

## 26 The End of the Nation State

*Kenichi Ohmae*

A funny – and, to many observers, a very troubling – thing has happened on the way to former US President Bush's so-called "new world order": the old world has fallen apart. Most visibly, with the ending of the Cold War, the long-familiar pattern of alliances and oppositions among industrialized nations has fractured beyond repair. Less visibly, but arguably far more important, the modern nation state itself – that artifact of the eighteenth and nineteenth centuries – has begun to crumble. [...]

In economics as in politics, the older patterns of nation-to-nation linkage have begun to lose their dominance. What is emerging in their place, however, is not a set of new channels based on culture instead of nations. Nor is it a simple realignment of previous flows of nation-based trade or investment.

In my view, what is really at stake is not really which party or policy agenda dominates the apparatus of a nation state's central government. Nor is it the number of new, independent units into which that old center, which has held through the upheavals of industrialization and the agonies of two world wars, is likely to decompose. Nor is it the cultural fault lines along which it is likely to fragment.

Instead, what we are witnessing is the cumulative effect of fundamental changes in the currents of economic activity around the globe. So powerful have these currents become that they have carved out entirely new channels for themselves – channels that owe nothing to the lines of demarcation on traditional political maps. Put simply, in terms of real flows of economic activity, nation states have *already* lost their role as meaningful units of participation in the global economy of today's borderless world.

In the first place, these long-established, politically defined units have much less to contribute – and much less freedom to make contributions. The painful irony is that, driven by a concern to boost overall economic well-being, their efforts to assert traditional forms of economic sovereignty over the peoples and regions lying within their borders are now having precisely the opposite effect. Reflexive twinges of sovereignty make the desired economic success impossible, because the global economy punishes twinging countries by diverting investment and information elsewhere.

The uncomfortable truth is that, in terms of the global economy, nation states have become little more than bit actors. They may originally have been, in their mercantilist phase, independent, powerfully efficient engines of wealth creation. More

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recently, however, as the downward-ratcheting logic of electoral politics has placed a death grip on their economies, they have become – first and foremost – remarkably inefficient engines of wealth distribution. Elected political leaders gain and keep power by giving voters what they want, and what they want rarely entails a substantial decrease in the benefits, services, or subsidies handed out by the state.

Moreover, as the workings of genuinely global capital markets dwarf their ability to control exchange rates or protect their currency, nation states have become inescapably vulnerable to the discipline imposed by economic choices made elsewhere by people and institutions over which they have no practical control. Witness, for example, the recent, Maastricht-related bout of speculation against the franc, the pound, and the kronor. Witness, also, the unsustainable but self-imposed burden of Europe's various social programs. Finally, witness the complete absence of any economic value creation, save for those around the world who stand to benefit from pork-barrel excesses, in such decisions as the Japanese Diet's commitment – copied from the New Deal policies of Franklin Roosevelt – to build unnecessary highways and bridges on the remote islands of Hokkaido and Okinawa.

Second, and more to the point, the nation state is increasingly a nostalgic fiction. It makes even less sense today, for example, than it did a few years ago to speak of Italy or Russia or China as a single economic unit. Each is a motley combination of territories with vastly different needs and vastly different abilities to contribute. For a private sector manager or a public sector official to treat them as if they represented a single economic entity is to operate on the basis of demonstrably false, implausible, and nonexistent averages. This may still be a political necessity, but it is a bald-faced economic lie.

Third, when you look closely at the goods and services now produced and traded around the world, as well as at the companies responsible for them, it is no easy matter to attach to them an accurate national label. Is an automobile sold under an American marque really a US product when a large percentage of its components comes from abroad? Is the performance of IBM's foreign subsidiaries or the performance of its R&D operations in Europe and Japan really a measure of US excellence in technology? For that matter, are the jobs created by Japanese plants and factories in the Mississippi Valley really a measure of the health of the Japanese, and not the US, economy? The barbershop on the corner may indisputably be a part of the domestic American economy. But it is just not possible to make the same claim, with the same degree of confidence, about the firms active on the global stage.

Finally, when economic activity aggressively wears a national label these days, that tag is usually present neither for the sake of accuracy nor out of concern for the economic well-being of individual consumers. It is there primarily as a mini-flag of cheap nationalism – that is, as a jingoistic celebration of nationhood that places far more value on emotion-grabbing symbols than on real, concrete improvements in quality of life. By contrast, we don't hear much about feverish waves of Hong Kong nationalism, but the people in Hong Kong seem to live rather well. With much fanfare, Ukraine and the Baltic states have now become independent, but do their people have more food to eat or more energy to keep them warm during the winter or more electricity for light to see by?

An arresting, if often overlooked, fact about today's borderless economy is that people often have better access to low-cost, high-quality products when they are not produced "at home." Singaporeans, for example, enjoy better and cheaper agricultural products than do the Japanese, although Singapore has no farmers – and no farms – of its own. Much the same is true of construction materials, which are

much less expensive in Singapore, which produces none of them, than in Japan, which does.

Now, given this decline in the relevance of nation states as units of economic activity, as well as the recent burst of economic growth in Asia, the burgeoning political self-consciousness of Islam, and the fragmentation, real or threatened, of such "official" political entities as Italy, Spain, Somalia, Rwanda, Canada, South Africa, and the former Yugoslavia, Czechoslovakia, and Soviet Union – given all this, it is easy to see why observers like Huntington should look to cultural, religious, ethnic, even tribal affiliations as the only plausible stopping point of the centrifugal forces unleashed by the end of the Cold War.

Once bipolar discipline begins to lose its force, once traditional nation states no longer "hold," or so the argument goes, visionless leaders will start to give in to the fear that older fault lines will again make themselves felt. And given the bloody violence with which many of these lines have already begun to reappear, these leaders will find it hard to see where this process of backsliding can come to rest short of traditional groupings based on some sort of cultural affinity. In other words, in the absence of vision and the presence of slowly rising panic, the only groupings that seem to matter are based on civilizations, not nations.

But are cultures or civilizations meaningful aggregates in terms of which to understand economic activity? Think, for a moment, of the ASEAN countries. In what sense is it useful to talk about them as a single, culturally defined economic area? As they affect local patterns of work, trade, and industry, the internal differences among their Buddhist, Islamic, Catholic (in the Philippines and the Sabah state of Malaysia), and Confucian traditions are every bit as large as, if not larger than, the differences separating any one of these traditions from the dominant business cultures of New York or London or Paris.

But in ASEAN, at least, differences of this sort do not provoke the same kinds of conflicts that often arise elsewhere. Most Western observers know, for example, that Spanish and Portuguese speakers can converse with each other, if with some minor degree of difficulty. Many fewer, however, know that the same is true of Indonesians and Malaysians. Or that, in border regions between Thailand and Malaysia, such as Phuket, there are peaceful, economically linked villages, some of which have mainly Buddhist and some mainly Islamic populations. These on-the-ground realities have made it possible for ASEAN leaders to accept and to reinforce, with little fear of internal friction, the development of cross-border economic ties like those stretching across the Strait of Malacca which are represented by the Greater Growth Triangle of Phuket, Medan, and Penang.

Even more important than such cultural differences within a civilization, and what Huntington's line of thought leaves out, is the issue of historical context. The particular dissolution of bipolar, "great power" discipline that so greatly affects us today is not taking place in the 1790s or the 1890s, but the 1990s. And that means it is taking place in a world whose peoples, no matter how far-flung geographically or disparate culturally, are all linked to much the same sources of global information. The immediacy and completeness of their access may vary, of course, and governments may try to impose restrictions and control. Even if they do, however, the barriers will not last forever, and leakages will occur all along the way. Indeed, the basic fact of linkage to global flows of information is a – perhaps, *the* – central, distinguishing fact of our moment in history. Whatever the civilization to which a particular group of people belongs, they now get to hear about the way other groups of people live, the

kinds of products they buy, the changing focus of their tastes and preferences as consumers, and the styles of life they aspire to lead.

But they also get something more. For more than a decade, some of us have been talking about the progressive globalization of markets for consumer goods like Levi's jeans, Nike athletic shoes, and Hermès scarves – a process, driven by global exposure to the same information, the same cultural icons, and the same advertisements, that I have elsewhere referred to as the "California-ization" of taste. Today, however, the process of convergence goes faster and deeper. It reaches well beyond taste to much more fundamental dimensions of worldview, mind-set, and even thought process. There are now, for example, tens of millions of teenagers around the world who, having been raised in a multimedia-rich environment, have a lot more in common with each other than they do with members of older generations in their own cultures. For these budding consumers, technology-driven convergence does not take place at the sluggish rate dictated by yesterday's media. It is instantaneous – a nanosecond migration of ideas and innovations.

The speed and immediacy of such migrations take us over an invisible political threshold. In the post-Cold War world, the information flows underlying economic activity in virtually all corners of the globe simply cannot be maintained as the possession of private elites or public officials. They are shared, increasingly, by all citizens and consumers. This sharing does not, of course, imply any necessary similarity in how local economic choices finally get made. But it does imply that there is a powerful centripetal force at work, counteracting and counterbalancing all the centrifugal forces noted above.

The emotional nexus of culture, in other words, is not the only web of shared interest able to contain the processes of disintegration unleashed by the reappearance of older fault lines. Information-driven participation in the global economy can do so, too, ahead of the fervid but empty posturing of both cheap nationalism and cultural messianism. The well-informed citizens of a global marketplace will not wait passively until nation states or cultural prophets deliver tangible improvements in lifestyle. They no longer trust them to do so. Instead, they want to build their own future, now, for themselves and by themselves. They want their own means of direct access to what has become a genuinely global economy. [...]

### A Swing of the Pendulum

In the broad sweep of history, nation states have been a transitional form of organization for managing economic affairs. Their right – their prerogative – to manage them grew, in part, out of the control of military strength, but such strength is now an uncomfortably great burden to maintain. (It has also largely been exposed as a means to preserve the positions of those in power, not to advance the quality-of-life interests of their people.) Their right grew out of the control of natural resources and colonies, but the first is relatively unimportant as a source of value in a knowledge-intensive economy, and the second is less a source of low-cost resources than a bottomless drain on the home government's treasury. It grew out of the control of land, but prosperous economies can spread their influence through neighboring territories without any need for adjustment in formal divisions of sovereignty. And it grew out of the control of political independence, but such independence is of diminishing importance in a global economy that has less and less respect for national borders.

Moreover, as it grew, the nation state's organizational right to manage economic affairs fell victim to an inescapable cycle of decay. This should occasion no surprise. It comes as close to being a natural law as the messy universe of political economy allows. Whatever the form of government in power and whatever the political ideology that shapes it, demands for the civil minimum, for the support of special interests, and for the subsidization and protection of those left behind inexorably rise. In different circumstances, under different regimes, and during different eras, the speed of escalation varies. Good policy can slow the pace, bad policy can accelerate it. But no policy can stop it altogether. Nation states are political organisms, and in their economic bloodstreams cholesterol steadily builds up. Over time, arteries harden and the organism's vitality decays.

History, of course, also records the kinds of catastrophic, equilibrium-busting events that can stop or even reverse this aging process. Wars can do it, as can natural disasters like plagues, earthquakes, and volcanic eruptions. They have certainly done so in the past. But even for the most cold-blooded practitioners of *realpolitik*, these are hardly credible as purposeful instruments of economic policy.

Thus, in today's borderless economy, with its rapid cross-border [flows], there is really only one strategic degree of freedom that central governments have to counteract this remorseless buildup of economic cholesterol, only one legitimate instrument of policy to restore sustainable and self-reinforcing vitality, only one practical as well as morally acceptable way to meet their people's near-term needs without mortgaging the long-term prospects of their children and grandchildren. And that is to cede meaningful operational autonomy to the wealth-generating region states that lie within or across their borders, to catalyze the efforts of those region states to seek out global solutions, and to harness their distinctive ability to put global logic first and to function as ports of entry to the global economy. The only hope is to reverse the postfeudal, centralizing tendencies of the modern era and allow – or better, encourage – the economic pendulum to swing away from nations and back toward regions. [...]

## 27 The Declining Authority of States

*Susan Strange*

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, 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

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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 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 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, 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 Eurocentrism 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 inter-governmental 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. [...]

## 28 Has Globalization Gone Too Far?

*Dani Rodrik*

The process that has come to be called "globalization" is exposing a deep fault line between groups who have the skills and mobility to flourish in global markets and those who either don't have these advantages or perceive the expansion of unregulated markets as inimical to social stability and deeply held norms. The result is severe tension between the market and social groups such as workers, pensioners, and environmentalists, with governments stuck in the middle. [...]

While I share the idea that much of the opposition to trade is based on faulty premises, I also believe that economists have tended to take an excessively narrow view of the issues. To understand the impact of globalization on domestic social arrangements, we have to go beyond the question of what trade does to the skill premium. And even if we focus more narrowly on labor-market outcomes, there are additional channels, which have not yet come under close empirical scrutiny, through which increased economic integration works to the disadvantage of labor, and particularly of unskilled labor. This book attempts to offer such a broadened perspective. As we shall see, this perspective leads to a less benign outlook than the one economists commonly adopt. One side benefit, therefore, is that it serves to reduce the yawning gap that separates the views of most economists from the gut instincts of many laypeople.

### Sources of Tension

I focus on three sources of tension between the global market and social stability and offer a brief overview of them here.

First, reduced barriers to trade and investment accentuate the asymmetry between groups that can cross international borders (either directly or indirectly, say through outsourcing) and those that cannot. In the first category are owners of capital, highly skilled workers, and many professionals, who are free to take their resources where they are most in demand. Unskilled and semiskilled workers and most middle managers belong in the second category. Putting the same point in more technical terms, globalization makes the demand for the services of individuals in the second category *more elastic* – that is, the services of large segments of the working population can be more easily substituted by the services of other people across national boundaries. Globalization therefore fundamentally transforms the employment relationship.

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