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28 The Roles of the State in the Economy

Fred Block

THE ROLE OF the state in the economy has been a central issue in politics and social theory for centuries. In both the prolonged struggle between liberalism and absolutist regimes, and in the conflict between "socialism" and "capitalism," the question of the appropriate roles of the state in the economy has been central. Consequently, the scholarship on the topic has been deeply shaped by these profound normative disputes. At the same time, the literature on the topic is vast precisely because of the extraordinary diversity of economic activities undertaken by states. It is difficult, in fact, to think of any type of economic activity that has not somewhere or at some time been subject to direct regulation by governmental authorities. The combination of the complex and contested history of the topic and the wide variety of issues that are covered within it makes this an unwieldy subject for a chapter of limited length.

Two considerations, however, can make the topic manageable. First, the scope of the chapter will be limited to the experience of the "modern" state—the form that emerged in early modern Europe and that subsequently became universal through the development of a competitive international state system that has encompassed the entire globe. (See Giddens 1987; Hintze's essays in Gilbert 1975, pp. 159–215; Mann 1986; Poggi 1978. Tilly [1990] discusses the discontinuity between premodern and modern states; Wallerstein [1974, 1980, and 1989] analyzes the global expansion of the European state system. See also Hirschman 1977.) Second, recent work in economic sociology and related disciplines has made it possible to conceptualize the issue of the state's role in the economy in a new and different way. This new work calls into question the ways of defining the state's role in the economy that we have inherited from nineteenth-century social theorists. Hence, it is possible to gain an overview of the field through analyzing the clash between an old and a new paradigm. The first section of this chapter will map the different theoretical positions within the old paradigm. It will also suggest some of the reasons why this theoretical ordering of the landscape is unsatisfying. The second section will elaborate the new paradigm and suggest some of the directions for research that it opens.

THE OLD PARADIGM

The old paradigm is structured around two basic assumptions. The first is that the state and the economy are analytically separable entities, each of which operates according to its own axial principles (on the concept of axial principles, see Bell 1983, pp. 3–30). This assumption makes it possible to conceptualize different levels of state "interference" in the functioning of the economy. The second assumption is that one can place any actual or imagined society on a single continuum. On one end of this continuum is the minimalist "night watchman state" of classical liberalism; at the other end is a society in which the state has absorbed the basic tasks of economic production and distribution, largely eliminating the possibility for market transactions (see fig. 1).

Normative debates within the old paradigm center on what is the ideal place on this continuum. It is often assumed that this continuum exactly parallels a left-right political continuum. As one moves to the right, one is supposed to favor a smaller state role, and a movement to the left connotes support for a stronger state role.[1] But it is actually more useful to analyze the different positions within the old paradigm by the kinds of arguments that they use to justify state intervention in the economy. While these arguments overlap in practice, it is possible to identify five "ideal types" of arguments, and these ideal types can be plausibly ranked from the more rightward to the more leftward.

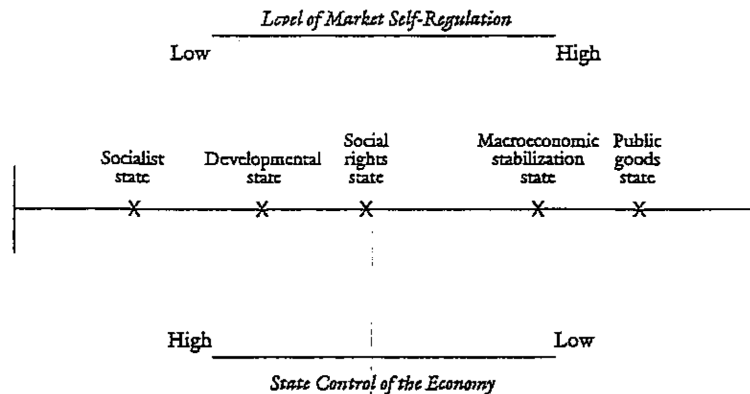

FIGURE 1. Old Paradigm for the Study of the State's Role in the Economy

Type 1: The Public Goods State

The most rightward of the justifications for state intervention in the economy is the idea that the state must provide only public goods that the market cannot produce by itself. Public goods can be defined as commodities or services "which if supplied to one person can be made available to others at no extra cost" (Pearce 1986, p. 347). This characteristic creates barriers to market production of these goods, since the entrepreneur who provides the goods is typically unable to extract payment from most of the beneficiaries. Adam Smith long ago argued that the three duties of the sovereign were national defense, the provision of justice, and that of "erecting and maintaining those public institutions and public works, which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expense to any individual or small number of individuals" ([1776] 1976, 2:244).

The first important category of public goods is the services and commodities that cannot be effectively produced for profit by private entrepreneurs acting alone. One obvious example is urban parks, where profit is not possible because of the difficulty of collecting fees for use. Other cases are referred to as mixed goods because they lie somewhere between pure public goods and pure private goods. In these cases, the benefits of an increased supply of the good are greater than what can reasonably be charged to users. Toll roads and canals are the classic instance; in theory, these could be built by private entrepreneurs charging tolls. However, at the outset, the tolls would have to exceed the cost of the existing modes of transporation, so the profitability of the venture would be threatened by the unwillingness of users to switch to a higher-cost mode of transport. However, the greater efficiency of the new transportation facility would provide considerable benefits to many nonusers across the whole geographical area. Hence, public finance is necessary to assure that those efficiency gains will be realized. The case of basic scientific research is quite similar.

A second important category of public goods is governmental actions that reduce the negative externalities which result from private economic activity. These externalities—which include pollution, unsafe working conditions, unhealthful products—can be termed "public bads" (Roemer 1992). One classical account is found in Marx's discussion in *Capital* of the length of the working day ([1867] 1930, chap. 13). Competition among firms gives each an incentive to lengthen the working day, but this lengthening creates a public bad—the destruction of the health of the working class. The Factory Acts in England gave the state the authority to regulate the length of the working day and involved it directly in producing the public good of systematic regulation of the working day. Parallel arguments can be made for other public bads, such as debased products, environmental pollution, and the domination of particular markets by oligopolies or monopolies.

A final category is those public or mixed goods where individual consumption has considerable positive externalities but the existing distribution of income pushes private consumption below optimal levels. This has often been the argument in favor of public education—an educated labor force has positive economic benefits—but if education is provided only by the market, many people will be unable to afford it (this argument was already suggested by Adam Smith [(1776) 1976 2:305]). Similar arguments have been made for health care, housing, and food; the positive externalities of a healthy, well-fed, and well-housed population make it inefficient to leave these services entirely to the market.

There are, of course, multiple ways to produce these different types of public and mixed goods. Governmental production is one alternative, subsidies to private producers are another, and joint production by public and private agencies is still another.[2] But whichever path is chosen, the consequence is to extend the state's role well beyond the minimal level of maintaining public order. In the sociological literature, this issue has been addressed most explicitly in work that has explored the historical development of state capacities, since the ability of states to provide various public goods varies significantly over time (Huntington 1968; Skocpol 1979; Skowronek 1982; Tilly 1975).

This "public goods" conception of the state does not suggest a determinate answer to where the state's role in the economy should lie on the continuum between the night watchman state and complete public control of the economy.[3] As consciousness of environmental externalities increases, for example, it becomes clear that pure private goods are the exception rather than the rule. A consumer's purchase of an automobile, a refrigerator, or even some elaborately packaged food involves externalities in terms of other people's safety, energy consumption, and the production of waste (Daly and Cobb 1989). The rhetoric of public goods and externalities can easily be used to justify a quite extensive regime of government regulation. However, most of those who are tied to the language of public goods hold firmly to the idea that since competition among private units produces the optimal outcome, public provision should be kept to a minimum.

Type 2: The Macroeconomic Stabilization State

A second widespread conception of the state's role centers on mitigating the impact of the business cycle. Since market economies have been marked by alternations of periods of boom and slack, a strong set of arguments exists for the government to attempt to even out the cycle. This means both restraining the economy at times of boom and preventing economic downturns from spiraling out of control. While this government role could be described as the production of a public good of greater stability and predictability in the economy, macroeconomic stabilization is usually discussed in different language. In fact, in the United States, conservatives have often opposed a broad government role in macroeconomic stablilization. They argue instead that if the government could just provide for the stable growth of the supply of money, that would be far more effective than broader interventions. In short, monetarists have opposed macroeconomic stabilization by advocating that all the government should do is provide the public good of stable money (Friedman and Schwartz 1963).

While the macroeconomic stabilization conception is generally associated with the rise of Keynesian economics, it predates Keynes. In the nineteenth century, periodic crises of the financial system intensified the business cycle and led to a variety of efforts to attempt to stablize the economy. Governments under popular pressure sought to support the steady availability of credit by establishing lenders of last resort, by regulating the banking industry, and by discouraging outflows of gold (Polanyi [1944] 1957, pp. 195–200). In the United States, the exchange rate of the dollar was a major issue in the last third of the century, as farmers, particularly, fought against the economic consequences of a strong dollar and tight credit. In fact, the legislation establishing the Federal Reserve Bank in 1913 had its origins in the Subtreasury Plan proposed by the Populists (Sanders 1990). Well before Keynes published *The General Theory* ([1936] 1964), he polemicized against the decision to peg the value of the British pound sterling at its pre-World War I level ([1925] 1963). He argued that the exchange rate could be defended only through deflationary domestic policies that would weaken the British economy and create more unemployment. In a word, the idea that wise government monetary and credit policies could reduce the impact of the business cycle was well elaborated before Keynes established the theoretical basis for an active governmental role in supporting aggregate demand.

But despite these intellectual antecedents, the stabilization state is usually associated with the Keynesian Revolution—the widespread acceptance in the 1930s and 1940s of the idea that government spending can and should be used to

counteract the impact of the business cycle (Lekachman 1966; Hall 1989; Shonfeld 1960). Perhaps the least controversial of the Keynesian ideas is the operation of "automatic stabilizers," such as unemployment insurance expenditures, that work to sustain consumer purchasing power even when employment is contracting. More controversy now surrounds the idea of deliberately increasing government deficits as a means to stimulate a weak economy. Tax reductions are supposed to put more purchasing power in the hands of consumers, and increased government expenditures are intended to bolster aggregate demand and encourage enough private investment to reverse an economic slowdown. However, many contemporary economists now reject the efficacy of such deficit spending. One argument is that the increased government borrowing will simply lead to offsetting reductions in consumer purchases (Barro 1990, pp. 213–35).

The idea of the government attempting to stabilize the economy by offsetting the impact of the business cycle can justify a wide variety of governmental actions from shifts in foreign exchange rates, adjustments of the tax code, expansion of trade union rights,[4] increases or decreases in public sector spending for infrastructure and public goods, expansion or contraction in government-provided transfer payments and social programs, and so forth. Here, also, the conception of the stabilizing state does not offer a determinate conclusion as to how great the state's role in the economy should be.

Type 3: The Social Rights State

The third ideal type argues that the expansion of the state's role in the economy can be understood as a deepening of the meaning of citizenship. This argument addresses two of the phenomena discussed by public goods analysts—the role of the state in regulating private transactions and the role of the state in providing certain goods and services to all citizens.

The most influential argument along these lines is T. H. Marshall's (1950) analysis of the progressive development of citizenship in Western democracies. In Marshall's formulation, citizenship emerged in the eighteenth century, but it was limited to civil rights that provided protection to citizens from the arbitrary exercise of state power. In the next century, these civil rights were used as the foundation for gaining political rights as access to the franchise was extended. This, in turn, contributed in the twentieth century to the development of social rights as citizens used the franchise to win protection from the free play of market forces by increased state regulation of the economy and greater public provision for illness, injury, and old age.

In Marshall's scheme, the development of social rights forced the state to play a more active role in overcoming the distributive consequences of market processes. State actions served to partially "decommodify" labor (Esping-Andersen 1987, 1990; Offe 1984, 1985) by providing working people with sources of income other than those provided by the market.

While Marshall's framework illuminates the general development of modern welfare states, it does little to explain the dramatic variation in social rights across market societies.[5] Why is it that some societies have recognized for years a universal right to access to health care while others, such as the United States, have lagged far behind? It is also unclear what the outer boundary of social rights are. There has been much debate, for example, as to whether citizens should have an entitlement to employment (Weir 1992). How one answers that question has a major impact on one's views of how extensive a role the state should play in the economy. In short, as with the other concepts, the social rights concept also does not point to determinate answers as to where the state's role should lie on the continuum.

Type 4: The Developmental State

This is in some sense both the oldest and the newest of these different ways of conceptualizing the state's role in the economy. It is the oldest in that modern economics emerged as a critique of mercantilist states that saw themselves playing an active role in developing the nation's wealth. Much of the power of Adam Smith's advocacy of the "free market" rested on his claim that the mercantilist states were engaged in self-defeating actions; their efforts to contribute to economic development were bound to produce perverse results. Yet even at the height of Smith's intellectual influence, his arguments were directly challenged by economic theorists in other countries who insisted that the only way that their nation could catch up with England was through a developmental state that pursued active policies to encourage industry. From Alexander Hamilton to Friedrich List, theorists of the developmental state argued for an active state role in creating tariffs, building infrastructure, and providing financing to private firms (for a review of the nineteenth-century debates over trade policy, see Hudson 1992).

In the twentieth century, there have been two major strands in the developmental-state idea. The first has been the effort to make sense of the experience of countries that have been successful "late developers." The seminal work is Alexander Gerschenkron's *Economic Backwardness in Historical Perspective* (1962), in which he showed that the successful late industrializers in Western Europe relied on an active state to replace roles that had been filled by private entrepreneurs in the English case (see also Sylla and Toniolo 1991). More recently, a growing body of scholarship has insisted that the success of Japan in the post–World War II period, and of South Korea, Taiwan, and Hong Kong more recently, can be traced to the activities of a developmental state that has successfully nurtured infant industries and has shaped the flow of finance to sustain high levels of productive investment (Johnson 1982; Wade 1990).

This body of literature has begun to converge with a second strand of work that has emphasized that levels of private investment in market economies may be chronically insufficient, so that permanent state intervention is necessary to assure that overall levels of investment are adequate. This was one of the more radical themes that Keynes elaborated in *The General Theory* when he suggested that the investment function should ultimately be performed by the state. Keynes feared that entrepreneurs faced with uncertainty would be unwilling to risk new investments on the scale necessary to keep the economy growing. Only socializing the investment function could assure the full utilization of economic resources. This argument was analytically distinct from the stabilizing-state conceptions that were also present in Keynes. While the stabilizing arguments suggested the need for periodic state intervention to overcome the business cycle, the socialization-of-investment argument suggested the need for a permanent expansion in the state's economic role.

Keynes's version of the developmental state is directly linked to proposals that emerged in northern Europe for the socialization of the investment function. The logic of the wage-earner funds proposed by Swedish Social Democrats was that a share of profits would be set aside in a special fund that would be used to gradually obtain ownership of the society's private capital stock (Pontusson 1992). The intention is that as ownership shifts toward the wage-earner fund, the firms' willingness to invest would increase because the funds would be more sensitive to the positive externalities of high rates of new investment.

Proposals to move in this direction were defeated in Sweden in the 1980s, but the Keynesian conception of the developmental state reemerged in still another form—the advocacy of high levels of state infrastructure spending as a means to encourage private investment and to boost overall investment levels. To be sure, the provision of infrastructure by the state can be seen as falling within the public goods conception. However, the scale of current practices in countries such as Germany, France, and Japan pushes well beyond the public goods conception. Massive state spending on transportation, communication, energy provision, and research and development are designed to facilitate private investment, accelerate technological advances, and enhance international competitiveness.[6] By the late 1980s, this infrastructural version of the developmental state had gained great currency even in the United States (Reich 1991; Thurow 1992, pp. 160–61).

Type 5: The Socialist State

The core argument of the fifth ideal type is that the state's economic role must be expanded in order to overcome the injustices produced by market allocation of resources. In the Marxist tradition, the market and private property are seen as producing inequality and alienation that can be eliminated only through the abolition of private property.[7] However, Marx and Engels imagined that once private ownership of the means of production were abolished, it would be possible for members of society to organize and control economic activity without the development of a powerful state apparatus. In practice, however, Marxist regimes have constructed very strong states whose broad range of economic activities represents the extreme example of the developmental state (Skocpol 1979). The economic failures of the Soviet model in the 1970s and 1980s need not obscure the historical reality that significant economic development occurred under Soviet-style regimes in a number of countries.

There is a fundamental tension in the socialist state framework over what it is about markets that produces unacceptable injustice. One strand emphasizes that markets foster an unequal division of society between rich and poor that makes

justice for the poor unattainable. Another strand emphasizes that market transactions are inherently dehumanizing; they subject human activity to instrumental calculations that force human beings to abandon or compromise their most basic needs and beliefs (see also Simmel [1907] 1978). These different strands reflect the greater emphasis on the concept of exploitation in scientific Marxism and the greater emphasis on alienation in critical Marxism (Gouldner 1980). But both of these strands provide arguments that were historically used to justify state action to abolish or limit the scope of market transactions.[8]

Assessment of the Old Paradigm

What is most striking about this range of views within the old paradigm is the extent of indeterminacy. For example, one can easily imagine arguing in favor of a certain public policy initiative—for example, a proposed labor law reform—with arguments drawn from all five of these positions. Moreover, within each of these different positions, it is possible to justify a broad range of different preferences as to how extensive the state's role in the economy should be.

The problem is that the different positions within the old paradigm actually provide far less analytic leverage than is claimed for them. As I will argue later, this is because they are all based on mistaken premises about the subject they are analyzing. Moreover, the seeming coherence to these different positions actually springs from a set of prejudices that is only occasionally stated explicitly or subjected to serious argument.

The first set of prejudices centers on state action. States are often distrusted for being parasitical and wasteful: they are seen as having an inherent tendency to extract more resources from society than their activities can justify and are also perceived as being inherently unable to use resources efficiently. When they produce public goods, it is assumed that state employees will be far less productive than private employees and that political influence will be used to distort the state's priorities (Buchanan and Wagner 1977; Hayek 1944; Stigler 1975). The second set of prejudices is the view of the market that is an explicit part of the socialist state vision—that markets inherently produce inequality and dehumanization.

It is fair to describe these beliefs as prejudices because they are characteristically stated without qualifications, without identification of the specific set of circumstances under which these negative outcomes are more or less likely to occur. The point, however, is that much of the seeming coherence of the five different positions flows from the specific prejudices of their proponents. Theorists of the public goods state, for example, are likely to have the strongest prejudice against state action and the weakest prejudice against market outcomes. Hence, they tend to resist further expansions in the state's role. In contrast, as one moves leftward across the continuum, distrust of the state tends to decline while distrust of the market tends to rise.

What is striking is how little actual research has been devoted to the substantiation of these prejudices. There is obviously great variation over time and place in the inefficiency or parasitism of states, but relatively little work has been directed to understanding these variations (exceptions include Levi 1988; Lindblom 1977; and North 1990). Similarly, remarkably little effort has been devoted to evaluating similar variations in the market's role in fostering inequality and dehumanization (see Lane 1991 for a recent exception). The fact that these now appear as glaring omissions from the research agendas fostered by the old paradigm is one of the clearest indications that the old paradigm has been exhausted.

The New Paradigm

The new paradigm begins by rejecting the idea of state intervention in the economy. It insists instead that state action *always* plays a major role in constituting economies, so that it is not useful to posit states as lying outside of economic activity. Instead of the old paradigm's focus on the quantitative variation in the degree of state intervention, the new paradigm concentrates on qualitative differences in state activity. The new paradigm emphasizes important commonalities among states that are largely obscured by the old paradigm. Most states propound rules governing the use of productive assets; they establish legal frameworks governing recurring relations such as those between employers and employees; they provide means of payment for economic transactions; and they manage the boundary between their territory and the rest of the world. The differences in the ways these tasks are fulfilled have important consequences that provide far more analytic leverage than the concepts of the old paradigm.

Whereas the old paradigm was structured by two sets of prejudices—distrust of the state and distrust of the market—the approach of the new paradigm is quite different. It recognizes that economic activity will always involve some combination of state action and markets. The state action is inevitable because states are needed to constitute economies. But markets are also an inevitable feature of social organization because when individuals are able to make choices, markets represent a logical and useful device for aggregating those choices. But markets can be structured in many different ways; variations in background rules will produce very different outcomes. The point is that everything hinges on the specifics of the ways in which state action and markets are combined. Hence, the prejudices become empirical puzzles—What combination of state and markets produces predatory states? What combination produces deepening inequality?

The new paradigm has emerged over the last decade, and there is still not an agreed-upon name for it. The term that will be used here is *market reconstruction* because the new paradigm emphasizes the degree of choice available in structuring markets and the possibility of reconstructing markets to achieve greater efficiency, greater equality, or other ends (contributions to the new paradigm include Barber 1977; Block 1990, 1992; Etzioni 1988; Granovetter 1985; D. Kennedy 1985, 1991; Klare 1988, 1991; Kuttner 1984, 1991; Piore and Sabel 1984; Roemer 1991, 1992; Sabel and Zeitlin 1985; Simon 1990, 1991; Somers 1986; Szelenyi and Manchin 1987; Szelenyi 1991; Unger 1987; Zelizer 1988). As with any important intellectual movement, the market reconstruction perspective builds on a number of important historical antecedents. Fundamental to these is Marx's critique of political economy. While much of the Marxist tradition belongs unequivocally to the old paradigm, there is a strand of Marx's thought that pointed beyond it. This was the strand that contested classical political economy's insistence on the universality of the economic laws that it had uncovered. In challenging these claims as partial and distorted, Marx recognized the power of economic ideologies to make particular economic arrangements appear as natural and inevitable. This same critique of economic ideologies undergirds the market reconstruction perspective. In the twentieth century, there are at least three important intellectual currents that have further advanced the critique of the old paradigm. The first is the tradition of institutional economics (see Commons [1924] 1974; and Hodgson, chap. 3 in this *Handbook*) that has elaborated a powerful critique of the assumptions of neoclassical economics. This institutionalist tradition has repeatedly pointed out the limitations of treating state action as external to the economy. The second is the tradition of legal realism in the United States. In the 1920s, 1930s, and 1940s, scholars in this tradition elaborated a critique of the economic assumptions that undergirded U.S. public policy—a critique that centered on the idea of the naturalness of self-regulating markets (Cohen 1927; Hale 1943; Singer 1988). More recently, the critical legal studies movement has made a major contribution to the new paradigm by self-consciously seeking to extend the insights of the legal realists (D. Kennedy 1991; Singer 1988). Finally, the exiled Hungarian intellectual Karl Polanyi produced a body of work in the 1940s and 1950s that has been broadly influential in the social sciences in stimulating challenges to the old paradigm (Dalton 1968; Polanyi [1944] 1957; Block and Somers 1984).

Polanyi's central argument was that we could not trust the nineteenth century's understanding of the rise of market society. Both liberalism and Marxism shared the same account—that the exercise of state power in early modern Europe constrained and limited the development of a market economy. When these state constraints were finally dismantled—through evolutionary change in England and revolutionary change in France—a dynamic private economy was finally able to emerge. Polanyi saw this narrative as a kind of heroic myth of market emergence that operated to keep social actors from understanding the actual relation between states and markets. In short, nineteenth-century theorists and their contemporary followers had enormously exaggerated the discontinuity between precapitalist and capitalist societies. In both settings, states played an extraordinarily important role in shaping economic activity; in both, the economy was fundamentally structured by state action.

Building on these intellectual foundations, the market reconstruction perspective has crystallized in recent years around efforts to make sense of the crisis and collapse of Soviet socialism. Market reconstruction theorists argue that in attempting to substitute central planning for the market, the Soviets failed to understand that economic actors would still be able to make choices (Nove 1983; Roemer 1992). Employees could decide how hard they would work and plant managers could decide how much effort they would make to meet

the objectives set out in the plan. Both sets of actors would also have ample opportunities to participate in informal or illegal economic activities, such as buying and selling in the black market or exchanging favors and kickbacks. The problem was that in the Soviet system, these individual decisions often operated to undermine the planning system.

Once it is recognized that individuals will retain some significant realm of economic choice in all but the most repressive police state, it becomes desirable to find mechanisms that will effectively aggregate those individual choices. This leads directly to expanding the legitimate scope of market activity, so that individual actors have incentives to make choices that contribute to improving the economy's effectiveness. Some theorists of market reconstruction have argued for various versions of market socialism on these grounds (Nove 1983; Roemer 1991).

Theorists of market reconstruction tend to share a common response to those who have argued that the only way forward for the former socialist countries is to embrace free market capitalism. This response has three parts. First, there is no coherent entity called "free market capitalism"; existing market societies vary significantly in the ways that their economic institutions are structured. The textbook version of a market economy exists nowhere in actual practice and, in fact, it cannot exist. Second, in the process of transition to a new type of economy, the state must play an absolutely central role in shaping new property arrangements and new markets. Third, societies have a wide range of choices in finding ways to combine markets and state action, and there are, in fact, multiple combinations that will produce reasonable levels of economic performance. For this reason, societies must weigh both economic efficiency and questions of equality, democracy, and individual rights as they restructure their economic institutions (Block 1990, 1992).

One of the most important insights of the market reconstruction perspective is that it is simply incorrect to see—as liberalism and Marxism have—modernity as a process of opening up more and more activities to market forces (Block 1990, pp. 46–74; Zelizer 1985). On the contrary, over the last four centuries, some markets have been closed down as other markets have opened up. The Protestant Reformation sought to close down the Catholic church's practice of selling indulgences to the highest bidder. The antislavery movement was ultimately successful in closing the international market in human beings. At the end of the nineteenth century, child labor was dramatically restricted in most developed market economies. The rise of democracy has generally eliminated the sale of political offices, and it has often restricted the sale of political influence. These prohibitions have been called "blocked exchanges" by Michael Walzer (1983), who has emphasized that societies always require an elaborate set of rules governing which transactions are legitimate and which are not.

Market Reconstruction: The Roles That States Play

Work done in the old paradigm has often revolved around the problem of reconciling two sets of categories. The first set is made up of typologies of the different ways of organizing economies, such as the familiar Marxist scheme that distinguishes among societies with three distinct types of property relations—feudal, bourgeois, and socialist. The second set is composed of typologies for categorizing different political regimes, such as the distinctions among liberal democratic, social democratic, fascist, and conservative authoritarian regimes. The problem of reconciliation comes about because similar economic arrangements have existed under quite dissimilar political regimes. One strategy to deal with this tension has been to develop more and more different subcategories to attempt to capture smaller variations in types of economies and types of political regimes. Much of the best recent work follows this strategy by attempting to elaborate in greater detail the institutional arrangements in specific societies or by creating more complex middle-range typologies of variations across societies.[9] But while the arguments for these new subcategories and typologies are often persuasive, the danger is that there will be a category for every case, undermining the possibilities for broad comparisons.

The market reconstruction perspective suggests a somewhat different analytic strategy. Since economies and states are profoundly interdependent, the effort to categorize the two independently seems futile. The alternative is to focus on some of the specific ways in which states and economies intersect and begin examining the variations in these intersections across time and across space. This strategy has several advantages. First, it shows that the core question of the old paradigm—the extent to which markets are left alone by states—is often not the most important issue. Second, it makes us aware of the high degree of continuity among feudal, bourgeois, and socialist property forms that has generally been obscured by the old paradigm. Third, it points to the possibility of developing more effective typologies that capture the actual historic variations in the ways these intersections are organized. The areas of intersection that will be examined here are the state's roles in governing the control over productive assets, establishing the nature of the obligations and responsibilities in recurring relationships, providing for means of payment, and managing the boundary between its territory and the rest of the world. While this list of areas is not meant to be exhaustive, it does capture many of the most important issues.

The Control of Productive Assets

The nineteenth-century story of the heroic emergence of market society rested on a Lockean conception of property: ownership of assets existed prior to the constitution of society through a social contract. The existence of private property was the "natural" human conditions, and social arrangements were simply designed to codify and protect these natural property claims. This account of the nature of property was an extraordinarily powerful tool for challenging the claims of absolutist monarchs to regulate the exercise of property rights (Poggi 1978; Sewell 1980). However, the doctrine served to fundamentally obscure basic historical continuities in the organization of property rights.

In both feudal and socialist societies, it is readily apparent that property arrangements are derived from people's relation to the exercise of political power. Both the feudal lord and the Soviet plant manager exercised considerable control over productive assets, but they exercised that power within a complex web of social and political relations that placed distinct limits on how they could use those assets. But precisely the same is true of a chief executive officer of a contemporary capitalist firm; his or her discretion is clearly limited by a complex structure of laws and understandings, including particularly the relationship between the CEO, the firm's board of directors, and state regulatory agencies.

It was, of course, the family capitalism of the nineteenth century that gave the appearance of radical discontinuity in the nature of property. Whereas feudal society often restricted control of productive assets to people with certain ascribed characteristics, the ownership of a factory in industrializing England appeared to be open to anyone with the appropriate talents. Moreover, the family capitalist appeared to be free of a complex web of social relations; his autonomous control of the property seemed to be unlimited.

In retrospect, however, the discontinuity was exaggerated. The apparent openness to talent obscured the reality that many of the family capitalists came from quite similar social, religious, and ethnic backgrounds. Moreover, the unlimited discretion of the family capitalist is also an exaggeration. From the outset, these family firms operated within a web of interrelations with retailers, bankers, and competing firms that placed severe constraints on the autonomy of the firm (this is part of what Durkheim [(1893) 1964, pp. 149–65] had in mind in his discussion of the noncontractual bases of contract). One need only think of the plight of the family capitalist who attempted to defy the local norms governing treatment of employees to recognize that this form of property was also embedded within broader social relations (Reddy 1987). Such a deviant entrepreneur was likely to find that both his sources of credit and his markets had suddenly disappeared. Most importantly, however, while islands of family capitalism persist to this day, the historical moment in which small family firms were dominant in the economy was relatively brief.

The Marxist tradition has both grasped and failed to grasp the centrality of politics to property relations. In a famous passage, Marx wrote:

> What is a Negro slave? A man of the black race. The one explanation is as good as the other.
>
> A Negro is a Negro. He only becomes a slave in certain relations. A cotton-spinning jenny is a machine for spinning cotton. It becomes *capital* only in certain relations. Torn from these relationships it is no more capital than gold in itself is money or sugar the price of sugar. ([1849] 1972, p. 176)

This is as an extremely clear statement of the argument that property—including property in bourgeois society—is always part of a social and political relationship. Yet this same insight is lost elsewhere in the Marxian tradition. In the effort to understand how class relations within capitalism differ from feudalism, Marx and his followers have always emphasized the "extra-economic" exercise of coercive power in feudal society (Anderson 1974). When the serf was forced to work for three days a week on the master's land, it was the

result of extra-economic, or political, coercion. However, when the factory worker produces surplus value for the employer in the second half of his or her working day, the source of coercion is traced to the capitalist market—a purely economic form of coercion. Yet this line of argument denies the earlier insight that market relations are social relations and, like all social relations, are bound up with the exercise of political power.

In any complex society, one of the state's inescapable tasks is to establish a regime of property rights. In constructing such a regime, a Lockean conception of private property in which the individual's ownership rights are absolute is neither possible nor desirable (Horwitz 1977). On the one hand, the positive and negative externalities involved in any complex form of production require a regulatory regime that constrains the ways that productive assets are used.[10] On the other, production now depends on cooperation among people controlling different assets—employees with human capital, managers with physical capital, investors with financial capital, and owners of intellectual property.[11] An absolutist definition of property rights sheds little light on how to maximize the productive cooperation among these different assetholders. In fact, there are a multiplicity of possible ways to define the property rights of each of these groups. Research has only recently begun comparing the economic effects of different sets of property rules, but it is already apparent that claims for the superiority of the more Lockean Anglo-American property rules are highly problematic (Dore 1986).

These issues of property rights are now often discussed within economics in terms of the relationships between principals and agents (Pratt and Zeckhauser 1985). While the shareholders of a firm are the principals, who in theory are the owners of the property rights, they are dependent on their agents—the firm's managers—to achieve their objectives. And there is now an intense debate as to what are the proper institutional arrangements and incentives to ensure that agents do, in fact, achieve the objectives of their principals. A key aspect of this debate has compared the institutional patterns of corporate governance across the developed market economies. While the core property arrangements are basically indistinguishable among these countries, there are significant differences in the way that the principal-agent problems are managed. Moreover, these differences flow directly from legislative actions that have helped to structure the particular ways in which firms are embedded in financial markets (Zysman 1983; Porter 1992). These critical differences serve as a reminder of the ways in which the narrow focus on property has clouded our analytic vision.

The Structure of Recurring Relations

Intertwined with the structure of property is the state's regulation of recurring relationships, of which the most important are those among family members, those between employers and employees, and those between landlords and tenants. Again, the specific sets of rules for structuring these recurring relationships have extraordinarily important consequences. The difference between systems of primogeniture and rules dictating the division of property among sons had major implications for landholding patterns. The property-owning rights or lack thereof by wives have significantly effected both family wealth-building strategies and women's economic activities (for a full discussion of the importance of the state in constituting the family, see Olsen 1985). And even the old paradigm recognizes the extraordinary difference it makes whether employees or tenants are free to exit from exploitative relationships.

But the old paradigm has also exaggerated the contrast between precapitalist and capitalist employment relations. It suggests that precapitalist employment relations placed the employee in a situation of diffuse obligations to the employer, not fundamentally different from the diffuse obligations that children owe their parents. In contrast, capitalist employment relations were based on a contract between equals that specified nothing more than an exchange of services for a wage. The former relationship was seen to be closely linked to the exercise of political power, since the state ultimately enforced the employer's authority over the employees. But the latter relationship was defined as purely economic; all that the state did was to enforce the terms of the contract (for a classic statement, see Maine [1861] 1960, pp. 99–100).

By now, it is apparent that this status-versus-contract typology is highly problematic. Highly paternalistic employment relations are a common feature of industrial societies (Burawoy 1985). Moreover, current scholarship in labor law in the United States emphasizes the continuities between preindustrial and industrial legal assumptions about the employee-employer relationship (Atleson 1983). On the one hand, the courts have consistently recognized the validity of employers' broad demands for employee compliance with managerial authority. It is not that managerial authority is limited to what has been specified in the employment contract; rather, the contract has been interpreted to grant management broad residual authority (for acknowledgments of the importance of this authority in economic theory, see Bowles 1985; Williamson 1975). The breadth of this authority is further demonstrated by the difficulty employees have had in gaining legal protection from abuses of managerial authority. It has only been in recent years in the United States that employees have gained some legal redress against racial or sexual harassment at the workplace or from exposure to extremely dangerous working conditions.

In a word, in feudal, capitalist, and socialist property systems, the basic rights of employees and employers are established through state action. Yet this is only part of the story. State action, through other policies, also fundamentally influences the employment relation. Forms of public provision for the poor have a fundamental effect on employment relations. Polanyi stressed that the 1834 New Poor Law in England was absolutely essential for creating a modern labor market because the poor were literally forced to work in factories, and a large body of subsequent scholarship has analyzed the impact of welfare policies on the labor market (Cloward and Piven 1987; Esping-Andersen 1990). Yet Polanyi ([1944] 1957, pp. 86–94) acknowledged that the connection between public provision and the constitution of labor relations actually dated back to Elizabethan times. In the Soviet model, the core of the system of public provision was the guarantee of employment. Yet guaranteed employment significantly weakened the authority of employers over employees, despite legal rules that reinforced employer authority (Sabel and Stark 1982).[12]

State tax policies also fundamentally shape the employment relation. Here, the head taxes that European colonists imposed on indigenous people are the classic instance. These were designed so that subsistence farmers needing cash to pay the taxes would agree to wage labor. Yet the point is far more general. All states require a system of taxation, but the specific structure of the tax system will influence the choices that individuals make about the time and effort that they devote to paid employment.

States have also been implicated in the creation and definition of employee skills for at least five centuries. The point is obvious since the development of public schooling and complex systems of educational credentialing (Collins 1979). But even earlier, governmental action shaped the systems of apprenticeship through which skilled trades were learned. The nature of such rules as well as variations in access to educational and training opportunities will influence the supply of particular types of skills, and this, in turn, shapes the relative power of different categories of employees (on "professional" employment, see Larson 1977).

Moreover, these issues of skill intersect with other efforts by categories of people to engage in social closure around occupational positions. Weber emphasized that "virtually any group attribute—race, language, social origin, religon—may be seized upon provided it can be used for 'the monopolization of specific, usually economic opportunities'" (Parkin 1979, p. 44; cf. Weber [1922] 1978, pp. 341–44). Such efforts at monopolization of economic positions by particular groups will also have a profound impact on the relative power of different employee groups. Governments are always implicated either by their willingness to enforce such efforts at closure, by their decision to look the other way, by their efforts to eliminate such forms of occupational discrimination, or by some combination of these policies.

Finally, states are always implicated in the regulation of collective action by employers and employees. Even the decision not to intervene when employers use extralegal violence to terrorize employees—as in many situations of "coerced labor"—represents a policy that shapes the employment relation. Similarly, both the prohibition of trade-union activity or the wide range of legal rules through which trade unions' rights are protected have profound consequences for the employment relationship.

Means of Payment: Money and Credit

It is widely understood that governments mint coins and issue currency and that the search for precious metals to serve as money has been a central aspect of the economic history of the last five hundred years (Vilar 1976; Weber [1922] 1978, pp. 166–93). It is also widely recognized that government actions have been central in the development of a wide variety of forms of credit. Long before the emergence of modern central banking and the regulation of financial institutions, banks and governments were interdependent. Governments turned to bankers for loans

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while also providing the bankers with crucial forms of protection—including, most importantly, help in collecting defaulted loans. The fact that governments have been intimately involved in the provision of the money and credit that allow a complex economy to function has been too often ignored by those who cling to the idea that government is external to the economy.[13]

However, political actors have known for centuries that the relative scarcity or abundance of money and credit in a particular economy helps determine the relative power of different economic groups. Tight money places creditors in an extremely strong position relative to those who have borrowed or want to borrow money, while more abundant supplies of money and credit have the opposite effect. Similarly, the impact of money supply on price levels has significant distributive consequences as well.

The point, quite simply, is that there is no such thing as neutral government policies. Governmental actions will inevitably shape both the supply of money and credit and both the level and direction of prices.[14] To be sure, deliberate governmental actions to influence one or another of these variables can often be frustrated. Efforts to contract the money supply can be offset by increases in the velocity at which money circulates or a system of price controls might be offset by black markets and disguised price increases. One reason for this is that different government policies and actions can often run at cross-purposes. But if the historical evidence makes us skeptical of the ability of any particular government to fine-tune the economy in the short run, there is ample evidence of successful efforts by governments to achieve particular economic objectives by manipulating their extensive influence over the supply of money and credit.

In fact, there are frequent instances of innovations in governmental policy that change the capacity of a particular government to achieve particular objectives by influencing the supplies of money and credit. While the effectiveness of some of these innovations will decline over time, there is no reason to believe that the stock of potential innovations is limited. The point of the market reconstruction perspective is that the extensive capacities of governments to influence the supply of money and credit, the potential for innovations, and the absence of neutral policies mean that societies have considerable scope to decide whether they want more price stability or faster economic growth.

However, the relative power of creditors and borrowers is an equally important issue. Kornai (1986) has stressed the critical role of "soft budget constraints" in the Soviet model—enterprise managers knew that if they ran deficits, the state would lend them the funds necessary to cover the shortfall. The state did this to protect employment and output levels, but the consequence was to reduce dramatically the incentive for enterprise managers to economize resources. This was an instance where borrowers were powerful relative to creditors.

Yet the opposite instance in which creditors are powerful relative to borrowers can also have serious negative consequences. When the position of creditors is relatively strong, they can shape the terms of lending in ways that significantly discourage new risk-taking investment. By insisting on high rates of real return, creditors make finance available only to those projects where the uncertainty of returns is very low. In such a climate, it is unlikely that the potentialities of untested new technologies or new products will be explored.

This issue of the relative power of borrowers and creditors is intimately linked to the larger question of access to credit. In the Soviet model, managers of state-owned enterprises were virtually the only group with access to credit. In other societies, the intersection of government policies and decisions by financial institutions determines where different groups stand in their ability to borrow. The access of farmers, small-business owners, employee cooperatives, potential homeowners, and nonprofit agencies to the credit markets has been a key political issue in many countries, and a variety of government initiatives have been taken to broaden access to credit and to discourage various types of "redlining"—the systematic denial of credit to certain categories of borrowers.

Part of the reason that this issue of access to credit is so important is that the credit market does not work simply through the law of supply and demand. Financial institutions ration credit; they continuously make decisions to deny borrowers credit even though those borrowers might be willing to pay a substantial premium over the prevailing interest rate for loans (Stiglitz and Weiss 1981). Such rationing decisions always have an economic rationale; a particular borrower does not have a track record or the collateral or a strong enough business plan to justify the loan. In making such decisions, however, creditors tend to rely heavily on signals that potential borrowers send. The use of these signals allows the creditors to spend less time gathering information on the reliability and likely success of different borrowers. This reliance on signals can lead to systematic denials of credit to people because their enterprise lacks the right organizational form, they lack the right social or political connections, or because they belong to the wrong gender, race, ethnic, or religious group. Again, governments are always implicated in this process of rationing credit, whether they support the procedures used by creditors or seek to change them.

In sum, there is a great need for a "sociology of finance" that examines systematically how and why certain types of activities are financed, why others are not, and the ways in which state policies influence these outcomes. Recent work has begun to address these issues (Hamilton 1991; Hooks 1991; Stearns 1990), but much more remains to be done.

Managing the International Boundary

Maintaining the territorial integrity of the national unit has long been a central task of the state. In fact, military and police expenditures were historically the major elements in the state budget, and the development of the state's capacity to raise revenue evolved precisely to meet these budget needs (see Schumpeter [1918] 1991, "The Crisis of the Tax State"; Mann 1986). It hardly needs emphasizing that both the specific military and tax-raising policies pursued by a particular state will have extraordinarily important economic implications. The failure to invest adequately in the military, either for strategic reasons or because of obstacles to raising the necessary revenue, can lead to military defeat and the destruction of a substantial part of an economy's infrastructure. But overinvesting in the military can also have dire consequences, either through the negative consequences of tax policies or through the neglect of civilian industries. An important strand of recent scholarship explores the question of whether military overexpansion inevitably leads to a weakening of the economic capacities of the world's dominant power (P. Kennedy 1987).

But even beyond these extreme cases, a wide variety of other variables needs to be explored. Military expenditures can both help foster the development of domestic industries or contribute to a shift of entrepreneurial and administrative energies away from productive activities. Moreover, independent of the level of state expenditures, the specific structure of a society's tax system will inevitably encourage certain types of economic activity and discourage others (Weber [1922] 1978, pp. 193–201). For example, different systems of taxation will place different levels of burden on agriculture, manufacturing, and service activities.

A second dimension of the management of the international boundary is the state's role in shaping the flow of money, goods, and labor across its borders. This is the classical case where contrasts are made between states that allow these flows to occur in response to market forces and those that attempt to block market flows through administrative action. However, here again the story is far more complicated than the old paradigm suggests because it is so difficult to know what an international system of governmental noninterference could possibly look like.

If one takes, for example, the issue of labor flows, it quickly becomes apparent that few countries have ever thrown open their borders to unlimited entrance by foreigners. Even when states have strongly encouraged immigration, they have done so not out of a belief in a global free market for labor but out of a conviction that high immigration will help them achieve certain domestic objectives, such as faster economic growth. Similarly, states that have allowed free emigration of their population have usually done so only to ease a crisis situation; depopulation generally represents a threat to the territorial integrity of the nation. In short, a privileging of one's own citizens over foreigners is part of the very constitution of the modern state.

Moreover, in transactions across international boundaries, official state policies are only the beginning of the story. In the case of labor flows, the next important level is the nature and strength of enforcement policies. Variations here can create a dramatic divergence between official policy and what actually happens (Calavita 1992). Systematic biases in enforcement policies that make the society open to certain types of immigration and closed to others are one important example. Finally, much also depends on the behavior of nonstate actors. Are businesses eager or reluctant to hire the newcomers? Are new immigrants—whether legal or illegal—subject to harassment and discrimination? When these dimensions are added together, the results are quite complex variations in the ways that different societies shape inflows and outflows of labor.

While the case of human migrations is admittedly more complicated than are flows of goods,

there are complexities here as well. International trade does not simply consist of interchangeable commodities that are perceived as identical regardless of their place of origin. Some commodities fit this description, but many others are imbued with cultural significance, so that their place of origin is relevant to consumer decisions (on the cultural significance of commodities, see Sahlins 1976; and Frenzen, Hirsch, and Zerrillo, chap. 16, on the sociology of consumption and related matters, in this *Handbook*). The result can be significant types of nonprice selectivity by businesses and consumers that exist independently of government-imposed import restrictions or tarriffs (for an example, see Kuttner 1991, pp. 158–91). Differences across countries in the types and scope of selectivity raise fundamental problems in evaluating what a regime of free international trade looks like. Does international free trade require that governments take measures to eliminate these forms of cultural selectivity in the purchasing decisions of consumers and businesses?

Another set of problems centers around differences among countries in their environmental safeguards and in their policies on human rights and labor. Does a regime of international free trade require that goods produced by child labor or slave labor be allowed to compete freely with goods produced by employees with full trade-union rights? Similarly, should goods from a country with extremely lax environmental standards be allowed to compete freely with goods produced in countries with stringent environmental rules?

These dilemmas are particularly acute when it comes to movements of capital across national boundaries. The conflict between government's role in assuring an adequate domestic supply of money and credit and the idea that capital should be able to cross international boundaries in response to market forces can be dramatic. Polanyi ([1944] 1957, pp. 192–200) argues that states began in the nineteenth century to find ways to prevent destabilizing capital outflows, and an even broader array of policy measures has been used to limit or restrict capital outflows in the twentieth century. But this conflict has been intensified in recent years because the explosive growth of international financial transactions has been accompanied by powerful pressures on states to "deregulate" these transactions (Eatwell 1993). Many governments have responded to these pressures by dismantling previously established controls on the international mobility of capital.

The result is that the early 1990s have replicated a pattern that existed in the early 1930s. Most of the developed market economies have faced economic slowdowns and high unemployment, but states are severely restrained from taking remedial action. If one country were to attempt to stimulate its economy by expansionary monetary and fiscal policies, it would experience large capital outflows and strong speculative pressures against its currency. Moreover, the funds available for this speculative activity easily overwhelm the reserves that governments have available. And the problem is that even if that state were to devalue its currency dramatically, the speculative pressures would be likely to resume as long as the country's economic policies were out of phase with those of the other developed economies (Goodman 1992). In the 1930s, the situation changed only when states deliberately detached themselves from the rules of the international gold standard, placed limits on capital outflows, and pursued expansionary domestic policies. It remains to be seen whether the 1990s will see a comparable breakdown of the rules of the game governing international finance.

Individual states do not, however, freely choose a particular set of policies for regulating movements of labor, goods, and capital across their national borders. There has been a succession of increasingly formalized international regimes that establish rules which define certain state actions in this realm as legitimate and others as illegitimate (Block 1977; Keohane and Nye 1977; Wood 1986). While the strictness of enforcement varies over time, states that seek to break those rules can find themselves subjected to severe economic and political pressures. One interpretation of the prolonged conflict between the Soviet regime and the other developed powers was precisely that the Bolsheviks had violated the norms of several international economic regimes.

Moreover, these international regimes have not emerged from some democratic process in which all global citizens are equally represented. Rather, the international regimes have mirrored the balance of global military and economic power. Dominant powers have had disproportionate influence in shaping the international "rules of the game" governing economic transactions. However, the dominant powers have sought to confuse this exercise of power by invoking economic science to justify a particular set of rules as producing the best possible outcomes.

This is the source of much confusion. Advocates of specific international regimes have claimed that the regimes advance "free trade" or "free capital mobility," and they have evoked mainstream economics to argue that such a regime will benefit everyone. This advocacy sets up the kind of debate that is characteristic of the old paradigm—are the claims accurate, or would it be more beneficial for particular societies to allow a greater state role in managing international transactions? But this debate misses the main problem—that the concepts of free trade or free capital mobility have no determinate meaning. The argument for a particular free trade regime is an argument that certain background rules and practices be universally accepted.

For example, an international trading regime that imposed no environmental or human rights standards and one that imposed quite stringent environmental and human rights standards could both plausibly be defended as free trade regimes. Moreover, the conventional economic arguments in favor of free trade are silent on whether it is more or less efficient to have one or another set of background rules. The case is even clearer for free mobility of capital. Since the viability of national credit and money requires a national regulatory structure, there can be no such thing as totally free international capital mobility. The real question in structuring an international regime is where one draws the line between what forms of regulation are legitimate and what forms are illegitimate. And despite the current fashion for deregulation, the intellectual arguments for tighter international control of financial transactions are very powerful (Block 1992).

Conclusion

This discussion of the roles of the state in complex societies as seen from the market reconstruction perspective also makes it easier to understand the inadequacy of the five conceptions of the state described earlier. Defining control over productive assets, establishing the rights and responsibilities in recurring relations, providing money and credit, and securing national boundaries can all be described within the language of public goods. But precisely because these roles can be played in such a wide variety of different ways shows why the concept of the public-goods state provides very little analytic leverage. The Marshallian conception of a social-rights state is also flawed because it fails to recognize that the state's role in delineating the rights and obligations of different social groups long predates capitalism. Similarly, the idea of the stabilization state neglects the state's continuous historical role in shaping price levels through its influence on money and credit. Finally, there is reason to believe that most states aspire to be developmental states; the real issue are differences in their capacities and in the effectiveness of their policies.

But the most significant benefit of this new approach is that it reorients our perspective on the important questions to ask about the state's economic role. The traditional formulations tend to ask just one question—to what degree do particular societies rely on market allocation as opposed to state regulation? But that is often not the most important question, and it has diverted attention from other significant variations in state action. There has been, for example, far too little work that examines the ways in which different state policies influence the relative bargaining power of the parties in recurring transactions.

The market reconstruction perspective offers economic sociology a rich and complex research agenda. Since there is a substantial divergence between the old paradigm and the actual practices within societies over the past fifty or one hundred years, there is much work to be done to investigate those practices, compare them across time and across regions, and incorporate them into new theoretical frameworks.

Notes

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1. This assumption is occasionally disrupted by the emergence of authoritarian rightist regimes and anarchist leftist movements. However, this way of thinking has persisted despite its obvious limitations.

2. There is a vast literature on the relative merits of these different approaches, since advocates of privatization have often argued for the advantage of the second and third routes to the production of public or mixed goods. (For references to this literature see Osborne and Gaebler 1993; Hirschman 1970 includes an important discussion of the issue.)

3. One important variant of the "public goods" conception of the state's role is Douglass North's work (1981, 1990) on transaction costs and property rights. North's argument is that the pace of economic activity can be dramatically accelerated by reducing the transaction costs of carrying out exchanges. North's appreciation of the centrality of the state's role points beyond the old paradigm.

4. Klare (1978) has emphasized that part of the justification for the passage of the Wagner Act in 1935 was to redistribute income to bolster working-class consumption.

5. Moreover, important questions have been raised about the relationship between citizenship and gender; see Orloff 1993. For an analysis of the development of the welfare state in the United States in comparative perspective, see Skocpol 1992.

6. O'Connor's (1973) argument about the importance of state spending for "social capital" developed this argument well in advance of the current enthusiasm for infrastructure spending.

7. Marxist theory argues that the state in capitalist societies will primarily serve the interests of the dominant class. This insight has given rise to a rich debate over the precise mechanisms by which the state serves the interests of the dominant class and the degree of autonomy that this class enjoys. For discussions, see Alford and Friedland 1985; Block 1987; Carnoy 1984; Jessop 1990; van den Berg 1988.

8. For a more nuanced discussion of the difficulties of market societies, see Hirsch 1976.

9. Work of the first type includes Esping-Andersen 1985 on Social Democracy; Caplan 1993 on the Nazi state; Katzenstein 1985 and Schmitter 1979 on corporatist states; Nee and Stark 1989 on socialist states; and Evans 1989; Evans and Stephens 1988; and Rueschemeyer, Stephens, and Stephens 1992 on Third World states. Work of the second type attempts to distinguish among different types of capitalist societies. Important work includes the French regulation school (Boyer 1990); Burawoy 1985; Campbell, Hollingsworth, and Lindberg 1991; Gordon, Edwards, and Reich 1982.

10. Coase's theorem (1960) suggests the contrary: that the producer and the consumer of an externality would be able to reach a mutually beneficial agreement. However, Coase's theorem assumes the absence of transaction costs.

11. The issue of intellectual property is a good illustration of the general point being made here. Under what conditions should individuals and firms be granted ownership rights over ideas? Most societies have adopted a regime in which artistic, scientific, engineering, and commercial ideas are treated differently, but the boundaries between these categories are increasingly problematic. Moreover, the fact that many of these ideas can now be expressed in different electronic media has made it even harder to differentiate between proper and improper diffusion (Block 1990, pp. 208–12; Office of Technology Assessment 1986).

12. Similar points can be made about the centrality of state action for shaping landlord-tenant relations. For studies that stress the importance of variations in such relationships, see Moore 1966 and Paige 1975.

13. This is part of the reason why the gold standard and the notion of fixed targets for monetary growth have been so central to free market economic thought. These are both devices that aim to eliminate any discretion in government economic policies. There is a tacit recognition that once discretion is allowed, the legitimate range of governmental action will suddenly expand. The problem, of course, is that even with a gold standard or fixed monetary growth targets, there remains substantial room for a variety of policy actions (Swedberg 1986).

14. For a valuable review of the debates over the role of government in causing inflation, see M. Smith 1992. One important issue that Smith neglects which is of increasing importance is the role of governmental action in the inflation of asset prices. The dramatic increases in stock and land prices in Japan in the 1980s is a classic instance. Government regulatory and tax policies play a critical role in either encouraging or discouraging these episodes of dramatic asset price inflation or deflation.

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