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State's Withdrawal and the Diffusion of Power in the Global System

The work to be analysed, *The retreat of the state: the diffusion of power in the world economy* by Susan Strange, focuses on the main subject of the withdrawal of state power in the global system, as a consequence of the rise of both global markets and non-state actors. In fact, the author gives particular emphasis to the changes in the global economy system, particularly in the monetary and financial domains. More than a market phenomenon, this is a political process concerning the diffusion of authority – a process in which states have been participating in through state policy or the lack of it. Starting from wider notions of power and politics, Strange's work shows how structural changes in finance, production and technology have been reinforcing market forces in the global political economy by increasing firms' power. In face of those market forces and other forms of non-state authority, a "retreat of the state" seems an almost inevitable reality.

The first part will discuss Strange's analyses of international political economy: the diffusion of authority, including the significant role played by global markets and non-state actors; the mutation in world economy's structural domains (security, production, finance and knowledge); and the questioning of state's territorial and jurisdictional monopoly. The second part will question aspects of that view, primarily the main subject of her work, that is to say, the retreat of state, as well as some empirical evidence given by the author to support the idea of authority diffusion, not as much at supranational than at infranational or transnational levels.

The arguments presented constitute a challenge against the state-centred realist paradigm of international relations and an approach towards a multidisciplinary study of international political economy. Inter-linkage between issues is the main aim.

The author postulates the existing of a “triangular diplomacy” of state-state, firm-firm and state-firm. In contrast with the system of national economies, the global political economy is a system of intense competition and increasingly adapted to those new kinds of diplomacy. There is a diffusion of authority to different bodies, including international instances and local and regional bodies, creating great asymmetries between states. The bodies capable of exercising structural power are in a better position to play a role in the new state-firm diplomacy. Since power and political authority are exercised by public as well as private bodies, it is necessary to take into account a broader notion of politics, in order to include every activity - establishing who gets what, when and how - exercised by a larger number of actors, public and private, operating on a transnational scale. The author defines “power” as “*influence over outcomes rather than mere possession of capabilities or control over institutions*” and “politics” as “*to include all activities by which others are persuaded or coerced to collaborate in the achievement of aims designated and desired by another*”.¹ Thus a definition of power is linked to the question “what outcomes?” and the definition of politics linked with “what kind of aims?”.

According to Strange, the exercise of structural power results in a shift in the balance of power from states to markets. Markets, being impersonal, tend to be unreliable, since they operate on what Soros call the “reflexive principle”². Different processes of corporatization tend to disperse resources among different corporate actors and diminish states’ control over those resources. Authors such as Perrow have been referring to this phenomenon, advocating the “organizational” character of modern societies³. This is particularly true in democratic states, where the representative system permits the development of social organizations which have a propensity to turn into important intermediaries.⁴ However, since society and political communication structures changed, it is clear that the linkage between those social groups and the representative institutions have been suffering from a process of erosion.

So the dissemination of non-state authority, exercise directly by relational power or indirectly by structural power, has to be taken into account and special concern given the

¹ STRANGE, Susan, *The retreat of state: the diffusion of power in the world economy*, Cambridge, Cambridge University Press, 1996, page 53.

² STRANGE, page 30.

³ PERROW, Charles, *Organizing America: wealth, power, and the origins of corporate capitalism*, Princeton, Princeton University Press, 2002.

⁴ BOBBIO, Norbert, *The future of democracy: a defense of the rules of the game*, Cambridge, Polity Press, 1987.

variable nature of that same authority, exercised namely by transnational professions, mafias and criminal networks, international bureaucracies, transnational cartels and social movements. We can talk about “shadow sovereigns” or “grey areas” when referring to different networks operating in different contexts of legality, quasi-legality or illegality. Political power is mostly performed by this kind of instrumental or structural power, therefore in a thoughtless way. Private actors, such as bankers, are not able to encourage state or non-state agents to act in a particular way, but they are certainly able to exercise some power over them since they can influence credit issues. This process of authority diffusion over society and economy is not new; except for the fact that now it reaches a global scale. According to the author, the retreat of state and the subsequent growing power of non-state authority would bring serious damages to the “democratic governance”: “(...) *not much remains of the accountability of market forces to political constraints,*” and so “*the casting of a vote from time to time becomes a merely symbolic act. (...) Moreover, none of the non-state authorities to whom authority has shifted, is democratically governed.*”⁵ Thus the proposal of a potential way out of this deregulation/diffusion of power, that is to say a balance power or “negarchy”⁶.

According to Strange, all these changes in the pattern of political authority are caused by changes in four key structures of world economy - security, production, finance and knowledge –, especially because the power exercised by these different structures tends to extrapolate the territorial limits of each state. The security structure is likely to be conceived in a multilateral direction, even if the state still fulfils a considerable role. Security is now the responsibility of those actors, public or private, who are more able to offer it; and the concept acquires a broader sense in order to include protection against other risks than military aggression, namely those concerning people’s welfare. Nevertheless, non-state actors, “players of ‘bit parts’”, will play much more decisive roles in the three other domains of international political economy: the production structure, the financial structure and the knowledge structure. “*On all these issues, states may provide a framework of legal rights and duties within which other actors influence outcomes. Or they may be merely the arena (...).*”

In the production structure, transnational corporations (TNCs) have become the main players with the emergence of multinational markets. “*They are increasingly exercising a parallel authority alongside governments in matters of economic management affecting the location of industry and investment, the direction of technological innovation, the*

⁵ STRANGE, page 197.

⁶ STRANGE, page 198.

*management of labour relations and the fiscal extraction of surplus value.”*⁷ According to Strange, the relation between these nonterritorial TNCs and civil society is essentially political, which makes TNCs political institutions exercising important tasks at every phase of the production process. The major changes that have occurred in international production are: a) the diversification of TNCs’ activities (processing, manufacturing and services), b) the multinational character of those companies, c) a shift, in terms of employment and trade, from the manufacturing sector to the non-material sector of services. Thus TNCs play a crucial role in world economy, in the processes of either privatisation, relocation of manufacturing industry, control of labour relations or taxation. In this sense, the result would be: a retreat of state by the privatisation of both the processes of development and production; the contribution of TNCs to the distribution of wealth from developed to undeveloped countries; neo-corporatism crisis and the increasing responsibility of corporations in the management of conflicting interests; the declining capability of state to manage taxation, in particular taxation of firms’ revenues.

All these changes undermine political authority, as well as eventual forms of neocorporatism. This is also related to the fact that national state had lost control over the knowledge structure, which is strictly connected with the technological development, especially over the flux of knowledge workers and over so-called “brain drain” phenomena. Concerning the financial structure, Strange refers to the need for a theory explaining reciprocal relations between international credits, the demand from TNCs and government intervention, but she provides no concrete proposals. Instead, the author hypothesizes an approach of the current phenomenon of dissemination of authority.

Strange chooses outcome as the main criterion to determine non-state authority, instead of institutional or organisational criteria, given the variable nature of the actors able to exercise such kind of authority. The emergence of a new diplomacy, where firms as non-state actors play a significant role, is the result of state’s incapability for conducting (sovereign) processes of decision-making. This is, at least in part, a reason for the erosion of the state. Since international trade’s integration became essential to national economies, governments and corporations negotiate directly. At the same time, TNCs’ activities are essential for the determination of trade, employment and wages. The state gave way to business the role of achieving economic growth and social well-being. The relocation of power from state to non-state actors is the result of reflected decisions or even of “non-decisions”: *“The shift from state authority to market authority has been in large part the*

⁷ STRANGE, page 65.

result of state policies.”⁸ That is to say that there is an obvious link between the power of non-state actors at the market level and the outcome - or “non-outcome” in case of “non-decision making” - at policy level.

Strange advocates a general shift towards a style of capitalist markedly Anglo-Saxon, meaning the convergence of national economic models. Behind this idea is the perception of clear asymmetries between power and weak/dependent societies, ever since the world market became imperative for both developed and underdeveloped countries. At first sight, it seems like both phenomena of convergence of economic models and retreat of state are linked, since “(...) *the progressive integration of the world economy, through international production, has shifted the balance of power away from states and toward world market*”. Having said that, the author’s idea that a retreat of state “(...) *does not mean that sovereignty is at bay in the sense that TNCs are displacing the state* (...)” is unambiguous.⁹ So the argument is by no mean determinist, even if it emphasizes structural forces and power. Of course, corporations are not the only non-state actors capable of exercising authority parallel to that exercised by state actors. The problem of a lack of clear decision-making mechanisms and collective responsibility in international political economy may be solved through cooperation between states, businesses-, international organizations and the so-called international civil society. Thus this conception of governance, possible by a process of interaction among different actors, challenges classical hierarchical governance structures inherent to the classical sovereign state system.

The author gives the example of international organisations among other actors exercising non-state authority. In fact, today the great part of national policies can’t be implemented without intergovernmental cooperation. Intergovernmental organisations have been created by states in order to deal with cross-border issues better and its participation is required for effective global governance. For Strange, the authority of those organisations can be measured once again by outcomes’ analysis. Particularly relevant is the distinction made between functions/authority delegated to the organizations by states and functions/authority exercised by the organizations independently from state members- between delegated power and independent power. The United Nations’ peacekeeping operations are the case pointed out as a clear example of power delegation, as well as other less politically important domains, in particular those concerned with the need for standardisation in order to face technological changes. On the other hand, power exercised by non-governmental organisations is independent by definition, even if these organisations

⁸ STRANGE, page 44

⁹ STRANGE, page 46

tend also to preserve the *status-quo*. According to Strange, in both cases of delegated or independent powers' exercise, it is always a case of marketing regime's reinforcement.

For Strange, it is not plausible to argue that the state has lost political authority to supranational institutions: "*If the state has lost significant political authority in any direction, it is more likely to be downward or sideways (...)*".¹⁰ Nevertheless, it is questioned whether the European Community – today's European Union – may be presented as a possible case of an international organisation with exceptional characteristics, given the existence of communitarian institutions or bodies that go beyond intergovernmental mechanisms of cooperation. Even if European Monetary Union is a reality, empirical evidence corroborates Strange's argument that EU member states "*(...) prefer a vacuum of power over key matters of security, currency, law and order and foreign policy to a real transfer of power to supranational institutions.*"¹¹ It is true that states sometimes operate through institutions, but these rules tend to reflect the state's self-interest calculations. In realist terms, this means that states base their actions primarily on the international distribution of power.

For instance, Gordon defines "integration" in the EU as "*the delegation of sovereignty to new central institutions*" or "*the sharing, or pooling of sovereignty in common institutions*".¹² According to this functionalist perspective, sovereign power of different member states is gradually transferred to a new centre, while an increasing integration occurs in different areas. However this view is very questionable when confronting empirical aspects of the European construction process. On the contrary, Strange argues, the EU remains a space of intergovernmental cooperation, mainly at the political cooperation level, even if recurring to federal – as showed by the EMU's creation process – or confederal mechanisms – in trade policies for instance.

Until today integration has only happened when interests of the different state members are sufficiently similar. That happened in trade policy, in internal market's conclusion, in monetary policy and in the Schengen agreement. For instance, internal market's conclusion gave little space for member states to use instruments of national policy. Voting rules also make difficult a substitution of national policies by protectionist measures at the EU level. It is even possible that a *spill over* process will lead to an interest convergence. However, evidence shows that states tend to take cosmetic steps towards integration since they have the perception that real integration will not bring about substantial benefits.

¹⁰ STRANGE, page 179.

¹¹ *idem*

¹² GORDON, Philip H., *International Security*, winter 1997/98, vol. 22, nr 3, page 74.

So we must pay attention to the limits imposed to institutional construction by member states national interests. In Foreign and Common Security Policy as well as in many other political-military issues, the difficult convergence of interests usually leads to agreements of common minimum dominator. Besides, there is also the need to protect particular interests, especially those of greater states, through the restriction of integration terms – as in both cases of French agriculture and trade policy – or by the inscription of so-called *opting-out* clauses.

Nevertheless it must be emphasised that the EU exercises significant authority at a supranational level, not only towards state members but also towards private actors, such as enterprises. Sanctions are actually applied to states that break established rules. The violation of those rules is mostly the consequence of incentives for defection associated with national adjustment to EU rules and legislative or administrative capacity limitations in the member states. The European Commission has played a significant role in this field through a kind of “management-enforcement ladder”¹³: through economic penalization proposals (afterwards submitted to European Court of Justices decisions), the recourse to a “shaming strategy” – a form of decentralised retaliation in order do prevent desertion– or actions that contribute to the minimisation of some member states’ legislative and administrative incapacity.

Therefore it is important to point out that the state has actually lost some of its authority monopoly also in face of supranational actors in different domains and in the economic sphere in particular. This is an issue in which Strange’s analysis lacks the most information. Even if organisations such as the EU are political by definition, they were firstly economic and still remain so. Thus they can be considered important actors in today’s international political economy and contribute to the changes that are occurring in it. Even if we pay more attention to the prominent role played by other actors, does it mean a total disbandment of state and the advance of non-state actors, especially market actors?

This surely not the case, as Strange points out. Of course the state becomes more dependent on the support and cooperation of economic and social non-state actors, mostly private, and has now to share functions in different domains, mainly with transnational corporations which have become a “parallel authority” at the level of production structure. The state is affected in the attributes of its sovereignty, in domains such as security, currency, welfare or taxation, participating by this way in its own retreat and facing what Badie calls “the end of territories”¹⁴. This poses serious problems in the sphere of

¹³ TALLBERG, *International Organisation*, summer 2002, vol. 56, nr 3.

¹⁴ BADIE, Bertrand, *La fin des territoires: essai sur le désordre international et sur l’utilité sociale du respect*, Fayard, 1995.

significance, mainly the incapacity of state to express a national identity. Hence territorial demarcation and jurisdiction defined in territorially terms, which characterises the Westphalian system, is likely to decline. A clear sign of this is the prevalence of competition for market shares instead of competition for territory. States can no longer claim to serve the joint point between the domestic and international realms and politics suffers from what Rosenau named “fragmigration”¹⁵. In short, state “*is becoming, once more and as in the past, just one source of authority among several, with limited powers and resources*”.¹⁶ This is also related to the increasing debate over the issue of power centralisation or decentralisation, notably in what concerns the European Union.

However Strange’s argument about the diffusion of state authority does not seem clearly developed. Perhaps it would have been a better idea not to take state and market as interdependent concepts but to see them as parts of the same ensemble of governance, since public and private domains are not always clearly distinct and private interests usually have a great influence on state decision-making. It is then possible to say that there is a change in what concerns the balance between public and private authority. Sometimes the state delegates important prerogatives to private associations, which are able to exercise what is thought to be functions of public interest. So instead of the retreat of state, we can refer to a changing form of state.

Even if in the current phenomenon of global integration the private sector acquires particular relevance, we shouldn’t rest attached to the rigidity of a state-market dichotomy. This suggests going back to the idea of corporativism, a system that characterizes western European states in particular, and in which economic competition processes are in concurrence with political regulatory processes. Nevertheless, this is also true to political economies of the Anglo-Saxon countries, since there always tends to be some sort of arbitration in the market. So we can say that state institutions are part of the market structure at national and international levels, since there is a reciprocal action between public aims and private agents, thus operating as one ensemble of governance.

There as been a retreat of the state in some particular functions and/or activities, mainly in the economic sphere given the increasingly transnationalisation of political economy. Nevertheless, the state maintains the most important tasks related to domestic political legitimacy. Rather than a retreat of state in face of non-state actors we should talk more about changes in state’s forms, keeping in mind an ever possible return to higher state

¹⁵ ROSENAU, James, “The Complexities and Contradictions of Globalization”, *Current History*, November 1997.

¹⁶ STRANGE, p. 73

interventionism depending on future circumstances. In face of the permanent correlation between political authority and market, often mentioned in this work, some tasks of state policy may demand representative institutions to search for new approaches and/or instruments.

Considering the importance of international monetary and global financial systems in order to understand international political economy, Strange emphasises the economic feature of the phenomenon of globalization. However, the economy can be seen as mere vector for the globalisation phenomenon – a phenomenon mostly cultural and technological in nature. It matters to determine how the development of the supra-territorial space tends to change state role and activities. It is clear that there is a process of state's denationalization with the reorganization at the subnational and the supranational. The denationalization of political regimes is also the reason for the subsequent transition of the government's concept. The national state tends to become more "internationalized" and to suffer a major strategic impact of the international context in those areas inherent to its own sphere. Therefore we can understand the tendency to a certain perturbation on social contract and at the legal and institutional structures, as well as state's necessity of regulating its own deregulation.

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