States in the International Political Economy – Retreat or Transition?
State Strategies in the Global Political Economy by Ronen Palan; Jason Abbott; Phil Deans: The Retreat of the State. The Diffusion of Power in the World Economy by Susan Strange
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A state without some means of change is without the means of its conservation.

(Edmund Burke, Reflections on the Revolution in France, 1790)

In this putative era of globalization the analytical significance of the state is increasingly contested. While states were never a homogeneous group of political economic actors, any pretence that they could be so theorized has been thoroughly dismissed in recent years. This leaves IPE with a major task on its hands: given the continuing empirical existence of territorially delimited actors, still recognizably states in some form or another, how can their diverse levels of continued effective interaction with the structures of the global political economy be understood? And, on the other hand, if the appearance of continuing power is deceiving, why have states’ capabilities been diminished? These sorts of questions conventionally lead to a division of perceptions, with some suggesting that the state’s power is declining, that it is ‘in retreat’ while other actors become increasingly important. Arrayed against this proposition are those who argue that though the states’ role may have changed they are still significant global actors. Both (generalized) positions recognize the state is ‘in transition’, but they differ over where such transition will lead. As Burke recognized over 200 years ago, no state that stays stable against the fabric of history will conserve its previous capacity for action. That said, there may be more than one way of resisting marginalization and the transfer of powers away from states to other groups or actors in the global political economy: states’ governments may be able to choose positive strategies appropriate to their histories and particular circumstances.

On an initial reading of the books under review it would be presumed that for Strange the states’ transition is towards the sidelines of global political economic relations, that state authority has been superseded by the authority of new transnational actors (be they globalizing companies, international organizations or less formal groups such as the Mafia). Conversely, for Palan and Abbott the transition is to different but still
significant types of states, with states developing differing (but still effective) strategies for interacting with the global system. Thus while both studies would recognize that there are myriad state histories and forms, the conclusions that are drawn from such historical study seem divergent. But this initial presumption, based on a cursory examination, may be misleading; actually both books belong to a similar body of work – they merely approach the state with differing analytical interests.

Susan Strange has argued for some time that power in the global political economy needs to be analysed more fully, which is to say that the non-state elements of power should be (re)introduced into analysis. She has often noted (as she does again in the preface to this new book) that States and Markets (Strange, 1988) was actually a misnomer: what she was really concerned to account for was authority and markets. Though in the past authority might have been state based, now she argues it is more often based on non-state abilities to bring about (or structure) outcomes. Additionally, power has both relational and structural elements, affecting the outcomes between particular actors but as importantly setting the context in which these outcomes are settled.

The move to allow markets to bring about outcomes (a move which Strange suggests states have been implicated in) has made non-state actors, and transnational companies especially, more important. This relative ebbing of power from the state to other actors has to some extent been obscured by the increasing intervention by states in the lives of their citizens. This gives the impression of a retention of power. However, while these interventions have helped states to prop up their legitimacy, for Strange, in the ‘real world’ of the global system states’ governments are unable to affect the outcomes they may desire, and are unable to resist pressure to curtail certain previous activities which ‘the markets’ may not support.

But for Palan and Abbott it is through these interventions that states have retained the ability to affect their own development (or in Burke’s terms, the ability to change). While Strange makes a distinction between those areas which are typified by market failure (where states continue to act) and those areas where states are unable to utilize power due to the prevalence of the market, Palan and Abbott are more concerned to identify how state interventions impact on the markets in which their citizens’ socioeconomic activities are located (be they local, national or international). They suggest that the impact on markets of state interventions has a much more significant implication for the ‘competitiveness’ of states, and thus their ability to develop, than Strange allows for. Indeed, Strange sees the contemporary role of states essentially limited to facilitative (infrastructural) interventions, putting the structures in place that will allow a domestic market to produce, through

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competition, wealth and welfare for the populace. Strange does not necessarily support or welcome this shift, but as a self-professed ‘new-realist’, notes that this is currently the way the global political economy is organized, and so this is what must be accounted for.

For Strange, relations between the state and non-state authority are arrayed along a continuum which stretches from such groups as the Mafia, threatening and undermining remaining state authority, to the Big Six accountancy firms and transnational legal partnerships which work with state-based authority and by doing so support it. And, though Strange continues to be more interested in non-state actors’ structural power – their ability to set the contexts, the agendas, which limit and shape the available or plausible outcomes – she notes that some states (primarily the United States) enjoy structural power over areas of the global political economy, despite the general move away from state-based power. On the other hand, not for the first time, she criticizes Robert Gilpin (and others) for discussing the role of states as if the United States was broadly typical of all states. For Strange, and for Palan and Abbott, this is far from the case.

Indeed the strength of the Palan and Abbott study is its nuanced and diversified account of the state in the global political economy. Detailing both geographical groups such as states in East Asia or Europe, as well as the strategies of niche states which promote themselves as tax and regulation havens, the study makes a powerful argument against theorizing states only as ‘like units’ or even as similar units. Despite the attempt to fit states into the broad groups that they suggest, the text continually notes the exceptions and variances within each analytical type. Globalization does not engender a unified reaction. And, as importantly, the authors plausibly argue that the state and globalization are not contradictory analytical constructs, rather globalization has been supported by states in many instances. This has always been Strange’s position on the commonplace but flawed presumption that globalization arrived from elsewhere to undermine the state. One of the most evident strategies that states have adopted in this regard is the move to regionalization. Regional inter-state structures are part of the response to the changes which globalization has wrought on the global political economy, as well as being part of the trend to globalization in itself.

Palan and Abbott’s further contention is that the emergence of the ‘competition state’ is the key to such responses. This development reflects particular histories and factor endowments, rather than the adoption of a standardized set of responses. The notion of ‘competition state’ (presented by the authors as an ideal type rather than extant characterization of all states) is built on four assumptions. First, governments are primarily concerned to establish economic growth, though there are many possible exceptions (for instance in states where government
priorities appear to support religious social engineering). Second, governments always (and continue to) attempt to control and shape their internal productive and economic activities. This does not necessitate nationalization, but is reflected in the history of tariffs and non-tariff barriers, attempts to control the movement of capital and the support to national champions or endangered (but strategic) areas of the economy, as well as a wide raft of regulatory legislation. However, as the authors note, states may combine these two elements in different ways according to their particular circumstances.

Two additional general observations are reflected in the idea of the ‘competition state’. Technological developments have enabled economic enterprise to be organized on a more global basis. This has been supported by the ideologically driven move towards a de-regulated trade regime (with the establishment of the new World Trade Organization), and the integration of global capital markets. Finally, the key element to promote economic growth and prosperity is perceived as the ability to attract and secure investment in the domestic economy. Palan and Abbott suggest this reflects a switch from a traditional Ricardian idea of ‘comparative advantage’, to the idea of ‘competitive advantage’ drawn from the work of Michael Porter and other writers in the field of business strategy. Once these four assumptions are broadly accepted, the authors argue that they can then be interpreted either positively or negatively.

Negatively, writers like Strange and critics of ‘globalization’ have argued that this environment has led to a Dutch auction, with states competing to de-regulate and remove themselves from politically driven intervention in markets. Alternatively, the positive (and essentially liberal) vision is of an environment made increasingly accommodating to the needs of international business, which will result in the enlargement of welfare for all (given time). But Palan and Abbott argue that both positive and negative interpretations of the ‘competition state’ only recognize one level of activity – the states’ actions and policies.

Palan and Abbott suggest that only a historically sensitive treatment can recognize the political compromises (between competing social groups or classes) within which state actions are grounded. These strategies (if successful) become models for compromises in other states where competing groups are still struggling towards acceptable settlements. And as such strategies reflect the notion of competition (which is to say differentiation), once certain strategies become popular, the benefits from adopting them may decline due to ‘crowding’. Innovation can only be reproduced a limited number of times before it starts to lose its attractiveness (in particular to foreign investors). Once these factors have been taken into account, they provide a way of understanding the diversity of state strategies in the global political economy.
Strange spends half her book discussing non-state actors which mobilize various forms of power to the detriment of the state: the telecoms industry; organized crime; the insurance business; the 'Big Six' global accountancy firms; various cartels; and the 'econocrats' of international organizations. However, for Palan and Abbott the environment in which these actors are mobilizing their power is one that is fundamentally shaped by the state. This is not to argue that the actors Strange discusses act at the behest of the state, but Palan and Abbott see a different sort of tension in the interaction of state and business from Strange. Thus they suggest that though it is plausible to argue that the global capitalist class wishes to see a smaller and less interventionist state, this is not necessarily true of capitalist enterprises, which wish to have the state intervene when it will benefit them, not least of all through supporting the structures that enable them to continue profitable accumulation in national markets. The balance between these two groups is different in different states, and thus differing strategies of interaction have emerged.

Strange, on the other hand, tends to emphasize the interests of the capitalist class on a global basis, without fully discussing the possible differences at the state level. She has long argued that the financial markets have been ignored (or at least underplayed) in mainstream IPE, and that the interests of the global capitalist class (demanding, for instance, 'sound money') dominate this structure. For Strange, the power this class is able to mobilize through the finance structure (primarily through its ability to structure the provision of credit) has denuded the state of much of its power, given that the control of credit creation (through the power to manufacture currency) has been a historically central function of the state. Those areas where intervention is still possible are not those that are important globally, though they may be locally.

Conversely, those areas that are important globally are not the areas where state intervention is really possible any longer. Thus, lacking the means autonomously to change its interactions with the global political economy, for Strange the state has lost the most important and significant aspect of its potential. The state may still continue to exist, but a fundamental change is occurring, through the rise of the global political economy. What was once international now bypasses state structures and links transnational, global, groups structuring power relations on the basis of these groups, not on the basis of territorially defined political areas.

Despite their differences, these two books actually represent linked aspects of the research project that Strange originally laid out in States and Markets (Strange, 1988). Perhaps the best way of thinking about The Retreat of the State is to see it as the third part of an effective trilogy, preceded by States and Markets and Rival States, Rival Firms (Stopford
and Strange, 1991). These three books together represent a major and profound contribution to the analysis of the global political economy. Initially laying out a theoretical model of how power could be understood in the global political economy, Strange in the second part turned her attention to the interaction of firms and developmental states. This second book concentrated on one important group of non-state actors, the multinational and transnational companies that interact with states in the global system. The Retreat of the State explores further why and how non-state actors are important as an empirical complement to her concern to find out ‘cui bono’ – who benefits.

But there is one direction that Strange did not pick up from States and Markets (Strange, 1988), perhaps because she felt it had already been overdone: the need to reassess the state, not as an undifferentiated collection of ‘like units’, but as a group of diverse actors of continuing importance, though with vastly varying capabilities. It is this concern that the Palan and Abbott book addresses. By not taking the state for granted, by not according it an automatic importance, but by arguing for its continued role, the authors work through issues that have been at the centre of Strange’s approach in the past. Palan and Abbott are less interested in the power of states to bring about outcomes in a direct manner, but rather more concerned to understand how state actions and policies can structure the environment (at both local and global levels) that other actors function within. Thus, they avoid the sort of exclusively relational power analysis that Strange has always argued against. Again there is a clear line back to Strange’s earlier concerns with authority and structural power, and the recognition of the continuing importance of the state (but not to the exclusion of other important actors).

A few years ago, in The Logic of Anarchy, Buzan et al. (1993) suggested that rather than supposing that differing accounts of the international system are incommensurable, it might be better to see them as different lenses which revealed different aspects of a totality that no single theory could capture. Now while this is quite a complex epistemological argument, here I wish to suggest that though the two books under review have quite different views of how the state interacts with the global political economy, it might be useful to consider them as different views of a totality. This is to suggest that on one side we can recognize with Strange that states’ capabilities have been ebbing away in some areas and the shortfall of authority has been taken up elsewhere in the system by non-state actors. We should therefore account for the expansion of globalized political economic relations and structures relative to the practice and activities of states. But we can also recognize with Palan and Abbott that states can still have considerable power resources (both relational and structural) that can be deployed in certain areas, to
develop particular and differing strategies of interaction with the global system. This leaves the state as an important element in any analysis of the global political economy.

So finally where does this leave a theory of the state in IPE? First, states can no longer be accorded an *a-priori* central position in analyses of the global political economy. However, neither can they be discarded. When Strange talks of the ‘retreat of the state’, this is not a retreat into obsolescence, but rather a retreat relative to other actors which are (and have always been) powerful in one way or another. Second, history or histories are important. Analysis of states needs to recognize their diverse histories and diverse political economic settlements. Strange has only really been concerned to discuss the differences between certain states (and most often the continuing power of the United States, which as she has noted is often the subject of self-denial). Palan and Abbott have taken this concern much further, with a discussion of the myriad different models and groups of state strategies that have been adopted in this century. Thus, an account of the state needs to recognize its continuing importance, while not dismissing or underplaying the emerging and expanding role of non-state actors. It must recognize most importantly that the ‘and’ in ‘states and markets’ is not an either/or operator but rather an addition – IPE needs to consider at all times, states, markets, their interaction (however this may be mediated by non-state actors) and areas where states’ roles have been both removed (or modified) and have expanded. Thus, the state remains an important analytical presence for IPE, but is joined, *not replaced by*, other actors.

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References