The Retreat of the State: The Diffusion of Power in the World Economy by Susan Strange
Review by: Stephen J. Kobrin
Published by: American Political Science Association
Stable URL: http://www.jstor.org/stable/2586007

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at http://www.jstor.org/page/info/about/policies/terms.jsp

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.
course. There are, however, problems with the book as well, the most notable of which pertains to how (or if) we are meant to situate it in the broader realist revival presently under way. Though Spegele’s prime objective is explicitly revisionist, the seeming novelty of his position as an evaluative political realist threatens at times to obscure the sense of continuity and tradition that remains essential to his argument. As a result, Spegele leaves himself vulnerable to misunderstanding and invites us to wonder if he is trying to put a kinder gentler face on realist theory while shying away from its less palatable associations with realpolitik. It is worth noting, at least, that Spegele takes the moral high ground on more than one occasion in his condemnation of barabrities in the name of emancipation. He does admit, however, that—whatever its aspirations to achieve moral ends in particular contexts—evaluative political realism acknowledges the “possibility of moral and political tyranny” (p. 101). In the 1980s an English pop group called The Smiths titled one of its albums “Barbarism Begins at Home.” Is it possible that Spegele has something similar in mind? Despite an otherwise superbly crafted argument, he could do more to help us answer this question, or at least make sure that it does not arise.


Anyone wanting to understand the character of political-economic and security structures in post–Cold War Europe should read this book. It is a richly detailed, carefully written examination of existing cooperative arrangements in military security, trade, finance, and environmental affairs. Newcomers to the subject will find the treatment somewhat dense since the book goes into considerable detail about past and current experiences and assumes a certain level of previous understanding. Still, I would recommend it to students because of the strong historical foundation that is laid for each issue. Experts will find the book’s approach very interesting and well considered, encountering a number of useful insights—some that have already become part of the current state and future direction of European security. What the book does not do is attempt to advance any kind of overarching theoretical model, even though the authors embed their analysis in prominent existing literature.

This book is predicated on the assumption that in the post–Cold War period the evolution of the concept of security has outpaced the ability of existing architectures to adapt to its wider definition. That definition, the authors compellingly argue, must take into account economic security, which is shaped by trade, investment, and environmental relations and which requires very different policy approaches compared with narrower definitions of military security. The book’s rationale seems to have been driven by the recognition that post–World War II structures—from NATO to the IMF—must be rationalized in both purpose and function to meet the demands of post–Cold War political-economic security concerns. At the heart of those demands is the effort to realize the peaceful transformation of the countries of Central and Eastern Europe (CEE). Therefore, underlying the authors’ larger premise that European security architectures must be reconsidered is the view that “the stability of the post–Cold War European security order depends upon the successful societal transition of the former states of the Warsaw Pact, namely the transition to the market economy and competitive multi-party democracies.” (pp. 202–3)

This emphasis upon the role of the CEE in the future of European security reveals how pivotal the region has become in defining where Western European interests lie and where Western European, U. S., and Russian interests overlap and diverge. Keeping this emphasis in mind, it would be misleading, however, to characterize the book as being driven solely by consideration of CEE futures. In fact, the book consists of a broader view of European security concerns that looks critically at the major institutional arrangements that currently exist in both the military realm of security and in the economic/environmental realm of security. Still, the use of the CEE situation to highlight interdependent concerns and institutional capabilities brings into relief how relevant the book’s thesis is regarding broader definitions of security in the post–Cold War era.

The authors observe that post–Cold War circumstances have “diminished the force of anarchy . . . [and] enhanced the ‘interaction capacity’ of the European state system” (p. 16), which has created demands for new approaches to security and new opportunities for cooperation. As they systematically review and assess the major institutions designed to cope with these demands, however, it becomes clear that the myriad arrangements involved, including the major ones such as NATO, OSCE, EU, WEU, IMF, G-7, GATT/WTO, EBRD, and IAEA, all have limitations that have historical, constitutional, and budgetary origins. Furthermore, the authors make it clear that despite some success in international cooperation under these arrangements, individual states have tended to place domestic interests ahead of international cooperation. This is well illustrated in the macroeconomic policy arena, in which Germany and the United States often pursued monetary policies that worked at cross-purposes. It is evident as well in the military sphere; despite considerable lip service about cooperation, the United States wants burden sharing in NATO without having to forfeit decision-making supremacy, and EU member states profoundly disagree about the specific role that the WEU should have both within the EU and as the EU's defense pillar within NATO. While the authors recognize that the potential for future coordination is there, they observe that the desire for cooperation and unity of purpose remains thwarted by concerns over national sovereignty.

This may be especially problematic if the countries of Central and Eastern Europe are not successfully transformed into democratic market economies and integrated into Western cooperative structures. Making the point that the peaceful achievement of these goals is of vital concern to the economic, environmental, and military security of the West, the authors argue that such an outcome is not a foregone conclusion. Differences among the major players in the European Union, differences between the United States and European states, and reactions by Russia could all serve to thwart this goal. While the authors did not have the benefit of knowing about recent decisions regarding NATO enlargement or about the EU's Amsterdam Treaty, their assessment is still valid, and their words of caution remain relevant.


Susan Strange ends this provocative and thoughtful book with a reference to “Pinocchio’s problem.” Not his nose
growing when he lied—a metaphor better left alone—but the lack of strings to guide him once he turned into a real boy. The diffusion of state power, and a more general systemic entropy of authority, has left us with “a ramshackle assembly of conflicting sources of authority” (p. 199). We all share Pinnochio’s problem: The strings that bound us unambiguously to state and nation have snapped, and we are left adrift in a world of multiple authorities, allegiances, loyalties, and identities.

Strange’s central argument is that the authority of all states is diminished as a result of changes in technology and finance and of the integration of national economies into a global world economy. In part, authority has shifted to non-state actors, most notably transnational corporations (TNCs). Yet, some authority in the system has been “lost” in the sense that it has shifted from states to impersonal markets; some of the fundamental responsibilities of the state are not being exercised by anyone. “The diffusion of authority away from national governments has left a yawning hole of nonauthority, ungovernance it might be called” (p. 14).

The state is not disappearing; Strange does not argue for the “end” of anything. She does argue forcibly (no surprise here!) that the state is in the midst of significant change—a “metamorphosis”—brought on by structural change in the world economy. It can no longer make exceptional claims; it is now one source of authority among several.

The Retreat of the State follows logically from Rival States, Rival Firms (1991), in which Strange and John Stopford argued that competition for global market shares has replaced competition for territory. Here, the shift in authority from states to markets is seen as “probably the biggest change in the international political economy to take place the last half of the twentieth century” (p. 43). At this point, “there is not much left of the territorial basis of authority” (p. 45). Territoriality is neither the sole source of political power and authority nor a critical factor determining the prosperity of national society.

In a sense, Strange is “taking the state back out.” While she only alludes to premodern political structures, she clearly looks both back (“once more and as in the past,” p. 73) to times when multiple authorities (e.g., church, emperor, prince, and lord) coexisted and when multiple political loyalties were the norm. She believes that international relations and other social sciences must transcend state centric theory and analysis: the “colonization” of the study of the study of politics by the state (p. 32).

Thus, power is “the ability of a person or group of persons to so affect outcomes that their preferences take precedence over the preferences of others” (p. 17). Power should be seen in terms of relationships—as a social process affecting outcomes—rather than in terms of resources or capabilities. One can then ask how and by whom values are allocated and decisions taken to affect outcomes. And Strange’s answer is—in large part—economic actors and impersonal markets.

TNCs, for example, are not “powers behind the throne” but “political institutions having political relations with civil society” (p. 44). As Strange sums the three major premises of the book, politics is no longer confined to politicians and officials; power is impersonally exercised by markets; and authority is legitimately exercised by authorities other than states. After developing her argument, Strange looks at five examples of “authority beyond the state”: telecoms, organized crime, insurance, the Big Six accounting firms, cartels, and international organizations. While the case studies are interesting, if somewhat superficial, they leave me with the old Scotch verdict of “not proven.”

The idea that the growth of markets can compromise state authority is certainly not new; Charles Lindblom (Politics and Markets, 1977) made the point in considerable detail twenty years ago. The question here is whether recent developments have transformed changes in degree into changes in kind: whether the shift of authority from states to markets, from governments to private actors, is marginal or systemic. Strange clearly believes the latter. What is new this time around is that all states are undergoing change in the same relatively short period. She notes that the last time this happened was the medieval to modern transition from feudal agriculture to capitalist industry. While I happen to agree, the question is whether the cases support the argument. Of that, I am not so sure.

There is no question that the global spread of enterprise, changes in technology, and American deregulation have resulted in major changes in the telecommunications industry: in pressure for privatization of PTTs, the opening of markets to competition, and the emergence of international groups of alliances. States have lost power over the sector.

There is no question that two functions critical to a capitalist economy are largely in private hands: insuring against risks and auditing accounts. I am not convinced, however, that the evidence presented here adds up to strong support for Strange’s arguments. These cases are not the best examples of structural change in the power and authority of states versus other actors in the system; of states being rendered as one among many alternative sources of authority.

Two minor quibbles with these cases may be noted. Political risk insurance did evolve from Lloyds coverage of ships at sea against hazards such as piracy. What happened in the 1930s, however, is that after Fascist bombing of Spain, Lloyds realized that land-based war risk could be serious, and it decided that neither the company nor anyone else would take them on. While the Big Six global accounting firms may have considerable power as a group, auditing has become a commodity as a result of digitalization, and there is fierce competition among them; their profits, “which might otherwise go to the shareholders” (p. 143), increasingly come from other sources.

Strange is on much more solid ground when she considers cartels and asks why this phenomenon has been virtually ignored by academics in the last quarter century. (While Paul Samuelson may have ignored cartels, I do suspect that he would be surprised to be placed on the political right.) The strongest potential argument here is not well developed, however. At this point, “cartels” are implicit rather than explicit; they reflect dense oligopolistic concentration resulting from dramatic increases in the cost, risk, and complexity of technology rather than an ex ante attempt to collude. The best example is commercial airframe manufacture, the world market for which will only support two huge players: Boeing and Airbus. Semiconductors and telecommunications are other sectors in which the number of viable players is limited by the size of a competitive R&D budget relative to the size of the world market.

The fact that in many of these sectors the scale of technology is mandating cross-national alliances among the largest players (e.g., IBM, Siemens, and Toshiba in semiconductors) exacerbates the problem. If size and concentration result from structural change, and the capabilities reside in transnational alliances, then power may really be shifting to actors beyond the reach of the territorial state.

One glaring omission is the absence of any discussion of the literature on transnational actors which has developed similar arguments—albeit in a very different context. Neither early efforts (i.e., Robert Keohane and Joseph S. Nye, Jr.,
I have one last qualm. While it may well reflect my own national bias—globalization only goes so far even for us believers—I think that Susan Strange has more than made the point by now that arguments about hegemonic decline are a mask for the incompetent use of American power and that international organizations tend to serve American interests. How about a truce?

The critical question is how the world economy—and the international political system—will cope with the diffusion of state authority; the spread of power to other actors; and more important, the vacuum that has arisen as the sum of authority gained by other actors is less than that lost by states. “How much disorder can the world market economy tolerate before it starts to unravel, wind down, fall apart” (p. 191)?

As Strange notes, international political economists are split between the “nothing has changed” and the “maybe a lot has changed” views of globalization. Given even a slight possibility that globalization entails a major systemic change in economic and political governance, however, it is irresponsible to ignore both the phenomenon and its consequences for our societies.

In this uneven but important book Strange raises a number of critical questions intelligently and provocatively. Reflecting her earlier life as a journalist, it is very well written and intellectually coherent. The Retreat of the State is rich in detailed argument and discussion and covers many more topics and subtopics than I can mention here. This book deserves a very wide readership among those interested in where the modern territorial state and the modern state system are headed as we enter the twenty-first century.