

The Evolution of Modern States:

**Sweden, Japan, and the United States
as Evolutionary Systems**

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Preface

Systems within Systems

I started the research for this book several years ago because I was curious about the effects of globalization on modern welfare states. I was puzzled by the fact that despite the enormous competitive pressures facing rich democracies, there was almost no evidence of the oft-predicted ‘race to the bottom.’ I began this study with an analysis of the politics of taxation in four countries (Sweden, Germany, the US and Japan). I had some expertise in the political economy of taxation and thought that tax policy ought to be a good test of the various globalization hypotheses. It was, after all, rather obvious that taxes should be more sensitive to international competition than any other policy arena.

The deeper I looked into the relationship between tax policy and international competition, however, the more I realized that a nation’s tax policies are so deeply intertwined with the structure of the national political economy and welfare state that I could not answer my original puzzle by looking at taxes alone. In other words, to *really* understand how and why tax systems were changing, I needed to examine how they related to other policy systems. This was fine as a general proposition, of course, but analytically it presented rather significant practical problems: Trying to understand how different parts of a tax system effect other parts of the tax system is difficult enough – trying to understand their relationship to the broader political economy can be mind-bogglingly complex.

The deeper I looked at each of these countries, moreover, the more I came to see each of them as remarkably different *systems*. In other words, the more I tried to understand how the various parts of each system fit together, the more patterns I saw in each of these political economies. I also came to see that changes in taxation had hugely different political and economic implications in each of these countries because their tax systems were only parts of their social welfare systems and their political economies. In other words, if I *really* wanted to explain something as specific and narrow as corporation tax, I needed to pay attention to a whole complex of other factors. And as I looked at this complexity, the differences, rather than the similarities, came into sharper relief.

I believe it was the attempt to bring Japan into this analysis that pushed me down this road. In the very early stages of this project, my colleague and friend T. J. Pempel convinced me that I should include Japan in my study if I wanted to look at the effects of globalization on rich industrial democracies. Professor Pempel correctly argued that comparative political economists like myself almost never took Japan seriously and if we really wanted to test our arguments for their

generalizability, then Japan would be a good test case. Too much of our theorizing about comparative political economy, he argued, was based on the experience of too few countries. Frankly, he told me, most political economists are ‘Euro-centric’ – tending to see the whole world through an Anglo-European lens – and often unintentionally assume that all capitalist democracies were some version of the same basic political economic model.

I spent most of the next two years learning about, traveling to, and living in Japan. The more I learned about Japan, the more I realized that Pempel was right. To be sure, Japan has many of the same institutions as most other advanced capitalist democracies (regular elections, a capital market, free press, etc.). But as I looked closer, I came to see that how these institutions were constructed, how they function, and how they fit together is really quite different than in the US, for example. As I turned this logic back on myself, I soon realized that the differences in how these institutions evolved and functioned in Sweden was equally huge.

I soon came to realize, that I had expected rich democracies to react to the forces of globalization in similar ways because I assumed that all capitalist democracies are *essentially* the same. But, the closer I actually looked at these systems, the more I saw how different they were. Eventually, (perhaps I am just slow) this realization helped me solve my original puzzle. The straightforward explanation for why different political systems are adapting to the pressures of globalization in different ways is obvious: *They are different systems.*

The book you hold in your hands is my attempt to make some sense of the enormous complexity and diversity in the countries I studied. While the research was originally motivated by the desire to understand how these countries are adapting to ‘globalization’ the eventual book takes a long historical view on this question. Similarly, while tax policy clearly gets special attention in the analysis, the scope has broadened significantly. On the other hand, for reasons of space and intellectual limitations, I have decided not to bring the German case into the analysis.

In the comparative historical analysis that follows I construct what I call ‘evolutionary narratives’ which explore how each of these systems (Sweden, Japan and the United States) have evolved over time. I show that these different systems have evolved from quite different starting points (a.k.a. initial conditions) and that each has fit different niches in the global political economy over time. Instead of trying to explain away these differences because they make structured comparisons difficult, I emphasize them because they matter.

In the final analysis I have come to realize that I (like many political scientists) have tried so hard to find variables that are comparable that we sometimes forget some of the most obvious facts about the countries we study. In my case, my favored variables were institutions. I have emphasized their ‘structuring’ role in politics and history in many publications over the years. In the attempt to show the importance of institutions, however, I have either implicitly or explicitly denied or ignored some pretty obvious things about the countries that I wished to compare - such as their size, their

cultural homogeneity (or diversity), their geographic endowments, and even their political cultures (or norms, values and beliefs). It was not that I truly believed these things didn't matter. It was rather that I did not feel I could compare all these variables in a coherent scientific study: I worried that my analysis would be over-determined. But as I got further and further into this project – and once again, specifically because I was trying to understand Japan in comparison to the other countries – I have come to see that the differences between these countries *is* in fact over-determined. The problem was not the world; it was how we were trying to understand it.

The book that follows, then, does not attempt to hold some variables independent from others. Worse yet, in each of the narratives I emphasize different factors when trying to explain how each system evolved. This is simply because different factors mattered in each of these cases. I try to tell as coherent a story as I can in each case, and I have tried very hard to include as much detail as necessary to make sense of each narrative without overwhelming the reader with these details. But the truth is that I have left out far more than I have included.

So many people have helped me through this process that I do not know where to begin in thanking them. No matter what I say, I cannot hope to reveal the true depth of my gratitude to them. I first must thank the 260+ policy makers, academics and journalists who lent me their time and expertise and tolerated my naïve questions for the often lengthy in depth interviews they offered me. Next, deep gratitude goes to several former students and researchers at the University of Colorado who aided me at various stages of this project. Some of them might not even recognize this final manuscript. But special thanks go to Erin Anna, Alisun Chopel, Emma Lance, Lindsay Stone, Christopher Vockrodt, and Jason Jordan. As I have already suggested, understanding the Japanese case was certainly the biggest challenge for me. But I received extraordinary assistance, help and support from several academics including: Mari Miura, Takeshi Hieda, Toshi Shinkawa, Naohiko Jinno and T. J. Pempel. But I have to single out three colleagues who did far more than help me with my research in Japan; in rather profound ways they each took me as their student. Without Eisaku Ide, Taka Akaishi and Andrew DeWit this book and my basic understandings of how capitalist democracies actually work would have been very different.

Several colleagues have also read parts of or all of this manuscript and offered their advise, consultation and criticisms. While sometimes I wish that they had been more gentle, in the end this book is far better after their interventions. Bo Rothstein, Mark Blyth, Kathleen Thelen, Gus diZeriga, Jeppe Olessen and Orion Lewis gave me invaluable help improving and sharpening my arguments and in avoiding many a mistake. Certainly, many errors remain, but these are all my own. David McCourt is owed a special note of thanks for going over endless versions of this manuscript helping me make it far more readable and presentable than it ever would have been without him.

Chapter 1

Evolutionary Narratives

A GLOBAL STANDARD?

March 1, 2002. I had just arrived in Tokyo. Jet lagged, but thinking I should get oriented as soon as possible, I decided to attend a lecture entitled “Globalization and Corporate Governance,” presented by an American professor, Christina Ahmadjian, then teaching at a major private university in Japan (Ahmadjian 2002). In her lecture – which was attended by a large number of top corporate executives and academics – Professor Ahmadjian exhorted the Japanese to adjust to the new realities of globalized capitalism and adopt what she called “The Global Standard.” The Global Standard, she proceeded to explain, was used by the most successful companies in the world and differed from the standard governance practices in effect in most Japanese firms. Whereas Japanese firms were typically run in a manner similar to large hierarchical families, the Global Standard demanded greater separation and competition between the constituent parts of the firm, larger independence between financial interests and manufacturing interests, more flexibility in the labor market, and most importantly greater transparency in corporate governance decisions. Professor Ahmadjian’s major point was that the traditional “Japanese Model” firms needed to become more like American firms if they were to survive in the modern globalized economy.

I had heard versions of this argument before. Many had criticized Japanese firms for their lack of transparency, rigid employment ladders, and cozy relationships between financial institutions and borrowers. What I had not heard before – or at least not heard emphasized – was notion of a so-called “Global Standard.” The clear and unmistakable implication of Professor Ahmadjian’s lecture was that the new world economy demanded a particular structural response. In what appeared to be a strange reverse echo, I was now hearing the argument that Japan must copy America.

It is important to understand that Professor Ahmadjian was not a flag-waving American anxious to show up the once arrogant Japanese. Nor did she represent herself as a free market zealot from the American Enterprise Institute with the aim of spreading their version of truth, justice and the ‘Road to Freedom.’ Quite the contrary, Professor Ahmadjian was an extraordinarily well-informed expert on the Japanese economy and business structure. This was not merely Japan-bashing. Her

argument was more compelling: even if the Japanese Model had once been successful and highly productive, the key point is that it no longer fits the realities of modern capitalism and the new world economy. The globalization of capital and manufacturing *required* a specific response. The Global Standard was not better because it was American, she assured her audience, it was better because it fit the world in which we live today.

The more I thought about her point of view, the more I realized it was the same argument I had been hearing around the world over the past several years – with regard to tax policy, government regulation, public enterprise, social welfare policy and a range of other institutions built up over the past century in most democracies. These policies and institutions *may* have worked at one time and may have contributed to the enormous social and economic successes from which capitalist democracies have benefited over the past decades. But, perhaps sadly, the world had changed and they no longer work today. “There Is No Alternative,”¹ armies of economists, pundits and politicians assured us. If you don’t roll back the state you will suffer dire consequences! Vito Tanzi, former director of fiscal affairs at the IMF, stated the argument quite simply as follows:

[the] process of deep economic integration among countries will require a change in the role of the state in pursuing social protection. The end process would be a world where industrial countries will have to do less public spending, will reduce the use of tax expenditures for achieving particular social objectives, and will also have to reduce the role of specific socially-directed regulations (Tanzi 2002: 127).

In early 2009 – after the collapse of the world’s financial system, the massive increases in public spending and the apparent worldwide commitment to re-regulating not just the banking industry, but capitalism more generally – these neo-liberal arguments sound rather absurd. The *International Herald Tribune* reported from the *World Economic Forum* in Davos, Switzerland, that “we are seeing a paradigm shift towards a more European, a more social state.” (Bennhold 2009: 1). “We’re moving back towards a mixed economy,” said Daniel Yergin, chairman of Cambridge Energy Research Associates in Cambridge, Massachusetts, and the co-author of *The Commanding Heights*. Klaus Schwab, the founder and head of the World Economic Forum summed up the sentiment of the most powerful economic and political leaders in the world quite simply when he said, “The pendulum has swung and power has moved back to governments,” (Schwartz 2000).

Now the conventional wisdom appears to be that if governments don’t play a strong hand in the regulation of capitalism, the entire world economy will suffer dire consequences! One could get whiplash trying to keep up with the experts.

¹ The phrase “There is No Alternative” (or TINA) was of course first coined by Margaret Thatcher as justification for a wide range of market-liberal reforms her government introduced in the 1980s.

WHAT WENT WRONG?

I too was once convinced that the increased competition for capital, labor and knowledge in an ever more fluid and open world economy would have significant negative implications for many advanced welfare states. But by the end of the 1990s, it had become increasingly obvious that there was something wrong with the ‘end of the state’ argument. For some reason democratic countries were not cooperating with our theories. Globalization was supposed to undermine the welfare state, but if you looked at the actual behavior of most advanced countries it was difficult to find the so-called ‘race to the bottom.’ Well before the current financial crisis it became obvious to those who bothered to look at how rich democracies actually behaved that big governments were changing and adapting within the emerging world economy, but they were not dying.

I do not mean to suggest that increased capital mobility, or the intense trade competition from industrializing countries, does not matter. In the early years of the 21st century, such an argument would clearly be equally absurd. But what we do *not* see is a singular pattern. Indeed, in many ways what is most interesting today is the diversity of responses to the apparently common economic pressures and threats. As Pierson summarized in his excellent volume, “*In short, there is not a single ‘new politics’ of the welfare state, but different politics in different configurations*” (Pierson 2001a: 455, emphasis in original).² Rather than seeing a common or single response to what appear to be common pressures, students of advanced welfare states have observed a diversity of responses.

My aim is to explain *why* we see such diversity.

The book that follows tells three stories of three different nations – Sweden, Japan and the United States of America. I explore how and why these individual countries are reacting or responding to the pressures they face at the beginning of the new millennium and why they are reacting in such different ways. I treat each individual case separately and through each historical analysis I also try to shed light on the evolution of modern capitalism. I believe that we can learn a great deal both about these individual countries and the context in which they each ‘grew up’ through a careful comparison of their life histories. I call these analyses “evolutionary narratives.”

I will show that each country has evolved within a broadly common macro-economic context – but also, importantly, that context has itself evolved over time. I will also argue that each country has *always* fit into different niches within the world economy and that each has also always been quite different from the others. These narratives, then, emphasize the unique or particular features of each of these systems – its geography, its political and economic institutions as well as its social structure. I treat each case as an individual – rather than as member of a class – in order to better understand how and why each has evolved so differently.

Imagine you wished to compare how different specific people were responding or reacting to the current economic crisis (housing foreclosures, growing unemployment, etc.). There are at least

² Castles argued similarly, “Diverse welfare states will face diverse dilemmas” Castles, 2004.

two approaches one could pursue. One approach (lets call it ‘comparative statics’) would be to try to predict how these people behave by placing them each in different categories and then examine how these categories are responding to these economic forces. From the behavior of the broad class or category you could likely infer the behavior of the individuals you are interested in. Another approach (we’ll call this an evolutionary narrative) would look at these individuals *as individuals* to try to understand how they are reacting to the current crisis. In this case we would try to explore each person’s particular life history and then understand how this history has shaped this person as an individual.

Each of these two approaches might teach us different things about these individuals, about the effects of the economic crisis on citizens and about how certain types or classes of individual are generally different from other types of individuals. But if we are interested in understanding how person X is dealing with the current crisis and/or how person Y is reacting, then I submit that the second approach is particularly useful. In this case we would want to know a great deal about the individual *and* the context in which he or she grew up.

The book that follows, then, offers three evolutionary narratives of three quite different modern industrial democracies. I believe we can learn a great deal about these countries today through these narratives. I further believe we can learn a great deal about the evolution of democratic capitalism generally through these comparative narratives.³

I call these evolutionary narratives because I believe we can best understand the patterns we observe in these countries if we consider them as *evolving systems*. There are two related points here: First, I believe that we gain substantial insights into these countries’ patterns of development when we consider them as *systems*, secondly, these systems *evolve*. Throughout this volume I draw insights from evolutionary theorists from a variety of disciplines and apply them in my exploration of these national systems.⁴ I also draw from contributions of a diverse set of *system theorists* who likewise

³ The fact is that there are not enough cases of advanced industrial nations to do much meaningful comparative statistical analysis. Even if we were to assume that all rich OECD countries were alike (which they are clearly not) 18 is an insufficient number of cases. If we want to examine countries as different as the USA and Japan this problem is exacerbated. If we had several hundred cases of new nations that expanded across a continent as millions of foreigners flocked to the most resource rich geographic area in the entire world, and which then dominated the world militarily, economically, and culturally for most of the 20th century – then treating the United States as a case among many similar cases would make a great deal of sense. But the obvious truth is that there is only one country in the world that is like the USA in terms of its geographic endowment, its population, and its position in the world economy. Perhaps one might argue that Australia, or for that matter Brazil, due to their geographic size, natural resource endowment and inflow of immigrants are similar to the US. This would indeed be a very interesting comparison to make. Since this still a very small number of cases, I would suggest that an evolutionary narrative approach would be a very useful way of exploring both what is different and what is similar about these countries and their developmental paths. I can make the same point about Japan that was transformed into a democratic capitalist nation at the end of WWII after having had two nuclear bombs dropped on its cities. I will examine some similarities and differences between the Japanese case and the German case in the conclusion of this book.

⁴ Perhaps the most influential evolutionary theorist for this analysis has been Ernst Mayr who was widely considered one of the great philosophers of evolutionary biology until his death in 2005. For an outstanding introduction to evolutionary theory see his marvelous book, *What Evolution Is*, Mayr, 2001 but see also, Mayr, 1982, Mayr, 1988, Mayr, 1991. The philosopher, Daniel Dennett has also been particularly influential in my thinking in this regard, see especially his, *Darwin’s Dangerous Idea*, Dennett, 1995. Other ‘evolutionists’ who have especially influential for the following work include biologists, Steven J. Gould, Gould, 1989, Gould, 2002 and Richard Lewontin, Lewontin, 2000; zoologist/primate anthropologist Robin Dunbar, Dunbar, 1996; psychologist Leda Cosmides, Cosmides and Tooby, 1997; economists, Richard

come from a variety of disciplines including economics, biology, computer sciences, and even political science and explore the effects, implications and ontological assumptions of complexity and emergence.⁵

The remainder of this introductory chapter outlines the move to evolutionary narratives as an approach to the study of political systems. I first argue that the diversity of states in the global economy necessitates their being considered as separate systems within a large global system. I then suggest that we can be helped in this by taking evolution seriously. Evolution is often implicitly invoked in political science, but rarely as a body of theory. However, I argue that this body of thought has a good deal to say about the changes of sub-systems within larger systems, and that we in comparative politics have a great deal to learn from it. In fact, in the third part of the chapter I show that historical institutionalists have anticipated many of the moves I want to make in this book concerning evolution: by bringing in notions such as “path dependence” and by acknowledging that time matters, scholars have moved towards a more complex picture of the world, both in space and time, one that often has striking resemblances to an evolutionary system. This book takes the next step by showing how it has been evolution that historical institutionalists, including myself, have been anticipating. The next task is to turn to the cases, and I offer a very general overview of each system before a short conclusion wraps up the chapter.

POLITICAL SCIENCE

*“I was equally disappointed by the traditional philosophy of science, which was all based on logic, mathematics, and the physical sciences, and had adopted Descartes’ conclusion that an organism was nothing but a machine. This Cartesianism left me completely dissatisfied...Where else could I turn?”
Ernst Mayr⁶*

Perhaps, if you were not an economist or a political scientist, it would not surprise you that rich countries are adapting in different ways to the challenges they face in the early 21st century. But it did surprise me – and most of my colleagues as well. The question is: Why?

I believe that the answer to this question lies in the kind of scientific paradigm that ‘political science’ has increasingly tried to model. In the effort to be more “scientific,” political science has attempted to become more formal and structured: The desire for methodological sophistication has pushed scholars towards quantifying the units of the analysis, isolating these variables and then

Nelson and Sidney Winter, Nelson and Winter, 2002 as well as Hodgson, 2002 and the anthropologist team of Robert Boyd and Jeremy Richersson, Boyd and Richersson, 2000, Richerson and Boyd, 2005.

⁵ Axelrod and Cohen, 2000, Beinhocker, 2006, Hoffman and Riley, 1999, Holland, 1992, Jervis, 1997, LaPorte, 1975, Lustick, 2005, Sawyer, 2005, Wimmer, 2006.

⁶ Mayr, 2004b

holding them constant in order that their independent effects can be measured. This desire for methodological and analytic sophistication has certainly produced a large number of useful findings. The problem is that as we have developed ever more sophisticated comparative statics we have inadvertently built scientific models that are out of sync with the way the world actually works. Politics is not chemistry or physics, but too often we treat political and economic systems as if they are made up of sets of chemical reactions or physical relationships. In the desire to become a *predictive* science we look for linear relationships between independent variables even when we know that these variables are interdependent and non-linear, we invent equilibrium where none is to be found, and we assume things about human nature and motivation that no one really believes are true.⁷

Indeed, at the heart of many of the deepest and most difficult battles inside political science is a fundamental struggle over the meaning and methods of ‘science.’ For many, “science” is the search for systematic regularities and generalizable laws. On this view, one studies the empirical world only because it offers the evidence that can be used to build and test theory. Particular cases or specific events may be interesting – just as a good novel is interesting – but the goal of political science is not to understand any particular event, it is instead to build theories that can be used to explain many (or even all) events. Morris Fiorina describes his scientific orientation in the following way, “[we are] not as interested in a comprehensive understanding of some real institution or historical phenomenon, so much as in a deeper understanding of some theoretical principle or logic... [F]or most PTI (Positive Political Theory) scholars, breadth trumps depth; understanding 90 percent of the variance in one case is not as significant an achievement as understanding 10 percent of each of nine cases, especially if the cases vary across time and place” (Fiorina 1995:110-111).

“[T]he role of comparative research in the process of theory-building and theory-testing” Przeworski and Tuene advise us in their classic text, “consists of replacing the proper names of social systems by the relevant variables,” (Przeworski and Teune 1970). Along similar lines Lijphardt instructs: “methods aim at scientific explanation, which consists of two basic elements: (1) the establishment of general empirical relationships among two or more variables, while (2) all other variables are controlled, that is, held constant. These two elements are inseparable: one cannot be sure that a relationship is a true one unless the influence of other variables is controlled. The *ceteris paribus* condition is vital to empirical generalizations” (Lijphardt 1971).

On this view there is “A” or “The” Scientific Method that all good scientists should follow. This method is based on a basic understanding of how the world works which indirectly at least is based on a kind of Newtonian physics. It assumes that even if the world is complex, it can be

⁷ In their very popular text, *Research Methods in Social Science*, Nachmias-Frankfort and Nachmias argue as follows: “The ultimate goal of the social sciences is to produce an accumulating body of reliable knowledge. Such knowledge would enable us to *explain, predict* and *understand* empirical phenomena that interest us.” Frankfort-Nachmias and Nachmias, 2008. Later in their introduction they tell us: “Deductive and probabilistic explanations are essential components of scientific knowledge. **Prediction** constitutes another. In fact,” they exhort their readers, “the ability to make predictions is regarded as the outstanding characteristic of science” (emphasis in original, p. 9).

understood and explained by breaking this complexity into discrete causal units or variables and then examines the independent effects of one variable on others.

At first blush this logic appears to make perfect sense. After all, physical phenomenon and chemical reactions are very complex. By following 'The Scientific Method,' chemists and physicists have made incredible discoveries and found predictive laws from which they have been able to create antibiotics and even send men to the moon. Surely, social and political life is complex, but if we follow the same scientific methods we may one day be able to discover the laws that underlie social and political life and then be able to uncover the Laws of Politics from which we can then cure social ills like poverty and injustice?

The problem with this interpretation of science, in my view at least, is that it assumes the social world works according to the same kind of laws and principles as the physical world. Frankly, I do not think that it does. I agree with Peter Hall when he argues that "a substantial gap has opened up in mainstream comparative politics between the methodologies popular today and the ontologies the field is now embracing." (Hall 2003:374). Quite simply, we increasingly have tried to understand the world as if it was made up of discrete, stable and independent units (or variables) when in reality we know that human history is the product of complex, dynamic and interdependent processes. In other words, while most people (including political scientists away from the day jobs) see the world as enormously complex and understand history to be a series of contingent events, political science, and economics, as disciplines increasingly "envision(s) a world of linear relationships among variables, parity in the size of cause and effect, recurrent patterns over time, and the fundamental insignificance of chance happenings" (Zuckerman 1997: 285).

POLITICS AS EVOLUTION

When asked whether or not the adaptationist program is a legitimate scientific approach, one must realize that the method of evolutionary biology is in some ways quite different from that of the physical sciences. Although evolutionary phenomena are subject to universal laws, as are most phenomena in the physical sciences, the explanation of a particular evolutionary phenomenon can be given only as a 'historical narrative.' Consequently, when one attempts to explain the features of something that is the product of evolution, one must attempt to reconstruct the evolutionary history of this feature (Mayr 1988).

Social scientists frequently use the term 'evolution' when they talk about politics and history. But in most cases all that is really meant by this term is that history is a linked chain of events. I submit that we can be more explicit in our understanding of the ways in which human social institutions evolve and that we can draw lessons from those who have studied evolutionary processes in other disciplines are far ranging as anthropology, linguistics, psychology, economics and even

biology. *I do not mean to suggest that the mechanisms driving the evolution of human institutions are exactly as they are for biological or linguistic evolution.* But I do believe that several of the concepts and ideas learned in the study of evolutionary processes in different arenas can be helpful for us as we try to understand the evolution of social institutions.

Allow me to explore this argument by way of another metaphor from outside politics: Consider the implications of global warming on similar species in different continents. A rise in the earth's temperature of, let's say, three degrees, will have enormous implications for virtually all life on earth. But this does not suggest that all animals – or even all populations of a particular species – will adapt in the same way. For example, would we expect all mammals to lose their hair? Obviously not.

There are two reasons we would not expect biological convergence even in response to a change like global warming. First, even if the overall temperature of the world were to increase, it is perfectly clear to climatologists that the mean temperature will not increase to the same degree on all parts of the globe. In fact, it appears quite likely that warming will melt the polar ice caps, which will have a significant effect on the flow of the Gulf Stream along the northern European coastline. It is therefore quite likely that Europe will become much *colder* if 'global warming' continues. Therefore, the creatures that live there (including humans) will not only have to adapt to rising sea levels, but will also have to adapt to longer and colder winters.

Secondly, even in geographical areas where the average temperature may increase in similar ways (say North America and Africa) this rising temperature would not necessarily force a common evolutionary adaptation from even similar sub-species. Let me demonstrate with a fanciful illustration: Squirrels are found in many parts of the world. These animals can often look very similar. But over the years these populations have evolved in somewhat different ways as they have adapted to their particular ecologies. Therefore, even if temperatures were to rise in equal measures in Africa and North America, the evolutionary responses of African Ground Squirrels and American Grey Squirrels are likely to be quite different. This is because each of these similar species has already adapted to their own particular ecologies in quite different ways – setting them on rather different evolutionary trajectories as they continue to adapt to their now warmer ecological context. In one case, this general ecological change could create opportunities for expansion of terrain and further evolutionary adaptation. In another case, global warming would likely invoke very different adaptive responses – potentially even mass extinction.

I submit that the huge changes we are witnessing in the world economy (a.k.a. globalization) may have effects on advanced welfare states something analogous to the effects of global warming on similar biological species. There is no question that all countries are in the process of adapting to this new economic (ecological) context. But this does not suggest that all countries will – or can – adapt in the same ways, or that the consequences of these adaptations will be similar across the world.

Evolutionary theory adopts a different scientific ontology than that commonly found in

physics or chemistry. At the root of evolutionary biology is the assumption that the objects of analysis—living organisms—are fundamentally different than inanimate matter. Thus, as Ernst Mayr points out, “this required a restructuring of the conceptual world of science that was far more fundamental than anyone had imagined at the time” (Mayr 2004a: 26). I submit that social systems—the object of analysis in political science—are also fundamentally different from inanimate matter. Like living organisms, they change, adapt and evolve.

From an evolutionary perspective outcomes are rarely the product of discrete variables operating independently on one another in predictable and repeatable ways. This is first because evolutionary theory assumes *complex causation* and is the study of “*complex adaptive systems*” (Holland 1992). This means more than simply things are complex. Instead it accepts that many outcomes are the result of *emergent* phenomena. What this means is that complex phenomena are often the result a series of unguided interactions at the micro-level and that the outcomes may be unique to the particular interaction. Just as genes at the micro-level interact to form a unique individual, individuals within a social system interact with one another within a population. The character of the whole population, then, is distinct from a simple aggregation of the constituent units. Thus, interaction is the key aspect of an emergent system, which implies that isolating factors as “independent” variables may be an ontological fallacy.

A second key ontological implication of evolutionary theory is that different factors will matter in different cases. A key problem for traditional Newtonian political science is that it wants to equalize all variables into comparable constants – to treat national variation as an error term. *An evolutionary theory allows us to accept the fact that different variables matter in different contexts.* Evolutionary theory does not assume constancy of variables and therefore similar variables can have very different effects in different contexts. (Recall the analogy of global warming above.) In the pages below for example, I will argue that the fact that Sweden had a small and homogenous population in the mid 20th century mattered greatly in the construction of its particular form of welfare state. This does not imply that population size matters so much today, but at critical moments it mattered a great deal. At some level this seems rather obvious, but virtually all analysts of the Swedish welfare state either dismiss or ignore this factor because it mattered only in a particular time in Swedish history, or because not all similarly small homogeneous countries developed Swedish style welfare states.⁸ Another example of the role particular events or variables play in specific cases is the

⁸ In my own earlier efforts to show the power of institutional variation for explaining the American and the Swedish cases, I under-valued – and even argued against – the point that Sweden is different because it is a small homogenous polity and/or that America was different because of its history of slavery and racism. See Steinmo, 1993, Steinmo, 1995. Of course the truth is that slavery and racism have mattered enormously in the American story, whereas the fact that most Swedes could feel that other Swedes were similar to themselves does matter for the Swedish story. But admitting this does not force me now to say, that institutions do not matter, or for that matter that the particular timing of industrialization does not matter for these countries particular developmental paths. The simple reality is that lots of things matter, and different things matter in different cases. Polities, in this sense, are a lot like human beings: the fact that you are reading this book suggests that you are probably well-educated, upper middle class and interested in comparative politics. That (hopefully) means that you are like a lot of other people. But does this suggest that you are exactly like all the other

impact race and slavery have had on the development of the United States of America. The US is the only rich modern democratic country that allowed for slavery *while* it called itself a democracy, and the only democratic country that intentionally discriminated against the voting rights of a particular racial group well into the later half of the 20th century. Whereas a ‘comparative statics’ analysis would have to discount or ignore these facts (because the US was unique in these regards) an evolutionary narrative would have to integrate them into the analysis. Instead of trying to discount or remove race as a variable when trying to explain American public policy, an evolutionary analysis specifically will attempt to show how and why race does matter for the development of the unique American welfare state. Instead of trying to explain away these variables (or treat them as ‘error terms’ to be ignored), we are able to acknowledge them and integrate the unique features of particular cases into the explanation for that case. As I show in the empirical chapters of this book, the evolutionary narrative thus allows us to look at *both* the unique features of a particular case and simultaneously search for the common factors that have shaped development in different places.

Evolutionary scientists admit that really important events are impossible to predict. Predictions can only be proximate and probabilistic *not* because we lack the tools, models, data sets or computing power, but rather that because of contingency, and the complex interaction of *interdependent* variables over time. In history, variables themselves change, adapt and are affected by history itself. Prediction requires linear analysis of variables that react to one another in predictable ways. For many, if not most, political scientists, such analysis denies the realities of the world we live in.⁹ Again we see that the study of evolution is not, and cannot be, ‘like physics’ because what we study and what we are interested in explaining are not inanimate objects to which absolute, invariant, and fixed laws apply.

Rather than predict the future, the goal of evolutionary scientists is to understand the forces and dynamics that have shaped the world as we know it. Specifically they are interested in understanding how and why populations adapt, prosper, and sometimes die out. In other words, why is there variation across time and space? They do this inductively rather than deductively. Evolutionary biologists, for example, do not have the goal of being able to predict future evolutionary adaptations, not because they do not have enough data, nor because their computer models are not powerful enough, but because evolutionary theory assumes that random variation within complex systems can set development along totally new and unpredictable paths.¹⁰ Moreover, some adaptations

people reading this book? Or that the unique features of your own personal story do not really matter for an explanation for who you are, or what you brought you to this book?

⁹ For example in basic statistical analysis it is common to tell students that they must watch for multi-co linearity and that they must be careful to only examine questions in which the multiple variables in an equation can be separately identified. This is not because this is the way the real world works, but rather because unless one takes these precautions the statistical inferences drawn are methodologically invalid. The problem, of course, is that the method we use can too easily define the questions we ask.

¹⁰ There is a huge literature dealing with these puzzles some interesting examples include: Futuyma and Slatkin, 1983, Hoffman and Riley, 1999, Holland, 1992, Jervis, 1997, Kerr, 2002, Mayr, 1988, Pierson, 2000, Ridley, 2003, Zimmer,

that work in one setting can be disastrous in others. For example, one continent might have many marsupials, and another none. For these reasons, evolutionary scientists are necessarily engaged in path analysis and process tracing. They are interested in both explaining adaptations and understanding the consequences of those adaptations.

This epistemological framework might raise a number of objections from social scientists accustomed to standards of science derived from physics. For example, if explanations are constructed post-hoc and cannot be falsified via experimentation, then how can they be falsified? Although falsification might be a worthy goal in some arenas, the simple fact is that some research questions defy these standard models of scientific study. Once again, given a macro-level emphasis on the interaction of complex systems, it is impossible to reduce these events to basic covering laws.¹¹ This may explain why Popper himself came to question the utility of reductionism arguing that “as a philosophy, reductionism is a failure...we live in a universe of emergent novelty; of a novelty which, as a rule, is not completely reducible to any of the preceding stages.”¹²

In sum, evolutionary theory thus offers a distinctive approach to the study of politics and history. Instead of attempting to reduce complex phenomenon into constituent units and examine these units as independent variables, it takes a systems approach and argues that not all outcomes are reducible. Secondly, evolutionary theory takes history seriously meaning that *when* and *where* something occurs can fundamentally shape what occurs. Finally evolutionary theory takes contingency seriously. Random, unforeseeable, and emergent events can have fundamentally important consequences (Gould 2002).

In contrast to a mechanical view of human history is to see history as an evolutionary process of adaptation. Taking this view, however, implies acknowledging that: 1) History is not a linear process; 2) chance, or ‘contingency,’ matters; 3) outcomes are often the product of emergent processes and therefore cannot always be simply reduced to, and understood in terms of, their constituent parts; and 4) there are *interdependent* and iterative relationships between important causal variables.

It seems to me that our explanations for politics and history that accept these realities are more likely to be useful than a science that assumes that history works like gravity.

EVOLUTIONARY THEORY AND HISTORICAL INSTITUTIONALISM

“We need more studies of policy evolution over time...” Peter Hall.

As implied above, this analysis fits squarely within the tradition of Historical Institutionalism. In my view, Historical Institutionalists are in a sense like environmental biologists who believe that in

2001.

¹¹ Reductionism may be applied to functional biology that focuses on proximate causes.

¹² Quoted in, Mayer, Ernst (2004). p79.

order to understand the specific fate of a particular organism or behaviour, one must explicitly examine that organism or behaviour in the ecology or context in which it lives. In trying to understand historically specific events and long-term political outcomes, we cannot strictly apply methods and epistemologies drawn from the study of invariant variables that have fixed relationships across space and time. This, of course, does not mean that it is not science – unless one’s definition of science would exclude biology, linguistics, anthropology and computer sciences as well – rather, it implies that the scientific methods applied should fit the subject being studied.

For evolutionary theorists and historical institutionalists alike, history is not simply a chain of independent events. Historical institutionalists study history because it shapes later outcomes not merely to increase the reference points for analysis as is done in time series analysis. Taking evolution seriously ultimately means that the scholar is sceptical of the very notion of variable independence. Instead, acknowledging the importance of history suggests an explicit awareness that historical changes have important long-term evolutionary consequences. More than some other disciplines, historical institutionalists are explicitly interested in the interactive effects of multiple causal variables.

In each chapter that follows we will see many examples of evolutionary patterns that are commonly understood in a variety of domains. Many political scientists will be familiar with these ideas, if not necessarily the terms. For example I suggest that the merging of different institutional forms together is a kind of *symbiogenesis* – a pattern well understood in the world of viral and microbial evolution. The most obvious case of this pattern is seen in the Japanese case after WWII in which traditional social institutions were forged with more western (or modern) political institutions in a process which created a new kind of hybrid. Similarly we will see many examples of what Kathy Thelen and Wolfgang Streeck have called institutional layering, (where institutions adapt to new circumstances to take on new functions), in evolutionary theory this the well known process of *exaptation*.¹³ Finally, I repeatedly emphasize the co-evolution of social, economic and political institutions. In systems there are always processes of co-evolution ongoing precisely because the various subsystems are interconnected and inter-related. This helps explain why both institutional and biological change is sometimes quite slow and quite rapid in other contexts.

I strongly believe that institutionalist approaches have offered very important insights that help us better understand politics and public policy. Historical institutionalists in particular have helped us answer very important questions such as: Why are labor unions stronger in some countries than others (Rothstein 1992)? Why do national health care systems vary in the ways they do (Immergut 1992)? Why are taxes so low in the United States (Steinmo 1995)? Why are social welfare systems so hard to reform (Pierson 2001b)? And even, why some economic ideas have such

¹³ See Ehrlich, 2000 and also Gould, 2002. Wolfgang Streeck specifically suggests that his and Thelen’s ideas on adaption were drawn from biological evolutionary theory. “ Basically what we did was introduce into historical institutionalism a model of *imperfect reproduction*, similar to received models of change in evolutionary biology Streeck, 2009 emphasis in original.

powerful influences over policy makers at particular moments in history (Blyth 2002; Hall 1989)? In each case the key insights are that institutions shape actor's strategic choices, and over time also affect their preferences. Because actors know that institutions structure politics actors fight about the structure of institutions. They are thus both the products of political action and the context in which politics takes place.

As important as these insights are, Institutionalism has struggled with three important lacunae: 1) Institutionalists have difficulty explaining political change (Campbell 2004; Thelen 2003); 2) institutional analyses emphasize structure over human preferences and agency (Katznelson and Weingast 2005; Mahoney and Thelen 2008); and 3) institutional analyses tend to undervalue the ways in which institutions themselves are effected by the political or historical context in which they operate (Steinmo 2008).

I believe that these lacunae can be addressed by pushing historical institutionalism in the direction of evolutionary theory and by treating human social institutions as complex adaptive systems. I further believe that if there is a theory that encompasses the insights offered by institutionalists, it is evolutionary theory.¹⁴

Evolutionary theory *is* a theory of change. Instead of seeing history as lurching between different equilibrium, evolutionists see history as a continuous adaptive process. In other words, the natural world (and in this I include human societies) is always changing. Evolutionary theorists see adaptation as an interactive, interdependent and ongoing process between the individual, the population and the broader environment or ecology. Whereas many institutionalists try to understand social institutions as equilibrium (or static arrangements made between individuals) from an evolutionary perspective current institutional arrangements are always adapting and changing because they are part of the changing environmental context in which they operate. A fundamental argument of the book that follows is that capitalism itself is evolving and therefore the political economies of the nations I study here are also constantly changing. The related point, of course, is that the changes in these countries political economies also concurrently shape the evolution of capitalism itself. The recent crisis of global capitalism is only the current iteration of this dynamic.

In sum, taking an evolutionary approach to the study of human social institutions puts change at the center of the analysis. Secondly, instead of reifying institutional structure over human agency the evolutionary approach explicitly integrates human ideas, creativity and choice into the understanding of political change. Finally, the evolutionary approach explicitly places the institutions themselves in their historical and ecological context.

It is obvious to me that many of these specific insights and arguments about institutional change, humans as social creatures, the role of ideas and the importance of environmental context

¹⁴ Thelen and I argued in *Structuring Politics* that historical institutionalism is an *approach* to the study of politics and *not* a theory. Some might argue that we do not need grand theories (indeed, I've made this argument in the past myself), instead we should be satisfied with proximate explanations or 'meso-level' analysis. See also Steinmo, 2008.

have been made by other scholars – particularly historical institutionalists. I am not trying to reinvent the wheel here. But as far as I am aware, at least, none have pulled these insights into an integrated whole. Doing so, I argue, moves us towards an evolutionary theory of institutional change.

IS EVOLUTION PROGRESSIVE? A NOTE ON COMMON MISPERCEPTIONS

The term evolution is often used in the social sciences when people simply mean ‘change.’ When one begins to take the term more seriously and especially when one attempts to use specific concepts drawn from evolutionary theory to help understand or explain human social events, many scholars get nervous. Sociologist Herbert Spencer’s term “survival of the fittest”, after all, has been used to justify some of the most heinous acts of social/biological engineering from the Nazi ethnic cleansing to the eugenics policies in Sweden and America (King 2000). It is important to understand, however, that these interpretations of Darwinian theories were the products of significant *misunderstandings* of evolutionary thought.¹⁵ Neither Darwin nor any serious student of evolution today believes that evolution is progressive in any normative sense. One can think of evolution as progressive only in the sense that one thing evolves out of its antecedents, but no normative implications should be drawn from this, nor can one predict that any particular evolutionary development will necessarily lead to an adaptive advantage in the future. For example, it is common for evolutionary changes to lead to increased complexity, but it is also possible that increased complexity carries with it its own competitive disadvantages. Both biological and human history is littered with evolutionary adaptations that proved to be dead ends.

This is an extremely important point. *Evolution and evolutionary narratives are not teleological.* Ever since Darwin first published his famous, *On the Origin of Species*, many have incorrectly assumed that he understood evolution in teleological terms. But once again, this was a fundamental misunderstanding of evolutionary theory. As Mayr points out:

Perhaps such an interpretation was not altogether unreasonable in the framework of the Lamarckian transformational paradigm. It is no longer a reasonable view when one fully appreciates the variational nature of Darwinian evolution, which has no ultimate goal and which, so to speak starts anew in every generation... considering how often natural selection leads to fatal ends and considering how often during evolution its premium changes, resulting in an irregular zig zag movement of the evolutionary change, it would seem singularly inappropriate to use the designation teleological. To be sure natural selection is an optimizing process, but it has no definite goal, and considering the number of constraints and the frequency of chance events, it would be most misleading to call it teleological. Nor is any improvement in adaptation a teleological process, since it is strictly a *post hoc* decision whether a given evolutionary change qualifies as a contribution to adaptedness (Mayr 1992: 132).

Over the following pages we will see that each of the systems explored here have had within them different competitive advantages and disadvantages. This is partially because they are complex systems, but also because each system retains elements evolved in a bygone era. Only thirty years

¹⁵ Indeed, early modernization theory in political science was the product of the misunderstanding of evolutionary theory Eisenstadt, 2006.

ago, it appeared, for example that the Japanese model of coordinated capitalism would surely out-compete the more liberal models of the west. Similarly in the decade or so before the massive economic collapse of 2009—it appeared to many that the hyper-liberal, deregulated economic system developing in the USA would out compete more regulated and socially oriented systems of Europe in a classical ‘survival of the fittest’ fashion. Needless to say, this argument no longer seems so obvious.

THE CASES: THREE SYSTEMS

In the following chapters I examine the structure and evolution of three different capitalist democracies. I will argue that while each is populated by many similar institutions, in fact they are very different systems. One might even say that the puzzle is: why would countries as different as Sweden, Japan, and the US have *anything* in common?¹⁶ After all, Sweden is a large country with a tiny population on the northern boarder of the complex, and historically warring, European peninsula. Japan in contrast, is a resource poor, densely populated, and geographically isolated island that only came into contact with the western world in the late 1800s. Finally, the United States of America – a continental country – has been the dominant political economy on the earth for almost a century. This country occupies most of a huge and resource-rich continent and has been the prime destination for immigrants, capital and ideas from around the world, and has also explicitly and implicitly attempted to use its power to shape the world that it dominates.

Still, these very different nations share a large number of features: They are all democracies with regular elections, freedom of the press, the rule of law, and a wide range of individual liberties. They have market-based economies, with relatively free capital markets, stock exchanges, and strong commitments to private property. In each case their governments intervene and regulate private affairs, tax companies and citizens through the same set of tax instruments and provides a remarkably consistent set of public programs and social services for its citizens – from old age care and pensions, to unemployment insurance, to support for the needy, and systems of higher education. Here I give a brief overview of their political economies.

Sweden: *How does a bumble-bee fly?*

¹⁶ I am reminded here of a brief argument I had with Ray Wolfinger, one of my professors at UC Berkeley in the early 1980s, when I told him I wanted to write a dissertation on the development of tax systems in Sweden, Britain and the United States. Wolfinger flatly stated “that is a bad idea.” “Why,” I asked? He rather sympathetically told me, “Look, less than 10 million people live in Sweden and there are over 250 million Americans. You simply can’t compare these two countries.” I (rather cleverly, I thought) rejoined, “You just compared them, and if the size of the country is the most important thing that separates them, then I think that is worth knowing!” The truth, however, is that I did not take this rather fundamental and obvious insight seriously in my subsequent dissertation or the book that followed. I was too busy trying to show that all the important action was in the institutions. The fact that the institutions were built in a very particular society, was something that I simply ignored.

Sweden has been the focus of a great deal of academic interest for a number of years for the simple reason that according to traditional economic analyses it should not be able to survive. Sweden has the heaviest tax burden, the most generous social welfare system and is the most egalitarian society in the world. At the same time, it is a highly productive and technologically advanced economy, home to some of the world's most successful capitalist enterprises and enjoys one of the highest standards of living in the world. Quite simply, these things are not supposed to go together and, like the bumble-bee, Sweden should not really be able to 'fly.' Yet, somehow it does.

Following many others, I characterize this system as having a social-liberal economic system and a "universalist" welfare state. Very briefly, some of the most distinctive features of the Swedish system are:

- High levels of income equality;
- Universalist social welfare and tax policies;
- High levels of union organization and economic concentration;
- Long history of labor/capital peace and cooperation;
- Highest taxes in the world;
- Highest level of social spending in the world;
- High levels of gender equality.

The reader will see in the following chapter that Sweden has been remarkably successful at adapting to changes in the world economy as well as social changes within its own society while maintaining a commitment to a progressive welfare state and egalitarian society. Instead of trying to ignore that fact that Sweden is a small, historically homogenous nation on the northern periphery of Europe, this analysis shows how these factors offered this country several adaptive advantages. Late development, combined with a specific mixture of natural resources led to the rapid takeoff of the steel industry. Her geographic position, combined with the country's particular resources allowed Sweden to remain neutral during both major world wars. In the process a – a *symbiotic relationship* between organizations representing capital and labor emerged as Sweden struggled to compete in the highly competitive world economy. The result, as many social scientists have noted, was that a dynamic process of *Increasing Returns* (Arthur 1994) developed in which labor, capital and the state found mechanisms for mutual cooperation and advantage. The result has been a remarkably adaptive and flexible system which apparently can not only fly, but seems to manage the task quite well.

Japanese: *A Hybrid Struggling to Adapt*

Japan was once thought of as the dominant alternative to American 'free market' capitalism. This country grew out of the rubble of World War II and became the world's second largest and most

productive economy in less than forty years. This system can be understood as a kind of hybrid in which liberal capitalist and democratic institutions imposed on Japan after WWII were adapted to social and economic system based on more traditional forms of authority and hierarchy. The result was what I call a type of institutional *symbiogenesis*.¹⁷ The system was characterized by high levels of inter-group social trust and deference to authority that facilitated the evolution of a highly cooperative and competitive political economy. I argue that this unusual fusion of social, economic and political institutions created a new kind of capitalist democracy that appeared to work very well for at least the next fifty years.

Indeed, by the 1980s many predicted that Japan would soon dominate the world. Clearly these predictions were off the mark. Instead, the collapse of a property market bubble introduced enormous self-doubt and eventually a series of policies that have worked to eat away at the very foundations of the system itself. Today, Japan finds itself in a situation where it has tried to copy many liberal policy ideas from the West, but has not been able to adapt to the normative or social changes that are concomitants of these ideas. Japan remains a remarkably traditional society in terms of social and gender relations for example, but seems to be abandoning the social-welfare institutions that helped this system work. The result seems to be an awkward fit in which Japan is struggling to adapt.

Some of the key distinguishing characteristics of the Japanese system include:

- Very low taxes and small public welfare state;
- Employer based welfare state;
- A comparatively traditional and hierarchical society;
- Strong central bureaucracy and weak democratic/ representative institutions;
- The Left/Right ideological divide has almost no relevance to Japanese politics.

Today, social, demographic, and economic pressures are impinging on the Japanese system in profound ways: The central bureaucracy is in retreat, confidence in the public sector is almost absent, social values are modernizing, and Japan's aging society is creating massive pressures for increases in social spending and the tax increases they require. How this country adapts to these intense pressures while its democratic institutions are so embattled and weak is the key issue facing Japan today.

The USA: *Strong Nation, Weak State*

The United States of America has dominated the world economically, politically and

¹⁷ Symbiogenesis is one of the major forms of speciation in the world, but is not often discussed in evolutionary theory – even if it is widely understood to be the most common mechanism of evolutionary change in the microbial and sub-microbial world. Sapp, following Margolis, argues that symbiogenesis is certainly as important a source of variation of life as classical Darwinian 'descent with modification' Sapp, 2003.

ideologically for most of the past century. I argue that this unique system has benefited enormously from the massive resource wealth into which the American polity expanded. Liberal ideas and institutions emerging in Europe in 18th century found very fertile soil in the new continent. In this case we find a kind of *allopatric* evolution¹⁸ a population carrying egalitarian and liberal ideas move into a new geographic space where they found enormous resources and comparatively weak competitors. In this context we see the co-evolution of ideas about limited public authority, a particular individualistic and entrepreneurial ethic. Public authority was institutionally limited and consequentially the private sector was able to take advantage of the phenomenal resources available and develop the strongest and most powerful economy in the world. Government was not absent but was forced to play more of a supportive role in which government manipulates the private sector via hidden and oft-times indirect mechanisms.

I also show that many perceptions of the United States and its public policies are wrong. For example it is not true that this is a ‘free market’ system, even if it is clearly the case that government intervention is less coordinated and more haphazard than that of most other countries. I also show that it is incorrect to believe that America has a small and limited social welfare system. Instead the US has a massive, remarkably inefficient, but largely “hidden” welfare state.

Key features of this system include:

- Highly dynamic economic enterprises;
- Low taxes;
- High levels of income inequality;
- Targeted welfare state programs;
- Highly particularistic and focused social and economic regulations;
- Low levels of social protection.

America’s enormous resource wealth on the one hand, and the fragmented political institutions on the other, helped this country evolve into a nation that valued both egalitarian ideals and anti-state sentiments. As the American state began to take on new functions and goals in the last half of the 20th century, however, the fragmentation of political authority led to the construction of an extensive but incoherent welfare state. Unsurprisingly, public confidence in political authority declined. “Globalization” was never a significant threat to the world’s largest economy, but international competition has been used quite effectively to justify a set of policy choices that have further contributed to the growing inequality in this society. More importantly, Americans have become increasingly skeptical of public authority itself. Once heralded as “the land of equal

¹⁸ Allopatric speciation is where a population splits into different geographic zones which subsequently evolve along different paths. Over time, these populations can even evolve into entirely separate species.

opportunity,” America is evolving into a highly stratified society. Not only are income, wealth and power becoming a great deal more unequal than in the past, but also Americans appear to be willing to accept this outcome as somehow inevitable.

The following table summarizes some of the key features of each of these political economies. We see, as Soskice, Hall, Esping-Andersen, and many others have suggested, that each of these systems is in some sense internally coherent...and that each is systematically different from the others. Sweden’s universalist, egalitarian, social-corporatist and progressive democracy is systematically different from Japan’s neo-feudalist, patronage oriented system. Each of these in turn is remarkably different from the individualist, fragmented and unequal systems found in America.

Table 1.1 – The Political Economies of Sweden, Japan, and the United States

	Sweden	Japan	USA
Political System	<p>Social-Corporatist Parliamentary/coalition governments Unitary government Centralized d-making Strong political parties Expert/bureaucrat dominated Ideological conflict is muted Cooperative</p>	<p>Personalist Faction based parliamentary system Weak political parties Politicians have local power base Centralized d-making Politician/Bureaucrat dominated No ideology Clientelistic</p>	<p>Pluralist Single member electoral districts, Federal bi-cameral Decentralized decision making Politician dominated Ideological/Conflictual</p>
Economic System	<p>Concentrated Dominated by large internationally integrated firms Coordinated through employer groups and unions Highly organized and politically powerful unions and employers Flexible Egalitarian outcomes</p>	<p>Dual Economy Dominated by small inefficient firms on one hand and by successful large export-oriented firms on the other. Government has (historically) acted as agent for economic coordination Highly cooperative employer based unions Egalitarian outcomes</p>	<p>Competitive Market Dominated by large firms many of which are quite young Uncoordinated Dynamic, Flexible working arrangements Entrepreneur oriented Weak unions Unequal outcomes</p>
Welfare System	<p>Universalist Citizenship based Broadly distributed Very high levels of support Highly egalitarian Highly comprehensive State provided social services Very expensive</p>	<p>Employer/Family High benefits for core workers and families through firms Very low levels of public aid/support Families/wives provide most social services Strongly advantages employees in big firms and the aged. Expensive for firms but not taxpayer</p>	<p>Individualist Targeted Means tested direct benefits High benefit levels for middle class delivered through tax system Mixed private and public social services Costs hidden through tax system.</p>
Tax System	<p>Universalist Individual taxation Broad base Simple High revenues Heavy on consumers Light on producers</p>	<p>Traditional Family Narrow base Progressive (historically, at least) Inefficient Low revenues High corporate taxes Low consumption taxes</p>	<p>Targeted Narrow base Extremely complex Highly interventionist Low revenues Low consumption taxes</p>
Current challenges	<p>Maintaining equality in the context of growing diversity, heavy reliance on small number of successful firms, heavy tax burden / tax wedge.</p>	<p>Persistence of highly inefficient firms, high levels of distrust of political system and politicians, aging society, Fiscal crisis.</p>	<p>Inequality, declining confidence in government, divided society, fiscal crisis.</p>
Adaptive Advantages	<p>Highly educated workforce, small coherent elite, high levels of public trust in government, high levels of social and economic equality.</p>	<p>Very strong companies at core of the economy, strong traditions of cooperation between firms.</p>	<p>Highly dynamic economy and society, system rewards creative entrepreneurs and firms, incentives for success are very high.</p>

Looking at the table above we see that these are remarkably different systems. At the same time, as we shall see in the following chapters, there is in fact a high degree of coherence within each system. One might even say that while the political, economic, welfare and tax systems are remarkably different, the ways in which they interact provide some degree of functional equivalence. Clearly the state is central to the Swedish system, whereas the family and the corporation are more central to the Japanese. Finally, the individual is more on her own in the American case. Each of these systems evolved according to its own logic – even while they have developed within a broadly common macro-economic context. They each face significant challenges as they enter twenty first century. But because these *systems* are so different we should expect continued divergence and not an unavoidable race to the bottom.

Conclusion

Each of the substantive sections/chapters of this book is organized into three basic parts. I open the chapter with a broad overview of the political/economic model found in each individual country. The idea here is to give an overview of each system in which I briefly describe the current structure and relationships between the political institutions, economy, welfare policies and tax system. I try to show how each of these sub-systems function together and can be seen as parts of a whole – even if they are not necessarily efficient. The second section of each chapter addresses the how and why questions. These evolutionary narratives begin at somewhat different historical starting points for each country. A logical place when trying to understand modern democracies, it seems to me, is in the period where democratic institutions and capitalist economies were being formed. The fact is, however, that these are in very different time periods for Sweden, Japan, and the US. Indeed, the very fact of the hugely different timings is itself an important part of this story. The final section of each chapter explores the ways in which each country is adapting to the major challenges that it faces today. We will see that while there clearly are common challenges, the fact is that they are also quite different problems in each of these countries today. This is precisely because each individual country has evolved in quite different ways. To take but one example, the challenge of dealing with fiscal crisis resulting from aging population is significantly different problem in the United States than it is in Japan – for the simple reason that the US has a significantly younger population than Japan.

In sum, instead of seeing these different countries as simple variations on a specific type of political economy, this book examines how these countries function and how they are changing by treating them as complex systems which are each adapting to a somewhat common set of pressures.

This does not mean that we cannot compare them. This book is fundamentally a comparative exercise. But I believe we learn a great deal both about the individual countries and the processes and pressures that are shaping them if try to understand them as distinct systems.

The aim of this book is almost certainly overly ambitious. I aim to explain both how and why three very different countries have evolved over time and how and why they are now diverging from one another. Instead of focusing on one policy arena, I try to show how systems and their related sub-systems interact and adapt to one another over time. I take evolutionary theory seriously, and consequentially also take context seriously. The analysis emphasizes the structuring role institutions have had on politics and also tries to explain why they developed these different institutions. Finally, we explore how the institutions themselves have evolved over time.

What follows will undoubtedly seem insufficiently detailed for the country expert, for no doubt in the process of compressing each country's narrative I leave out much that is important. The book will also likely be unsatisfying for many political science theorists for whom the objective of comparative politics is to generate powerful deductive and falsifiable theories. In sum, the ambition here is thus likely too grand for some, and too limited for others. It is my hope, however, that despite these limitations that this analysis has something to teach us both about these three rather important and interesting countries and about how we should think about political and historical change.

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