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The Declining Authority of States

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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.

[I write] 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,

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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 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.

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 Aboriginals, 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 short, the desire for ethnic or cultural autonomy is universal; the political means to satisfy that desire within an integrated world market economy is not. Many, perhaps most, societies have to be content with the mere appearance of autonomy, with a facade of statehood. The struggle for independence has often proved a pyrrhic victory.

The final paradox which can be brought as evidence against my basic contention about the hollowness of state authority at the end of this century is that this is a western, or even an Anglo-Saxon phenomenon, and is refuted by the Asian experience of the state. The Asian state, it is argued, has in fact been the means to achieve economic growth, industrialisation, a modernised infrastructure and rising living standards for the people. Singapore might be the prime example of a strong state achieving economic success. But Japan, Korea and Taiwan are all states which have had strong governments, governments which have successfully used the means to restrict and control foreign trade and foreign investment, and to allocate credit and to guide corporate development in the private sector. Is it not premature – just another instance of Euro-centrism therefore – to assume the declining authority of the state?

There are two answers to this third paradox. One is that all these Asian states were exceptionally fortunate. They profited in three ways from their geographical position on the western frontier of the United States during the Cold War. Their strategic importance in the 1950s and after was such that they could count on generous military and economic aid from the Americans, aid which was combined with their exceptionally high domestic savings and low patterns of consumption. The combination gave a head start to rapid economic development. Secondly, and also for strategic reasons, they could be – almost had to be – exempted from the pressure to conform to the norms of the open liberal economy. They were allowed, first formally and then informally, to limit foreign imports and also to restrict the entry of the foreign firms that might have proved too strong competitors for their local enterprises. At the same time, they were given relatively open access first to the large, rich US market for manufactures, and later, under some protest, to the European one. And thirdly, the technology necessary to their industrialisation was available to be bought on the market, either in the form of patents, or in the person of technical advisors from Europe and America or through corporate alliances which brought them the technology without the loss of managerial control.

Now, I would argue, these special dispensations are on the way out, and not only because the Cold War is over. The Asian governments will be under increasing pressure from Washington to adopt more liberal non-discriminatory policies on trade and investment. And they will also be under pressure from within to liberalise and to allow more competition, including foreign competition, for the benefit of consumers and of other producers. In short, the exceptionalism of the Asian state during the Cold War has already been substantially eroded, and will continue to be so. As it has been at other times, and in other places, there will be contests for control over the institutions and agencies of government in most of the Asian countries. There will be contests between factions of political parties, between vested interests both in the private sectors and in the public sector. There will be power struggles between branches of the state bureaucracy. Both the unity and the authority of government is bound to suffer.

The Neglected Factor – Technology

The argument depends a good deal on the accelerating pace of technological change as a prime cause of the shift in the state–market balance of power. Since social scientists are, not, by definition, natural scientists, they have a strong tendency to overlook the importance of technology which rests, ultimately, on advances in physics, in chemistry and related sciences like nuclear physics or industrial chemistry. In the last 100 years, there has been more rapid technological change than ever before in human history. On this the scientists themselves are generally agreed. It took hundreds – in some places, thousands – of years to domesticate animals so that horses could be used for transport and oxen (later heavy horses) could be used to replace manpower to plough and sow ground for the production of crops in agriculture. It has taken less than 100 years for the car and truck to replace the horse and for aircraft to partly take over from road and rail transport. The electric telegraph as a means of communication was invented in the 1840s and remained the dominant system in Europe until the 1920s. But in the next eighty years, the telegraph gave way to the telephone, the telephone gave way to radio, radio to television and cables to satellites and optic fibres linking computers to other computers. No one under the age of thirty or thirty-five today needs convincing that, just in their own lifetime, the pace of technological change has been getting faster and faster. The technically unsophisticated worlds of business, government and education of even the 1960s would be unrecognisable to them. No fax, no personal computers, no accessible copiers, no mobile phones, no video shops, no DNA tests, no cable TV, no satellite networks connecting distant markets, twenty-four hours a day. The world in which their grandparents grew up in the 1930s or 1940s is as alien to them as that of the Middle Ages. There is no reason to suppose that technological change in products and processes, driven by profit, will not continue to accelerate in future.

This simple, everyday, commonsense fact of modern life is important because it goes a long way to explaining both political and economic change. It illuminates the changes both in the power of states and in the power of markets. Its dynamism, in fact, is basic to my argument, because it is a continuing factor, not a once-for-all change.

For the sake of clarity, consider first the military aspects of technical change, and then the civilian aspects – although in reality each spills over into the other. In what are known as strategic studies circles, no one doubts that the development of the atom bomb in the middle of the twentieth century, and later of nuclear weapons carried by intercontinental missiles, has brought about a major change in the nature of warfare between states. Mutual assured destruction was a powerful reason for having nuclear weapons – but equally it was a good reason for not using them. After the paradoxical long peace of the Cold War, two things began to change. The expectation that, sooner or later, nuclear war would destroy life on the planet began to moderate. And confidence began to wane that the state could, by a defensive strategy, prevent this happening. Either it would or it wouldn't, and governments could do little to alter the probabilities. Thus, technology had undermined one of the primary reasons for the existence of the state – its capacity to repel attack by others, its responsibility for what Adam Smith called 'the defence of the realm'. [...]

The Second Neglect – Finance

Not the least of the TNC's attractions to host states is its ability to raise finance both for the investment itself and – even more important – for the development of new technology. Another key part of [my] argument is that, besides the accelerating pace of technological change, there has been an escalation in the capital cost of most technological innovations – in agriculture, in manufacturing and the provision of services, and in new products and in new processes. In all of these, the input of capital has risen while the relative input of labour has fallen. It is this increased cost which has raised the stakes, as it were, in the game of staying up with the competition. This is so whether we look at competition from other firms who are also striving for larger market shares, or whether we look at governments trying to make sure that the economies for whose performance they are held responsible stay up with the competition in wealth-creation coming from other economies. Thus, to the extent that a government can benefit from a TNC's past and future investments without itself bearing the main cost of it, there are strong reasons for forging such alliances.

But the escalating costs of technological change are also important for a more fundamental reason, and not just because it explains the changing policies of host states to TNCs. It has to do with change in the world system. The cost of new technology in the production structure has added to the salience of money in the international political economy. It is no exaggeration to say that, with a few notable exceptions, scholars in international relations for the past half-century have grossly neglected the political aspects of credit-creation, and of changes in the global financial structure. In much theorising about international relations or even international political economy there is no mention at all of the financial structure (as distinct from the international monetary order governing the exchange relations of national currencies.) Briefly, the escalating capital costs of new technologies could not have been covered at all without, firstly, some very fundamental changes in the volume and nature of credit created by the capitalist market economy; and secondly, without the added mobility that in recent years has characterised that created credit. The *supply* of capital to finance technological innovation (and for other purposes) has been as important in the international political economy as the *demand* from the innovators for more money to produce ever more sophisticated products by ever more capital-intensive processes of production.

These supply and demand changes take place, and take effect, in the market. And it is markets, rather than state–state relations that many leading texts in international political economy tend to overlook. Much more emphasis is put on international monetary relations between governments and their national currencies. To the extent that attention is paid at all to the institutions creating and marketing credit in the world economy, they are held to be important chiefly for the increased volatility they may cause to exchange rates, or to the impact they may have on the ability of governments to borrow abroad to finance development or the shortfall between revenue and spending, or between export earnings and import bills. […]

Politics, Power and Legitimacy

There are three premises underlying [my] argument. Each relates directly to – indeed, challenges – some of the conventional assumptions of economics, social and political science and international relations. The first premise is that politics is a common activity; it is not confined to politicians and their officials. The second is that power over outcomes is exercised impersonally by markets and often unintentionally by those who buy and sell and deal in markets. The third is that authority in society and over economic transactions is legitimately exercised by agents other than states, and has come to be freely acknowledged by those who are subject to it.

[…] dealing with recent changes in international political economy, readers will encounter three general propositions about the patterns of legitimate authority now developing in the international political economy towards the end of the twentieth century. One is that there is growing asymmetry among allegedly sovereign states in the authority they exercise in society and economy. In international relations, back to Thucydides, there has always been some recognition of a difference between small states and great powers, in the way each behaves to others and in the options available to them in their relations with other states. But there has been a tendency all along to assume a certain uniformity in the nature and effectiveness of the control which each state has over social and economic relations within their respective territorial boundaries. The attributes of domestic sovereignty, in other words, were assumed automatically to go with the regulation accorded each state by its peers. Now, I shall argue, that assumption can no longer be sustained. What was regarded as an exceptional anomaly when in 1945 the United States conceded two extra votes in the UN General Assembly for the Soviet Union – one for the 'sovereign' republic of the Ukraine and one for Byelorussia – now hardly attracts comment. The micro-states of Vanuatu and the Republic of San Marino are admitted to the select circle of member-states of the United Nations. But no one really believes that recognition of their 'sovereignty' is more than a courteous pretence. It is understood that there is only a difference of degree between these and many of the smaller and poorer members of the international society of states who are established occupants of seats in the UN.

The second proposition is that the authority of the governments of all states, large and small, strong and weak, has been weakened as a result of technological and financial change and of the accelerated integration of national economies into one single global market economy. Their failure to manage the national economy, to maintain employment and sustain economic growth, to avoid imbalances of payments with other states, to control the rate of interest and the exchange rate is not a matter of technical incompetence, nor moral turpitude nor political maladroitness. It is neither in any direct sense their fault, nor the fault of others. None of these failures can be blamed on other countries or on other governments. They are, simply, the victims of the market economy.

The third proposition complements the second. It is that some of the fundamental responsibilities of the state in a market economy – responsibilities first recognised, described and discussed at considerable length by Adam Smith over 200 years ago – are not now being adequately discharged by anyone. At the heart of the international political economy, there is a vacuum, a vacuum not adequately filled by intergovernmental institutions or by a hegemonic power exercising leadership in the common interest. The polarisation of states between those who retain some control over their destinies and those who are effectively incapable of exercising any such control does not add up to a zero-sum game. What some have lost, others have not gained. The diffusion of authority away from national governments has left a yawning hole of non-authority, ungovernance it might be called. [...]