

Book Review of Sven Steinmo 2010. *The Evolution of Modern States: Sweden, Japan, and the United States*. New York: Cambridge University Press, 2010.

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The Evolutionary Political Economy of Sweden, Japan, and the U.S.

The longstanding debate about the impact of globalization forces on national economies in the political economy literature used to largely bifurcate into two camps. One side argues that increasingly integrated world markets of goods and services, fostered by political will and technological advancements, will lead to a convergence toward the Anglo-American capitalist system among political economies.¹ Historical institutionalists, on the contrary, submit that domestic institutional arrangements condition the impact of globalization and lead to continuously divergent national trajectories.²

¹ Cf. Strange, S. *The Retreat of the State: The Diffusion of Power in the World*. Cambridge: Cambridge University Press, 1996.

² Cf. Katzenstein, P. *Small States in World Markets*. Ithaca: Cornell University Press, 1986; Helleiner, E. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. Ithaca: Cornell University Press, 1994; Hall, P. A. and Soskice, D. (eds.). *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press, 2001.

More recent evidence makes both consistent national capitalist models and convergence theories empirically hard to maintain. Instead, globalization surely liberalizes traditionally coordinated political economies, whilst not eroding national differences in a linear fashion.³

Sven Steinmo's *The Evolution of Modern States: Sweden, Japan, and the United States* bolsters this differentiated approach to studying globalization. The author develops an alternative epistemological framework that allows for broad comparative analyses with surprising depth. This approach follows historical institutionalism and is supplemented by elements derived from evolutionary theory. By applying his methodology comparatively to the political economies of Sweden, Japan, and the U.S., he answers the grand questions of why globalization has affected each country differently, why the welfare state is not on the retreat, and why globalization will pose varying challenges in the future.

³ Cf. Streeck, W., Thelen, K. (eds.) 2005. *Beyond Continuity: Institutional Change in Advanced Political Economies*. New York: Oxford University Press; Wood, G. T. and Lane, C. (eds.). *Capitalist Diversity and Diversity within Capitalism*. London: Routledge, 2011.

Steinmo argues that social systems do not function and develop in accordance to underlying laws that need to be extracted by scholars. By contrast, political economies are “complex adaptive systems” that are significantly different from each other and therefore react in their own ways to such phenomenon as globalization. Since quantitative models with punctuated equilibria cannot capture the characteristics of these objects of analysis, the results lack depth. Steinmo argues for a retrospective view of social systems in the form of “evolutionary narratives,” which resembles process-tracing analysis. Following evolutionary theory, these narratives do not follow a predetermined path, are not necessarily progressive, and are not predictable.

Prior to comparing the political economies of Japan, the US, and Sweden, Steinmo establishes the theoretical basis for his subsequent analysis. He sees political economies as subsystems of the global political economy. These subsystems evolve differently due to dissimilar reactions towards external events like the Second World War and internal occurrences like domestic financial crises or regime changes. Evolutionary narratives of these subsystems allow case studies and comprehensive comparative analyses to incorporate micro- and macro- level factors. He uses terms from evolutionary theory to characterize crucial aspects of these countries’ early economic systems: Japan as a hybrid between modern institutions and a traditional understanding of hierarchy; Sweden’s relationship between labor, capital, and the state as symbiogenetic; and the

United States’ evolution as allopatric, in which a liberal-minded nation explored and expanded a resource-rich new territory.

The chapters on each country begin with an examination of influential events, fields of policies and politics—such as the tax system, the nature of the welfare state, demographics, or labor-capital-state relations. Then, Steinmo provides the historical retrospective on these aspects by narrating their evolution. Following his macro and micro approaches, various world events appear in all country studies, like the impact of the oil crisis or the emergence of globalization, whilst other events are internal, like domestic legislations. Steinmo concludes the chapters with a depiction of the current and future challenges that each country faces.

With high public confidence in the state, the most effective tax system, the most expedient demographic policies, and a balanced fiscal approach, Steinmo attests that Sweden has the most promising outlook among the three countries. Contrary to numerous predictions, the country has been capable of adapting to globalization while maintaining its social-liberal system with a unique, universalist welfare state. The symbiotic relationship between major stakeholders has formed cracks since the 1970s, and the economic structure has experienced major changes. Yet, the increased incorporation of market competition during the 1990s as a combination of liberal ideas with social democratic goals set the course for a successful adaptive evolution.

Japan has proven to face more difficulties in adapting to the changing of

the world economy. Whereas its hybrid structure enabled the country to advance quickly, in present time, its “awkward and unresolved” political and economic institutions hamper adaptation. In this “dual economy,” the central bureaucracy promotes productive sectors, which carry most of the tax burden, while the political influence of local constituencies lead to policies that protect and subsidize inefficient sectors like farming. In the view of a highly clientelistic political system, an inefficient tax system, and a “demographic time bomb,” Japan faces the biggest challenges.

Steinmo contends that the historical context of the democratic institution building, as well as the favorable geographic conditions, were the critical factors for the evolution of the U.S., and thus counters the culturalist argument of “American Exceptionalism.” He also challenges the common perception of the U.S. as a free market economy with a small welfare state. In reality, the government intervenes significantly in the private sector, and the welfare expenditures are high but “hidden” in the form of tax expenditures. Ever since the historical compromise of a “strong nation—weak state,” the political system has become more fragmented due to the institutional changes in the face of increasingly complex governance realities. This “hyper-pluralistic decision making system,” along with increasing inequality, and an inefficient tax and welfare system will challenge the country’s ability to evolve progressively.

Despite the character of individual case studies, the chapters are interspersed with linking references that result in a

comparative perspective. All three countries are market-based economies with intervening governments, yet how public policies affect market operations varies significantly among them. Steinmo shows this dissimilarity, for example, on the basis of the different tax systems and their effects on the economy or the varying natures of their welfare systems. The shared challenge of demographics and the respective policies are a further aspect of comparison. In general, the countries’ individual narratives have led them to adapt differently to changes in the world economy, where they “fit into different niches.”

Steinmo proves the alleged benefits of his evolutionary history of institutional change by applying it to the political economies of Sweden, Japan, and the U.S. The descriptive, intertwined macro and micro level examinations with a comparative perspective overcome the dichotomy of breadth and depth in political science. He reasons that historical institutionalists struggle to make sense of political change. Their models are too static as they implicitly assume institutional stability. This criticism is directed at common models of punctuated equilibria along the lines of critical junctures and the more recent addition of ‘path dependence’ to this body of literature. Additionally, Steinmo is critical of gradual institutional change models because even though such models allow for significant changes to occur over the course of time, they assume that the weight of the past bounds future change.

Instead, Steinmo states that institutional change can occur in all forms.

His evolutionary view of change as being “endogenous to the system itself” fills the gap between rapid and marginal institutional change and provides a new overarching understanding. Therefore, it represents a valid addition to the existing literature. Steinmo should incorporate evolutionary theory as a supplementary element to his revised historical institutionalist analysis and therewith express his criticism of the dominant linear, scientific standard in social sciences. Ironically, his own analysis in the course of the country studies does not corroborate his methodological criticism of the path dependency hypothesis. He asserts that a path-dependent development cannot adequately account for significant change and that the present is not bound by the past. Yet, his case studies revolve around path-shaping events and, thus, linear connections of historical causalities that mostly do not reflect the surprising elements that biological evolution contains.

Steinmo neglects prominent conceptual advancements in the literature that overcome static equilibria or path dependency.⁴ This strand of political economy explicitly accounts for evolutionary institutional change by taking incremental, endogenous, and exogenous institutional change into account. Steinmo's attempt to synthesize evolutionary theory with different subfields of social sciences is promising, but requires refinement. At this point, it merely serves an illustration of his approach and almost distracts from his

relevant findings, rather than add actual value in terms of knowledge acquisition or applicability. Other authors have shown that alternative, more flexible approaches to institutional change can still be methodologically stringent and yield valid empirical results.⁵

On a similar note, Steinmo's empirical analysis could be more succinct. The two parts of his country studies contain redundancies. Fusing the examination of several subsystems and the following evolutionary narrative into one narrative examination would make this approach more appealing to the reader. The quality of Steinmo's country studies varies; his expertise becomes obvious when dealing with Sweden and the U.S., compared to his relative level of uncertainty about Japan. He points out that Japan's seemingly contradictory political economy is difficult to comprehend, and prompts the reader to attain a deeper understanding alongside him as the book progresses. The historical perspective of these political economies, Steinmo's knowledge in taxation and demographic policies, as well as the constant consideration of global and domestic impacts, provide the reader with an understanding of their evolution and their socio-cultural underpinnings. However, given his aspiration to deliver a broad comparative work, a more prominent depiction of the different financial systems

⁴ Cf. Streeck, W., Thelen, K. (eds.). *Beyond Continuity: Institutional Change in Advanced Political Economies*. Oxford: Oxford University Press, 2005.

⁵ For example, C.J. Martin and D. Swank use process tracing analysis to validate their quantitative findings in *The Political Construction of Business Interests: Coordination, Growth, and Equality*. New York: Cambridge University Press, 2012.

would have resulted in a more comprehensive work. Whereas he mentions the impact of financial crises in the cases of Sweden and Japan as historical events, he lacks a characterization of these important subsystems, which are also commonly considered to be the most globalized ones.

Steinmo contributes to a growing body of literature that views national institutional change as a more nuanced process than the binary categories of convergence or divergence used to suggest. The methodological chapter, which is mostly of interest to scholarly circles, fails to add significant explanatory leverage and merely adds jargon from evolutionary theory to comparative political economy. With the main body of the book, however, Steinmo appeals to a broader audience who will gain a coherent comprehension of the three political economies at hand and the interaction between national institutional trajectories and globalization.