CHAPTER 7

THE STATE IN THE ECONOMY: NEOLIBERAL OR NEOACTIVIST?

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Introduction

This chapter discusses key approaches to the state's role in the contemporary economy in the light of several different bodies of research drawn from the literature on comparative capitalism and international political economy.

The state's influence in the economy has been a major topic of theoretical debate and empirical enquiry since the rise of capitalism and a market society. Where the state's nurturing of infant industries was seen by some as essential to climbing the ladder of development at home (List 1841), its encouragement of international commerce or 'free trade' was hailed by others as the key to prosperity and peace among nations (cf. Hirschman 1997). Though widely cited today as the poster children for unfettered ('free') markets, Adam Smith and his contemporaries, the Scottish moralists, considered the idea of a market society divorced from social norms and legal and political rules as outlandish, if not utopian. As Hungarian political economist Karl Polanyi (1944) would later famously put it, the modern market economy works because of its institutional 'embeddedness'.

The pre-eminent or macro-institution in this regard is that political complex we call 'the state', whose allocative and regulatory powers set it apart from the micro-institutions of the economy. The state's capacity to define, allocate, and enforce property rights, for example, gives it a distinctive source of market-shaping power, enabling state actors to alter the organization of the economy (Campbell and Lindberg 1990). This is not to deny the importance of other economy-shaping structures—including systems of corporate governance, labour market regulation, education and training—but these are effectively second-order institutions in so far as they depend on specific regulatory regimes (and infrastructural resources) that are the preserve of the nation-state (Hall and Soskice 2001: 4).

In this respect, the two-hundred year history of market society is at once a story of the state's generally increasing role in economic affairs—helping to establish markets and enabling them to work—*and* a history of each state's specific institutional evolution. Thus, states have not only grown more links with their economies over this period, they have also grown such links in distinctive ways that give rise to diverse traditions of economic governance. As various scholars have observed, there is no such thing as a generic state. Rather, nation-states 'vary dramatically in their internal structure and relations to society. Different kinds of state structures create different capacities for action' (Evans 1995: 127).

Scholars working in the field of comparative capitalism have identified three such state traditions associated with modern market economies—liberalism, corporatism, and statism (Schmidt 2002). While these labels are intended as ideal types rather than perfect representations of reality, nonetheless, in each case, the orientation of state actors, their organizational structure, and the mode of interaction with economic actors are held to differ systematically, creating different patterns of economic governance, each distinguished by the extent to which development (*aka* structural change, technological upgrading, or innovation) is market-led, government-sponsored, or coordinated by organized economic actors themselves. In this context, liberalism and statism occupy the two ends of the spectrum, the first typified in the literature by the United States and Britain (Hall and Soskice 2001; Lutz and Eberle 2004), the latter more commonly associated with the political economies of Japan, Korea, Taiwan, and Singapore in Asia (Woo-Cumings 1999), and France in Europe (Schmidt 2003; Loriaux 2003). In the Anglo-Saxon liberal market economies (LMEs) the state is held to play a basic regulatory or 'market facilitating' role, underwriting market relationships, maintaining the competitive rules of the game, and intervening only to correct market failure. In so-called statist or, what we might term, 'governed market economies' (GMEs), state actors use the powers of the state to achieve the developmental goals of structural transformation and technology catch-up (Johnson 1982; Amsden 1989; Wade 1990). In between these two types are the coordinated market economies (CMEs) in which states pursue more extensive social policies, creating a framework for organized actors (employers and employees) to coordinate their own economic endeavours and enable cooperative responses to pressures for change (Katzenstein 1984; Hall and Soskice 2001; Pontusson 2005).

The rationale for much of this literature emerges from a dual set of concerns that are seen to be broadly connected, one focused on the rise of neoliberalism as an ideology and policy regime, the other on the impact of economic globalization on the role of the state and the viability of non-LME systems. What role if any can/should states play in the market economy and in particular, how can they promote development? To what extent if at all are state traditions of economic governance being homogenized? Does the global economy valorize one state type over others and are state types necessarily 'pure'? If such questions are insistent it is because of a modern belief that the world has fundamentally altered, that states face unprecedented challenges, which shrink policy space and curtail their role in the economy. Among the more pertinent challenges, compliance with the multilateral rules of the global trade regime, responsiveness to capital mobility, and conformity with the dominant economic ideology of market fundamentalism are often singled out for their restrictive impacts on state activity in the domestic economy.

Our interest here lies in the main perspectives on the role of the state as researchers seek to deal with these issues. Not surprisingly, that role is contested. What is perhaps more surprising (we shall see), is the gap between the strength of the (neoliberal) perspective that has come to dominate debate and the strength of the evidence to support it. As Theda Skocpol (1985) famously argued more than two decades ago, the state's autonomy and capacity, including its catalytic role in economic change, has long been downplayed in the social sciences in favour of a society-centred paradigm. The roots of that paradigm have been traced to Cold War politics (Ciepley 2000). While all sorts of theories have been invented to suggest that states and markets inhabit conflicting realms and to justify why the state cannot, does not, or should not be involved in the economy, it appears that the 'state versus market' dichotomy emerged not out of theorizing, but from geopolitical imperatives.[1] Contemporary debates have been framed and informed by that paradigm.

This chapter discusses three perspectives on the state–economy relationship. These range from a priori claims that view states as impediments to markets, to hypotheses that posit a world of neoliberal states restricted to creating the best environment for transnational capital, to arguments that seek to conceptualize actually existing states as solutions to the problem of development. First, the discussion begins with a brief sketch of the state's role in neoliberal theory. Next it examines how the theory is believed to play out in practice as a result of globalization and the rise of neoliberalism. Third, it considers the debate on the rise of governed market economies, and their challenge to the free-market paradigm. Finally, we revisit the proposition that the global economy valorizes a minimalist (neoliberal) state. This time, however, we focus on the recent experience of one so-called LME, asking how far the US state–economy relationship itself conforms to the one depicted by the standard label. Here we approach the limits of our comparative capitalism typologies as they apply to state practice.

[1] Ciepley (2000) argues that due to its unsavoury associations with militarism, communism, and nazism, the idea of state autonomy that was prominent in the social sciences prior to 1945 took on a more sinister meaning after the war, not only in Europe, but also, especially, in the United States.

The state was quickly dropped from social science treatments as US–Soviet relations soured in 1947 and a new conceptual dichotomy of 'capitalism–weak state' and 'communism–strong state' took hold in academic and political discourse; this construction served the important political purpose of allowing maximum differentiation between the Western 'free-market' and the Soviet 'totalitarian' systems.

The State as Problem: The Neoliberal Argument

The state as an economic actor has long occupied an ambiguous role in the social science literature, viewed by some as readily serving the public good by intervening to correct market failure, and by others as fundamentally self-serving, venal, or inefficient unless heavily restrained. In much of the economics (and some of the political-economy) literature, it is the latter view—referred to here as the 'neoliberal' argument—that has come to dominate academic and political debate.

The neoliberal argument concerning the role of the state—often associated with the work of Milton Friedman and the Chicago School economists—gained a robust political following in the late 1970s and early 1980s in conjunction with the so-called Thatcher revolution in Britain and its US variant led by the Reagan administration (Gamble 1988). As an economic theory emphasizing deregulation and the reduction of the state, its attack on 'big government' had particular resonance in the context of an expanding welfare state, budget deficits, and slow growth. The neoliberal argument that emerges in this 'pre-globalized environment' centres on what the state 'should or should not' do in the domestic market economy. One may note that in later years, as the world economy becomes much more integrated ('globalized'), the neoliberal emphasis shifts to what the state 'can or cannot' do (discussed in the subsequent section).

The basic claim—that the state should minimize its role in the economy—is premised on different assumptions about the respective attributes of markets and states. The neoliberal view of the market shares some ideas with economic liberalism classically associated with the work of Adam Smith, namely that only markets produce an efficient allocation of resources and that market competition will best serve the public interest, in so far as it allows individuals to express their choices freely and prices to be determined by supply and demand. But it adopts a more extreme approach to the market than classical liberalism, advocating maximum expansion of transactions so that as many areas of social life as possible are organized through markets, unfettered by state intervention.[2]

The state, by contrast, is believed to have little capacity or motivation to benefit society. In the tradition of neoclassical economic theory, the state is seen as normally incompetent or corrupt. State actors are held to be chiefly motivated by self-serving behaviour. Bueaucrats are perceived either as a collection of self-serving revenue-maximizers or, alternatively, they are susceptible to the political machinations of vote-maximizing politicians whose interventions generate rents that private agents seek to capture. Even when not directly self-serving, government interventions are almost always inefficient since they distort the market and inhibit entrepreneurship,

[2] The key policy prescriptions, defined originally in 1989 by John Williamson as the 'Washington consensus' came to be applied much more broadly (see Williamson 1993 for an account).

ultimately producing outcomes far worse than the ones they were designed to correct (*aka* 'government failure'). As a result of this a priori reasoning, the neoliberal argument concludes that states should refrain or withdraw from all forms of intervention that would interfere with the free operation of the market, whether through public ownership, environmental and labour regulation, government spending, tariffs and so on.[3] In theory, the state is only necessary for the prevention of behaviour that interferes with the free market (such as monopolies), or for the enforcement of reforms that ensure the market's expansion.

As one study of the theory and practice of neoliberalism observes,

> Neoliberals are particularly assiduous in seeking the privatisation of assets. . . . Sectors formerly run or regulated by the state must be turned over to the private sphere and be deregulated (freed from any state interference). . . . The free mobility of capital between sectors, regions, and countries is regarded as crucial. All barriers to that free movement (such as tariffs, punitive taxation arrangements, planning and environmental controls, or other locational impediments) have to be removed, except in those areas crucial to 'the national interest', however that is defined. (Harvey 2005: 65–6)

Translated into government practice and promoted through global governance institutions, including the WTO, the World Bank and the IMF, the package of reforms that ranged from deregulation of labour and capital markets to privatization of public services and assets, was intended to withdraw the state from all but a minimal role in the economy (Biersteker 1990). US President Reagan's refrain: 'Government is not a solution to our problem; government is the problem', has been the political leitmotif for neoliberal theory.

In neoliberal theory, then, the best government is the least government. In practice, the neoliberal state must therefore set about freeing enterprise from regulations, reducing taxes, balancing budgets—in short, providing the best macroeconomic environment for encouraging investment. This particular theme takes on especial importance in the context of globalization, examined next.

Globalization and the Transformed State: Neoliberalism in Practice

For the past three decades or so, the global economy has grown in tandem with a major policy drive in many countries throughout the world—a pattern comprising liberalization, deregulation, and privatization—known as the neoliberal paradigm. In the context of globalization, neoliberalism is often described as a 'political project'

[3] For an overview of the arguments about government failure, see Weiss (1998: 17–20).

concerned with sweeping institutional changes. Campbell and Pedersen (2001: 1), for example, argue that neoliberalism has sought 'to transform some of the most basic political and economic [postwar] settlements . . . including labor market accords, industrial relations systems, redistributive tax structures, and social welfare programs'.

In tandem with these policy and institutional shifts, researchers have observed the emergence of new structures of governance that appear to elevate the importance of other power actors—especially private economic networks—in the legislative and policy determinations once considered the preserve of elected governments. As Harvey (2005: 76) writes, 'Neoliberalization has entailed . . . increasing reliance on public-private partnerships' in which business collaborates with state actors in formulating and implementing policies, in setting the regulatory frameworks and sometimes in writing the legislation. Similar observations on public-private policy networks have been reported in the context of international trade and multilateral rule-setting (Shaffer 2003).

For many observers, this global diffusion and uptake of neoliberal reforms has called into question the very idea of the state as an economic and political actor, giving rise to a vigorous debate that—until the 2008 global financial meltdown—had shown few signs of abating: what were its drivers, how extensive was its reach, and how uniform has been its impact (see e.g. Lutz and Eberle 2004; Soederberg et al. 2005; Simmons et al. 2008)? In tackling these and similar questions, both enthusiasts and critics of economic integration were inclined to posit a fundamental conflict between globalization and the state. More often than not they concluded that the marriage of neoliberalism and the expansion of global markets had dramatically narrowed the state's policy space. As national economies grew more interconnected, they argued, the state's role in economic governance necessarily becomes more severely restricted to 'tinkering around the edges'. After all, they reasonably concluded, if capital is mobile and nation-states are not, what is left for the state to do in the economic arena—other than to facilitate competition and provide the most attractive investment environment for transnational capital via low taxes, easy labour laws, and a generally permissive regulatory system (Cerny 1995; Hirst and Thompson 1996; Held et al. 1999).

The core of the so-called 'transformationalist' (*aka* 'constrained state') argument is the idea that openness to the global economy produces a 'constraining effect' on macroeconomic policies around the world by inducing increased budgetary pressure. The reasoning behind the constraints hypothesis runs as follows. Trade and financial liberalization exert downward pressure on government's taxing and spending activity by increasing the mobility of finance capital and production factors, which creates direct arbitrage effects. By allowing firms to seek out the most cost-friendly environments in which to conduct their activities, globalization thereby generates increased tax competition among nation-states (in its most extreme form, a global tax 'race to the bottom') in order to retain and attract investment. Thus, if policymakers in one or more jurisdictions introduce tax reforms to encourage growth-inducing investment, policymakers in other countries will be pressured to follow suit. In addition to the direct competitive logic, in a different version of the argument, there is also a *structural* logic that impacts on macroeconomic policy: if governments assume that international capital flows are important for national economic growth and believe that investors respond negatively to poor fiscal and monetary policies, they will be induced to shape their macroeconomic policies accordingly, avoiding inflation and deficit spending. On this point, economists as diverse as Stanley Fischer (1998) and Joseph Stiglitz (2000) appear to agree. Either way, as a result of the constraints effect, it is anticipated that global interdependence gradually erodes the income and capital tax bases of the more developed (higher taxing, higher spending) countries, resulting in the state's diminishing ability to finance public spending programmes, especially the welfare state. As a consequence, predicts the constraints hypothesis, governments claw back not only protective labour regulations but also social spending, which results in welfare retrenchment.

The 'constrained state' argument is reminiscent of the Friedmanesque idea of the 'golden straitjacket' according to which national governments who seek to grow their economies must generally abide by the neoliberal rule book to create the most favourable environment for transnational capital (Friedman 2000). Beyond these path-clearing measures, state efforts to govern the economy are either bound to fail, to warn off investors, or to incur trade sanctions.

Taken to its logical conclusion, the globalization of neoliberalism would therefore create a more *homogeneous* world in which diverse state traditions and political economy approaches would start to look the same. Thus in a related argument, many of the same analysts posited the erosion of varieties of capitalism and the concomitant diffusion of the so-called American or LME model (based, theoretically, on a minimal state, deregulated markets, and business-driven innovation). Homogenization arguments have been applied to all states outside the American neoliberal model—as much to the European welfare state model as to the East Asian developmental version. In such arguments the LME model is often posited, by globalization enthusiasts and critics alike, as the most viable one for a global economy (cf. Kay 2004: 310–11).

A virtual academic industry thus took shape debating the various ways in which the state's economic role was being restricted or reconstituted by market forces at home and abroad and, in the process, giving rise to a 'transformed' institution to which the label 'neoliberal' was widely applied. While there has been much debate over the nature and extent of the changes, many agree that the state has undergone some fundamental 'transformation' and that neoliberal globalization lies behind it (Crouch and Streeck 1997; Held et al. 1999; Cerny 1997).

With the neoliberal label comes a useful, sometimes important—though essentially partial—perspective on the nature of state–economy relations in an international environment. The problem arises when what is true for a part of the policy apparatus is effectively generalized to the whole; and when the existence of a 'tendency' is conflated with wholesale transformation. Critically, what this means is that the idea of the state as a 'polymorphous' beast (Mann 1986) appears to be all but forgotten. Put differently, as a complex of political institutions whose parts have evolved at different stages in response to different issues and constituencies, the state may well be neoliberal in one sphere (like trade unions), yet developmental in another (e.g. technology), a promoter of free trade in some sectors (financial services), yet mercantilist in others (agriculture or textiles).

As scholars begin more carefully to test the claims of homogenization and state transformation (e.g. Bell 2005), some important reminders of that complexity have begun to emerge from cross-national analysis of institutional and policy change: '. . . states are much less incapacitated by the rise of neoliberalism than is often appreciated', observe one group of writers. 'Instead, states can block, adapt to, mediate, and in some cases even reverse neoliberal tendencies' (Campbell & Pedersen 2001:1). Below we discuss four main ways in which the hypothesis of 'neoliberal state transformation' has been challenged.

Taxing and spending: the 'disciplined' state?

Not surprisingly, there is a substantial empirical literature devoted to testing the constrained state hypothesis. Important contributions examining the tax competition and welfare effect of trade and financial liberalization include Garrett (1998); Garrett and Mitchell (2001); Quinn (1997); Swank (1998, 2003, 2006), Kaiser and Laing (2001); Hobson (2003); and Dreher et al. (2008). However, after more than a decade of research, the results of both quantitative and econometric studies are inconclusive: some studies report a constraints effect, while several others find no significant effect from exposure to economic openness. Schulze and Ursprung's (1999: 345–47) survey of the literature on the relationship between international market exposure, the tax structure and government spending (which included several of the studies cited here), concluded that: 'The general picture . . . does not lend any support to an alarmist view.' At least at an aggregate level 'many of these studies find no negative relationship between globalization and the nation states' ability to conduct independent fiscal policies'. Almost ten years later, a more disaggregated econometric study of the impact on diverse social spending categories in the OECD over a thirty-year period similarly concluded that 'globalization has not affected the composition of government expenditures' (Dreher et al. 2008: 265). On the state's fiscal activity over the forty-year period 1965–2006, for example, social expenditure in the OECD countries as a percentage of GDP increased from 16 per cent to 20.6 per cent (OECD 2007); while state spending overall in the OECD remained relatively robust, averaging 40 per cent of GDP (World Bank *Development Report* 2004). Looking beyond the rhetoric of 'retrenchment' and 'rolling back of government', what has changed, some writers suggest is that 'the "growth" of the size of the state has been halted' (Prasad 2006: 6)—at least for the moment.

In short, although the constrained state hypothesis is often presented as a fact of life, the relationship between international market exposure, macroeconomic policy, and the tax and spending structure is not established. IMF economists Tytell and Wei (2004: 35) note that 'there are in fact surprisingly few tests of the constraints or "discipline effect", none of which match theoretical plausibility with robust causal evidence'. Reporting on their own results, they conclude cautiously that 'there is some *modest* evidence that financial globalization "may" have induced countries to pursue "low-inflation" monetary policies. However, there is "no evidence" that it has encouraged *low budget deficits*' (emphasis added). Indeed, interviews with financial investors suggest an overall neutrality towards government spending on welfare unless it involves massive budget deficits that have to be funded by inflationary borrowing (Mosley 2000). Harvard economist Dani Rodrik dismisses the constraints effect more emphatically. The idea that 'governments might be less inclined to squander their societies' resources if such actions were to spook foreign lenders' is disingenuous, he argues. 'In practice . . . the discipline argument falls apart. Behavior in international capital markets is dominated by mood swings unrelated to fundamentals' (Rodrik 2001).

It should also be noted that from a theoretical perspective, the effects of global integration are ambiguous. This is because, as others have argued, the constraints hypothesis ignores the politically 'enabling' dynamic of globalization, which may neutralize the effects of an external discipline. The enabling effect is made manifest at the level of domestic politics via resistance to welfare retrenchment or demands for compensatory expenditure. The so-called enabling effect thus appears to create new political incentives and economic opportunities for state involvement in the economy (Quinn 1997; Swank 2003; Weiss 2003). According to the 'enabling' hypothesis, the costs and benefits of neoliberal responses are conditioned by domestic institutional structures through which social preferences are framed, organized and expressed: the expected expenditure shift under globalization might thus be neutralized, minimized or reversed by political action (Swank 2003; 2006). Studies in this vein have pointed out that for all the talk of lean governments donning the 'golden straitjacket', the practical outcome of the global neoliberal agenda over the past three decades or so has not been, in most cases, to diminish either the state's infrastructural power or its revenue base (e.g. Hobson 2003). If anything, they argue, globalization has impacted diversely in different institutional settings, helping either to restructure, reinforce, or expand state spending on social protection and to strengthen the power of many nation states to intervene in economic affairs. As one of the more recent studies concludes, 'the effects of globalization might [thus] be exaggerated in the popular discussion and might simply not exist' (Drehrer et al. 2008).

New governance structures: the regulatory state

A similar question has been raised regarding the idea of the state's dramatic withdrawal from the market economy. Here the literature, using two eyes rather than one, shows that while the withdrawal of the state as 'direct' producer of goods and services (*aka* 'privatization') has been an important general trend, so too has been the 'growth' of the apparatus of 'regulation' in those same sectors. Christopher Pierson (2004: 105) notes: 'One of the most keenly felt ironies of the "withdrawal" of the state from its role as a direct producer of goods and services has been the mushrooming of the apparatus of "regulation" through which it seeks to exercise a continuing control over its divested functions.' In short, deregulation has been accompanied by a process of reregulation, or in the words of Steven Vogel (1996): 'freer markets' mean 'more rules'.

A number of authors have thus emphasized the paradox of the deregulation trend: namely, an unexpectedly larger role for the state and a new arena for state activism (Levy-Faur and Jordana 2003; Cioffi 2005). Far from removing the state from the market, the neoliberal drive has required national authorities to set new rules of the economic game—whether devising competition policy for telecoms and other recently privatized utilities, or setting prudential norms for deregulated financial institutions (and sometimes failing to set these at all!). In turn, this has meant the creation of new governance structures to set and apply the rules (sometimes referred to as new forms of governance). In this context, a number of studies draw attention to the plethora of decentralized regulatory agencies and hybrid public–private structures which, being effectively removed from democratic oversight, in principle give the state more rather than less scope for action (Levy-Faur and Jordana 2003; Harvey 2005).[4]

However, while the growth of regulatory bodies has been a broadly observed pattern, the outcomes do not appear to support a convergence or homogenization trend. Vogel's study of the Japanese experience (2006) encapsulates some of the key findings in the comparative literature with the notion of 'patterned innovation' to indicate that the process and outcomes of reregulation remain heavily informed by specific state traditions. In one of the most comprehensive comparative studies to date, Vogel (1996) found that in spite of implementing pro-competitive regulatory reforms similar to those adopted in Britain and the United States, in practice, Japan's policymakers sought to preserve their authority in order to manage the terms of competition after reform—a conclusion reaffirmed in his follow-up study ten years later. Even financial liberalization, it appears, was not a jacket cut everywhere from the same cloth. In pace as well as approaches, states often differed, setting the rules of market opening to align with national development orientations and legitimacy needs (Thurbon 2003). Similar findings have been reported for trade and investment strategies (Thurbon and Weiss 2006), as well as for market opening in the telecommunications sector (Jho 2007; Yoo 2004).

While regulatory activism is perhaps one of the most widely discussed countertrends to the neoliberal (*qua* minimal) state, it is by no means the only one. Several new state missions have been identified in the affluent democracies, ranging from 'making systems of social protection and labour markets more employment friendly' to 'repairing the main varieties of capitalism' (Levi 2006). In Levi's terms, this is 'market-supporting'—as distinct from 'market-steering'—intervention. According to this argument, 'market-steering intervention' best describes what states did before globalization took hold. Such distinctions are most useful when applied to specific

[4] Sometimes referred to as new forms of governance.

activities in specific sectors, but as a general descriptor of what states do now, compared with what they did in the recent past, the 'steering versus supporting' language is perhaps too blunt as an analytical instrument. Even when utilities were under state ownership, for example, there was very little actual state 'steering' of these entities. By the same token, however, when national authorities select a technology or sector for special sponsorship and resource allocation, as they do presently—e.g. in biotechnology, nanotechnology, new energy (see below)—the dividing line between 'steering' and 'supporting' breaks down. States have always done both and the mix in any context is a matter of empirical enquiry.

The activist technology state

Another important test of the neoliberal state argument relates to the state's industrial activities. According to an influential view, states no longer do industrial policy (e.g. select or 'target' particular sectors for promotion and thus resource allocation) because this would involve interventions in the market that are no longer acceptable under the WTO. In this connection, the creation of the multilateral trade regime under the WTO, which has overseen extensive trade liberalization, is viewed as a key pillar of the neoliberal order. Where developing countries are concerned, for example, it has been powerfully argued that the WTO has been 'kicking away the ladder' by prohibiting the very policy tools—tariffs, subsidies, and capital controls, and the imposition of local content requirements on foreign companies—that industrialized countries once used in order to to grow their own economies (Chang 2002; Reinert 2007).

The ladder kicking metaphor is useful, however, only up to a point. While making it more difficult for those lower down the ladder, the rich states have been busy adding new rungs to aid their own (continuous) high-technology climb—promoting what they see as the foundation of the new knowledge economy. Under the rubric of S & T (Science and Technology) policy, the developed democracies have carved out ample room in which to grow their own industries within the multilateral framework—chiefly by setting subsidy rules that mesh with their own technology profile, which is knowledge-intensive. In such sectors, the new infant industries include biotechnology, microelectronics, and information technology, new materials, and nanotechnology. For example, the EU has doubled financial support for innovation in biotech under programmes which will run from 2007 to 2013. In most cases, the key directions are being forged and the programmes run in various forms of partnership with private-sector participants, including cofinanced VC funds, R & D consortia, and biomanufacturing facilities to assist fledgling biotechs through clinical trials. Even in 'free-market' Britain, the government has taken 'proactive steps' to greatly increase support to its biotech sector, in response to the industry's own strategic assessment, expanding R & D subsidies, developing world-class manufacturing facilities, and forging public–private collaboration between the NHS and bioscience sector.

This is, in short, infant industry promotion, high-tech style, with a renewed role for state activism (i.e. not just passively setting tariffs as in the pre-WTO period). The multilateral regime may require states to abandon certain protectionist instruments, but right across the OECD, national authorities are actively seeking ways to foster their infant industries in the leading knowledge-intensive sectors, sponsoring initiatives in biotechnology, ICT, and the fledgling nanotechnology and new energy sectors in the belief that these are fundamental to future prosperity. The rules certainly seek to discipline states to lay off specified protectionist instruments; but this does not mean that states are taking a back seat. Rather, they have shifted gear to accommodate new needs: old-style import controls and subsidized production may be largely off the agenda, but the industrialized nations (who conveniently wrote the WTO rules in the first place) now have less need of these policy tools as they embark on a technology race. For their purposes, the more appropriate forms of techno-industry promotion include R & D subsidies and cost-shared partnerships, intellectual property licensing and protection, technology procurement, standard setting, and sponsorship of venture capital funds (Weiss 2005).

The careful WTO relabelling of this activity as S & T policy is important—because language matters. But it does not hide the fact that it is effectively open economy industry policy. Otherwise put, S & T policy is a means of developing the knowledge-intensive infant industries central to the advanced industrial nations; it uses measures that are essentially *functional equivalents* of the *old infant industry* policies—once widely utilized to establish industries (in the traditional labour- and capital-intensive sectors)—but which are now largely prohibited. Thus although the WTO would appear to restrict policy space for those lower down the development ladder, the rules provide ample policy scope for those still at the top.

Varieties of capitalism: the institution-sustaining state

A fourth rejoinder to the idea of the neoliberalizing state derives from the varieties of capitalism perspective associated with the work of Peter Hall and David Soskice (2001). It offers an important theoretical challenge to the homogenization thesis (the idea that states and varieties of capitalism (VoC) are converging on the neoliberal model). VoC scholars develop a firm-centred institutional approach in order to show why global competition is not a zero-sum game in which one kind of capitalism is selected as the winner. Their perspective allows them to pinpoint different institutional strengths in each system that underpin their respective innovation capacities; moreover, these writers argue, because the national innovation system is based on institutional complementarities, a change in one arrangement that might be desirable (e.g. the welfare state) would necessitate changes in other areas (e.g. labour relations), which might be economically undesirable or politically impracticable. The general argument is that there is no one best system of political economy for generating growth in a global economy. In this framework, CMEs offer an efficient and stable alternative to LMEs (*qua* neoliberal capitalism), and firms with their distinctive national innovation capacities, which in turn rely on distinctive institutional complexes, are the central actors generating persistent differences across countries. Thus some nations maintain strong labour regulations and high welfare spending because firms find this arrangement to be most efficient for their technology profile. Firms specializing in highly engineered high-cost products, as in Germany, for example, require highly skilled labour; this implies lengthy training, long-term commitment and stable employment relations. Employers in such countries can therefore be expected to support the institutions that complement their production profile (Hall and Soskice 2001).

Although the VoC thesis offers a rigorous theoretical rebuttal of the neoliberal homogenization thesis, it has certain shortcomings of its own. Some critics charge that it overstates the systemic coherence and 'locked in' nature of national institutions and thus presumes a degree of stability that ignores the transformative role of agency (see e.g. Crouch 2005). Another limitation of the VoC perspective is a tendency to portray the role of the state in largely passive, functional terms. Its proponents see the world as a two-forms-of-capitalism game in which the state remains in the background, supporting the status quo in conformity with firms' requirements (Schmidt 2002). Governed market economies in which economic and political actors together coordinate change are not part of its framework. Even for CMEs, this neglect has led analysts to overlook the important ways in which these political economies adjust to economic and social challenges. It has been argued, for example, that the Dutch and German states played a critical role in supporting their innovation systems by reforming social policy, labour-market policy, and wage policies in the context of slow growth and fiscal austerity, sometimes working within existing corporatist frameworks, at other times, suspending or dismantling them in order to secure urgently needed reforms (Hemerijck and Vail 2006). Such criticisms regarding the overstatement of systemic coherence and the neglect of the state's more active role can also be applied more broadly to the way in which LMEs are constructed in the comparative capitalism literature, a theme to which we return in the final section.

The State as Solution: The Rise (and Demise?) of Governed Market Economies

A third perspective on the state in the economy sees state power not as a problem, nor as tightly constrained by economic integration, but as a potential source of solutions to the problem of national economic development. In the post-war period a number of countries in East Asia—beginning with Japan in the 1970s, followed soon after by its former colonies Korea and Taiwan, then further south, by Singapore—achieved the highest sustained growth rates ever recorded as they speedily transformed their industrial structures. How had they risen so far and so fast, out of poverty into the rich-country OECD club virtually within a generation, building successful industries from scratch and rapidly closing the technology gap? In the normal scheme of things, climbing the ladder of industrial development meant steadily acquiring prowess in traditional labour-intensive sectors like food, textiles, steel, and the like; but East Asian firms went further and faster—eventually creating a swathe of high-technology industries, which included super-computers, robotics, semiconductors, and flat panel displays. By any stretch, this was an exceptional achievement in the history of industrialization.

It is no exaggeration to say that the rise of East Asia posed a serious challenge for economic theory with its market-led view of economic development.[5] For exceptional results quite plausibly raise the possibility that something 'out of the ordinary' has produced them. Development scholars and area specialists proposed that the non-ordinary factor consisted in the role of the state. State actors in each setting, they argued, took a prominent and proactive role in coordinating structural change and the upgrading of technology (Johnson 1982, 1987; Amsden 1989; Wade 1990; Evans 1995; Chang 2002). From these analyses, the East Asian four emerged as different instances of a distinctive type of political economy, to which the terms 'developmental state' and 'governed market' system were applied. Using different methods, national authorities in each setting pursued an industrial strategy (i.e. selective or sectoral industrial policies) that combined import substitution with export orientation, while focusing on raising the investible surplus and shifting the technology profile upstream.

However, given the prevailing theoretical assumptions about government failure (and indeed the fact that industrial policies in various parts of the world were often associated with failure or lacklustre results), much subsequent debate centred on why, in these settings, such policies seemed to succeed more often than fail. Some studies drew attention to the importance of an incentive structure in which state support was conditioned by performance requirements:

> rather than simply offered as handouts, subsidies were made conditional on exports and protection was time-limited (Johnson 1982; Amsden 1989). Conditionality thus had the positive feature of ensuring that the incentives were captured by firms that were able to compete in international markets, rather than going scatter-gun fashion to the strugglers. Others drew attention to much 'below the radar' ('administrative guidance') activity in which engineering-trained bureaucrats worked with domestic producers to identify new export opportunities and to remove obstacles, often 'nudging' international companies to work with potential local suppliers rather than source abroad. (Wade 1990)

But in spite of their different emphases, these studies also enjoined us to look behind the policies to the state's institutional structure and normative political environment. Key to understanding why East Asian policies were largely effective, they argued, was the role of a competent economic bureaucracy, imbued with a catch-up mission and sufficiently insulated from the push and pull of special interests. Thus, keeping

[5] For accounts that try to squeeze East Asia into free-market theory, and their counter-critique, see Wade (1992). The Japanese-funded World Bank (1993) reassessment of the whole East Asian development experience is widely viewed as a striking example of the attempt at paradigm maintenance and efforts to square the circle. For a balanced critique, see Lall (1994) and Cassen and Lall (1996).

definitions to a minimum, a developmental state could be defined partly by what it looks like—reliance on a pilot agency or network of agencies with Weberian characteristics of bureaucracy (competent, cohesive, mission-oriented, relative political autonomy or independence from special-interest pressures); and partly by what it does—technology catch-up and strategic (sectoral) industry policy. In its original formulation, the developmentalism of the developmental state was thus linked to its centralized bureaucratic control. But this understanding of the dynamics of the developmental state's effectiveness changes as industrial development proceeds, as the research discussed next makes clear.

In further refinements of the idea of state effectiveness, the developmental state—while relatively autonomous from political pressures—is at the same time highly embedded in the surrounding economy, and connected to the private sector via trade associations. Its 'embedded autonomy' (Evans 1995) is what keeps it from capture on the one hand and predation on the other. In other words, if it is to be at all effective, the developmental state needs not just an independent sense of purpose; it also needs access to and information from the economic actors it seeks to influence. Although often using different language, a good deal of comparative research has offered support for this idea, highlighting the regularized forms of interaction and constant tailoring of policies to meet the changing needs of firms not only as economies opened up to international markets, but also as the tasks of technological innovation have become more complex (e.g. Anchordoguy 1988: 513; Weiss 1998; Amsden and Chu 2003; Wade 2003; Weiss and Thurbon 2004; Jho 2007).

The results of this body of research suggest that in moving up the technology ladder, the developmental state's ability to 'impose' its decisions is of diminishing relevance to its transformative capacity. Of greater importance is a governance structure through which the state is able to institute a continuing conversation with economic actors about the opportunities for innovation and the obstacles to be overcome, and not least, the capacity to pursue such opportunities with a performance-based incentives structure that disciplines its beneficiaries. 'Governed interdependence' (Weiss 1998) is one way of conceptualizing the dynamics of this goal-directed governance structure, prevalent in the industrial bureaucracies of East Asia, but not necessarily confined to that region. In the case of the East Asian four, theorists of the developmental state argue that because of their normative and institutional equipment, these states had the capacity to produce effective outcomes with more consistency than most other developing countries. Thus, when looking to the much more 'mixed' development records of, say, Brazil and India or the countries of Southeast Asia and Latin America more generally, the difference they argue lies not in the presence or absence of industry policies per se, but in the character and purposiveness of their bureaucracies, in the extent of their political cohesion, and in the manner of their public–private linkages (e.g. Kohli 2004; Evans 1995).[6]

[6] Both Kohli and Evans analyse comparative economic outcomes in several developing countries, offering different versions of state efficacy.

Accordingly, the idea of the developmental state does not entail either state dominance *over* business or timeless institutions for governing the economy (Johnson 1999). More generally, the relations between government and business in the neodevelopmental state differ from the more top-down model of the 1960s and 1970s. In the updated ('open economy industrial policy') version, the state actively engages a wide range of public and private actors in technology-focused networks, both domestic and international, which are tasked with the formulation and implementation of policies (Jho 2007; Pereira 2008; Weiss and Thurbon 2004; Ritchie 2002: 19–20). In Korea, for example, techno-nationalist ambitions continue to flourish in agencies most closely connected to the nation's industrial strength in ICT, in particular, the Ministry of Information and Communications (MIC). No longer commanding economic outcomes from the heights, state agencies like MIC now coordinate a network of policymakers, local and international firms. In such cases, the state's effectiveness in coordinating more complex industrial upgrading in the context of increasing openness has come to rely more heavily on a governance structure involving intense policy dialogue and partnering with the private sector and on the coordination of inter-firm networks for product development. Thus, while some have posited a neoliberal restructuring of the developmental state (Moon and Rhyu 1999; Pirie 2005), the contrasting hypothesis of 'liberalization as a development strategy' (Jho 2007) seems closer to the mark. Moving outside the Asian setting, a parallel argument has been applied to the state's high-technology role in Ireland. Indeed some see Ireland as a new ('networked') type of DS (e.g. O'Riain 2004). Whether such new labels are warranted, they should not be allowed to blind us to important parallels with the neodevelopmental states of East Asia.

More generally, there is one common ingredient of developmental states that lies beyond the grasp of all such new labels, namely, the political 'will' to pursue transformative projects. Although it is fashionable to emphasize state capacity constraints in a globally interconnected environment, the prior importance of political will is much more easily overlooked or taken for granted.[7] Yet political will (*qua* commitment to industrial transformation) is the fundamental ingredient of state developmentalism. In its absence, the capacity to meet new demands under changing conditions (e.g. via new governance structures) will come to naught. As the most comprehensive study of Japan's remodelled capitalism observes, for all the liberalizing reforms, what remains in place, is: 'a [bureaucratic] commitment to promoting Japanese industry, a tradition of working closely with the private sector, and a fierce determination to preserve its own authority' (Vogel 2006: 218). In this light, the argument that 'governments are most constrained when they believe themselves to be powerless, and least constrained when they do not' (Vogel 1996), deserves to be taken seriously.

Debate over the developmental state argument has been both broad and deep, covering issues ranging from the sources of state developmentalism to its

[7] The self-conscious articulation of this principle by the industry policy arm of the Taiwanese state is discussed in Weiss and Thurbon (2004).

consequences and, most recently, to its institutional viability in a global economic environment.[8] Although for many the developmental state 'has been one of the most compelling explanations' for Asian economic development, the question of how far this depended on a particular kind of governmental bureaucracy is difficult to determine because of the coexistence of several other factors, including favourable international political and economic conditions (Pempel 1999: 136). More contentious however is the extent to which developmental strategies have paid off. Indeed, the debate over the effectiveness of industrial policy is inconclusive because of a deficient methodology, as a result of which econometric models fail to capture the policy effects (Rodrik 2008).[9] Criticisms of the developmental state interpretation of East Asia's rise have thus ranged from sweeping claims that intervention made no difference to East Asian growth, to the opposite assertion that these economies would have grown even faster without government guidance.[10] While it is reasonable to approach with caution claims about the effectiveness of the developmental state's industrial policies, this is a far remove from the neoclassical assertion that the East Asian four industrialized by following free-market prescriptions. At the very least, the fact that industrial policies were used abundantly throughout the 'miracle' economies of East Asia in their fast-growth phase belies the 'failure' assumptions of the neoliberal interpretation (Chang 2007).

In the most recent version of the neoclassical/neoliberal[11] critique, commentators have suggested that the Asian financial crisis of the late 1990s demonstrates the ultimate failure of the GME or developmental state model of development and that Taiwan, South Korea, and Japan have been discarding their governed market system, reforming themselves along the lines of the American market-led model. Thus, this reasoning continues, whatever validity that governed markets, sectoral-industrial policy, and the developmental state may have possessed in earlier times, their time is past.[12] Two points are in order here. First, regarding the demise of East Asia's erstwhile governed market economies, suffice it to note that the more sustained empirical research in the region—much of which has been discussed earlier—suggests that developmental states have been reinvented rather than retired (e.g. Woo-Cumings 1999; Amsden and Chu 2003; Vogel 2006: 219). Many of the

[8] For an overview of the main issues, see the important collection edited by Woo-Cumings (1999).

[9] For example, as indicated earlier, the East Asian approach typically involved two important features, neither of which are captured by existing econometric models. The first was the existence of engineer-type bureaucrats who, in a sustained dialogue with industry actors, regularly analysed the import profile in order to identify the higher-value added items that could, with sufficient public encouragement (e.g. 'nudging') and support, be made locally for export (Wade 1990). The second feature was the attachment of incentives to measurable performance conditions. The point is that these policy measures are hard to capture in econometric models, which are more at home dealing with such items as tariffs and official subsidies (see e.g. Noland and Pack 2003).

[10] See n. 5.

[11] The terms are sometimes used interchangeably to indicate the association of neoclassical economic theory with neoliberal policies.

[12] Wade summarizes this critique in the Introduction to his 2003 edition of *Governing the Market.* For an assessment of the book's arguments and their applicability to the East Asian region post-Asian financial crisis, see the 2004 edition of @@@*Issues & Studies* 40(1), ed. Andrew Marble.

same analysts have also observed that—from China to India and South Africa—their developmental strategies continue to offer a point of reference and model for emulation. Second, a very large dose of caution is warranted when issuing comparative judgements that elevate the virtues of one model over others. This point is vividly underlined by the sudden swing by many of its former admirers against the American system. Laid low by the 2007–8 financial collapse and by its spectacular failure to curb widespread abuses and corruption (Altman 2009), the free-market model is increasingly the object of scorn rather than admiration or emulation.

This leads to our final question as to how well the United States fits its own label. An emerging literature on this topic throws into doubt the idea of a coherent neoliberal model to which other states are allegedly conforming.

Theory versus Practice: In Search of the Neoliberal State

Analysts often hesitate when classifying countries as this or that type of capitalism led by this or that type of state. Yet they have hesitated less when applying the neoliberal label, regularly treating the United States (along with Britain) as a clear instance of a liberal political economy in which the state remains mostly aloof from the market. In practice, of course, the American neoliberal model of free-market-minimal state is not a plausible description of how any market economy 'works'. Indeed, it more aptly describes countries where markets are dysfunctional or weak, such as Nigeria or Haiti. Ironically, however, it 'is' a plausible description of how the US financial sector worked—where since 1999, three critical prudential regulations have been stripped away or rejected[13]—at least until its spectacular collapse and bailout in 2008. Beyond the (albeit major) exception of the state's regulatory approach to the financial sector, the reality of the United States and the market systems of Western Europe is not the

[13] Among the most important regulatory acts of omission and commission were: (a) the 1999 repeal of the Glass Steagall Act which separated commercial banks and investment banks, thus enabling the growth of a vast unregulated shadow banking industry; (b) the 2002 Congressional exemption from regulation of numerous derivatives (including credit default swaps), enabling massive expansion of unregulated financial products; and (c) the 2004 decision of the Securities and Exchange Commission to remove an old regulation limiting the amount of debt that the big Wall Street investment banks could take on, thus unshackling billions held in reserve to cushion against losses. The *New York Times* Editorial 'Don't Blame the New Deal', 28 September 2008, gives an instructive account of regulatory failure; some excellent pieces of *NYT* investigative journalism are reported in the months of September and October, including Stephen Labaton's 'Agency's '04 Rule Let Banks Pile Up New Debt', October 2. For a broader discussion of the repercussions and responses to the US financial breakdown see Simon Johnson (2009).

minimal state but 'the embedded market', for these economies have 'the largest, most powerful and most influential governments the world has ever seen' (Kay 2004: 311). Beyond the general truism that all modern markets are politically embedded, however, there is more to the American model than meets the neoliberal eye. This 'something more' has often been noted with regard to aspects of its labour market (Blyth 2003), its social spending (Galbraith 2007) and its home-ownership model (Seabrooke 2006; Schwartz 2008), where state intervention has been significant in shaping the ways that these markets work.

Perhaps even more at odds with the neoliberal tag is the US innovation model and the public–private networks that sustain it. In this context, what deserves emphasis is not the state's liberalism, but its *developmentalism*, which in some major respects pushes it towards the governed market end of the spectrum (Block 2008; Weiss 2008). Although virtually invisible in the story that is normally told of post-war US development, the federal state has been deeply involved in governing the market, financing techno-industry development, licensing, protecting, and procuring its firms' innovations, as well as helping to create and expand their markets at home and abroad. A substantial research output on US innovation shows that most of the high-technology sectors in which the US economy now leads—from computers and software technologies to semiconductors and aeronautics—owe their start to the funding, infrastructure, and purchasing programmes of the state (Mowery and Nelson 1999). Even the development of a commercial biotechnology industry is a state-led story whose strategic origins have only recently come to light through archival analysis of declassified material (Hurt 2008). In particular, it is difficult to overstate the developmental importance of federal 'technology procurement' as an engine of US innovation. In other words, to the question: 'where do US innovations come from?' a very large part of the answer would include: 'government contracting to buy things from the private sector that do not yet exist or which need to be adapted for public use' (Weiss 2008). That, in essence, is the meaning of technology procurement. Its role in promoting the IT sector and the emergence of Silicon Valley has been well documented, notwithstanding the myth of pure market development (Kenney 2000). If the early stages of Silicon Valley had no need of private venture capital or stock markets, it was because it could rely on 'the biggest angel of them all' (Leslie 2000)—namely, the US government—which provided both the capital and the demand pull of a huge federal market. Today, armed with an annual procurement budget of $450 billion—more than $1 trillion if the states are included—the state plays a very large role in the economy, not least through proactive, innovation-led procurement.

Lacking the broad political legitimacy and hence 'normalization' of the East Asian version, US developmentalism has nonetheless remained relatively 'hidden' (Block 2008). Indeed, one may observe that in the very period when neoliberal theory became globalized in political discourse, US policy began to diverge more markedly in practice: in the course of the 1980s when the United States, challenged by Japan, began to lose its lead in one advanced technology after another, the federal agencies began imparting directional thrust to the economy, fostering a series of public–private R & D partnerships, fielding a host of manufacturing extension services, and establishing a federally-funded innovation programme that now disperses more than US$2 billion annually as the world's largest venture capital fund (Weiss 2008).

The problem with labels

Does this mean that the United States is no longer an LME? Or does it mean that such comparative capitalism typologies have more limited value? Analysts whose work was discussed earlier have developed the notion of institutional complementarity to justify their systemic labels and to explain why national systems are unlikely to converge. As well as drawing attention to the benefits of retaining existing institutional arrangements, the idea of complementarity draws attention to the attendant costs and difficulties of making changes to the rules of the game in one area without affecting all the other interconnected elements (Hall and Soskice 2001; cf. Amable 2000). However, as we saw, critics charge that this approach overstates systemic coherence, thereby ignoring or dismissing the significance of institutional anomalies or hybrid forms (Campbell 2004; Crouch 2005). Much of this discussion about institutional complementarity, however, relates to the micro-institutions of the economy, not to the state.

The state is a different story. For one thing, it is internally a quintessentially, non-unitary configuration whose various components have crystallized at different points in time, experienced often separate histories, and become linked to different constituencies. Complementarity among the various parts (agencies) is therefore likely to be rare rather than typical. Thus even in the same issue area (the economic–industrial bureaucracy for example), actors in one part of the institution may be, or become, state-power averse and laissez-faire in their approach to economic advancement (notably, for example, in the US financial administration and its regulatory bodies); in another agency, however, state actors may be quite differently oriented, basing their approach on the understanding that national (*qua* economic) security and government involvement are tightly coupled (e.g. the network of US agencies involved in technology procurement, for example, the Department of Defense, the CIA, NASA, the Department of Energy, the National Institutes of Health, the Department of Agriculture).

The problems raised by tying polymorphous institutions like states to particular labels are thus especially apparent in the US context where one finds both liberal and networked statist (governed market) components in those parts of the state that interface with the private sector. In the US setting, this internal disjuncture between liberalism and statism—between opposition to and support for the use of state power for economic development—is reflected in a normative environment that regularly demonizes industry policy for strictly commercial results, unless framed in the language of national security and linked to its pursuit. The result is often a hybridization of the state whereby national security agencies take on private-sector characteristics (e.g. the CIA becomes an angel investor taking equity in private companies in order to fund the commercialization of security-relevant projects).[14] Alternatively, a quasi-hybridization takes place via the reconstruction of national-security agency missions to encompass commercial goals (see e.g. Fong 2000).

In considering the implications for identifying the neoliberal state or even its developmental counterpart, Colin Crouch's comments seem appropriate: it is not that we can or should abandon labelling as such, since it is useful, even necessary, but labels should come with a cautionary note attached so that instead of asking 'to what type does this case correspond?' one would ask 'examples of what type do I find in this case and in what proportions?' (2008: 533, 535). Whether there are now so many elements of the governed market type that the US state can no longer be considered an example of the neoliberal type that it was once thought to be remains a question for systematic empirical research. But the point remains that even considering the United States as the most widely recognized exemplar of an LME, there is more scope for variety 'within' a state type than existing comparative capitalism categories allow. As global integration proceeds and as economies approach the technological frontier, so the role of state agencies appears to take on renewed importance. Some governance structures and practices of the governed market economies as they evolved in East Asia are now diffusing to the major economies, perhaps more markedly in the United States than in other Anglophone economies, some of whose institutional innovations now depart substantially from the standard LME model.

Conclusion

The theory of neoliberal state transformation that has dominated the social science literature in recent decades is in part prescriptive (states 'should' act in certain ways and not others), and in part deductive (given certain conditions, states 'must' act in given ways). Empirically, however, the idea of a neoliberal or laissez-faire state, a developmentally inert state—encaged by global markets and confined to the role of market facilitator-cum-competition regulator—is not established.

There is no question that liberalizing reforms—from privatization via the sale of state-owned companies to trade, investment and financial liberalization via the negotiation of bilateral and multilateral treaties—have been widely diffused throughout the globe. Significant policy liberalization, however, has not retired the state from transformative economic tasks. Even so-called liberal states at the technological frontier are deeply if not widely engaged in governing the market for high technology, targeting knowledge-intensive sectors for special promotion as the global technology race intensifies. Climbing the ladder of technology development is a continuous enterprise and where the stakes are high, states rarely leave things to

[14] The CIA's hybridized model of technology procurement is discussed in Weiss (2008).

the market. More significant than the pressures of the international environment are those emanating from the normative environment that informs and sustains state purpose. Despite some cracks in the latter, there remains a greater degree of legitimacy for economic activism than for neoliberalism.

Arguably, the neoliberal state is a fiction because it treats the state as unitary and thereby misidentifies the part for the whole. (The United States—neoliberal in finance, but interventionist in national innovation—is the exemplary case.) Yet the fiction has been *influential*. One reason why it has been so influential is that the challenges of globalization that allegedly *constrain* state activism are very well publicized (though not necessarily well established—as we saw in the case of the relationship between capital mobility and macroeconomic policy); whereas the challenges of globalization that *valorize* state activism are much less widely discussed, let alone well understood. One reason for this lopsidedness, I have suggested in the introduction to this chapter, bears on the sociology of knowledge, namely, the intellectual legacy of cold-war politics.

We can expect some of this analytical lopsidedness to be rectified as the worst financial crisis in history begins to demand rather more, not less, capacity from state authorities over the coming years. Such new circumstances should prompt a research agenda that delivers a more nuanced understanding of the ways in which the maintenance and growth of the global economy—far from precluding an active role for the state—tends increasingly to demand it.

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