

The Retreat of the State: The Diffusion of Power in the World Economy

by Professor Susan Strange (ref no 7164)

reviewed by Dr DeAnne Julius

This book is a culmination and extension of Susan Strange's insightful work over the last two decades on power sharing and power shifts across public and private sectors and among national and transnational actors. It breaks new ground both in its theoretical chapters on expanded definitions of power and politics and in its empirical chapters where the authority of non-state actors such as the mafia and the 'big six' accounting firms is explored. It is also well structured and much better written than most economic tomes, making it good coursework material.

The most innovative ideas for economist readers are in Chapters 2 and 3 which link political and economic power shifts. Strange's basic thesis is that the end of the Cold War world has caused power to shift 'upwards' from weak states to stronger ones, and that that shift, particularly towards the United States, has accelerated the 'sideways' shift of power from states to markets (as explored in Strange's 1988 book). This makes many social scientists uncomfortable because they are accustomed to think of power as residing in some person or institution with a clear source of authority. Markets are impersonal, intangible, sometimes irrational, and have no 'interests' towards

which to direct their power. Strange asks, but does not fully answer, whether this matters; ie, whether there is “a sufficiency of political, economic and social order for the market-based economic system to survive and prosper” while providing for the rights and liberties of its citizens. This question strikes at the core of many economic policy debates over how far to deregulate, which public services to privatise, when competition policy should look across borders, even whether the European social chapter and single currency are necessary to ensure a level playing field for businesses and jobs across European countries. Her cautiously guarded conclusion is that the biggest single lacunae in the system of international governance is the lack of a world central bank with regulatory powers. Here many economists would differ, having a higher degree of confidence in the Basle accord and the Group of Ten arrangements for financial supervision and cross-border coordination than does Professor Strange. But that is a detail. Her general diagnosis of the diffusion of power and the redefinition that entails of politics is deeply developed and of central relevance to economists and corporate strategists.

The second part of the book is a series of six chapters presenting empirical evidence of the expanded international ‘political’ role of certain non-state actors and productive sectors: organised crime, telecoms, insurance, accountants, shipping cartels and international bureaucrats. These are invariably interesting, but in some cases unsatisfying to a reader who is familiar with that sector. For example, the chapter on shipping presents it as an example of “how - despite the silence of the academics - cartels really operate in the real world”. Certainly there is a shipping cartel, but it provides

the classic example - studied by many economists - of an industry with an empty core where non-cooperative competitive games will fail to converge on a market equilibrium. It is an example of a very special type of market failure, rather than of a general case of competition leading to collusion.

The empirical chapters well illustrate Strange's methodological point that there is a great deal of interesting work to be done by economists and other social scientists on non-state authorities that transcend borders but adhere to sectoral definitions. This is directly relevant to competition policy issues, where the definition of the market very often decides the outcome of the case. As power shifts from states to markets, and as markets expand from national to global competition, the mismatch between national competition policy authorities and international corporate restructuring grows in size and importance.

In sum, this new book by one of Britain's most eminent political scientists contains much that is illuminating and challenging to economists. Over the years, and particularly in this book, Strange has dared to build an intellectual bridge over the vast academic chasm between politics and economics. Those starting on either side may see different cracks and fault lines, but it is a structure that can bring major benefits to both parties and around which there is vast scope both for stronger foundations and for more detailed embellishments.