The Defective State

The argument to be developed in this essay is based on three simple propositions. Perhaps the most important is that the nature of the competition between states in the international system has fundamentally changed. The second proposition is largely consequential: as the form of competition between states has changed, so have their nature and their behavior towards one another. The third proposition, which is hardly new or original, is that authority over society and economy is undergoing another period of diffusion, after two or three centuries in which it became increasingly centralized in the institution of the state. The three propositions together suggest two quite important conclusions. One, based on tacit premises about the state as the most important unit of analysis, is that much of Western social science is obsolescent, if not yet quite out-of-date. The second—the good news—is that the three propositions may offer the basis for a Cartesian synthesis of opposed paradigms in international studies, a synthesis which could resolve, at long last, a jejune dialogue of the deaf between apparently incompatible schools of thought about international relations that has bedeviled academic discussion—and puzzled a great many students—for most of the latter half of the twentieth century.

When I say that the nature of the competition between states has fundamentally changed, I mean that in the past states competed for control over territory and the wealth-creating resources within territories, whether natural or man-created. Now they are increasingly competing for market shares in the world economy. In this compe-

Susan Strange is Professor of International Political Economy, University of Warwick; Professor Emeritus, London School of Economics and Political Science; External Professor, European University Institute, Florence.
tion, territory is no longer the main basis for wealth-creation, no more than the amount of land in cultivation determines the value-added output of an agricultural enterprise. Resources—water, minerals, forests, etc.—may be an asset in the competition for market shares, just as the lack of them may be a constraint and a handicap. But they, too, are no longer the major determinant of success in the competition between states. Indeed, there are states, like Australia or Argentina, richly endowed with land and natural resources, which have often been far slower than resource-poor states, like South Korea, to win market shares in products or services where high value-added output offers better profit margins.

And when I say that as a direct consequence of this largely economic competition, the nature of states and their behavior has changed, I mean that industrial policy and trade policy are becoming more important than defense and foreign policy. States are obliged by structural change to seek commercial allies rather than military ones. Some of these allies will be other states, as in regional economic associations. Others will be foreign-owned firms. And the agendas for interstate discussion and bargaining are also changing, as are the issues arising in domestic politics.

The third proposition needs less explanation. The concept of the "new medievalism" has been around for some years now; there is a developing consensus that the state is coming to share authority in economy and society with other entities. These include, in my interpretation, not only transnational companies (TNCs), including banks, accounting and law firms, and international institutions like the International Monetary Fund (IMF) or Inmarsat, but also non-governmental organizations like Amnesty International or the Olympic sports organization and transnational professional associations of doctors, economists, and scientists. Within the state the authority of central government is, perforce, increasingly shared with local and regional authorities. The proposition, in short, is that state authority has leaked away, upwards, sideways, and downwards. In some matters, it seems even to have gone nowhere, just evaporated. The realm of anarchy in society and economy has become more extensive as that of all kinds of authority has diminished.

As to the two tentative conclusions, the study of economics, sociology, and politics or government continues for the most part to take the nation-state as the unit of analysis. Either the social scien-
tist studies and analyzes political, social, or economic issues within a specific state, or he is content to make comparative studies of two or more national societies, economies, or systems of government in the blithe disregard of the common structural forces at work in the global political economy.

I am not arguing that states themselves are obsolete. Collectively they are still the most influential and therefore critical sources of authority in the world system. But they are increasingly becoming hollow, or defective, institutions. To outward appearances unchanged, the inner core of their authority in society and over economic transactions within their defined territorial borders is seriously impaired. They are like old trees, hollow in the middle, showing signs of weakness and vulnerability to storm, drought, or disease, yet continuing to grow leaves, new shoots, and branches. Some are clearly more defective in terms of their ability to play their roles in society, further advanced in decrepitude, than others. But the structural forces bringing about the hollowing of state authority are common to all, and it is hard to envisage a reversal of the trends.

Finally, the jejune dialogue, which I hope my three propositions might resolve, will be familiar to anyone who in the last twenty or thirty years has been engaged in studying and teaching international relations. But not, perhaps, to others. Actually, it is a very old debate, not only between the realists and idealists, but a triangular one in which both are contested by the radicals or structuralists, whether Marxist or Gramscian. But from the late 1930s until perhaps the 1960s the old debate was eclipsed as World War II and then the Cold War gave the field to the realists, the analysts of power politics. They despair of changing an international political system based on territorially defined authorities (states) which claim sovereignty and independence from others. They use research and argument to enable states—usually their own—to cope better with the system and to survive in it. Idealists, by contrast, use research and argument to change the system, to reduce conflict and foster cooperation between states and by these means gradually to transform the system. They are variously labeled pluralists, liberal internationalists, neofunctionalists. Basically, they are reformers. The radicals, favoring radical structural change of social and economic relations, regard the interstate political system as one facet of an unjust structure of power. Although critical of the status quo, they
are less certain now than ever of how to engineer the kind of change they would like. The threeway dialogue is barren, jejune, and unproductive because the three paradigms have no common basis for debate. A great many students, consequently, have been presented with three different a la carte menus and left to puzzle out for themselves whether and how a sensible synthesis between the three is possible.

THE COMPETITION BETWEEN STATES

The starting point for this proposition is science and technology—an aspect of human relations often taken for granted by both economists and political scientists. Our common sense will confirm that since the Enlightenment the pace of scientific advance and technological change has steadily accelerated. It is continuing to do so. There is every reason to expect that the future will see an even faster rate of change. The nature of telecommunication technology is one very obvious example. No man or woman under the age of thirty would recognize the technically unsophisticated world of the 1960s or even the 1970s—no fax, no personal computers, no mobile phones, no video shops, no DNA tests, no cable television, no satellite communication networks.

Advances in science and technology have involved increased capital costs—in the research and development of new products and processes, and then in the installation of the means to deliver them to the market. The added capital needed for investment, combined with the shortening of the product (or process) life in the market, meant that in business after business the sales that could be made in the national economy, within the territorial borders of the state, were not enough to amortize the capital debt (in whatever form) before the product or process was overtaken by technological change. This was true even of large national markets; even more so of small and developing ones. Sweden is an example of a small economy whose firms (i.e., Asea, SKF, and Alfa-Laval) realized early on that their only hope of survival lay in the wider world market. South Korea is an example of a developing economy that is too small—even with a highly protected home market—to absorb the output, based on economies of scale, of shipyards or car or shoe factories using up-to-date technology.
Thus, accelerating technological change, not (as economists have
blindly argued) any internal preference within firms for reducing
transaction costs, explains the rapid internationalization of produc-
tion in the world market economy, a process which, inevitably,
relaxes the authority of the state over the enterprises based and
directed from inside their territorial borders. This “globalization” is
more than the rise of multinationals, so-called. They have been
around for a long time. Rather, what has changed is that products
and processes mostly designed and developed for national markets
are now mostly designed and developed for a multinational mar-
ket—for the reasons just given. It is the markets, not the enterprises,
that are multinational. This is not inconsistent with the fact that in
some sectors firms need to use new technologies to adapt their
products or services to local conditions.

The statistics are impressive—35,000 large TNCs with 150,000
affiliates, a total stock of foreign investment worth some $1,700
billion\(^3\)—but they are only the roughest indicators of what has been
happening. Firms may derive the bulk of their profits from foreign
sales without ever setting up production abroad. The growth is
faster among the uncounted small, specialist enterprises than among
giant corporations and conglomerates. Licensing and franchising,
which only rarely involve any transfer of funds, are the growth
areas in international production.

And the political consequences are even more important. The
break involved when a firm goes into foreign markets is the symbi-
otic one between national government and national enterprise.
Once the firm has many political masters instead of one, and once
it senses that it has to appear a “good citizen” of host states other
than its state of origin, it becomes engaged in a political juggling
act, negotiating with ministries, labor organizers, and suppliers and
distributors in several countries at once. Governments, for their
part, have become acutely aware that they are competing, as rival
suitors, for the favors of foreign firms. These firms often have
attractive assets that native ones lack. They may have command of
better technology and therefore are more likely to gain and keep
market shares—and also to give employment to local citizens. They
may have better access to capital, and they may have established
distribution systems giving them instant access to foreign custom-
ers—and therefore to foreign exchange if they will set up a local
production plant. The Chrysler Corporation’s worldwide distribution system was the one clinching factor that in the 1960s led Mitsubishi to agree—despite past official policy—to allow at least some American cars and parts into the Japanese market. The result of competition between states is an ongoing process of state/firm bargaining in which governments may often offer greater inducements, waive more rules and demands, to a foreign firm to enter its territory than it will to a native one to stay. The native firm, finding its market share eaten away by foreign competition, may scream for protection. But there is evidence, from the 1930s, 1970s, and 1990s, that the response of home states is often cosmetic, if only because there are other interests in more competition and cheaper products that will cancel out the protectionist lobby.4

The offers from governments in newly industrializing countries (NICs) are likely to be more generous and seductive than those from governments of developed countries. First, the NICs are hungrier for the capital, technology, and market access that TNCs command than are the industrialized countries. In addition, their rate of growth, of market expansion, is apt to be at least twice that of the industrialized countries; typically, it will be 6 or 7 percent, as opposed to at most 3 or 4 percent in the United States, Europe, and Japan. Second, the competition among host states—including the home state of any firm—is apt to have an eroding effect on two important sources of state authority: the power to tax and the power to regulate markets, including labor and financial markets.

In order to show how the nature of interstate competition can alter the use of state power and the behavior of states towards each other, we must contrast the present kind of competition with that which for centuries—millennia even—characterized the interstate system.5 The fact that there are differences between neighboring societies in culture, social institutions, religion, folk memories, and traditions is enough to account for the pursuit and defense of autonomy. The wish is almost universally shared to maintain those differences. But that cannot be achieved without government. And government does not come for free. Rulers, whoever they are, demand payment. They require command over the means of coercive force for internal and external purposes. Internally, they need coercive force to maintain against potential rivals the privileges and perquisites that go with government. Externally, they need coercive
forces to deter or repel threats from other states to their autonomy. Shakespeare's Henry V is a vivid demonstration of the two needs: after the long civil War of the Roses, the king needs military command to charge and eliminate suspected rivals—those he brands as "traitors." Only then can he safely set out to use the same military power to acquire a larger realm—more land to tax—across the English channel.

The main source of revenue that has allowed government to maintain command of coercive force has, for most of human history, been farming. Conquest of neighboring lands offered one means of increasing revenue. The larger the territory of the state, the more peasant labor was available to work the land. Marriage, if custom required the bride to bring a dowry of valuables and of land, was another. (Henry V found both new land and a new bride in France). Commerce could also be taxed as a supplement to the resources of the government. In North Africa in the fourteenth century, the political economist Ibn Khaldun discovered that when the gold traders changed their route and that supplementary source of revenue dried up, the local rulers encountered resistance from the peasants if they taxed them too hard. A rapid turnover of rulers resulted because the revenue from land was insufficient to give the rulers command of enough military power to quell potential rebels.6

To reiterate, the wish for autonomy from others gives rise to the multiplicity of states. Military power under the control of government is a means to that end. It is also necessary to keep control over the institutions of government and to maintain a monopoly of the privileges and perquisites of government. When there is competition for both control and privilege, there is conflict, as we can see from the conflicts in the former Soviet Union since 1989, and in Rwanda, Vietnam, Somalia, and many other places. Thus, it seems likely that civil conflict is becoming a greater threat to personal security than is interstate conflict. The affluent states are aware that their affluence depends on a continued world market share rather than a command of territory or resources. War could destroy that source of affluence, so they now show every sign of regarding a major war between themselves as unthinkable, and not only because of the destructiveness of nuclear weapons.7 It is only a few states—like Iraq and Iran—with highly authoritarian, repressive governments who are, for the time being, immune to the moderating influence of
a middle class with material aspirations, and whose rulers can disregard the imbalance of costs and benefits in going to war.

Yet, the affluent states (i.e., the United States, Britain, France, and Germany) continue to spend vast sums on maintaining their military capabilities. Part of the explanation comes from the military-industrial complex. This was perceived more than thirty years ago by President Eisenhower, and in the meantime has become ever more firmly entrenched in the US economy. But part also comes from the very nature of the new game of competition between states. State support for firms in defense industries, by means of government contracts, can hope to gain market shares both for the firms and for the state, and not only in the markets for arms but also in world markets for civilian goods and services which benefit from the same technology. The rationale for this rather expensive acquisition of market shares is found in popular uncertainty as to whether major war between advanced industrial societies really is obsolete. Only time will still such doubts; as long as they remain, defense ministries will command government revenues and defense industries will be protected and maintained.

THE NATURE OF THE STATE

For the nature of an individual state to change very radically is neither new nor unusual. The French Republic after the Revolution, the Empire after the Terror, were both radically different in their ideologies, institutions, and strategic objectives from the French state under the Bourbons. The federal government of the United States underwent almost as radical a transformation during World War II, when it became, temporarily, manager of a largely state-planned and substantially state-owned economy. War, revolution, demographic change, great enrichment or sudden impoverishment, inflation or depression, even climatic or ecological change can account for profound political change.

But that all—or nearly all—states should undergo substantial changes of roughly the same kind within the same short period of time is really a new phenomenon. Even the last big change in Europe, from states based on a feudal system of agricultural production to states based on a capitalist system of industrial production, was spread over two or three centuries. It did not take place
The Defective State

as quickly or as evenly as the changes recently experienced by the vast majority of states over the last twenty or so years.

The reasons suggested here—the accelerating rate of scientific discovery and technological change; the shift from land, labor, and capital (in that order of importance) as the key factors of production to capital, information, and energy; and the shift from production for local and national markets to worldwide markets—were structural changes. No national society that experienced economic growth and development remained insulated from these changes. Only the least developed of the poor countries (mostly in Africa) experienced few of these changes. Even the states with planned economies, which are now in the process of joining the world market economy, shared the same experiences.

Just how these structural changes have undermined the authority and ultimately, I believe, the legitimacy of the state can be summarized in three major hypotheses, and one minor one. The first major hypothesis is that there has been a great increase in the asymmetries of state authority. In other words, while the US government may have suffered some loss of authority, the loss has been to the markets, not to other states; whereas, for other states, their vulnerability not only to the forces of world markets but also to the greater global reach of US authority has markedly increased.

The second hypothesis is that some authority over less politically sensitive issues has shifted from national states to international authorities of various kinds, both interstate institutions and private and commercial organizations. There has been, one could say, an “upward” shift of authority as well as the first “sideways” one. The minor hypothesis—not so universally experienced—is that there has been in many states a “downward” shift of authority, from central authority to local and regional authority. And the third major hypothesis is that, as a result mainly of the integration of the world economy, in finance, transport, and communication, as well as production, there are some important responsibilities of political authority that no one in a system of territorially defined states is in a position fully to discharge.

If each of these is taken in turn, it becomes apparent that the nature of all states has changed as a result of commonly experienced structural changes. The hypothesis of increased asymmetric power is one which academic opinion in the United States has
found most difficult to accept. Indeed, it has been nearly twenty years since American social scientists began to complain of a loss of American power in the world. And it has been only in the last three or four years that the still widespread belief in American decline has been challenged and questioned. Outside the United States, where the global reach of US political decisionmakers was often palpable and painful, perceptions have always been very different, even though some academic writers followed the American intellectual way of thinking. It is the toads beneath the harrow who are bruised by its passage.

ASYMMETRIES OF STRUCTURAL POWER

The study of international relations has not helped on this issue. Concerned with relations between states, it naturally tended to think of power in relations—what I would call relational power—and in the balance of power between states, not between states and other political authorities on the one hand and markets and society on the other. Except among Marxists and dependistas, the idea of power exercised over both markets and social relations through structures, by influence over the way decisions are made, agendas are set, and transactions and negotiations are conducted, has not taken hold. Yet, only by looking at the structural power exercised—often unconsciously—over other states, markets, private individuals, and firms by the agencies of the United States can the extent of the asymmetries of state power be appreciated.

The difference can best be illustrated by some simple examples: two from international politics and two from world markets. In the Gulf War, the key decisions on when and how to attack Iraq were made by the US government and were backed and implemented by its former Cold War allies as a consequence of the relational power exercised in a series of bilateral relations. In Yugoslavia the fundamental imbalance of military force between the Serbs and the Bosnians was indirectly the result of two ways in which the United States exercised its structural power in matters of security. First, as part of its Cold War strategy it had supplied arms to the former Yugoslav government, making that army the second largest in Europe. Second, the United States used its influence with other allied governments to institute and maintain an arms embargo against the Bosnians.
Without leadership from Washington, it is doubtful whether this unevenhanded treatment of the civil conflict would have persisted for so long. True, the divided opinions and policies of the Europeans prevented them from taking any concerted stand on this matter, as on others, and for this inaction and indecision they are much to blame. But as the superpower on whose protection the other affluent allies have so long depended, the United States' influence in matters of security is hard to resist.

Moreover, what Anthony Sampson once called the "arms bazaar," the private trade by manufacturers, dealers, and governments in weapons of great technical sophistication and destructive power, is a major feature of the global security structure. It could hardly have developed to the extent it has without the tacit consent of the United States, whose taxpayers and manufacturers have a vested interest in expanding marginal sales. And this lethal trade, as portrayed in John Le Carre's The Night Manager and many other current bestsellers, clearly reflects at the global level the prevailing American attitude that guns are just another consumer good to be sold freely on the market.

The oil market is another example of a world market that is much influenced by political decisions made by the United States. The oil market was effectively liberated by the US government in the 1950s from liability to normal corporate taxation. The result has been that throughout the world states have given extraordinarily free financial rein to the oil majors. Only after the Exxon Valdez oil spill in Alaska did the US government, through the courts, demand more accountability in the conduct of the oil business—an example which other states have not been slow to follow. Altogether, the business civilization that now prevails throughout the world for the decisionmakers in government and in business is one shaped by and modeled on the business civilization of America.10

My last example is taken from what I describe as the knowledge structure—the power structure in which choices are made about what knowledge is acquired, stored, and disseminated, and to whom. Here, there can be little doubt that power lies with American universities and American professional associations. The number of foreign students enrolled in US colleges and universities compared with those enrolled in European or Japanese universities is an indication of the American dominance of the world market in
higher education. The influence of US laws on patents and property rights in medicine and pharmaceutical research throughout the world similarly demonstrates a structural power that directly affects the life chances—good or bad—of millions of people.

In the financial structure, there has been much discussion recently of the tremendous growth in trade in futures, options, swaps, and other so-called "derivatives." The chief officials of the Federal Reserve, the US Treasury, and the Securities and Exchange Commission have all denied Congressional misgivings. There was no danger to the system and no need to tax, restrict, or control the practice, they said. Given the integration of financial markets worldwide and the transnational competition of banks and other players in the market, no other state can reverse the deregulatory trend. It was clearly set by US decisions in the mid-1970s, and competition has ensured that it has gathered speed. Any attempt at national regulation outside the United States would only move the business offshore.

There are many other ways to illustrate the consequences of structural power on the unequal ability of national governments first to develop different perceptions of how a market economy should be managed and then to devise national policies and measures to implement those perceptions. For example, while the United States has the power to put pressure on Taiwan to revalue its currency or even to improve its protection of native wildlife, Taiwan has no countervailing power over US monetary or environmental policies. Sometimes, as with the US pressure on China over human rights, there are seen to be limits to the global reach. But the fact of increased asymmetry among sovereign states is undeniable.

This means that the notion of the sovereignty of the state in matters of domestic jurisdiction—though enshrined in Article 2, paragraph 7 of the UN Charter—has become even more of a fiction than it was in 1945. The concept of the equality of states before the law was always a convenient legal fig leaf for the realities of power. Even in 1948, in a now-forgotten case before the United Nations, the law was powerless to prevent the Indian invasion and occupation of the state of Hyderabad. Forty years later, no one seriously queried the legal propriety of the US hijacking of Noriega in the "sovereign" state of Panama. Now that the United States has largely succeeded in creating an open world economy in its own liberal
image, and patterned according to its own value preferences and judgments, the fig leaf of equal sovereignty even before the law has become more flimsy than ever.

THE DIFFUSION OF AUTHORITY

If I have dealt at some length with my first hypothesis, the increased asymmetry of structural authority in the world society and the world economy, it is because this is the one given the least recognition in the literature either of comparative political science or of international relations. No less important are the other two hypotheses: that authority has shifted from states as a collectivity of political authority both upward and downward; and that in these various modifications of the conventional model in which territory, state authority, and economy are coterminous, some authority formerly exercised by states is not really being exercised by any political authority.

Let us take first the shift of authority away from states as a collectivity of established, legitimate authorities to other sources of power. These include intergovernmental organizations like the IMF or the Commission of the European Union, and also nongovernmental organizations like Amnesty International, Médecins sans Frontières, the Save the Children Fund, or Greenpeace. They also include the growing number of TNCs engaged in the manufacture or processing of traded goods and the service enterprises such as law, accounting, and consulting firms, and the financial operators associated with them but playing a somewhat different role.

About the "upward" diffusion of authority to international organizations, both intergovernmental and nongovernmental, I have little to say. Not because it is an unimportant part of the picture but because it has been more fully explored elsewhere. There is little need to labor the point that the authority of the state is, increasingly, being either shared with, sustained by, or constrained by these proliferating authorities.

The same, I believe, is true of the "downward" diffusion of the authority of the central institutions of many states to local or regional authorities. There is hardly a federal state, with the possible exception of Switzerland (where the decentralization of power from Bern to the cantons has always been jealously guarded and
maintained), that is not experiencing some tension between federal and state authority. Again, this is a development on which others may have a more informed view than I, and on which the evidence is rather scattered and stochastic. Therefore, I shall not have more to say on this point than that the nature of devolution within states calls for more comparative research and structural analysis.

More controversial and perhaps more important is the diffusion of authority from states as collectivities of authority based on territorial control to transnational enterprises and associations based on other sources of power. If one is heard saying that TNCs have power in the international political economy, it is often misinterpreted as meaning that the "multinational" firm has somehow usurped the role of the state—sovereignty-at-bay, footloose multinationals and all that—so that governments are mere pawns in the hands of corporate managers. That is an old and sterile debate from the 1970s, based on the notion that the authority of national government and the authority of corporate management are similar and somehow transferable from one to the other.

My hypothesis is different and goes back to the sources of structural power in society and economy. The shift I am concerned with is between the sources of structural power, not a change of hands on the levers of that power. It was explained and rather extensively illustrated in Rival States, Rival Firms, Competition for World Market Shares, a book I wrote with John Stopford, Professor of International Business at the London Business School. We argued that the U-turns we observed in so many developing countries in the late 1980s and early 1990s from protected home markets, state ownership, and import substitution to liberalization, privatization, and export promotion, and from antipathetic exclusion or restriction of the operations of foreign firms to an altogether more welcoming and accommodating posture, were no accident. All these changes came about through the control exercised by those foreign firms over the means to the end of earning foreign exchange which governments desperately needed and were unable to achieve any other way than by negotiation and bargaining with the foreign firms. This "new diplomacy," as we termed it, was based on the bargaining power exercised by the firms and derived from three assets coveted by states. Perhaps the most important asset was the access to foreign markets and customers which it would take inex-
experienced domestic firms years of effort and large investments to acquire for themselves. The other obvious asset was mastery of up-to-date technology, which experience had shown was not easily transferred to less-developed countries (LDCs) by edict of the United Nations Conference on Trade and Development (UNCTAD) or the United Nations. In addition, there was access to the financial resources made available in global financial markets. Especially in the 1980s, the limited access of indebted LDC governments had been demonstrated in the most painful way. But General Motors or Matsushita or Asea Brown Boveri had no such problems. Banks would lend to them, securitize their promises to pay, or underwrite their shares or bond issues. They were creditworthy in the eyes of the market as governments of many developing countries were not.14

To understand the nature of the shift it is necessary to look beyond the new diplomacy of state/firm bargaining to the increase in the political, as opposed to the purely economic, activities and responsibilities of transnational enterprises. I will mention just two such responsibilities: the responsibility for the location of production; and the assumption of judicial and welfare responsibilities within the community. When a transnational firm, German or Japanese, let us say, decides to shift production offshore to Latin America or to the Asian mainland, the political management of the consequences is not a matter for the state but for the firm. And the consequences of thousands of such shifts, as Deanne Julius has predicted, will be a major transfer of manufacturing capacity from the “developed” economies of America, Europe, and Japan to what used to be known as LDCs. Firms, responding to markets, effect more change in less time in the distribution of wealth in the global economy than all the international organizations and bilateral aid programs have done in nearly half a century. Firms are also—and this is one important consequence of the “Japanese miracle”—assuming a much greater political role in the provision of welfare. Not only are the pensions, bonuses, and fringe benefits provided by firms for their employees much more important in many cases than anything the state provides, but more “progressive” firms see what is essentially a political role for themselves in the community, as dispensers of charity, as sponsors of sport and culture, as providers
of medical or other services to the community beyond the office or
the factory gates.

By comparison with the literature on international production
(especially industrial production of manufactured goods) relatively
little attention has been paid to the political economy of the service
industries. Political functions of a kind central to any market-based
capitalist economy, which used to be exercised either by the state or
under close state regulation, are now being exercised by firms in
service sectors—accountancy firms, large transnational law firms,
insurance companies, and management consultants.

CONCLUSION

I suggested in the opening paragraph of this essay that two conclu-
sions might emerge from the analysis briefly presented here. Actu-
ally, they are more in the nature of questions. One suggested con-
cclusion was that Western social science—and especially social sci-
ence directed at the world system—had overemphasized both the
role of the state and the violent conflict between states as the core
problematique of the system. The second suggested conclusion was
that changing the problematique of international studies could re-
solve at long last the opposition of paradigms, the dialogue of the
deaf, between optimists and pessimists, idealists and realists, in the
study of the international system. Both conclusions lead to ques-
tions for which I have no certain answers.

The first conclusion that peace or war is no longer the core
problematique poses the question, “If not that, then what is, or are,
the issues?”15 If interstate war is on the way out, that is, incidentally,
one very good reason for the declining authority of the state. The
state was once the guardian of national security; its right to loyalty
and obedience and its authority to levy taxes rested fundamentally
on that role. If the role goes, and if it is then insufficiently replaced
by the welfare role of the state as guardian against economic inse-
curity—whether from unemployment, illness, pregnancy and par-
enthood, or old age—it is little wonder that its authority declines.
But a new problematique takes the place of the old. There is a
world economy and a world society, but territorial states still claim
a sovereignty they are not, for the most part, capable of exercising
as they used to. It is also a system, as my first hypothesis suggested,
The Defective State

in which the asymmetry of power between states has greatly increased. This asymmetry means that the most powerful are able to block, even veto, any exercise of authority in global issues of the environment, of financial regulation, or of the universal provision of basic needs for food, shelter, and health care.

The question that arises is how to deal with this asymmetry of structural power. If the hegemon, or dominant power, either will not or cannot play its stabilizing, confidence-building role, what is to be done? Ten years ago, my answer would have been that it must be persuaded by the argument that it was in its own long-term interest to play the hegemonic role. But that was during the Cold War, when the balance of power, the need to hold the Western affluent alliance together in opposition to the centrally planned economies of the Soviet bloc, provided one strong motive for good government from Washington. Now there is no such check on the natural (but destructive) unilateralist tendency in the US political system. Today, my answer, tentative as it must be, is that the only way to remove the present hegemonic, do-nothing veto on better global governance is to build, bit by bit, a compelling opposition based on European-Japanese cooperation but embracing wherever possible the Latin Americans, Asians, and Africans who share some of the same interests and concerns for the future.

The second conclusion that because the problematique has changed a new synthesis of realism about the international political economy and idealism for the future of mankind becomes possible raises a different question—or, rather, series of questions. These relate to the second and third of my hypotheses—that authority over society and economy has become diffused in a neomedieval fashion, and that some necessary authority once exercised by states is now exercised by no one. The first question, more disputed by economists than by political scientists, is how much in the way of rules, supervision, and intervention by political authority is necessary for the system’s continued stability, equity, and prosperity—I would not prejudge the issue by saying “growth.” What, in other words, is the sine qua non of political management for a capitalist, market-oriented, credit-dependent economic system of production, trade, and investment? Just as experience and the record of history have clearly shown that society can tolerate a certain measure of violence and insecurity, that economies can carry on despite a certain degree
of inflation in the value of money, a measure of financial instability, the answer to the question, “How much anarchy is too much?” is by no means clear. To put the question another way, how much does it matter to the system, to the people living in and by it, that half of Africa and certain parts of Latin America and Asia remain sunk in political chaos, economic stagnation, recurrent famine, endemic disease, and internecine warfare? I do not know the answer, but it does seem that social scientists shirk the responsibilities that go with their privileges if they fail to think about that question.

The second, even harder question is where is that authority to come from, if we agree that the centrifugal process of diffusion of authority away from the state is unlikely to be reversed. The diffusion is no problem in itself. It only becomes a problem if, in the process of dispersion of power, there are tasks that someone should do and no one, no institutions nor associations, does. Functionalists, old and new, put faith in the professionals, in technocrats and bureaucrats who they believed might be more attentive to the public interest, less swayed by personal interest. The experience of bureaucracies in international organizations, and notably in the European Commission in Brussels, hardly sustains their faith. But could better systems of accountability and probity be devised? Or can the resources of transnational firms, their concern for the health and welfare not of one country but of the global economy on which they depend for survival, be harnessed in some new form of syndicalist self-government, as in the settlement of trade, property, and liability disputes? Legal theorists in global jurisprudence have developed the notion of *autopoesis* as the possible basis for a new international order where government by the state fails or is incomplete. How could this be translated into a sufficiently coherent substitute for the authority of states?

None of these are easy questions. But unless the intellectuals can find the courage to abandon the impedimenta of a fast-vanishing past and can start thinking anew about some of the basic issues of society, polity, and economy, progress of any kind toward a sustainable system will be impossible. Figuring out the questions is a necessary first step.
The Defective State

ENDNOTES


3United Nations Center on Transnational Corporations, World Investment Report, 1993. The UNCTC is now a part of the UN Economic and Social division, New York.


5It is hardly necessary to explain why a competitive interstate system exists. Attempts to substitute a world empire for it, or to maintain indefinite isolation from other states, have all failed, and neither alternative to interstate competition appears feasible in the foreseeable future. Therefore, it is the nature of the competition between states, not the existence of an interstate system, that is the crucial question.


13Ibid.

14There may be a conceptual problem here for political theorists, though not, I think, for political economists. It is whether it is possible to talk of the “power of markets” as distinct from the power exercised by foreign-owned firms (FOFs) because of their reputation in the markets. Observing the contests in recent years between the markets in foreign exchange and the central banks of states, it seems more sensible to talk of the power of the market than the power of individual banks or operators (let alone individual prophets and soothsayers like Henry
Kaufman or George Soros). The latter only exercise power over outcomes through the structures of the market.

15This is not to say that there is no danger at all of nuclear catastrophe; only that it is much less acute a danger. Nor is it to say that there is no threat of violence to the security of the individual, only that such threats as there are are more likely to be civil, intra-state conflict either between criminals and police or between warring factions, or between state forces and dissidents or separatists.