

## **KEYNOTE SPEECHES**

## WHO GOVERNS? NETWORKS OF POWER IN WORLD SOCIETY

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I recently heard Professor Kenneth Waltz lecture in London on the international order after the end of the Cold War. I found the experience rather depressing. According to Professor Waltz, the problematic for world society was still the preservation of peace between the great powers. All that had happened in the last three quarters of a century was that, with the collapse of the Soviet empire at the end of the 1980s, we were back, more or less, where we were in, say, 1910. The 20th century had come full circle, back to an unstable, multipolar world order. In place of the bipolar balance between the two superpowers and their respective alliances, there were four or five great powers—the United States, Europe, Japan, China and possibly a revived Russia—just as before 1914 there had been Germany, France, Russia, Britain, and, possibly, the weakening Austrian and Ottoman empires.

I propose in this paper to contest this rather narrowly 'international relations' perception of the problem of world order. I think there are a great many—mostly younger—scholars in Asia, Europe and America who share my dissatisfaction with this perspective on world affairs. They feel, almost instinctively, that it is old-fashioned and myopic and probably also misleading, but they are not always clear about why they should feel this way. For that reason, it may be worth offering for discussion and criticism my own explanation of the reasons why it is misleading and why, therefore, students of world affairs should be encouraged to adopt a political economy instead of a narrowly international relations approach. To do so, I shall have to go back to some of the basic questions of political theory—like how to think about Power, and what is the nature of Politics. These questions may seem rather abstract and far from the focus of this colloquium, but I beg your patience and indulgence and promise to be as brief and as clear on these points as possible. They are necessary to the next stage of the argument which is about the nature of the real networks of power in the international system today and their relevance to the major issues of politics in a world market economy and a materialist world society. These issues are much wider than the simple question of peace or war among the more powerful nation-states. In the next century, I shall argue, the stability and viability of world society as we know it today is more likely to be jeopardised by economic, financial and environmental disorders than by military conflict between the great powers. I can then conclude with some more practical, policy-oriented propositions in answer to Lenin's pertinent—and perennial—question, 'What is to be done?'

In parenthesis, this argument is indirectly critical not only of the realist school in International Relations but also of a more contemporary body of opinion to be found in the United States and Japan, and to some extent in Europe. I am referring to those engaged in the debate about competition between the Triad. They are more often economists than political scientists and are joined by experts like Michael Porter or Kenichi Ohmae from management and business schools. Their common assumption is that world order is under potential threat of worsening conflict between the three major trade 'blocs'—North America, Europe and East Asia, led respectively by the United States, Germany and Japan. I shall also have something to say about this debate and the weakness of some of its economic and political assumptions.

### *The Nature of Politics*

The Waltzian view of international relations is based on the fundamental assumption that international politics are fundamentally different from domestic politics. All the classic realist writers—Morgenthau, Bull, Holsti, even Aron—share this assumption. The difference between international society and national society, they insist, is that in the former there is no over-riding authority endowed with a monopoly of violence and therefore able to maintain order and a rule of law. The major political issue in international society, therefore, is how to preserve some minimal order and to prevent or minimise the risk of war between states who refuse to accept any higher authority, especially when it comes to questions of national security in what Bull described as an 'anarchical' society (i.e. one lacking government). Whereas, in national society, the issues of politics are much more complex, as any first-year student of political science is made to realise. They concern the multiple responsibilities of government and the various institutions of government—legislative, judicial, administrative. States therefore differ, as students of comparative politics learn, in the extent to which governments are given responsibility for managing the economy, for ensuring equity among social classes, for safeguarding the rights of individuals and for providing for the defence of national territory and for conducting relations with the rest of the world. They differ, too, in the manner in which they choose to discharge their responsibilities and the institutional framework they choose to discharge those responsibilities. They choose a federal or a centralised, a parliamentary or a presidential system of government. Some—like the United States—favour a system based on the separation of powers, aiming at a balance between the legislative, judicial and executive arms of government, while others—like Britain or Japan—favour a system in which governments are constrained only by the authority of parliament. And behind the constitutional facade, students of politics are also taught to look for the real networks of power—the party bosses, the big business associations, the major state or privately owned enterprises, the labour unions, the 'hidden' organisations whether illegal and criminal like the Italian Mafia, or legal but secret like the freemasons, the Catholic Church or certain influential families—within which the real decisions are taken even before they pass through the formal institutions of the state.

To sum up, the limits set to the study of politics within the state are defined by the list of issues of a political nature that someone, somehow decides, and by the nature of the au-

thority through whom those decisions are taken. Politics, in short, are not simply what politicians do. Politics occur whenever some individual or group of individual has to find ways of getting the support of others in order to achieve some objective. Politics, therefore, occurs outside as well as within the state—inside firms, inside parties, inside cities, inside universities, inside sports organisations, for instance. If politics is—in Lasswell's classic definition of the subject—about who gets what, where and how, then in any study of politics we have to look first for the contested issues—the 'what'—and then for the sources of authority and the processes by which these issues are decided. If each of us—students, professors, factory workers or secretaries, managers or shopkeepers—asks ourselves the question, Who, or what, governs my daily life? There are very few people in the world who can honestly say that in every respect and on every matter, "I do." Figuring out the who, or what, governs which issues is the job of the political economist.

It is my contention that we now have to apply all these general principles concerning the nature of politics to the world system, to world politics. The reason is that we are now more than halfway to a world economy and a world society. We certainly have a global financial system operating 24 hours a day around the clock and regardless of national frontiers. Communication system—think of Internet, or ham radio, or satellite TV—are global and images and ideas very quickly spread across the world and influence local debates and local outcomes. The fate of firms depends increasingly on what they sell (or buy) abroad, rather than on what they sell locally. The growth of world trade constantly outruns the growth of production.

To confine the study of world politics to the single issue of peace or war between states cannot possibly be justified in such a world. One of the questions that intrigued Raymond Aron throughout his long and productive life was one that transcended the bounds of traditional international relations. It was whether the industrialisation of the economies of the great powers and their increasing involvement in world trade was making them more, or less, warlike and aggressive. Aron was not sure. But it seems to me that, despite the temptations and risks inseparable from the sophisticated weapons developed with industrial technology, the governments of all the major states today have to deal with materialist societies. These societies are increasingly rejecting war with other major states as too dangerous an option. They will, I think, continue to do so. It is not as Comte, and Aron, hoped, that increased trade across frontiers generates harmony in international society. It often generates more conflict than cooperation. But people on both sides want economic growth and the wealth it brings to themselves and their families. They know that trade is the necessary means to achieving greater wealth, while war fatally interrupts trade and war puts not only living standards but life itself at risk. Young people everywhere are no longer sure that, whatever the cause, it is always sweet and proper, as the Roman motto said, to die for one's country.

That is one big change since the first half of this century. The other results from the greatly increased cost and technological sophistication of the means of making war. The assumption of traditional theories of international relations was that each state—at least, each great power—had the means of making war under its own control. Peace or war, and therefore international order, was thus a matter of inter-national relations between states. This is not longer the case. Today, we can recognise that the issue of international order and security is inseparable from the political economy of the world market for armaments

to fight the wars. The specialist in strategic studies, therefore, has to take into account the who, or what, governs access to that market before he or she can analyse the factors affecting the outcome of even a local conflict like the Iran-Iraq war. The agenda even of those professionally engaged in conducting relations with other governments is no longer limited to questions of foreign and defence policy. The staff of Foreign Ministries are engaged in bargaining over trade relations, exchange rates and many other matters besides foreign and defence policy. And they share the work with the staff of other ministries—of finance, economics and trade, health and welfare, the environment, education and justice.

And their negotiations are by no means the sole deciding factor when it comes to outcomes. As John Stopford and I have argued in a recent book, diplomacy these days is a trilateral matter.<sup>1</sup> That is to say, the old diplomacy between professional diplomats representing their respective governments is now only part of the story of international, or transnational bargaining. It is accompanied by what we called the new diplomacy—the bargaining that goes on between foreign firms and host governments—Matsushita and Malaysia, for example, or Fujitsu and Britain—and the bargaining that goes on between big firms who need to collaborate on research or combine forces to influence governments or international organisations or who need to settle disputed matters of marketing and distribution or of property rights.

### *The Nature of Power*

But before we get further into the difficult question of what are the main issues in world politics—or international political economy as I would prefer to describe it just because it really does concern so many predominantly economic issues—if they are not simply issues of order and peace and war, we have to consider carefully another basic question of all social science—what is the nature of power in human relations, and how do we discover who has it? If we are to try and analyse the sources of authority over a much longer list of issues than just the peace/war issue, we cannot avoid getting to the bottom of this question of power. As long as the only, or at least the dominant, question in international studies was the peace/war question, we could take for granted that it was governments, the managers of the nation-states, that exercised the power over it. We needed to look no further simply because their monopoly of legitimate violence, their control over the armed forces of the state, gave them the authority to make war, to invade another state's territory and to resist or to give in to invading forces from another country. Once we try to decide who or what has the power to decide outcomes in a much longer list of who-gets-what issues, we have to stop and think harder about two things. First, we have to think how we know where power lies. What do you look for if you want to know who has power? Second, we have to think about how power is exercised. How, in reality, do the strong prevail over the weak, and get their own way in these wider issues of world politics?

On both basic questions, there is a vast literature in political and social theory, and I do not propose to go into every aspect of it here. Let me just indicate, quite briefly, the

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<sup>1</sup> J. Stopford and S. Strange, (1991), *Rival States, Rival Firms: competition for world market shares*, Cambridge University Press.

answers which others have found and which seem to me to be relevant to international studies in a post-Cold War, highly interdependent global political economy.

On the first question, who has power, we should look at objectives and outcomes. If Government X wants an airport built and local people don't want it built and the outcome is that the airport is built, we can conclude that Government X has power and the locals do not. If, on the other hand, the outcome is that Government X gives up the idea and either extends other airports or builds it elsewhere, we can conclude that the locals, somehow, exercised power. An example of the first is Narita airport. An example of the second is the third London airport at Wing, near my home, which was never built (and which no one consequently has ever heard of) because organised but spontaneous local opposition was so strong that the government changed its mind and expanded Heathrow and Stansted and Luton instead.

The point of this illustration is to show that much discussion of power in international politics and in national politics mistakes the shadow for the substance. In other words, writers have been tempted to look at resources under the command of the powerful, at their capabilities, not at the outcomes which those resources may or may not achieve. This is especially so in international politics where scholars like Klaus Knorr have written books about the power of nation-states that go through a catalogue of the military and material resources of states to determine which are the more powerful—but often end up by admitting that the sums do not always add up. The Germans in 1940, for instance, were endowed with fewer planes and men and other weapons than the French but they had a better strategic plan and more will to win so that they over-ran France with relative speed and ease.

In domestic politics, political scientists have had a different temptation. It was to look at the institutions of the state and to assume that command of the institutions conferred power. This was only ever true as long as that command was sustained by a social consensus that gave legitimacy to the authority of those in charge of the institutions. If the British people decide in future—as I think they may well do—that they do not want a monarchy, or only want one with much restricted rights and privileges, then that is the end of the constitutional powers of the monarchy in British politics. Or take another example. Constitutionally, the German Bundesbank is an independent arm of government. But the outcome of a contest in 1990 between the federal chancellor and the Bundesbank over the rate at which the old DDR currency would be exchanged for the D-mark was that the Bundesbank lost. Those—especially those in Europe today—who extol the advantages of central bank autonomy and believe that constitutional change will reallocate power over monetary and fiscal outcomes should ask again the basic question, how do you know who has power?<sup>2</sup>

On the second question, how the strong prevail over the weak, we have to abandon right away the answer found in some old textbooks of international relations. It was that A has power over B if A is able to get B to do what B would not otherwise do. This assumes that power is exercised only by direct coercion or bribery. The strong are able either to threaten the weak with the consequences of non-compliance, or to reward them handsomely for doing what they want. At least some political theorists have moved on

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<sup>2</sup> An instructive recent study on this is *The Bundesbank: the bank that rules Europe* by David Marsh (London, Heinemann, 1992, Mandarin paperback, 1993).

from this first 'level' of power.<sup>3</sup> Power is also exercised, they say, at a higher level when the strong can rule out any objectives the weak may have in mind by just keeping it off the agenda, excluded from the issues recognised as needing political debate and decision. An example in international political economy would be the success of the G24 over the G77 in the matter of international action to stabilise commodity prices. At this second level, power is also exercised by the strong when they decide on adding issues to the agenda for debate and decision. Even more so, when they act indirectly to affect the structures through which outcomes are settled. This may mean determining how an international organisation functions—weighted voting in the IMF for instance. Or it may mean deciding how a market is regulated or not regulated. Once the market—for steel, say, or T-shirts or diamonds, is in operation, those who want to buy and sell it have to accept the conventions and rules of that market and will often be powerless to change them. This is what I would call structural, as opposed to the first kind, relational, power. And in my view, it is both more important and a more effective source of power for the strong, including the United States, than direct coercive power. That was supposed to be the message of the short text I wrote introducing students to international political economy as I defined it.<sup>4</sup>

But more than this structural power that is decisive in matters of security, production and finance for instance, the political theorists recognise a third 'level' at which power is exercised by the strong over the weak, and which I have rather loosely described as the realm of ideas, or an important part of the knowledge structure in the international political economy. At this level, the strong implant their ideas, even their self-serving ideology, in the minds of the weak, so that the weak come to sincerely believe that the value-judgments of the strong really are the universally right and true ones. The acceptance by intellectuals in the ex-socialist countries of central Europe, for instance, of the idea that the less the state intervenes in the market economy the better, that protection of local firms is always against the national interest, and that keeping inflation to a minimum is always the first priority for the central bank, is all a classic instance of power exercised through the knowledge structure.

### *Key Issues for World Society*

On the basis of the two theoretical propositions outlined above, we can now ask, first, what are the main political issues for world society today, and second, who has the power to determine the outcome on these issues. Recall that the first theoretical proposition was that politics involves more than governments and therefore includes enterprises and all sorts of non-state sources of authority. And the second was that power can be, and is, exercised on three levels—directly, structurally and through influencing other people's belief-systems.

<sup>3</sup> E.g. S. Lukes, *Power: a radical view* (Macmillan, 1974), and Lukes, S. (ed.), *Power* (Blackwell, 1986); also R. Dahl, *Modern Political Analysis* (Prentice-Hall, 1984); A. Cox, P. Furlong, E. Page, *Power in Capitalist Societies, theory, explanations and cases* (Wheatsheaf, 1985).

<sup>4</sup> Strange, S. (1988) *States and Markets* London, Pinter. In retrospect, I see that the title was misleading because the book was about the relation of *authority* in general to markets and not just the relation of state authority to markets. Most other texts in IPE are about the politics of inter-national (i.e. interstate) economic relations, which limits the subject much more narrowly to those matters that are of concern to governments.

When it comes to choosing the main political issues in world society today, I look for the answers more in economic history than in neoclassical or liberal economic theory. This tells me that in the past national societies based on a market economy have been fatally damaged—even destroyed beyond recognition—when political authority failed to discharge any of three basic responsibilities. One was certainly the responsibility to provide security—law and order within the society and defence against attack from without. No market economy can prosper if persons and property are not assured some reasonable degree of security. When the Netherlands became a cockpit or battleground for Europe in the 17th and early 18th centuries, the Dutch lost their economic and financial leadership to England.

Another was the responsibility to maintain stable money. A market economy has to use money. To grow, it has to have an efficient system of credit-creation in which producers and traders have confidence. Unstable money—as in runaway inflation—can soon destroy that confidence and undermine the foundations of society. That happened, say the historians, in Germany in 1923, and in China in the mid-1930s when the silver-based currency was replaced by the uncontrolled issue of paper money.<sup>5</sup> But the converse can also be destructive; if the system fails to create credit because capitalists lose confidence in the prospects for investment, you get economic depression, unemployment and, often social unrest and political upsets. In the 1930s depression in Europe, only the toughest, most repressive governments survived: Mussolini in Italy, Salazar in Portugal and Stalin in the Soviet Union. Everywhere else, the incumbent parties lost power. The failure then of governments in the leading economies to keep the flow of foreign capital going to the indebted countries—Australia, Argentina, Japan, Latin America—after the crash of 1929, and the failure of the World Economic Conference of 1933—gave early warnings of the need for counter-cyclical action on an international and not just a national scale. Keynesian pump-priming was tried in several countries, even the United States. But against the forces of a global depression even Roosevelt's New Deal made little impact on the depression; there were still 13 million Americans out of work when the war started.

I would conclude from this that financial management to avoid both depression and inflation, to maintain an even flow of credit—not too much, nor too little—to sustain the continued growth of the world economy is a major political issue and a major responsibility which only authority and not the market—and certainly not the banks—can fulfil.

By comparison, the issue of rules for international trade is comparatively minor. For most of the postwar period, these rules have been few, have been riddled with exceptions, and the basic principle behind them—non-discrimination—has been repeatedly broken and ignored. GATT has been a useful forum, but while tariff barriers have come down as a result of successive multilateral Rounds, other barriers—as the Japanese know only too well have gone up. Bilateral bargaining over trade, in which the outcome is determined more by political muscle than by free trade principles, has become the norm.

World trade—and more particularly world trade in manufactures—has nevertheless

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<sup>5</sup> An interesting early example of the unconscious exercise of structural power by the United States. The Silver Purchase Act of 1934, intended as a lifeboat to rescue the Rocky Mountain silver producers, promised to buy silver at a price above the world market. This unintentionally drew silver from all over the world to the US Treasury, thus shrinking the monetary base in China and Latin America and at first imposing deflation on already depressed economies, followed by inflation as governments resorted to issuing uncontrolled amounts of paper money.



continued to thrive and grow. The simple reason is that firms trade, not governments. And despite the barriers and aggravations created by governments, the imperative need for firms to sell abroad as well as at home if they are to survive against the competition of other firms has made sure that trade went on growing year after year. For these reasons, I have repeatedly argued that the importance of a successful conclusion of the Uruguay Round has been greatly exaggerated; that whether or not agreements can be reached on the contested issues—and I doubt if they can—the future of the world economy depends far more on the future management of finance than it does on the liberalisation of trade. Because protectionism damages your health, governments themselves will hesitate before going too far or for too long down that road. Because industries are increasingly interdependent, the producers who favour protectionism are increasingly opposed by other producers who do not relish the handicap of paying more than their global competitors for indispensable components of their products.

For these reasons, the resolution of trade conflicts between the major industrialised countries is not a serious issue of post-cold war politics. Trade diplomacy—as between the US and Japan or the EC and Japan—may be continue to be conducted with acrimony and mutual accusations of ‘unfair’ practice. But the protagonists will be rather like chimpanzees who make ‘threat faces’ at each other until one or the other backs away, and who rarely harm each other in any serious way. Nor is there any serious risk of the world splitting into three warring trade blocs. All of the big transnational enterprisises have interests in each of the three so-called blocs. Without controls over capital flows, or over the transfer of technology, governments are powerless to fight serious trade wars against each other.

If trade liberalisation has generally been over-emphasised of late as a burning issue, economic development has probably faded too much from the public view. The North-South gap was a great issue between rich and poor countries in the 1960s and the 1970s. The gap has not disappeared. Even though some poor people and some poor countries have done well, others (in Africa especially but also in parts of Latin America) are poorer than ever and their prospects grim indeed. If only because transport and communications systems are lowering the physical barriers preventing people moving into the rich countries, creating problems within them instead of far away, the welfare issues of hunger, poverty and untreated disease must be surely added to the list. Because the major obstacle is often more political than economic—the inefficiency, corruption and indifference of ruling elites—international agencies like the IMF and the World Bank already face the dilemma that their task is incompatible with respect for the principles of non-intervention in the affairs of supposedly sovereign states. It is a dilemma which is likely to become more, not less acute in the future.

For the third basic responsibility of authority—the responsibility to preserve the ecological base for the physical environment of the economy—we have to look further back into history, to ancient Mesopotamia, what today we call the Middle East—or West Asia, according to our geographical perspective. A succession of early civilizations there (and in Sri Lanka) thrived on the basis of an environment artificially improved by elaborate systems of irrigation. When these eventually collapsed from neglect, the region fell back into poverty and political instability. Most other parts of the world had more favoured, equable climates and soils and could withstand the modest changes brought about by the primitive or intermediate technology of the human inhabitants.

The first two responsibilities were recognised by the classical writers on political economy like Adam Smith. Smith is remembered for arguing that the state should stop strangling the market with mercantilist and other restrictions. Just as strongly, he also argued that, for the economy to prosper, the state had to look after the Defence of the Realm and the Value of the Currency. In his time, Nature could still take care of herself. The environmental responsibility of authority only returns to prominence, and today on a global scale, with the massive use of fossil fuels and of industrial chemicals.

Others may disagree, but I would argue that the financial and the environmental responsibilities of authority in the world market economy will in future be more crucial than the responsibility for security. There are two reasons for saying this. One is historical: that in the early phases of capitalism, the very insecurity of society in a political system of constantly warring states—especially in Europe—gave rise to the competitive, territorial nation-state. The imperative need to defend each realm against intruders justified strong government, and gave it the necessary legitimacy. Strong government was thus able to impose domestic order, build the economic infrastructure and regulate and nurture trade, banking and investment to the benefit of the economy and society. Governments in England did better than most at discharging these tasks and England prospered earlier and, at first, more than most.

The other reason has already been referred to (see page 7) and has to do with technology, though it is also in a sense historical. In recent times, the technology for defence has become very costly. It has also become very destructive. The costs and the risks of major war between industrial countries have escalated exponentially. At the same time, prosperity has given a voice to more and more sections of society, sections that have good reason to like peace and prosperity and fear to fear the risks and costs of war. Prosperity no longer depends on amassing more and more territory. There is no incentive for making war on neighbours, as Japan did on China in the 1930s or Germany did on Poland. Prosperity depends on the enterprises in a country being able to gain and hold world market shares.<sup>6</sup>

Thus the responsibility of authority for security has to be re-examined. If the danger of major war between the advanced industrial powers—primarily, the United States, Japan, and Europe—and also among the newly industrialised countries like India and Pakistan, Brazil and Chile, Korea and Taiwan is, as I believe, greatly diminished, then perhaps the world market economy does not need universal, 'perpetual peace'—or even a system of effective collective security against aggression. Recent experience in the Middle East, Yugoslavia and the former Soviet republics—not to mention the Falkland islands—suggests that perhaps the world economy and society can manage pretty well despite these outbreaks of violence and insecurity. Of course, the places where violence erupts will not attract as much investment, foreign and local, and will not prosper as much as quieter places. But economic life will go on around them and elsewhere without too much notice being taken. Northern Ireland—a violent and insecure province of the United Kingdom for the last 25

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<sup>6</sup> The argument is more extensively developed in *Rival States, Rival Firms: competition for world market shares* (1991) which I co-authored with Prof. John Stopford of the London Business School. It was also made in an essay I wrote on change in the international system in the 1980s; *The Name of the Game in Sea Change: American foreign policy in a world transformed* edited by N. Rizopoulos and published by the Council on Foreign Relations, New York in 1990.

years or more—has suffered in lost jobs and low investment despite government aid. But it has had little effect on either the British or the Irish Republic's economies. In short, let us not assume, with Prof. Waltz, that because preventing major war between great powers was the main issue of world politics in the 20th century that it will also be the major issue for the 21st century.

### *Networks of Power*

I began this paper with a declaration of belief, first, that in the next century the stability and viability of world society as we know it today is more likely to be jeopardised by economic, financial and environmental disorders than by military conflict; and, second, that to see how these issues are being, and might be, addressed and managed, we needed to look beyond the world of states to discern the real networks of power over outcomes. What, more precisely, are these networks of power?

At this stage, I can only suggest what I think they look like and how they have affected, and will in future affect the major issues of international finance, development and the environment that I have identified. To go further, we need, I believe, to do much more research, research that necessarily crosses disciplinary boundaries and certainly goes beyond the concerns of traditional studies in international relations.

For a start, I have three hypotheses, all of which are open to discussion. The first is that states in general have lost the authority they once had over markets. As markets have become increasingly global, and as the production of firms has been geared to selling on a world market, and consequently dispersed over several national economies at once, so firms everywhere, *even in the United States*, pay less attention to the direct, first-level power exercised by governments and more attention to the markets. But these markets are not neutral. They do not function in a political vacuum. The rules under which they operate are subject to the second-level structural power of, primarily, the United States, but also of certain non-state authorities which differ from sector to sector. They may include the big banks and insurance companies. They may include inter-industry cartels or 'special relationships' between major firms. The authority of the US over so many world markets is dominant, even after the end of the Cold War, mainly because the US has the single largest and richest domestic market that is also subject—unlike the market of the European Community—to a clear single set of rules; and also because—unlike the Japanese market—it is more open both to imports and to foreign investors. The openness to foreign firms is both historical—the 19th century dependence on British investors—and accidental, to the extent that foreign firms, Japanese and European, have been forced by rising US protectionism against foreign imports to locate production within the country. Inevitably, then, they become vulnerable to policies determined in Washington.

It also helps US predominance that the international organisations like the IMF, the World Bank, the OECD and the GATT which were created when Germany and Japan were defeated and powerless after the second world war were designed to institutionalise American structural power and to proclaim and preserve American preferences and political and economic ideas—power, that is, at the third level of ideas, values and belief systems.

A consequence of this shift in the balance of power between states and markets is that

the equality of sovereign states—always a fiction of international lawyers—has become even more of a fiction. In other words, my second hypothesis is that the asymmetry of power over outcomes between the United States on the one hand and other major states on the other has increased; and at the other end of the rank order of states, the weak ones have got even weaker in relation to the rich and strong. This is to be seen very clearly in the influence exerted through their Structural Adjustment Programmes by the World Bank and the IMF over the governments of poor indebted countries in Africa. The IMF even exerts substantial influence over much bigger indebted countries like Brazil or India and over the indebted countries of central Europe.

Nor are these the only international agencies that are, at the least, sharing some of their authority with national governments. In Europe, the federalist dreams of a United States of Europe may have faded somewhat in the last two years, and for obvious reasons. But in such matters as competition policy, agricultural protection and even environmental regulation, the European Community's bureaucracies are taking some responsibilities away from national governments. The European Court, especially, has over-ruled national policies on a number of matters.<sup>7</sup>

For whatever reason, a suspicion is growing—at least in Europe if not in Japan—that the nation-state is suffering some sort of decline or loss of legitimacy. People do not seem to have the respect they used to have for their heads of government—think of Mulroney in Canada or Major in Britain. Political leaders still make promises—to the unemployed, the old, the sick. But no one believes they can keep them. The old justification for deference to your government, its symbols and its representatives was that it both protected you from foreigners and provided its citizens with a social security cushion against hard times. Now it is doubtful whether it can do either, and even whether it can find the means to resolve its own fiscal problems. Regional authorities, in Europe and elsewhere, are increasingly challenging the authority of central government.

The third hypothesis is that as power has become more dispersed, away from the sovereign state that was supposed to be the unit of analysis of international society, so some of the functions of authority are not being properly discharged by anybody. Power has evaporated, like steam. No one is entirely in charge, not even the United States.

This is really answer to the declinist school of writers in the United States, with whom I have never agreed. Not only did they choose poor indicators of the supposed loss of power by the United States, they also tacitly assumed a zero-sum game between states. If the US lost, some other state must have gained. Because Japanese firms were pushing US firms out of certain markets—steel, ships, consumer electronics and semiconductors—Japan must be gaining the power that the US had lost. But this totally ignored the structural power in security, finance and knowledge especially that the United States still exercised. Moreover, the game was not a zero-sum game between national governments. As explained above, all states were losing power to markets. The plight of workers and firms tied to production inside the territorial United States was to a large extent the consequence of policies pursued by successive US Administrations from Truman's onwards. Tragedy, as always in human affairs, was mostly self-inflicted. It was the US which had

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<sup>7</sup> For more on this, two recent books are instructive. L. Tsoukalis, (2nd ed. 1993) *The New European Economy* and D. Marsh (1993) *Europe: the strange superpower*.

insisted on an open world market economy—open to trade in goods and services, open to investment and therefore subject to mobility of capital if not of labour. If the US government found itself unable to control the market, it was a monster, a Frankenstein, that it had itself created. The American response, since the late 1960s, was to act—not as the benevolent, self-denying hegemon that the system (and Kindleberger's original Hegemonic Stability Theory) required—but as an irresponsible, self-serving even malevolent one when it came to 'punishing' the Asian countries it blamed for its own troubles.

According to the theory, the system required the hegemon to maintain the stability of the key international currency. But, beginning with the Vietnam War, US government allowed the unchecked piling-up of dollar reserves with foreign central banks—reserves that were financing deficits the US was unwilling to rectify by spending less or taxing and saving more. The theory also required an uninterrupted outflow of capital from surplus countries to developing ones. But in the 1980s, US policies reversed the flow so that Latin American capital flowed northwards instead of the reverse, while the Japanese and other surpluses that might have sustained economic growth in the developing countries were drawn to the United States where the return on capital was higher than at home and the political risk less than in the Third World.

The one bright spot—for poor people, at least—in the picture of the world economy of the last decade has been the result not of government action, but of corporate decisions. The shift of manufacturing capacity from established industrialised countries—America, Europe, Japan—to developing countries has raised growth rates in the favoured host countries to levels undreamt of by official donors of foreign aid. In short, the multinationals have come to the rescue at least of some developing countries. Their authority over the location of production, as well as over the direction of technological innovation, is undisputed.

### *What Is to Be Done?*

This is a big question and I cannot claim to have the answer. I do observe, however, that the declinist school of scholarship in the United States is itself in decline. Recognition of the extent of American structural power is beginning to dawn, only partly as a result of American success in launching the Gulf War and getting others to pay—perhaps even over-pay—for it. To be sure, American unilateralism in military and commercial affairs is still very much alive—as the UN exercise in Somalia and the airstrike against Baghdad last June, or the sudden imposition of punitive steel tariffs last March, demonstrated. But on the other hand, the U-turn of American policy on aid to Russia and the ex-socialist countries, and the concern over financial re-regulation, showed a return to some sense of responsibility for financial leadership.

What needs to be done—as Delors and many Japanese leaders realise—is for more concerted diplomacy between the non-American members of the Group of Seven. This would add the weight of expressed foreign public and informed opinion to that of the more enlightened sections of the American political community. In this, academics have an important part to play. I hope that before too long the close ties already in existence between US and Japanese scholars and universities on the one hand, and US and European

scholars and universities on the other, will be matched by much closer and denser ties between Japanese and European scholars and universities.

Only so can we hope to develop a perspective on major issues of international political economy that is more broadly based, both in terms of national perspectives on common problems and how to manage them and in terms of the underlying assumptions about power and politics that would free us of some of the myopic limitations of the traditional study of foreign policy and international relations.

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