

If the omission or underrating of transnational relations — especially economic relations — was one important deficiency of political economy based on the regimes' *problématique*, another serious one was that it did not absolutely require the researcher or the student to ask whose power those 'principles, norms, rules and decisionmaking processes' most reflected. Nor did it insist on asking about the sources of such power: was it based on coercive force, on success in the market and on wealth, or on the adherence of others to an ideology, a belief system or some set of ideas?

By not requiring these basic structural questions about power to be addressed, and by failing to insist that the values given predominant emphasis in any international 'regime' should always be explicitly identified, the presumption has often gone unchallenged that any regime is better than none. It is too often assumed that the erosion or collapse of a set of norms or rules is always a bad thing, to be regretted, and if possible reversed. Such an assumption takes the *status quo ante* the erosion to be preferable to the *ex post* situation. But that assumption unconsciously overweighs the value of order and stability over the other values, and especially the order and stability of international arrangements for the world economy designed and partially imposed in the period after 1945. It is easy enough to see why. These post-war 'regimes' were set in place by the United States taking a lead where no other state could do so. It was natural for American scholars to assume that these arrangements were admirable and well-designed, without questioning too closely the kind of power they reflected or the mix of values they inferred as desirable — not only for the United States but for all right-thinking people the world over.

By contrast, the approach that I am proposing, by concentrating on the authority-market and the market-authority nexus, and by directing attention to the four basic values of security, wealth, freedom and justice, ought to succeed in highlighting the non-regimes as much as the regimes, the non-decisions and the failures to take a decision, which, no less than active policy-making have affected — and still affect — the outcomes of the international political economy.

It is also more likely to reveal the 'hidden agenda' of issues that are of little interest to governments, where there is no international agreement, no organization, no secretariat to publicise the question and not necessarily any accepted norms or principles around which actor perceptions converge. The failure to do this — which also reveals the bias in favour of the status quo — is one of the major weaknesses of the regimes approach. For, among the many different ways in which power may be exercised in the international political economy — a question to which we now turn in the next chapter — the power to keep an issue off the agenda of discussion or to see that, if discussed, nothing effective is done about it, is not the least important.

Chapter 2

Power in The World Economy

It is impossible to study political economy and especially international political economy without giving close attention to the role of power in economic life. Each system of political economy — the political economy of the United States compared with that of the Soviet Union, the political economy of the states of Western Europe in the eighteenth century compared with the highly integrated political economy of the world today — differs, as I have tried to explain, in the relative priority it gives to each of the four basic values of society. Each reflects a different mix in the proportional weight given to wealth, order, justice and freedom. What decides the nature of the mix is, fundamentally, a question of power.

It is power that determines the relationship between authority and market. Markets cannot play a dominant role in the way in which a political economy functions unless allowed to do so by whoever wields power and possesses authority. The difference between a private-enterprise, market-based economy and a state-run, command-based economy lies not only in the amount of freedom given by authority to the market operators, but also in the context within which the market functions. And the context, too, reflects a certain distribution of power. Whether it is a secure or an insecure context, whether it is stable or unstable, booming or depressed, reflects a series of decisions taken by those with authority. Thus it is not only the direct power of authority over markets that matters; it is also the indirect effect of authority on the context or surrounding conditions within which the market functions.

In the study of political economy it is not enough, therefore, to ask where authority lies — who has power. It is important to ask why they have it — what is the source of power.¹ Is it command of coercive force? Is it the possession of great wealth? Is it moral authority, power derived from the proclamation of powerful ideas that have wide appeal, are accepted as valid and give legitimacy to the proclaimers, whether politicians, religious leaders or philosophers? In many political economies, those who exercise authority, who decide how big a role shall be given to markets, and the rules under which the markets work will derive power from all three sources — from force, from wealth and from ideas. In others, different groups will derive different sorts of power from different sources. They will have rather different power-bases and will be acting upon the political economy at the same time but possibly in opposed directions.

The point is only that it is impossible to arrive at the end result, the ultimate goal of study and analysis in international political economy without giving explicit or implicit answers to these fundamental questions about how power has been used to shape the political economy and the way in which it distributes costs and benefits, risks and opportunities to social groups, enterprises and organizations within the system. Many writers on political economy will avoid making their answers explicit, either because they do not see how important it is to their conclusions, and especially policy recommendations, or because they assume that readers share their implicit assumptions about who has power and why, and how it is used. But if, like me, you are trying to write about political economy in a way that will be useful to people who have very different value preferences, and who do not necessarily agree about what kinds of power are really important and decisive, then it is particularly important to try to clarify the assumptions about power that underlie a particular view, such as mine, of the nature of the international political economy and how it works. That is what I shall try to do in this chapter. I shall try to draw a kind of sketch-map of the landscape as I see it, explaining in the process why it is that I have given particular attention in the rest of the book to what I see as the most outstanding features of the landscape, both those of the first order (as in Part II, Chapters, 3, 4, 5 and 6), and those of a still important but secondary order (as in Part III, Chapters, 7, 8, 9, 10 and 11). Whether the reader is trying just to understand why the international political economy results in the particular who-gets-what, the particular mix of basic values that we can observe around us, or whether he or she is seeking solutions and policy descriptions to change the system does not matter. Both have to start with an examination of power.

Structural and relational power

The argument in this book is that there are two kinds of power exercised in a political economy — structural power and relational power — but that in the competitive games now being played out in the world system between states and between economic enterprises, it is increasingly structural power that counts far more than relational power. Relational power, as conventionally described by realist writers of textbooks on international relations, is the power of *A* to get to *B* to do something they would not otherwise do. In 1940 German relational power made Sweden allow German troops to pass through her ‘neutral’ territory. US relational power over Panama dictated the terms for the Panama Canal. Structural power, on the other hand, is the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic

enterprises and (not least) their scientists and other professional people have to operate. This structural power, as I shall explain it, means rather more than the power to set the agenda of discussion or to design (in American academic language) the international regimes of rules and customs that are supposed to govern international economic relations. That is one aspect of structural power, but not all of it. US structural power over the way in which wheat or corn (maize to the British) is traded allows buyers and sellers to hedge by dealing in ‘futures’; even the Soviet Union, when it buys grain, accepts this way of doing things. Lloyds of London is an authority in the international market for insurance; it allows big risks to be ‘sold’ by small insurers or underwriters to big reinsurance operators, thus centralizing the system in those countries and with those operators large enough to accept and manage the big risks. Anyone who needs insurance has to go along with this way of doing things. Structural power, in short, confers the power to decide how things shall be done, the power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises. The relative power of each party in a relationship is more, or less, if one party is also determining the surrounding structure of the relationship.

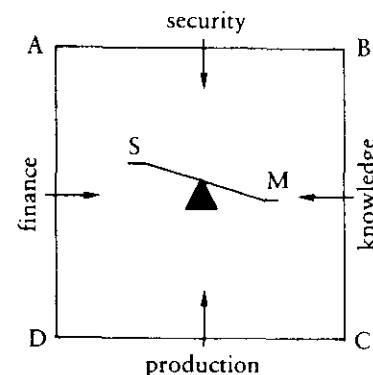
It seems to me that this is a much more useful distinction for the understanding and analysis of power in political economy than the distinction between economic power and political power. We may say that someone has economic power if they have a lot of money to spend: they have purchasing power. They may also have economic power if they have something to sell which other people badly want. Such economic power will be all the greater if they are the only ones able to sell it, if, in short, they have monopoly or oligopoly power. They may also have economic power if they can provide the finance or investment capital to enable others to produce or to sell a service. Banks, by controlling credit, have economic power. Equally, we can say that people have political power if they control the machinery of state or any other institution and can use it to compel obedience or conformity to their wishes and preferences from others. The trouble with this distinction, however, is that when it comes to particular situations — particularly in the international political economy — it is very difficult (as some later examples will show) to draw a clear distinction between political and economic power. It is impossible to have political power without the power to purchase, to command production, to mobilize capital. And it is impossible to have economic power without the sanction of political authority, without the legal and physical security that can only be supplied by political authority. Those with most economic power are no longer — or only very rarely — single individuals. They are corporations or state enterprises that have set up their own hierarchies of authority and chains of command in which

decisions are taken that are essentially political more than economic. I do as the company president or the managing director says, not because I shall gain economically, but because he has the authority to command me, a middle manager or a shopfloor worker. Mine not to reason why — just as if he were the general and I am a private soldier.

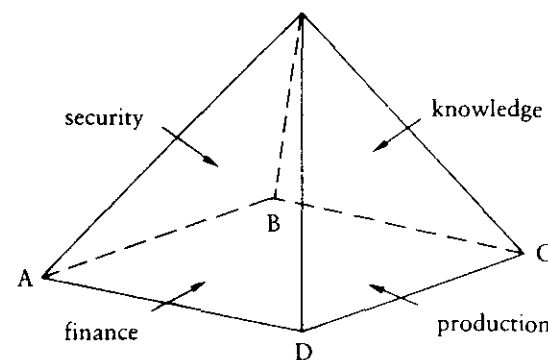
The next part of the argument is that structural power is to be found not in a single structure but in four separate distinguishable but related structures. This view differs from the Marxist or neo-Marxist view of structural power which lays great stress on only one of my four structures — the structure of production. It differs from Robert Cox's interpretation of structural power which also attaches prime importance to the structure of production (Cox, 1987). Cox sees production as the basis of social and political power in the society. The state, therefore, is the embodiment in political terms of the authority of the class or classes in control of the production structure. States, however, live in an anarchical world order. The image, or model, in that interpretation is a club sandwich, or a layer cake, in which production is the bottom layer and world order the top layer, with the state in between both, responding to change both in the world order and in the production structure on which it is based. My image is rather of a four-faceted triangular pyramid or tetrahedron (i.e. a figure made up of four planes or triangular faces). Each touches the other three and is held in place by them. Each facet represents one of the four structures through which power is exercised on particular relationships. If the model could be made of transparent glass or plastic, you could represent particular relationships being played out, as on a stage, within the four walls of the four-sided pyramid. No one facet is always or necessarily more important than the other three. Each is supported, joined to and held up by the other three.

These four, interacting structures are not peculiar to the world system, or the global political economy, as you may prefer to call it. The sources of superior structural power are the same in very small human groups, like a family or a remote village community, as they are in the world at large. The four sources, corresponding to the four sides of the transparent pyramid, are: control over security; control over production; control over credit; and control over knowledge, beliefs and ideas.

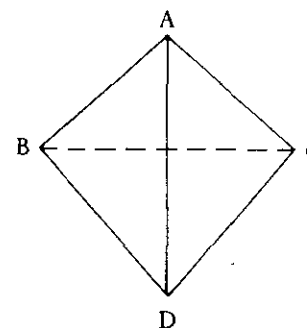
Thus, structural power lies with those in a position to exercise control over (i.e. to threaten or to preserve) people's security, especially from violence. It lies also with those able to decide and control the manner or mode of production of goods and services for survival. Thirdly, it lies — at least in all advanced economies, whether state-capitalist, private-capitalist or a mix of both — with those able to control the supply and distribution of credit. Such control of credit is important because, through it, purchasing power can be acquired without either working for it or trading for it, but it is acquired in the last resort on the basis of



Or, in three dimensions



But since each structure affects the other three, but none necessarily dominates:



Here, ACD represents the production structure; ABD the security structure; ABC the finance structure; and BCD the knowledge structure.

Figure 2.1 Four structures around the state-market see-saw

reputation on the borrower's side and confidence on the lender's. Fourthly and lastly, structural power can also be exercised by those who possess knowledge, who can wholly or partially limit or decide the terms of access to it. This structural power in particular does not easily fit into the layer-cake, club-sandwich model because it may very easily lie in part beyond the range and scope of the state or any other 'political' authority. Yet its importance in political economy, though not easy to define or describe, is not to be underrated.

The bottom line, or conclusion, of this approach to the question of power in the international political economy seems to me to throw serious doubt on an important assumption of much contemporary writing on international political economy, especially in the United States. The assumption is that the United States has lost hegemonic power in the system and that this is why, in plain terms, the world economy is in such a state of instability, uncertainty and even disorder that economic forecasts are unreliable, if not impossible; it is why there is such widespread gloom and even despair over the prospects of solving contemporary problems of international economic relations. But, to me, using this model or analytical framework, the conclusion seems inevitable that the United States government and the corporations dependent upon it have *not* in fact lost structural power in and over the system. They may have changed their mind about how to use it, but they have not lost it. Nor, taking the four structures of power together, are they likely to do so in the foreseeable future. Not all readers will agree with this conclusion of mine. But even if they do not, I would still contend that their assessment of power in the international political economy will be more realistic if they adopt a structural approach such as, or similar to, the one outlined above and developed later in the book than if they stay with conventional notions of relational power — still less if, with the theoretical economists, they try to ignore power altogether.

The rest of this book is an attempt to explore and develop each of these aspects or sources of structural power in the world political economy. It is essentially an attempt to break right away from the politics of international economic relations approach which I find biased and constricting. It tries to develop an alternative approach based on the four fundamental sources of structural power. Once these are understood, it can be shown that certain subjects of discussion in international political economy, such as trade, aid, energy or international transport systems, are actually secondary structures. They are not as they are by accident but are shaped by the four basic structures of security, production, finance and knowledge. If I wanted to write a long, exhaustive text, I would have added a further section dealing with some of the different sectors of the international economy, for example cereals, fish, timber, minerals, cars, arms, computers, textiles, toys, films,

advertising, insurance or databank services. But since the whole purpose of the book is not, like most texts, to instruct readers in what I think they should know about international political economy but to demonstrate by example the sort of questions I think they should address in studying it, I did not think an exhaustive series of sectoral studies was either necessary or (if the book were to be kept manageably short) desirable.

Four sources of structural power

Before proceeding to illustrate with examples this notion of four-sided structural power, it may be helpful to elaborate a little the four sources just listed from which it is derived. They are no more than a statement of common sense. But common sense has often been obscured by abstruse academic discussion about the nature of 'state' or by definitions of 'power' so abstract, or so narrowly based on the experience of one place, one society, one period of human experience, that a re-statement of the fairly obvious seems necessary. (Readers confident of their own common sense can easily skip the next few paragraphs.)

First, so long as the possibility of violent conflict threatens personal security, he who offers others protection against that threat is able to exercise power in other non-security matters like the distribution of food or the administration of justice. The greater the perceived threat to security, the higher price will be willingly paid and the greater risk accepted that the same defence force that gives protection will itself offer another kind of threat to those it claims to protect. Within states, it has been those that felt themselves most insecure, that perceived themselves as 'revolutionary' states challenging the accepted order and the prevailing ideology of their time or region that have been most prepared to pay the costs and accept the risks of military government and 'state security' forces such as secret police.

Who decides what shall be produced, by whom, by what means and with what combination of land, labour, capital and technology and how each shall be rewarded is as fundamental a question in political economy as who decides the means of defence against insecurity. As Cox and a great many radical and left-wing writers have demonstrated, the mode of production is the basis of class power over other classes. The class in a position to decide or to change the mode of production can use its structural power over production to consolidate and defend its social and political power, establishing constitutions, setting up political institutions and laying down legal and administrative processes and precedents that make it hard for others to challenge or upset. Now that an ever-growing proportion of goods and services produced throughout the world are produced in response, in one way or another,

to the world economy and not to local needs, tastes or demands, the structural power over production has become the base for social and political changes that cut right across national frontiers. The old territorial frontiers of the state used also to separate, far more than they do now, not only the national culture and language from that of neighbours, but also national social structures and the national economy. Now, the territorial limits of state power remain but the other frontiers are crumbling so that structural power over production geared to a world market becomes that of increasing cultural, linguistic and ideological influence.

The third leg, or facet, of structural power is, admittedly, rather more peculiar to advanced industrialized economies, whether socialist or capitalist, than it is to small communities or less developed economies. But finance — the control of credit — is the facet which has perhaps risen in importance in the last quarter century more rapidly than any other and has come to be of decisive importance in international economic relations and in the competition of corporate enterprises. It sometimes seems as if its complex manifestations are too technical and arcane to be easily understood even by those professionally engaged in banking and finance. Yet its power to determine outcomes — in security, in production and in research — is enormous. It is the facet of structural power least well understood by the Marxists and radicals who have written most cogently about structural power over production. Many of them still entertain the old-fashioned notion that before you invest you must accumulate capital by piling up this year's profit on last year's, that capitalism somehow depends on the accumulation of capital. What they do not understand is that what is invested in an advanced economy is not money but credit, and that credit can be created. It does not have to be accumulated. Therefore, whoever can so gain the confidence of others in their ability to create credit will control a capitalist — or indeed a socialist — economy. So large have the financial requirements of industry and even of agriculture become in a high-technology age that there would have been none of the economic growth the world has seen in the past four or five decades if we had had to wait for profits to be accumulated. They could *only* have been financed through the creation of credit.

Fourthly, and finally, knowledge is power and whoever is able to develop or acquire and to deny the access of others to a kind of knowledge respected and sought by others; and whoever can control the channels by which it is communicated to those given access to it, will exercise a very special kind of structural power. In past times priests and sages have often exercised such dominance over kings and generals. It is a structural power less easy to keep control over, more subtle and more elusive. For that reason priesthoods in every religion have hedged their power even more jealously than military castes and ranks of nobility.

Keeping the laity out and in ignorance has been a necessary means of preserving structural power over them. Today the knowledge most sought after for the acquisition of relational power and to reinforce other kinds of structural power (i.e. in security matters, in production and in finance) is technology. The advanced technologies of new materials, new products, new systems of changing plants and animals, new systems of collecting, storing and retrieving information — all these open doors to both structural power and relational power.

What is common to all four kinds of structural power is that the possessor is able to change the range of choices open to others, without apparently putting pressure directly on them to take one decision or to make one choice rather than others. Such power is less 'visible'. The range of options open to the others will be extended by giving them opportunities they would not otherwise have had. And it may be restricted by imposing costs or risks upon them larger than they would otherwise have faced, thus making it less easy to make some choices while making it more easy to make others. When Mother or Father says, 'If you're a good boy and study hard, we'll give you a bicycle for your birthday', the boy is still free to choose between studying hard and going out to play with friends. But the choice is weighted more heavily in favour of studying by the parents' structural power over the family budget. To take another example from international political economy, the big oil companies had the power to look for oil and sell it. The oil states in the 1950s and 1960s could offer them concessions. But the royalties the companies could offer on production in return gave them structural power over the governments. The governments could choose to forego the extra revenue. But it was so large in relation to any other possible source of income that the range of choice, the weighting of options, was substantially changed by the structural power over oil production and oil marketing. It was only when the oil-producing states gained access to knowledge about the oil business, and when they had used the royalties from the companies to consolidate their financial power, that they could offer a partial challenge to the companies' structural power over production. Until then, as the examples of Iran in 1951 and Indonesia later indicated, the cost of expelling the companies was, for most, unacceptably high.

Another point about my four-faceted plastic pyramid image is that it is significant that each facet touches the other three. Each interacts with the others. It should also be represented as balancing on one of the points, rather than resting on a single base. There is a sense in which each facet — security, production, finance and knowledge-plus-beliefs is basic for the others. But to represent the others as resting permanently on any one more than on the others suggests that one is dominant. This is not necessarily or always so.

For example, the realist school of thought in international relations

has held that in the last resort military power and the ability to use coercive force to compel the compliance of others must always prevail. *In the last resort*, this is undeniably true. But in the real world, not every relationship is put under such pressure. Not every decision is pushed to such extremes. There are many times and places where decisions are taken in which coercive force, though it plays some part in the choices made, does not play the whole, and is not the only significant source of power.

Some examples

Let me suggest a few illustrations of the way in which structural power can be derived simultaneously from more than one source, from more sides than one of the plastic pyramid. In 1948, the United States had only recently demonstrated in Europe its superiority in conventional force over any other European power except the Soviet Union. And at Hiroshima and Nagasaki it had demonstrated that its *unconventional* power was superior to the Soviet Union and all others through its (temporary) monopoly of atomic weapons of mass destruction. But that kind of strategic power was not enough by itself to set the wheels of economic life turning again in Western Europe. Without the productive power to supply food and capital goods for the reconstruction of European industry, and without the financial power to offer credits in universally acceptable dollars, the United States could not have exercised the power over the recipients of Marshall Aid that it did. Nor was American structural power based only on dominance of the security structure, the production structure and the financial structure. Its authority was reinforced by the belief outside America that the United States fully intended to use its power to create a better post-war world for others as well as for its own people. Roosevelt had pronounced the Four Freedoms as America's war aims, had invited the United Nations to San Francisco as an assurance that the United States would not again, as in 1920, change its mind. President Truman had followed up in his inaugural address to the Congress with the firm promise of American help to peoples seeking freedom and a better material life. Moral authority based on faith in American intentions powerfully reinforced its other sources of structural power.

A very different example of the power derived in part from the force of ideas would be that exercised within and beyond Iran after the fall of the Shah by Ayatollah Khomeini and his followers. The idea that the Shah, out of greed and lust for power, had fallen captive not only to a foreign country but to a culture and a materialistic belief system alien and inimical to traditional Islamic values had contributed powerfully to the collapse of his government and his own exile. But the power of the

ayatollahs in defending and promoting Islamic virtues would have been constrained if they had not also gained control over the state and the armed forces sufficient to confirm their authority both within the country and beyond. Undoubtedly, the power of ideas was indispensable but it could only be used to affect outcomes in conjunction with military capability and economic resources.

Structural power, derived in part from ideas, in part from coercive force and in part from wealth, is not confined to states and those who seize the power of government. For example, the Mafia has used the threat of violence — and violence itself — to ensure obedience within its ranks. It has extracted a kind of tax from those it claimed to protect. But its strength over a surprisingly long period also owed much to beliefs rooted in an older, simpler and harder society — beliefs in the importance of loyalty to the family and to the *capo*, and of honour in personal relations. Its durability as a force in the international political economy should not be underrated. Although great secrecy shrouds the details of Mafia operations, enough is known about its connection with the international trade in narcotics, in arms and in finance to make it an importance source of non-state authority. Yet it would not be so if there had not been weaknesses in the state-based structure for the control of drugs and arms deals or the regulation of financial transactions across frontiers.

The weaknesses of the basic structures as well as their strengths influence power relations between states and between other organizations. Take, for example, the remilitarization of the Rhineland by Hitler in 1936. This had been declared a demilitarized zone by the Treaty of Versailles after World War I. It was supposed to act as a kind of cushion or shock-absorber in the security structure for Europe, making it more difficult for Germany to start a second European war. When Hitler marched troops into the zone, he was aware that mere denunciation of the 'unequal' treaty was not enough. He had done that many times before. The show of force was necessary to demonstrate the weakness of the structure and to add to it. The fact that the troops met with no opposition was not because France was lacking in military might. Indeed, at that moment French forces were probably superior to Germany's in men and in aircraft. It was weak because France and Britain were divided in the realm of ideas and specifically on the question of the wisdom of the Versailles settlement. Britain still hoped that direct negotiation with Germany and diplomatic manoeuvring with Italy to outflank her would combine to avoid war. Differences in the perception of the problem and in beliefs about what to do about it robbed former allies of structural power in matters of security. Their inaction in 1936 enhanced Hitler's perception of their lack of will to resist and allowed him far more important military victories in Austria and Czechoslovakia at relatively low cost. Perceptions, not only of

relational power, but of the solidity or otherwise of structures are often crucial to outcomes.

A different kind of example, this time of the use of coercive structural power in relation to the market, would be the use of Anglo-American naval power in World War I and again in World War II to interfere with the conduct of trade by neutral countries. The targets were innocent, peaceful traders, who wanted to sell their goods to the enemies of Britain and the United States. Their ships were stopped by the naval patrols of the two allies and if their masters could not produce a valid 'navicert' — a document guaranteeing that the voyage and the cargoes had been authorized by British or American authorities at their port of origin and that they were not destined for the enemy — they were subjected to forcible seizure of both ship and cargo. The relational power of Allied warships over neutral merchant ships was the basis or necessary condition for the setting of a highly partial security structure within which trade could be carried on. It was accepted and traders conformed to the rules laid down by the two great naval powers, so that it came briefly to resemble a regime or power structure. And the regime was dismantled, not when Britain and American structural power at sea declined but when, after hostilities ceased, the allies decided that they no longer needed to use their power in the security structure to distort and interfere with the market.

Limits of social science

It would not be difficult to find plenty more examples from the political and economic history of the world to show the importance of different kinds of structural power in affecting outcomes both in distributional terms and in terms of the mix of values in the system, to show how relational power can be translated into structural power and how hard it is in practice to distinguish between political power and economic power. It only seems necessary to develop some new way of looking at political economy, and to illustrate it with a few examples, because so much writing in the social sciences today has failed to adjust mentally to the 'globalization', to use a popular term, of economic, political and social affairs. My attempt may not be the best, and probably can be improved upon by others. But the limitations of the major social sciences that have claimed to interpret the politics of the world economy are so serious that they insistently call for new perspectives and analytical frameworks.

But what, the reader may ask, are these limitations and why have they so constrained the development of international political economy? These are two large questions. Without going into a very large digression, I can only offer a rather brief answer to each of them.

Mainly, the limitations arise out of the past history of three important social sciences — economics, political science and international relations. Both of the first two developed earlier in this century on the assumption that national frontiers divided different political and economic systems so they could be studied and analysed for all practical purposes in isolation from each other, or else comparatively, as if they were distinct species of animal, or breeds of dog or horse. The third, international relations, was so focused on the *problématique* of war and peace in which the main 'actors' or protagonists were nation-states that it had difficulty handling any other question than that of world order — as shown by the titles of even quite recent textbooks in international politics. By the time world events caused students to ask urgent questions about the problems of the world economy, academic specialization and interdisciplinary jealousies had raised such barriers between the three social sciences that when students tried to study simultaneously some economics, some political science, some international relations, they often found it hard to fit the three together. They complained, with justification, that the jigsaw did not make a whole picture.

One important reason for this, of course, was the exclusion of considerations of power from the study of economics. By this means, theory could be developed that was 'parsimonious', 'rigorous', 'elegant' — all words of praise much used by contemporary economists. This deliberate myopia caused K. W. Rothschild some years ago to observe:

As in other important social fields, we should expect that individuals should struggle for position; that power will be used to improve one's position in the economic game; and that attempts will be made to derive power and influence from economic strongholds. Power should therefore be a recurrent theme in economic studies of a theoretical or applied nature. Yet if we look at the main run of economic theory over the past hundred years, we find that it is characterized by a strange lack of power considerations. [Rothschild, 1971:7]

So it is that anything that upsets or goes against economic theory is apt to be referred to as an 'exogenous factor' — often as an 'exogenous shock', especially shocking to economists unprepared by nature to expect power factors to intervene, whether from governments or operators in the market. And behaviour that is not consistent with the premises of economic theory then, of course, becomes condescendingly and disapprovingly referred to as 'irrational', however sensible it may seem to the ordinary person.

Some economists, it is true, have tried to break out of this unreal straightjacket by contributing to the development of public choice theory in which actors try to maximize their gains and minimize their costs. But the insights gained — so it seems to me — are often constrained by the presumption of economic analysis that people

invariably try, first and foremost, to get everything on the cheap, and that cost is the ultimate determinant of all behaviour. All in all, it is a pity that applied or descriptive economics has been so badly out of favour in the profession for nearly fifty years. For the above strictures apply far less to those economists who have worked in development economics or in any specialized branch — agricultural economics or transport economics, for example — that requires attention to the real world and to the political factors or the historical experience that actually influences outcomes. It is impossible for development economists to see markets for exportable commodities, for instance, without noting the political forces at work on and in them. To quote from a development economist:

Economic reasoning often ascribes to markets a spontaneity of origin and a determinism in operations that originate from economic necessity . . . Yet if markets are viewed as creatures of social and political systems, then their operations, given certain economic parameters and technical constraints, can be understood as being induced or suppressed through political decisions and institutional mechanisms, both at the national and international level. [Vaitsos, 1976:114]

Vaitsos rightly pointed out that markets for different sorts of things, being the creation of decisions and institutions that vary from sector to sector and from time to time, will not easily conform to an analysis that excludes political power and interest.

Moreover, the adage 'once bitten, twice shy', which popular wisdom accepts as a powerful characteristic of human behaviour, cannot be fitted into economic theory. There are some kinds of lags between cause and effect — like the famous J-curve that delays the benefits of devaluation while the costs of dearer imports are quickly felt — which economic theory has tried (not too successfully) to grasp and explain. But the variant effects of recent experience on economic behaviour is something that eludes the profession. Perceptions of future risks — as insurers know — are governed in part by past experience, good or bad, and weighed alongside the expected costs. Equally, the perception of future possibilities — for a better life, for example — will be sharpened by hardship so that opportunities will be more eagerly seized by the poor and hungry than by the rich and comfortable.

Political scientists, meanwhile, have tended to assume that power is exercised within a given social and economic structure, even subject to certain constitutional limitations and institutional influences. Even the best work in comparative politics tends to focus on the similarities and differences — more often, the differences — between individual states or national systems of decision-making than on the common factors emanating from the world economy — such as the greater mobility of

capital, of technical know-how, of disease and of ideas. The model used to such effect by Dahl (1961) in analysing different kinds of decision-making power in the government of New Haven, Connecticut, had its limitations when applied by Cox and Jacobson (1974) to decision-making in international organizations. For, even though these have formal statutes or constitutions, the freedom of states to opt out, to veto or withhold consent (or money), makes for a much more fluid and less structured exercise of power than is to be found in local government. National legal systems will therefore tend to be taken as given, even though political scientists in reflecting on the differences between states will see that law can institutionalize and legitimize both power derived from coercive force and/or power derived from unequal wealth, or for that matter power derived from a general consensus about national aspirations, ideals and values.

While the economists have ignored power and the political scientists have been more interested in how it was exercised inside states, many scholars in international relations have shown too narrow a concern with relational power of one state over another. Too often, they have ignored or refused to contemplate structural power, or the power to define the structure, to choose the game as well as to set the rules under which it is to be played. It is as if you said, 'This man has power in relation to this woman because he can knock her down', ignoring the fact of structural power in a masculine-dominated social structure that gives the man social status, legal rights and control over the family money that makes it unnecessary even to threaten to knock her down unless she does as she is told. Secondly, they narrowed their concern with power to power exercised between states, to the exclusion of other groups or organizations. It consequently tended to reify and to treat as one homogeneous unit the states that were its subject matter.

Thirdly, it narrowed its field of vision of the resources that conferred power to those that could be used and were relevant to inter-state relations. The classic example of this was a book called *The War Potential of States* by Klaus Knorr. This listed territory, population, raw materials, weapons, financial reserves, and so forth — but had to conclude that it was difficult to add them all up to see who had most power or to foretell the combination of assets that in international conflicts would be most effective.²

Not all schools of thought concerned with international relations, naturally, have been guilty on all three counts. The Marxists and the dependency schools in the Third World (and especially Latin America) were well aware of the importance of structural power, though they have tended to limit their interpretation of it to the structures of production and trade (see Chapter 4). The pluralists looked beyond state-state relations and pointed to non-state actors such as transnational corporations and international organizations. But then they

tended to ask only whether these supernumerary players were likely to help or to hinder State A against State B. What role, they asked, did non-state actors play in the foreign policy game? They only rarely looked beyond inter-state relations to ask what other kinds of structural power the non-state actors might have at their disposal. The Nye and Keohane framework only takes structural power in at secondhand as it were, by looking at the rank ordering of states in international regimes or organizations. This will often mirror the relative importance of states in the world economy. But it only reflects the structural power of states, not of other entities; and it can often be a rather distorting mirror, as when some states are excluded from an organization for historical or political reasons or when voting systems reflect a power distribution of the past rather than the present.

These various astigmatismisms in the vision of the three major social sciences concerned with the international political economy have undoubtedly hindered its proper development. They have been handicaps for research and for teaching. As a result, some of the more useful contributions to the development of the subject have come from outside the three disciplines, from lawyers, historians and sociologists — especially in recent years the sociologists, who, when they discarded the search for some simple general theory applicable to all human societies, began to look to the histories of society, not only in Europe but also in Asia and the Middle East for clues to the common problem of who has power in society, what are the sources of such power and to what ends is it used.³

States showed themselves sharply aware of the intangible, unquantifiable resources of social cohesion and a strong civil society that could more than make up for a state's deficiencies in size of land or people or even its store of military armament. Their vision of resources was thus sometimes more comprehensive, being ready to include a state's degree of self-sufficiency in food or in energy, or the security of its means of access to both of these and to raw materials. Some would include control over communications systems or sea and air transport, the command of technical skills or of the respect and sympathy of nationals in other states — for example, the socialist countries' support for Cuba or Switzerland's reputation for stability and impartiality.

On this point, too, the pluralists extended their field of vision. In Nye and Keohane's *Power and Interdependence*, for example, the difference between susceptibility (being open to damage from the world system) and vulnerability (susceptibility qualified by the ability to limit the damage) is usefully developed to enlarge the analysis of comparative power of states in the system. But the viewfinder is still only taking in the susceptibility or

vulnerability of states. And among the four factors listed as determining outcomes in the system, political power is treated as a structure (the

'overall power structure in the world') derived (p.21) from 'the distribution of power resources among states', and sometimes modified by the two other factors — the power of states within issue areas, and the power of states as modified by international organization. But these authors refer only to economic *process* or, to put it plainly, how things worked out for states in the trading system or under the rules agreed in an international regime. The analysis for practical purposes was more or less blind to the distribution of power in all four *structures* of the international political economy.

A network of bargains

Starting with structures, though, is only half the battle. The next important question is where to go from there, how to proceed with the analysis of a particular situation so as to discern in more detail where a government, a political movement or a corporate enterprise has a range of feasible choices, and what possible scenarios might follow, depending on which choices are made. My proposal, based on some experience of trying to write monetary and financial history in a world context and to look at sectors of agriculture, industry and services also on a global scale, is that you should look for the key bargains in any situation, and then decide which might, and which probably will not, be liable to change, altering the range of choices for all or some of those concerned.

The basic bargain to look for first is often a tacit one, that between authority and the market. One of the simplest and earliest examples would be the tacit agreement between kings and princes in medieval Europe and the participants in the great trade fairs, or in local town markets given a special licence or charter by the king in return for a payment of tax. The rules gave access and in some cases guaranteed the maintenance of minimum public order; the buyers and sellers profited from the trade. Non-state authorities can make such basic bargains too. At Wimbledon, the British Lawn Tennis Association sets the prices of entry for spectators, lays down the rules for the selection of players and reserves some seats for its own members and those of affiliated tennis clubs. If it reserved all the seats, or too many of them, the bargain with the market — the general public — might break down. If its rules excluded too many good players, again, the market might shrink and undermine the bargain. The Olympic Games network of bargains is even more complex because governments become involved in deciding on political grounds whether athletes may compete and in financing their participation.

Even in a command economy, there is, behind the veil of bureaucratic control, a kind of bargain between authority in the form of state ministries, and market in the form of consumers and producers. To

maintain the authority of the state, a bargain has to be struck with the producers — managers and workers — to reward them sufficiently and to give effective enough incentives for them to produce the goods and services that will sell to consumers. Some waste of unsold goods, unused resources can be tolerated — as, in different ways, it can in a private enterprise system. But too much waste will put a strain on the bargain with the consumers. When there is discontent with the way the bargains are working out on the part of *both* producers and consumers, as there was in Poland in 1973 and again in the early 1980s, authority is in trouble. Martial law and coercive force may have to be used to back up the unsatisfactory bargain. In that particular case, two of the weak links in the network of bargains were, firstly, the inability of Solidarity, having brought the workers out on strike, to get them back to work again and, secondly, the inability of the government to produce the necessary food and consumer goods to back up any deal on wages and the workers' purchasing power. It was, unfortunately, a situation made worse by the intervention of the United States. Imposing sanctions and taking no action to restore the flow of Western bank credit only further weakened the strength of both partners in the two key bargains.

One set of bargains — inevitably in a system in which political authority is so concentrated in the hands of many states — is that made between the governments of states. But those bargains, as countless specialized studies have demonstrated again and again, depend heavily on the durability of some internal, domestic bargains, especially in the most structurally powerful states. Sometimes these will be between political parties. Sometimes they will be between the government and the local representatives of sectoral interests or the leaders of organized labour. They can also (though less often) be with organized groups of consumers or environmental conservationists. Identifying whose support, political, financial or moral, is indispensable to the partners in the key bargains is often an essential stage in analysis of a dynamic situation. It was the static nature of a great deal of work on the bureaucratic politics model, incidentally, that was its great weakness. The US Treasury or the Department of State may be a powerful bureaucracy in the policy-making under one Secretary and one President. It did not always follow that it survived death, resignation or the next election.

Work that has been done by political scientists on the subject of neo-corporatism is particularly instructive in this context. Neo-corporatism is the practice in democratic states within the world market economy of hammering out a trilateral bargain regarding the management of the national economy between the agencies of government, the representatives of management in industry, banking, agriculture and trade, and the representatives of labour and, in some cases, farmers. It has been most fully developed and has proved most successful in the smaller

European states, and in a somewhat different and less well understood form in Japan and Taiwan and less successfully in South Korea. Austria takes the neo-corporatist prize, followed by the Netherlands and Sweden. The success of annual negotiations over wages and prices requires two things: some flexibility in government policy to accommodate and to mediate successfully between capital and labour, and some confidence on the part of both capital and labour that each of the other two parties will deliver the promised goods. The bargaining therefore becomes easier as time builds such confidence, but more difficult as external forces — interest rates or oil prices, for example — make it more difficult to put promises into practice. The essential ingredient is common consent given to the survival of the nation-state as a distinct entity, as autonomous as possible in its international political and economic relations and the conduct of its domestic affairs. Such consent, and the willingness to sacrifice short-term special interests to the long-term collective national interest, seems to be less necessary in larger countries, and especially in those with a large domestic market as a base for industry. It seems less necessary — and also perhaps more difficult — in the larger members of the European Community like Britain, France, Germany or even Italy for the government to seek neo-corporatist solutions. Both state and market appear to offer that much more status to the state bureaucracy, more opportunity to the managers of industry and more security to labour. Even more clearly is this the case with the United States.

Another set of bargains in which the world economy of today is of increasing importance and significance is the rather peculiar tacit bargain between central banks and commercial banks. It cannot, in the nature of banking, be too explicit. Bankers say there is a moral hazard if they are ever able to be too sure that the central bank will bail them out, no matter what they have done. On the other hand, unless they have some confidence in the willingness of the central bank as lender of last resort to come to their aid in times of crisis, they are unlikely to heed its warnings or obey the spirit as well as the letter of its prudential regulations at other times. That is a particularly delicately balanced bargain.

With corporations, whether private or state-owned, as well as with banks, the bargains struck will not only differ in character from country to country but also from sector to sector. The international oil business — as earlier references have already hinted — is a particularly complex cat's-cradle of interlocking bargains. In the 1960s, for instance, there were the bargains between the seven biggest oil companies to maintain an effective cartel, exerting authority over the market. There was also the network of bargains between the companies and the host-states in which oil was found and produced. And there was an important financial bargain between the oil companies and the government of the

United States, imitated in practice by those of other consumer countries. It allowed the companies effective freedom from the demands of the internal revenue for tax provided they continued to apply their large profits to investment in exploration, thus raising the chances of further discoveries of new oilfields. Assuring a continued flow of crude petroleum adequate to meet the needs of a fast-growing world economy was a vital link in the network of bargains. Only very rapid demand in the market and the unexpected resolution of the dissatisfied host states found out the weak links in the network.

The great advantage of paying attention to bargains, it seems to me, is that it is more likely to result in feasible prescription for policy-makers in business or in government and politics than other approaches. Making pretty blueprints for the reform of international organizations may be a beguiling pastime. It seldom cuts much ice with the relevant governments. The last years of the League of Nations were spent in drawing blueprints; only a few years after, it looked in retrospect like fiddling while Rome burnt. Equally irrelevant in the real world is the elaboration of abstract economic theory, when it is based on unrealistic assumptions, such as 'Let us assume infinitely living households with perfect information on market conditions'. In real life, durable conditions in political economy cannot be created which ignore the interlocking interests of powerful people. The problem — which never has an easy, quick or permanent solution — is to find that balance of interest and power that allows a working set of bargains to be hammered out and observed.

Part II

Structures of Power in the World Economy
