negotiation between the state and, preferably, sectorally coherent business organizations. In this relationship, each side maintains their autonomy, but the state sets broad developmental goals and monitors businesses' achievement of those goals. Governed interdependence works through political exchange between the state and societal actors. The state receives the information and cooperation it needs from societal organizations to transform the economy. In return, the state legitimates those organizations, ameliorates social risks surrounding investment, and provides a focal point for resolving struggles among firms and sectors. Weiss thus argues that governed interdependence enhances state capacity, understood as Mann's infrastructural power. She predicts that globalization will cause a withering of both French style statism and US style arm's length regulation in favor of governed interdependence.

Weiss has mobilized a sufficiently broad array of contributors to test this proposition across an array of issues that exceeds most similar volumes: taxation, the welfare state, and industrial governance. John Hobson's essay attacks the conventional wisdom that globalization will cause a race to the bottom on taxation or a shift

to indirect and regressive taxes on wage income. Instead, he argues that the state and capital negotiate a middle ground that balances profitability concerns against the need to preserve social overhead. Because of this, during the past forty years average capital taxes within Organization for Economic Cooperation and Development (OECD) countries, as a share of gross domestic product, have risen, not fallen, and they have risen faster than taxes on income. Similarly, Duane Swank reiterates his findings (Swank 2002) that globalization has only strengthened the correlations among corporatism, high welfare spending, proportional representation, and universal welfare programs on the one hand, and market economies, falling spending, single member districts, and means testing on the other. Likewise, M. Ramesh shows that democracy and electoral contestation, rather than openness per se, is a better predictor of the scale and scope of welfare spending in Korea, Taiwan, and Singapore.

The second half of *States in the Global Economy* deals with industrial governance—the traditional ground for Weiss's governed interdependence arguments. Michael Loriaux, in a cleverly structured argument, shows that the essence of French statism lay in the norms inculcated in the Grand Corps, rather than in the specific mechanisms for financial control and targeted investment. The persistence of these norms permits continued state direction of parts of the economy. Richard Doner and Ansil Ramsey's study of Thailand provides a contrasting perspective. In Thailand, the Asian financial crisis decisively weakened the state's traditional instruments for control, leaving a void yet to be filled either by a cohesive sense of social purpose among state and business elites, or by organizations that might carry out that purpose. Similarly, Tianbiao Zhu shows how growing openness has caused a transformation not of Chinese economic institutions but rather of the institutions and cash flows linking center and local government. This transformation has shifted economic management and expenditure to localities, creating something closer to the Taiwanese model. Meredith Woo-Cumings's chapter triangulates between these two, showing how the Korean state has tried to create rule of law using its old tools for administrative guidance. Finally, chapters by David Levi-Faur and Mark Tilton contrast the governance of telecommunications, which should be a paradigmatic case for showing how globalization produces convergence, yet proves not to be so.

The last third of the book discusses the management of global pressures. Jalal Alamgir argues that security concerns in India permitted elites to sell openness to themselves and the public. William Coleman argues that, in finance, regulation has converged on the more corporatist and informal British model rather than on the more legalistic, arm's length US model. However, it remains to be seen if this prediction will survive the current round of financial scandals.

Like much work on institutions, *States in the Global Economy* has two failings. First, it offers no uniform definition of institutions. The chapters range from identifying institutions with organizations to treating institutions as purely normative phenomena. The otherwise fine concluding chapter sometimes confusingly contrasts norms to institutions, even though the grandfather of the modern debate, Douglass North (1990), took pains to assert that institutions were ultimately norms and were, thus, distinct from organizations. Second, one never knows whether institutions are a source of power in and of themselves or simply a reflection of power. Weiss does not adequately analyze the question of whether divisions among elites affect how institutions are maintained or transformed, or how power is constituted. But this issue surely lies at the heart of this difficult but important question. Nevertheless, her conclusion is an interesting contribution to the growing neo-Weberian movement (see, for example, Hobson 1997; Seabrooke 2001), which is trying to populate Weber's ill-defined notion of "rationalization" with more concrete understandings of the mutual constitution of state and civil society.

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