

Cambridge
C
Studies in
S
International
i
Relations
r

*The Retreat
of the State*

*The Diffusion of
Power in the
World Economy*

Susan Strange

This page intentionally left blank

Adopting new and much more comprehensive concepts of both *power* and *politics*, *The Retreat of the State* develops a theoretical framework to show who really governs the world economy. It goes on to explore some of the non-state authorities, from mafias to the Big Six accounting firms and international bureaucrats, whose power over who gets what in the world encroaches on that of national governments. The book is a signpost, revealing fresh ideas and pointing to some promising new directions for research and teaching in international political economy.

CAMBRIDGE STUDIES IN INTERNATIONAL RELATIONS: 49

The retreat of the state

Editorial Board

STEVE SMITH (*Managing editor*)

CHRISTOPHER BROWN ROBERT W. COX

ANNE DEIGHTON ROSEMARY FOOT JOSEPH GRIECO

FRED HALLIDAY ANDREW LINKLATER

MARGOT LIGHT RICHARD LITTLE R. B. J. WALKER

International Political Economy

ROGER TOOZE CRAIG N. MURPHY

Cambridge Studies in International Relations is a joint initiative of Cambridge University Press and the British International Studies Association (BISA). The series will include a wide range of material, from undergraduate textbooks and surveys to research-based monographs and collaborative volumes. The aim of the series is to publish the best new scholarship in International Studies from Europe, North America and the rest of the world.

CAMBRIDGE STUDIES IN INTERNATIONAL RELATIONS

- 49 *Susan Strange*
The retreat of the state
The diffusion of power in the world economy
- 48 *William I. Robinson*
Promoting polyarchy
Globalization, US intervention and hegemony
- 47 *Roger Spegele*
Political realism in international theory
- 46 *Thomas J. Biersteker and Cynthia Weber (eds.)*
State sovereignty as social construct
- 45 *Mervyn Frost*
Ethics in international relations
A constitutive theory
- 44 *Mark W. Zacher with Brent A. Sutton*
Governing global networks
International regimes for transportation and communications
- 43 *Mark Neufeld*
The restructuring of international relations theory
- 42 *Thomas Risse-Kappen (ed.)*
Bringing transnational relations back in
Non-state actors, domestic structures and international institutions
- 41 *Hayward R. Alker*
Rediscoveries and reformulations
Humanistic methodologies for international studies
- 40 *Robert W. Cox and Timothy J. Sinclair*
Approaches to world order
- 39 *Jens Bartelson*
A genealogy of sovereignty
- 38 *Mark Rupert*
Producing hegemony
The politics of mass production and American global power

Series list continues after index

The retreat of the state

The diffusion of power in the
world economy

Susan Strange

University of Warwick



CAMBRIDGE
UNIVERSITY PRESS

Published by the Press Syndicate of the University of Cambridge
The Pitt Building, Trumpington Street, Cambridge CB2 1RP
40 West 20th Street, New York, NY 10011-4211, USA
10 Stamford Road, Oakleigh, Melbourne 3166, Australia

© Cambridge University Press 1996

First published 1996
Reprinted 1997 (twice), 1998

A catalogue record for this book is available from the British Library

Library of Congress cataloguing in publication data

Strange, Susan, 1923-

Power diffused: state and non-state authority in the world
economy / Susan Strange.

p. cm. - (Cambridge studies in international relations; 49)

ISBN 0 521 56429 8 (hc). - ISBN 0 521 56440 9 (pb)

1. International economic relations - Political aspects.

2. Economic policy. 3. Power (Social sciences) 4. World
politics - 1989- I. Title. II. Series.

HF1359.S769 1996

337 - dc20 96-375 CIP

ISBN 0 521 56429 8 hardback
ISBN 0 521 56440 9 paperback

Transferred to digital printing 2003

Contents

<i>Preface</i>	<i>page ix</i>
Part I Theoretical foundations	
1 The declining authority of states	3
2 Patterns of power	16
3 The limits of politics	31
4 Politics and production	44
5 The state of the state	66
Part II Some empirical evidence	
6 Authority beyond the state	91
7 Telecoms: the control of communication	100
8 Organised crime: the mafias	110
9 Insurance business: the risk managers	122
10 The Big Six accountants	135
11 Cartels and private protectionism	147
12 International organisations: the econocrats	161
Part III Conclusions	
13 Pinocchio's problem and other conclusions	183
<i>References</i>	200
<i>Index</i>	210

Preface

There is no great originality in the underlying assumption of this book – which is that the territorial boundaries of states no longer coincide with the extent or the limits of political authority over economy and society. In an earlier antitextbook for students of international political economy, *States and Markets*, I laid out a simple framework for analysing the who-gets-what of world society based on four basic structures. In these, power over others, and over the mix of values in the system, is exercised within and across frontiers by those who are in a position to offer security, or to threaten it; by those who are in a position to offer, or to withhold, credit; by those who control access to knowledge and information and who are in a position to define the nature of knowledge. Last but not least, there is the production structure, in which power is exercised over what is to be produced, where, and by whom on what terms and conditions. All of these power structures spill over those often arbitrary lines that are drawn on maps to indicate the territorial limits of the authority of one state from that of another. While *some* structural power over your security is still exercised within these territorial lines by the political authority of that state, not all of it is provided, nor all of it threatened, only by that state authority. This is even more true of the financial structure of the international political economy. A young wheeler-dealer trader for a British bank is able by his insufficiently supervised arbitraging in Singapore to bring about the downfall of Barings. His Japanese counterpart working for Daiwa in New York was able to run up losses of over \$1 billion, leading to the closure of the bank's US operations. Between the cracks in the regulatory structure agreed among the world's major central banks since the mid-1970s, it seems that private operators can function somewhat beyond the control of any of them.

Preface

As for the knowledge structure and the production structure, it is a long time since territorial states lost such control as they may once have had over the production of goods and services within their borders, and over the creation, storage and communication of knowledge and information.

This simple framework essentially challenged all those approaches to teaching and research in international relations and political economy which continued to focus on the bargaining between governments over international trade in goods and services, over exchange rates and bank supervision, and over foreign investment. For them, the adjective 'political' in political economy related merely to the policies of states, and not to the activities and policies of non-state actors in the world system. The structural approach came more easily to sociologists and was also developed by Anthony Giddens who had earlier coined the rather clumsy term, 'structuration' (Giddens, 1979, 1985). It was also implicit in the work of Robert Cox (Cox, 1987). What the notion of structural power in world politics, society and economy did was to liberate the study of international political economy from the so-called realist tradition in the study of international relations. What was wrong with *States and Markets* was the title. It obscured the point, made clear enough in the text, that out of the four kinds of structural power described and analysed, states took the lead role in only one – in security – and even there often needed the support of other states. In all the other structures, non-state authorities played a large part in determining the who-gets-what. *Markets and Authorities* would have been a more accurate title.

Thus, the present study is really an extension, or elaboration, of the same ideas about power and transnational relations that characterise the contemporary world scene. These ideas actually had roots even further back than *States and Markets*. They had emerged in the course of a research project I directed at Chatham House in the mid-1970s. It was on transnational relations, and was funded by the Ford Foundation for three years. My colleagues were Marcello de Cecco and Louis Turner. Marcello developed some new ideas on international money and finance which, with characteristic verbal economy, he put into a seminal article in *International Affairs*;¹ Louis worked on the world oil business – hot stuff in those days – and produced a book.² I produced two articles,

¹ M. De Cecco, 'International Financial Markets and U.S. Domestic Policy since 1945', *International Affairs*, July 1976.

² L. Turner, *Oil Companies in the International System*, Allen and Unwin for RIIA, 1978.

one general and vaguely theoretical, the other specific and empirical.³ I now see the latter as the forerunner of the present volume. For it identified a series of non-state authorities as exercising structural power by determining the arrangements according to which sea trade was conducted, regulated and paid for. It showed how the risks and opportunities, the costs and benefits were shared among those engaged in the transnational business of sea-trade, whether as shippers or shipping enterprises, as workers or regulators. Not least among these – then as now – was the international insurance business, together with the cartel of shipping firms organised as a shipping conference. (For an updated analysis of both, see chapters 9 and 10 in the present volume.)

Over the two decades that have gone by since that Chatham House project on transnational relations, it seems to me that the powers of most states have declined still further, so that their authority over the people and their activities inside their territorial boundaries has weakened. Non-state authorities, meanwhile, have impinged more and more on those people and their activities. The present book is an attempt to explain, with examples, *how* this has happened, and to explain by theoretical analysis *why* it has happened.

Not everybody, of course, will agree with the premise that the authority of the state – with the notable exception of the United States of America – has declined in recent years. The intrusion of governments into our daily lives in the 1990s, as compared, say, with the 1890s, is palpably greater. Statutory or administrative law now rules on the hours of work, the conditions of safety in the work-place and in the home, on the behaviour of citizens on the roads. Schools and universities are subject to more and more decisions taken in ministries of education. Planning officials have to be consulted before the smallest building is started or a tree is cut down. The government inspector – once a rare (and sometimes comical) visitor – has become a familiar and even fearful figure. None of this government interference comes without a cost. The growing intrusiveness of government is reflected in the surplus value extracted by the state from the economy, from a man or woman's day's work in farming, in manufacturing, in trade or in service enterprises. This shows in the share of Gross Domestic Product pre-empted by government. The revenues of government now appropriate up to 60 per cent of national income where once the maximum figure was barely half that. 'Reform', these days, is apt to mean cutting

³ S. Strange, 'Transnational Relations and "Who Runs World Shipping?"' *International Affairs*, July 1976.

Preface

back on the activities of government, shrinking the bureaucracy and imposing husbandry and economy on government offices. It used, within living memory, to mean the exact opposite: using the authority of government to impose more humane and regulated behaviour on business and the private sector generally.

How then is it possible to proclaim a retreat by government, a decline in the authority of the state within its territorial frontiers? The answer, developed in some more detail in chapter 5, relates not to the quantity of authority exercised by the governments of most territorial states, but to the quality of that authority. It rests on the failure of most governments to discharge those very basic functions for which the state as an institution was created – the maintenance of civil law and order, the defence of the territory from the depredations of foreign invaders, the guarantee of sound money to the economy, and the assurance of clear, judicially interpreted rules regarding the basic exchanges of property between buyers and sellers, lenders and borrowers, landlords and tenants.

The necessity of the state as a public good, in short, arose with the emergence of a developed market economy. Modern nationalism – as often imagined as real – was in large part the creation of modern capitalism. The market economy could not function properly without the political framework provided by the state. National sentiments of identity and loyalty provided the glue that gave social cohesion to the political framework. Where territorial states had existed before the birth of a capitalist economy, they had done so not so much as a public good but as a private perquisite of the powerful.⁴ The very idea of a social contract could not have been conceived without the economic necessity of civic cooperation between state and society.

The other implicit assumption I have made in writing the book at all is that change in the international political economy has so far been inadequately described and diagnosed for what it is by most of my colleagues in the academic community of social scientists. The evidence for that statement is to be found in a string of vague and woolly words, freely bandied about in the literature, but whose precise meaning is seldom if ever clearly defined.

⁴ The idea of the territory of the state as private property persisted into the twentieth century. The Belgian Congo before gaining independence was claimed as the personal property of the King of the Belgians. The Sultan of Brunei and the Ruler of Kuwait similarly claimed the territory of their respective states as belonging to them personally, and in the latter case that the revenues accumulated as national monetary reserves were private assets and therefore need not be reported to the International Monetary Fund (Strange, 1971).

The worst of them all is 'globalisation' – a term which can refer to anything from the Internet to a hamburger. All too often, it is a polite euphemism for the continuing Americanisation of consumer tastes and cultural practices.

The much older term 'interdependence' similarly hides the truth behind a persuasive euphemism for asymmetric dependence. It is true that many writers who have used the term since the economist Dick Cooper first used it in the title of a book in the late 1960s (Cooper, 1968), have explicitly admitted that the prefix 'inter' does not sufficiently convey the inequality of dependence between the parties. Nevertheless, its everyday use often serves to dull or even conceal the reality of relationships, the crude facts of structural power over other governments and over other societies. 'Interdependence' is much like the word 'multinational'. That term was allegedly coined by the PR division of International Business Machines in the early 1960s to conceal – or at least divert attention from – the fact that IBM was an American enterprise, even though it was seeking market access to many countries throughout the world. The firm was in no sense 'multinational', although its operations were. I do not suggest that Cooper also deliberately used the word interdependence in order to conceal the fact that the inter-governmental cooperation he argued was necessary for the continued prosperity of all the advanced industrialised economies was more in the American than, say, the Swiss or the Swedish interest. But that was the truth of the matter since the Americans, as guardians of nuclear weapons and thus of the security of all the members of the affluent alliance, reserved to themselves the right to decide, with or without consultation, when to use military power or the threat of it.

The latest of these semantic euphemisms that have crept into common parlance – even when we recognise them for what they are – is the phrase 'global governance'. There are now innumerable centres for the study of global governance. There are books using the phrase in their sub-titles; there is even a journal so called. What it is usually taken to mean is cooperation and harmonisation or standardisation of practice between the governments of territorial states, most often effected through an international bureaucracy. The implicit assumption conveyed by the two words, 'global' and 'governance', is that government is being achieved on a world scale by a world authority. Yet the truth, as any student of inter-governmental organisations is well aware, is that the limits and the nature of any intergovernmental bureaucracy's decision-making power are set by the most powerful of its member

Preface

governments. The international organisation is above all a tool of national government, an instrument for the pursuit of national interest by other means. This elementary perception of old-fashioned realists is obscured – probably unconsciously – by most of the rather extensive literature on international regimes. Too often, a regime is represented as merely the consequence of a harmonising process, through which governments have coordinated their common interests. The power element is underplayed. Yet in reality, many international regimes have not so much been the result of a coming-together of equals, but the end-result of a strategy developed by a dominant state, or sometimes by a small group of dominant states. Sometimes, it has been necessary to conduct some bargaining with the representatives of less powerful member governments. But the *blocco storico* so formed by such bargaining between the hegemon and its dependents is really – as the neo-gramscian critical theorists have rightly pointed out – no more than a subtle exercise in political hegemony. Even the secretariats of the international institutions concerned are subliminally socialised into administering an international ‘order’ that is by no means neutral either in its intentions nor its consequences (see below, chapter 11).

Against this orthodoxy, I must protest that politics is larger than what politicians do, and that power can be exercised – and is every day being exercised – by non-state authorities as well as by governments. This also draws heavily on earlier work. It follows the conclusions laid out as a result of close collaboration with John Stopford in *Rival States, Rival Firms*. This book argued that the outcomes in the political economy of the countries we wrote about had been determined by the triangular diplomacy between states, between states and firms, and between firms and other firms. Some of these diplomatic bargains were struck within the countries, and therefore looked like ‘domestic politics’. Others had been struck between government representatives and looked like international politics. And yet others where firms alone were engaged could be categorised as ‘transnational politics’. Although by drawing on empirical evidence from three developing countries – Brazil, Malaysia and Kenya – it had seemed to be a study in comparative economic development, the book had actually grown out of a shared conviction that international politics could not be fully understood or analysed without paying attention to international business, and conversely, that international business and management could not be fully understood without paying attention to international and domestic politics.

Such ideas, however, were fundamentally subversive of the exclus-

ivity of the 'disciplines' and sub-disciplines of social science. They denied that there could be a basic distinction between domestic politics within the state, and international politics between one state and others, or that national economies could be analysed in isolation from the world economy. They seriously undermined the pretensions to particularity propounded by professors of international relations from the 1930s to the present day. I firmly believe that the new realism of the Stopford-Strange analysis of corporate strategies and state development policies makes it imperative to look seriously at the power exercised by authorities other than states. Not only have such collectivities brought about structural changes in world production, in technology and in the mobility of capital, but they also continue to constrain the options open to states and to individuals in the international political economy.

This new realism, a term also used by the veteran analyst of international business, Peter Drucker, to describe fundamental technological and managerial changes of recent years (Drucker, 1991), is a realism quite different from the neo-realism developed by writers in international relations. That merely added new issues to the agenda of inter-state diplomacy and new bit-players to the cast of actors in international politics. It left the state and its concerns still always at the centre of the stage.

It is the *always* that I now find unacceptable, and which leads me to feel that perhaps I have at last reached the final parting of the ways from the discipline of international relations. I have been involved with it now, as student, foreign correspondent and teacher over more than half a century. But I can no longer profess a special concern with international politics if that is defined as a study different from other kinds of politics and which takes the state as the unit of analysis, and the international society of states as the main problematic.

This is not to deny the importance for students of a grounding in international political history. But it must be combined with an equal grounding in world economic history, just as familiarity with great writers on political theory is incomplete without an equal familiarity with great writers on economic theory. And for the foreseeable future, I would add to these a grasp of the fundamentals of the domestic politics of the United States, as well as perhaps of Japan and Germany.

In short, there is no escaping the imperative of multidisciplinary in the understanding of change and outcomes in the international political economy. Geography, demography, sociology, law, anthropology all have valuable insights to contribute. On many issues an understanding

Preface

of scientific principles behind technological innovation is not only valuable but indispensable. In saying good-bye to international relations, I am only suggesting that our times no longer allow us the comfort of separatist specialisation in the social sciences, and that however difficult, the attempt has to be made at synthesis and blending, imperfect as we know the results are bound to be.

The other message which I hope is implicit in this study is the inseparable nature of theory and empirical research. Behind the selection of 'facts' from empirical material, there is always a theory, whether it is explicit or not. And theory, whether consciously or not, is not produced from abstractions, by a kind of intellectual hydroponics in which theories, like plants, grow without soil, with their roots in water with a few minerals added. Like plants in nature, theories and explanations grow out of the dirt of observations of reality. The observations may not be 'scientific' in the sense that an experiment in chemistry can be objective. But they are not invented either. Getting your hands dirty with the nitty-gritty details of a technology, or with the decision-making processes of corporate strategies, or of ministerial policymaking, is a good way to test the abstractions of theory, and perhaps to develop alternate theory, or modifications of theories. Moreover, if you can illustrate a theory or a hypothesis with reference to a concrete situation, it often serves to explain more clearly the thrust of the ideas.

That is part of the point of my rather scrappy descriptions of non-state authorities and how they affect power structures to be found in part II of the book. They may have been chosen somewhat at random, out of personal interest. But they are supposed to illustrate the theoretical propositions laid out in the earlier chapters. It is my sincere hope that these examples will serve to stimulate younger scholars to more innovative work, theoretical and empirical, on non-state authority in the international political economy. They are by way of being a signpost, pointing not along an open well-trodden track but rather into a mysterious forest of the unknown. Just where the path will lead, I am not at all sure. That is the nature of exploration – and its appeal to the mentally adventurous.

In writing this book, I have had valuable support from the Research Council of the European University Institute in Florence. I spent four years there, from the end of 1988 to the end of 1992. My stay there allowed me more time to read than I would have ever got in a British

university. And I was generously given funds to invite a bunch of kindred spirits to the Institute to comment on my first trial balloon. Their comments and those of other colleagues and of students too numerous to mention have been invaluable. If I do not mention them by name it is because doing so would risk leaving out someone whose chance remark has been unconsciously incorporated in the pages that follow.

For one of the chapters, on mafias, I had the expert collaboration of Letizia Paoli without which I would never have dared to write it. For another, on Telecoms, Michael Hepburn fed me useful material. He and Sheetal Mehta also gave cheerful and willing help with bibliographical references. And always from Judy Weedon at LSE and Maureen Lechleitner in Florence, I have had the kind of secretarial back-up that is better, more efficient and more unstinted than anyone could possibly deserve.

Part 1

Theoretical foundations

1 The declining authority of states

Today it seems that the heads of governments may be the last to recognise that they and their ministers have lost the authority over national societies and economies that they used to have. Their command over outcomes is not what it used to be. Politicians everywhere talk as though they have the answers to economic and social problems, as if they really are in charge of their country's destiny. People no longer believe them. Disillusion with national leaders brought down the leaders of the Soviet Union and the states of central Europe. But the disillusion is by no means confined to socialist systems. Popular contempt for ministers and for the head of state has grown in most of the capitalist countries – Italy, Britain, France and the United States are leading examples. Nor is the lack of confidence confined to those in office; opposition parties and their leaders are often no better thought of than those they wish to replace. In the last few years, the cartoonists and the tabloid press have been more bitter, less restrained critics of those in authority in government than at any other time this century. Although there are exceptions – mostly small countries – this seems to be a worldwide phenomenon of the closing years of the twentieth century, more evident in some places than others, but palpable enough to suggest that some common causes lie behind it.

This book is written in the firm belief that the perceptions of ordinary citizens are more to be trusted than the pretensions of national leaders and of the bureaucracies who serve them; that the commonsense of common people is a better guide to understanding than most of the academic theories being taught in universities. The social scientists, in politics and economics especially, cling to obsolete concepts and inappropriate theories. These theories belong to a more stable and orderly world than the one we live in. It was one in which the territorial

Theoretical foundations

borders of states really meant something. But it has been swept away by a pace of change more rapid than human society had ever before experienced.

For this reason I believe the time has come to reconsider a few of the entrenched ideas of some academic colleagues in economics, politics, sociology and international relations. The study of international political economy has convinced me that we have to rethink some of the assumptions of conventional social science, and especially of the study of international relations. These concern: firstly, the limits of politics as a social activity; secondly, the nature and sources of power in society; thirdly, the necessity and also the indivisibility of authority in a market economy; and fourthly, the anarchic nature of international society and the rational conduct of states as the unitary actors within that society. The first and second are assumptions commonly taken for granted in political science. The third is an assumption of much liberal, or neo-classical economic science. And the last is an assumption of much so-called realist or neo-realist thinking in international relations. Each of these assumptions will be examined more closely later in the book.

But first it may help to outline briefly the argument of the book as a whole. That will show the context in which these more fundamental questions about politics and power arise and have to be reconsidered. The argument put forward is that the impersonal forces of world markets, integrated over the postwar period more by private enterprise in finance, industry and trade than by the cooperative decisions of governments, are now more powerful than the states to whom ultimate political authority over society and economy is supposed to belong.

Where states were once the masters of markets, now it is the markets which, on many crucial issues, are the masters over the governments of states. And the declining authority of states is reflected in a growing diffusion of authority to other institutions and associations, and to local and regional bodies, and in a growing asymmetry between the larger states with structural power and weaker ones without it.

There are, to be sure, some striking paradoxes about this reversal of the state-market balance of power. One, which disguises from many people the overall decline of state power, is that the *intervention* of state authority and of the agencies of the state in the daily lives of the citizen appears to be growing. Where once it was left to the individual to look for work, to buy goods or services with caution in case they were unsafe or not what they seemed to be, to build or to pull down houses, to manage family relationships and so on, now governments pass laws, set

up inspectorates and planning authorities, provide employment services, enforce customer protection against unclean water, unsafe food, faulty buildings or transport systems. The impression is conveyed that less and less of daily life is immune from the activities and decisions of government bureaucracies.

That is not necessarily inconsistent with my contention that state *power* is declining. It is less effective on those basic matters that the market, left to itself, has never been able to provide – security against violence, stable money for trade and investment, a clear system of law and the means to enforce it, and a sufficiency of public goods like drains, water supplies, infrastructures for transport and communications. Little wonder that it is less respected and lacks its erstwhile legitimacy. The need for a political authority of some kind, legitimated either by coercive force or by popular consent, or more often by a combination of the two, is the fundamental reason for the state's existence. But many states are coming to be deficient in these fundamentals. Their deficiency is not made good by greater activity in marginal matters, matters that are optional for society, and which are not absolutely necessary for the functioning of the market and the maintenance of social order. Trivialising government does not make its authority more respected; often, the contrary is true.

The second paradox is that while the governments of established states, most notably in North America and western Europe, are suffering this progressive loss of real authority, the queue of societies that want to have their own state is lengthening. This is true not only of ethnic groups that were forcibly suppressed by the single-party government of the former Soviet Union. It is true of literally hundreds of minorities and aboriginal peoples in every part of the world – in Canada and Australia, in India and Africa, even in the old so-called nation-states of Europe. Many – perhaps the majority – are suppressed by force, like the Kurds or the Basques. Others – like the Scots or the Corsicans – are just not strong enough or angry enough to offer a serious challenge to the existing state. Still others such as the native Americans, the Aborigines, the Samis or the Flemish are pacified by resource transfers or by half-measures that go some way to meet their perceived need for an independent identity. Only a few, such as the Greenlanders, the Slovaks or Slovenes or the unwanted, unviable Pacific island-states, have succeeded in getting what they wanted – statehood. But once achieved, it does not seem to give them any real control over the kind of society or the nature of their economy that they might have preferred. In