The retreat of the state

The diffusion of power in the world economy

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1 The declining authority of states

Today it seems that the heads of governments may be the last to recognise that they and their ministers have lost the authority over national societies and economies that they used to have. Their command over outcomes is not what it used to be. Politicians everywhere talk as though they have the answers to economic and social problems, as if they really are in charge of their country's destiny. People no longer believe them. Disillusion with national leaders brought down the leaders of the Soviet Union and the states of central Europe. But the disillusion is by no means confined to socialist systems. Popular contempt for ministers and for the head of state has grown in most of the capitalist countries – Italy, Britain, France and the United States are leading examples. Nor is the lack of confidence confined to those in office; opposition parties and their leaders are often no better thought of than those they wish to replace. In the last few years, the cartoonists and the tabloid press have been more bitter, less restrained critics of those in authority in government than at any other time this century. Although there are exceptions – mostly small countries – this seems to be a worldwide phenomenon of the closing years of the twentieth century, more evident in some places than others, but palpable enough to suggest that some common causes lie behind it.

This book is written in the firm belief that the perceptions of ordinary citizens are more to be trusted than the pretensions of national leaders and of the bureaucracies who serve them; that the commonsense of common people is a better guide to understanding than most of the academic theories being taught in universities. The social scientists, in politics and economics especially, cling to obsolete concepts and inappropriate theories. These theories belong to a more stable and orderly world than the one we live in. It was one in which the territorial borders of states really meant something. But it has been swept away by a pace of change more rapid than human society had ever before experienced.

For this reason I believe the time has come to reconsider a few of the entrenched ideas of some academic colleagues in economics, politics, sociology and international relations. The study of international political economy has convinced me that we have to rethink some of the assumptions of conventional social science, and especially of the study of international relations. These concern: firstly, the limits of politics as a social activity; secondly, the nature and sources of power in society; thirdly, the necessity and also the indivisibility of authority in a market economy; and fourthly, the anarchic nature of international society and the rational conduct of states as the unitary actors within that society. The first and second are assumptions commonly taken for granted in political science. The third is an assumption of much liberal, or neo-classical economic science. And the last is an assumption of much so-called realist or neo-realist thinking in international relations. Each of these assumptions will be examined more closely later in the book.

But first it may help to outline briefly the argument of the book as a whole. That will show the context in which these more fundamental questions about politics and power arise and have to be reconsidered. The argument put forward is that the impersonal forces of world markets, integrated over the postwar period more by private enterprise in finance, industry and trade than by the cooperative decisions of governments, are now more powerful than the states to whom ultimate political authority over society and economy is supposed to belong.

Where states were once the masters of markets, now it is the markets which, on many crucial issues, are the masters over the governments of states. And the declining authority of states is reflected in a growing diffusion of authority to other institutions and associations, and to local and regional bodies, and in a growing asymmetry between the larger states with structural power and weaker ones without it.

There are, to be sure, some striking paradoxes about this reversal of the state-market balance of power. One, which disguises from many people the overall decline of state power, is that the *intervention* of state authority and of the agencies of the state in the daily lives of the citizen appears to be growing. Where once it was left to the individual to look for work, to buy goods or services with caution in case they were unsafe or not what they seemed to be, to build or to pull down houses, to manage family relationships and so on, now governments pass laws, set up inspectorates and planning authorities, provide employment services, enforce customer protection against unclean water, unsafe food, faulty buildings or transport systems. The impression is conveyed that less and less of daily life is immune from the activities and decisions of government bureaucracies.

That is not necessarily inconsistent with my contention that state *power* is declining. It is less effective on those basic matters that the market, left to itself, has never been able to provide – security against violence, stable money for trade and investment, a clear system of law and the means to enforce it, and a sufficiency of public goods like drains, water supplies, infrastructures for transport and communications. Little wonder that it is less respected and lacks its erstwhile legitimacy. The need for a political authority of some kind, legitimated either by coercive force or by popular consent, or more often by a combination of the two, is the fundamental reason for the state's existence. But many states are coming to be deficient in these fundamentals. Their deficiency is not made good by greater activity in marginal matters, matters that are optional for society, and which are not absolutely necessary for the functioning of the market and the maintenance of social order. Trivialising government does not make its authority more respected; often, the contrary is true.

The second paradox is that while the governments of established states, most notably in North America and western Europe, are suffering this progressive loss of real authority, the queue of societies that want to have their own state is lengthening. This is true not only of ethnic groups that were forcibly suppressed by the single-party government of the former Soviet Union. It is true of literally hundreds of minorities and aboriginal peoples in every part of the world – in Canada and Australia, in India and Africa, even in the old so-called nation-states of Europe. Many – perhaps the majority – are suppressed by force, like the Kurds or the Basques. Others – like the Scots or the Corsicans – are just not strong enough or angry enough to offer a serious challenge to the existing state. Still others such as the native Americans, the Aboriginals, the Samis or the Flemish are pacified by resource transfers or by half-measures that go some way to meet their perceived need for an independent identity. Only a few, such as the Greenlanders, the Slovaks or Slovenes or the unwanted, unviable Pacific island-states, have succeeded in getting what they wanted – statehood. But once achieved, it does not seem to give them any real control over the kind of society or the nature of their economy that they might have preferred. In short, the desire for ethnic or cultural autonomy is universal; the political means to satisfy that desire within an integrated world market economy is not. Many, perhaps most, societies have to be content with the mere appearance of autonomy, with a facade of statehood. The struggle for independence has often proved a pyrrhic victory.

The final paradox which can be brought as evidence against my basic contention about the hollowness of state authority at the end of this century is that this is a western, or even an Anglo-Saxon phenomenon, and is refuted by the Asian experience of the state. The Asian state, it is argued, has in fact been the means to achieve economic growth, industrialisation, a modernised infrastructure and rising living standards for the people. Singapore might be the prime example of a strong state achieving economic success. But Japan, Korea, Taiwan are all states which have had strong governments, governments which have successfully used the means to restrict and control foreign trade and foreign investment, and to allocate credit and to guide corporate development in the private sector. Is it not premature – just another instance of Eurocentrism therefore – to assume the declining authority of the state?

There are two answers to this third paradox. One is that all these Asian states were exceptionally fortunate. They profited in three ways from their geographical position on the western frontier of the United States during the Cold War. Their strategic importance in the 1950s and after was such that they could count on generous military and economic aid from the Americans, aid which was combined with their exceptionally high domestic savings and low patterns of consumption. The combination gave a head start to rapid economic development. Secondly, and also for strategic reasons, they could be – almost had to be – exempted from the pressure to conform to the norms of the open liberal economy. They were allowed, first formally and then informally, to limit foreign imports and also to restrict the entry of the foreign firms that might have proved too strong competitors for their local enterprises. At the same time, they were given relatively open access first to the large, rich US market for manufactures, and later, under some protest, to the European one. And thirdly, the technology necessary to their industrialisation was available to be bought on the market, either in the form of patents, or in the person of technical advisors from Europe and America or through corporate alliances which brought them the technology without the loss of managerial control.

Now, I would argue, these special dispensations are on the way out, and not only because the Cold War is over. The Asian governments will be under increasing pressure from Washington to adopt more liberal non-discriminatory policies on trade and investment. And they will also be under pressure from within to liberalise and to allow more competition, including foreign competition, for the benefit of consumers and of other producers. In short, the exceptionalism of the Asian state during the Cold War has already been substantially eroded, and will continue to be so. As it has been at other times, and in other places, there will be contests for control over the institutions and agencies of government in most of the Asian countries. There will be contests between factions of political parties, between vested interests both in the private sectors and in the public sector. There will be power struggles between branches of the state bureaucracy. Both the unity and the authority of government is bound to suffer.

The neglected factor – technology

The argument in the book depends a good deal on the accelerating pace of technological change as a prime cause of the shift in the state-market balance of power. Since social scientists are, not, by definition, natural scientists, they have a strong tendency to overlook the importance of technology which rests, ultimately, on advances in physics, in chemistry and related sciences like nuclear physics or industrial chemistry. In the last 100 years, there has been more rapid technological change than ever before in human history. On this the scientists themselves are generally agreed. It took hundreds – in some places, thousands – of years to domesticate animals so that horses could be used for transport and oxen (later heavy horses) could be used to replace manpower to plough and sow ground for the production of crops in agriculture. It has taken less than 100 years for the car and truck to replace the horse and for aircraft to partly take over from road and rail transport. The electric telegraph as a means of communication was invented in the 1840s and remained the dominant system in Europe until the 1920s. But in the next eighty years, the telegraph gave way to the telephone, the telephone gave way to radio, radio to television and cables to satellites and optic fibres linking computers to other computers. No one under the age of thirty or thirty-five today needs convincing that, just in their own lifetime, the pace of technological change has been getting faster and faster. The technically unsophisticated worlds of business, government and education of even the 1960s would be unrecognisable to them. No fax, no personal computers, no accessible copiers, no mobile phones, no video shops, no DNA tests, no cable TV, no satellite networks connecting distant markets, twenty-four hours a day. The world in which their grandparents grew up in the 1930 or 1940s is as alien to them as that of the Middle Ages. There is no reason to suppose that technological change in products and processes, driven by profit, will not continue to accelerate in future.

This simple, everyday, commonsense fact of modern life is important because it goes a long way to explaining both political and economic change. It illuminates the changes both in the power of states and in the power of markets. Its dynamism, in fact, is basic to my argument, because it is a continuing factor, not a once-for-all change.

For the sake of clarity, consider first the military aspects of technical change, and then the civilian aspects – although in reality each spills over into the other. In what are known as strategic studies circles, no one doubts that the development of the atom bomb in the middle of the twentieth century, and later of nuclear weapons carried by intercontinental missiles, has brought about a major change in the nature of warfare between states. Mutual assured destruction was a powerful reason for having nuclear weapons – but equally it was a good reason for not using them. After the paradoxical long peace of the Cold War, two things began to change. The expectation that, sooner or later, nuclear war would destroy life on the planet began to moderate. And confidence began to wane that the state could, by a defensive strategy, prevent this happening. Either it would or it wouldn't, and governments could do little to alter the probabilities. Thus, technology had undermined one of the primary reasons for the existence of the state – its capacity to repel attack by others, its responsibility for what Adam Smith called 'the defence of the realm'.

At the same time technology has had its effect on civilian life. Medical technology has made human life both longer and more comfortable. Electrical technology has liberated millions of women from the drudgery that imprisoned previous generations in the day-long labour of preparing food, keeping the family's clothes clean and mended, and houses clean and warm. As washing machines, vacuum cleaners, dishwashers, central heating and refrigerators and freezers spread down the income levels, more people had more to lose from inter-state conflict. Comfort bred conservatism in politics. Moreover, the new wealth was being acquired by the Germans and the Japanese who had actually been defeated in World War II. Acquiring territory was no longer seen as a means to increase wealth. Losing territory did not mean the state became poorer or weaker. Gaining market shares in the world outside the territorial borders of the state, however, did enable formerly poor countries like Japan, Taiwan or Hong Kong to earn the foreign exchange with which to buy capital goods, foreign technology and the necessary resources of energy and raw materials. As John Stopford and I have argued, competition for world market shares has replaced competition for territory, or for control over the natural resources of territory, as the 'name of the game' between states (Stopford and Strange, 1991; Strange in Rizopoulos (ed.), 1990). In this new game, the search for allies among other states goes on, but not for their added military capabilities. It is for the added bargaining power conferred by a larger economic area.

Moreover, the search for allies is not confined to other states or inter-governmental organisations. It is supplemented by a search for allies among foreign-owned firms. These firms may be persuaded, in exchange for access to the national market, to raise the finance, apply their technology, provide the management and the access to export markets – in short, to take all the steps necessary to locate production of goods or services within the territory of the host state. In most developing or ex-socialist countries, the prospect of new jobs and extra export earnings brought by such investments have become powerful reasons for a change of attitude toward the so-called 'multinationals'.

The second neglect – finance

Not the least of the TNC's attractions to host states is its ability to raise finance both for the investment itself and – even more important – for the development of new technology. Another key part of the argument of this book is that, besides the accelerating pace of technological change, there has been an escalation in the capital cost of most technological innovations – in agriculture, in manufacturing and the provision of services, and in new products and in new processes. In all of these, the input of capital has risen while the relative input of labour has fallen. It is this increased cost which has raised the stakes, as it were, in the game of staying up with the competition. This is so whether we look at competition from other firms who are also striving for larger market shares, or whether we look at governments trying to make sure that the economies for whose performance they are held responsible stay up with the competition in wealth-creation coming from other economies. Thus, to the extent that a government can benefit from a TNC's past and future investments without itself bearing the main cost of it, there are strong reasons for forging such alliances.

But the escalating costs of technological change are also important for a more fundamental reason, and not just because it explains the changing policies of host states to TNCs. It has to do with change in the world system. The cost of new technology in the production structure has added to the salience of money in the international political economy. It is no exaggeration to say that, with a few notable exceptions, scholars in international relations for the past half-century have grossly neglected the political aspects of credit-creation, and of changes in the global financial structure.[1] In much theorising about international relations or even international political economy there is no mention at all of the financial structure (as distinct from the international monetary order governing the exchange relations of national currencies.) Briefly, the escalating capital costs of new technologies could not have been covered at all without, firstly, some very fundamental changes in the volume and nature of credit created by the capitalist market economy; and secondly, without the added mobility that in recent years has characterised that created credit. The *supply* of capital to finance technological innovation (and for other purposes) has been as important in the international political economy as the *demand* from the innovators for more money to produce ever more sophisticated products by ever more capital-intensive processes of production.

These supply and demand changes take place, and take effect, in the market. And it is markets, rather than state–state relations that many leading texts in international political economy tend to overlook. Much more emphasis is put on international monetary relations between governments and their national currencies. To the extent that attention is paid at all to the institutions creating and marketing credit in the world economy, they are held to be important chiefly for the increased volatility they may cause to exchange rates, or to the impact they may have on the ability of governments to borrow abroad to finance development or the shortfall between revenue and spending, or between export earnings and import bills.

[1] The notable exceptions include Cerny, 1993; Porter, 1994; Veseth 1990; Wachtel, 1986; Frieden, 1987; Moffitt, 1983; Calleo, 1982. I should add that we all owe big debts to the economic historians such as Kindleberger, Cipolla, Feis and de Cecco, and more recently Cain and Hopkin; to the practitioners such as Volcker and Gyoten, and, not least to journalists such as the late Fred Hirsch and Yoichi Funabashi.

More significant in the long run, however, when it comes to evolving better theories to explain change in the international political economy is the accompanying neglect of the three-way connections between the supply side of international finance (credit), the demand side from firms, and the political intervention of governments as regulators of banking and financial markets and as borrowers or lenders, at home and abroad. There are theories to explain each of the three, but no unifying theory to explain their mutual connections.

For example, it may be asked why so many firms come to financial markets to raise money. It may be to finance a merger or takeover of another firm, to finance the development or application of a new technology or for expansion into a new market. The body of literature known as theories of the firm has produced some answers. One of the best-known is Ray Vernon's product-cycle theory. Although it is now recognised that this theory as first proposed in the late 1960s was over-influenced by the recent experience of US firms setting up affiliates in Europe, and was in any case a rather simplified model of actual corporate behaviour, it did nevertheless have a powerful central idea in it. Briefly, the product cycle begins with the firm introducing a new product or developing a new process in its home market. But when the temporary monopoly rent from the innovation is undercut by its competitors, it starts to export the product to new markets where there is still little or no competition. When that monopoly rent is also undercut by competing exporters, the firm extends the cycle by producing inside the foreign market at lower cost and with greater efficiency. Ploughing back all these monopoly rents into the next technological innovation starts another product cycle (Vernon 1966).

Since Vernon's pioneering idea, there have been other elaborations of the theory of transnational production. One of the best-known is Dunning's self-styled eclectic theory which adds in, as complicating variables, the possible advantages a firm may have in the way it organises production and marketing, the possible advantages – such as cheap labour or access to raw materials – of alternative locations (Dunning, 1988). Both Vernon and Dunning shared with economic theorists a concern with the firm's interest in lowering transaction costs by internalising transactions that otherwise could be effected at arm's length in the market. More politically perceptive of the realities behind corporate behaviour was Hymer's idea that lowering cost was often less important to firms than keeping control (Hymer, 1976).

The point is that such theories helped to explain, at least in part, the demand side for credit. What is needed to complement them is some theory that explains the matching of supply to demand, the expansion of new sources and forms of credit to keep pace with the demand. While there are descriptive accounts galore of the evolution of Eurocurrency markets in the 1960s and 1970s, and of syndicated bank loans to developing countries in the 1970s, and of junk bonds and securitisation in the 1980s, the theoretical explanation of periods of credit expansion has not been well developed. The historians have observed that such periods of expansion often – but not always – lead to booms and bubbles, followed by slumps and crashes. And, of course, economists have developed theories of business cycles and long waves though generally these are couched in rather abstract fashion.

Not only do the demand theories and the supply theories fail to come together, both tend to assume a kind of political vacuum, in which nothing changes in the behaviour of governments to each other and to the operators – industrial, commercial and financial, in the market economy. For example, historians are well aware that financial inflation – excessive creation of credit – is apt to accompany the conduct of war – civil or international. Yet neither the theories of international production nor of banking and credit take account of the dynamics of international relations, any more than the latter take into account the behaviour of firms or financial markets.

Awareness of this failure of inter-connection between bodies of theory relating to political and economic change customarily treated by social scientists in isolation from each other has powerfully motivated the writing of this book. My exploration of the phenomenon of diffuse authority over the global political economy is necessarily sketchy and incomplete. Yet by drawing attention to both the theoretical lacunae in social science and to the empirical evidence of the increasing exercise of non-state authority, my hope is that further work will be inspired to develop at both the theoretical and the empirical level.

Politics, power and legitimacy

There are three premises underlying the argument in this book. Each relates directly to – indeed, challenges – some of the conventional assumptions of economics, social and political science and international relations. The first premise is that politics is a common activity; it is not confined to politicians and their officials. The second is that power over outcomes is exercised impersonally by markets and often unintentionally by those who buy and sell and deal in markets. The third is that authority in society and over economic transactions is legitimately exercised by agents other than states, and has come to be freely acknowledged by those who are subject to it.

The first two premises require some excursion into matters of theory. As they are essential to the whole argument, they will be dealt with first, in chapters 2 and 3 respectively. General readers may be inclined to skip these two chapters as being overly academic, especially if they already find themselves broadly in sympathy with the main thrust of my argument. However, if they have doubts about it, they may be interested to see where and why my understanding of the nature of power and of politics diverges from the conventional.

In subsequent chapters, dealing with recent changes in international political economy, readers will encounter three general propositions about the patterns of legitimate authority now developing in the international political economy towards the end of the twentieth century. One is that there is growing asymmetry among allegedly sovereign states in the authority they exercise in society and economy. In international relations, back to Thucydides, there has always been some recognition of a difference between small states and great powers, in the way each behaves to others and in the options available to them in their relations with other states. But there has been a tendency all along to assume a certain uniformity in the nature and effectiveness of the control which each state has over social and economic relations within their respective territorial boundaries. The attributes of domestic sovereignty, in other words, were assumed automatically to go with the regulation accorded each state by its peers. Now, I shall argue, that assumption can no longer be sustained. What was regarded as an exceptional anomaly when in 1945 the United States conceded two extra votes in the UN General Assembly for the Soviet Union – one for the 'sovereign' republic of the Ukraine and one for Byelorussia – now hardly attracts comment. The micro-states of Vanuatu and the Republic of San Marino are admitted to the select circle of member-states of the United Nations. But no one really believes that recognition of their 'sovereignty' is more than a courteous pretence. It is understood that there is only a difference of degree between these and many of the smaller and poorer members of the international society of states who are established occupants of seats in the UN.

The second proposition is that the authority of the governments of all states, large and small, strong and weak, has been weakened as a result of technological and financial change and of the accelerated integration of national economies into one single global market economy. Their failure to manage the national economy, to maintain employment and sustain economic growth, to avoid imbalances of payments with other states, to control the rate of interest and the exchange rate is not a matter of technical incompetence, nor moral turpitude nor political maladroitness. It is neither in any direct sense their fault, nor the fault of others. None of these failures can be blamed on other countries or on other governments. They are, simply, the victims of the market economy.

The third proposition complements the second. It is that some of the fundamental responsibilities of the state in a market economy – responsibilities first recognised, described and discussed at considerable length by Adam Smith over 200 years ago – are not now being adequately discharged by anyone. At the heart of the international political economy, there is a vacuum, a vacuum not adequately filled by inter-governmental institutions or by a hegemonic power exercising leadership in the common interest. The polarisation of states between those who retain some control over their destinies and those who are effectively incapable of exercising any such control does not add up to a zero-sum game. What some have lost, others have not gained. The diffusion of authority away from national governments has left a yawning hole of non-authority, ungovernance it might be called.

This first chapter has presented the broad argument concerning each of the three premises and how each relates to change in the world system. The second chapter defends the second premise concerning the broader and more comprehensive definition of politics, government and authority. It will offer some empirical evidence to sustain the argument that politics on the global scale cannot any longer be conceived as limited to the conduct of inter-state relations. This is the chapter where my understanding differs most from much received wisdom in the social sciences. It is the one most likely to upset and even infuriate my former colleagues engaged in the study of international relations. The third chapter will defend the premise concerning the nature of power. This is fundamental to the central argument, but the premise on which it is based does diverge from some widely accepted notions of power and therefore needs to be argued in some detail, and again with sustaining empirical evidence.

The second part of the book will present some evidence for the three propositions, by describing briefly how half a dozen very different sources of non-state authority actually affect outcomes in the world economy and society. On the basis of this empirical evidence, the concluding chapter will consider what could be done, and by whom, to avert a crisis in the world market economy – a crisis that could be just as disturbing for western liberal society as the collapse of the socialist systems has been for the societies of the USSR and China.

7 Telecoms: the control of communications

A classic, extreme example of one process by which authority has shifted massively away from the governments of states to the corporate management of firms is to be found in telecommunications. At the peak of their power over society, states claimed, and exercised, the right to control the substance of information – by censorship, for example, of books or the press – and to control the means by which information was communicated – post, telegraph and telephone. In the last decade or so, a rapid decline in this power has set in, set off by a combination of technological change, demand in the market and policy changes in the United States driven by economic interests but legitimised by the economic ideology of private enterprise.

The result of the shift has been to narrow the options open to supposedly sovereign states, and to extend the opportunities – and risks – of those enterprises engaged in the supply of services and of the hardware by which the services are offered on the market. Another result has been to concentrate authority over this economic infrastructure in the governments and firms of the developed countries, and especially in those of the United States. Other governments have been forced by a combination of technological and economic change to give up their exclusive control for the sake of maintaining the competitiveness in world markets of the national economies for whose welfare they are held responsible. Yet another result has been to put technological advance at the service of transnational business, especially large enterprises, and at the expense – quite literally – of small business and of the individual citizen.

* For this chapter, I am indebted to Michael Hepburn for valuable research assistance, and to Giorgio Natalicchi for expert advice based on work for a doctoral thesis for New York University.

Technology

None of this would have happened without rapid technological change. But it has not been one single invention or technological advance. It has been the result of a coincidence of at least half a dozen. These advances have combined to create new products and services and to bring down the unit costs of messages. An understanding of these technological changes is essential to any analysis of the political economy of the business and of the political and social as well as economic consequences resulting from change (Codding, 1952).

Firstly, there have been great improvements in transmission systems. Thirty years ago, telephone systems buying copper wire were staple customers of the big multinational firms like Kennecott, Anaconda, Roan Selection Trust and Rio Tinto Zinc. Today, for the fast-growing new networks fibre optics offer a better alternative. More expensive to install than copper wire, they are much less expensive per message. The extra capacity, or bandwidth, of fibre optics allows thousands of messages to be carried simultaneously over the same strand of glass. It is also easier to maintain and keep secure from interference. Even on copper wire, new data compression techniques speed up transmissions to 10 megabites per second or more.

Secondly, large digital switches have allowed an increase in the capacity of connections to the point where the needs of an entire region or even a small country can be served from just one switching point. Computer-related technology also allows these switches to give more sophisticated services, such as repeat calls.

Thirdly, the invention of the cellular or mobile phone that operates within a limited radius but without wires (hence, cordless) has created a whole new market. In 1994, there were already over 24 million subscribers and business was booming, especially in the ex-socialist countries lacking the developed infrastructure of America, Japan or Europe.

Fourthly, there are the earth-circling satellites. First developed by the superpowers for military surveillance purposes in the late 1950s, they had become big business for civilian use by the 1970s, thereby recouping some of the costs of military competition for both the US and the USSR. In a strange piece of Cold War cooperation, both joined with others to buy shares and set up an international syndicate enterprise, Intelsat. Its first geo-stationary satellite carried 240 simultaneous conversations across the Atlantic. By 1989, the sixth Intelsat satellite could carry

120,000 circuits working in both directions. Distance being no determinant of cost, the result has been to bring a dramatic fall in intercontinental telephone and data transmission charges. Annual rent charges for a whole circuit fell to almost a tenth between 1960 and the 1980s (Dicken, 1992: 107).

Fifthly, computers and the more efficient telephone transmissions systems combined to render telex message systems obsolete, just as telex had done the same for the telegraph system in the 1960s. Once, large, slow and costly, these quickly became small, fast and cheap and by digitalising information were able to compress data that, by other means of communication would have taken a long time to pass from A to B. Then, by the late 1980s, fax (facsimile message) was becoming the commonest system of communication for business users. By 1993, fax terminals numbered 25 million. This added considerably – around 15 per cent – to the volume of traffic on telephone lines. Even faster was the growth of electronic mail, which allowed terminals to give instant access to anyone connected with another terminal. By the 1990s, a million new users joined the system every year – but the nature of the technology meant that almost all were employees of big business, government or universities. The privileges of what Drucker calls the 'knowledge workers' were greatly enhanced by comparison with those of manual workers in agriculture or industrial manufacturing. The innovation of electronic mail, at the time of writing, was rapidly replacing conventional mail, telex and fax. Individuals with computers can pass messages to each other in real time, with no intervening authority at all, except that of the organisations subscribing to the system who can allow or disallow individual access to it. Cable TV networks, owned by the network operators and therefore independent of telephone systems are another alternative open to business users. Video links connecting TV screens with telephone lines and computers are already the next step. And after that voice recognition will link users to computers without the use of keyboards.

Technological change has not only been rapid, and increasingly so. It has been expensive. The combination of shortening life cycles of new technology and increasing cost of investment in development raises the *ante* in the competitive game between enterprises in the market. It is these aspects of technology that account for the paradox that the old national telecoms, in order to survive, are almost forced to forge strategic alliances with enterprises of different nationalities – to create, in effect, genuine 'multinationals'. Examples (at the time of writing) are the joint venture between Britain's privatised BT and the American MCI; the cooperative arrangement called Unisource between the Dutch, Italian, Swedish and Swiss telecom operators; the trilateral deal between the US long-distance telecom firm, Sprint, with the German and French state monopolies; and the looser links established by AT&T with a number of operators called 'WorldPartners' (*Financial Times*, 19 January 1995).

Demand

Technology by itself has little consequence without a demand from the market. In this case, the rapid internationalisation of production, at double the rate of growth in world trade by the mid-1980s, created a demand for rapid, reliable and plentiful communication between headquarters and offshore affiliates, distributors, and suppliers. Integration of financial markets was made possible by improvements in communication systems; and financial integration itself contributed to those improvements by providing the Telecoms with rich customers well able to pay for large international transfers of data. The rapid spread within national markets of mobile phones over only three or four years, and in Asia as well as Europe and America, is one aspect of technology meeting a mass demand. Where state policy used to determine the structure of the communications sector, it is now much more driven by market demand. And as the relocation of manufacturing has been made possible by improved communications, so the service sector has been able to expand, taking advantage of the efficient flows of information. Examples are to be found in the running of airlines, of travel agencies, of carhire and hotels, and in transnational linking of retailers with suppliers. Political representation mirrors the technological changes. In Europe, for example, a new pressure group has been formed, the European Virtual Private Network Users' Association, to push for two things: more sophisticated services – such as video and audio-conferencing on demand – shortcode dialling, company calling cards, and, of course, price cuts that could be as big as 40 per cent to corporate users. Since it is firms, not individuals, who are the big users, the state-owned public telephone operators, or PTOs, have to heed their interests.

Thanks largely to corporate customers, there was a five-fold increase in international traffic over the decade 1984–94 – or so available statistics suggest. Between 1984 and 1991, exports of telecom equipment rose by

17 per cent, although capital investments of public telephone operators increased by only 11 per cent, suggesting that national PTTs that had tended to rely on their own local suppliers of equipment were now importing it (ITU, 1994: 12). The total size of the market was estimated at over $530 *billion* by 1992, of which equipment sales accounted for only a quarter and telecom services 75 per cent. (ITU, 1994: 1). The revenues of 15 leading public telephone operators are now greater, at $10 billion each or more, than the GDP of many small countries and level with the largest TNCs in manufacturing industry (ITU, 1994: 16). In short, Telecom has proved a highly profitable business, at least for some. It generates cash on an unprecedented scale. There are at least 15 PTOs with revenues of more than $10 billion a year (ITU, 1994: 16). No wonder competition is hot.

US policy changes

A third necessary condition of change was the deregulation of telecommunications by the US government in 1984. Privatisation of the Telecom operations of the British post office, British Telecom, followed soon after. While most other governments had kept their state monopolies of postal, telephone and telegraph (hence PTT) services, the US federal government appointed a Postmaster-General but had from earliest days delegated the operational management of telephone and telegraph service to private monopolies – the Bell telephone company, the old Western Union and American Telegraph and Telephones or AT&T. The alternative – a federal government service – would most certainly have been fiercely resisted by the individual state legislatures. The decision by the Reagan administration to deregulate and to break up the AT&T system put pressure on the companies to compensate by seeking profits from new markets outside the US. The American lead was only belatedly followed by other governments – but followed in the long run, it had to be. The chain of causation was well summarised by Dyson and Humphries (1994: 242):

> By dint of its economic power and technological leadership, the United States has managed to transform the agenda of the international political economy of communications towards deregulation to match the domestic characteristics of its own economy . . . Asymmetrical dependence has revealed itself most profoundly in the role of the United States as initiator of agenda change to which the European Community and its members must respond.

Here, indeed, is a clear instance of structural power being exercised indirectly through the market. It is market forces which appear to be inexorable, pushing national PTTs in Europe and Japan to deregulate and to privatise state monopolies in Telecom. But the market forces have been unleashed by US policy choice, and US firms, subjected to acute competition and vigorous demand at home, have had a head-start in gaining market shares in transnational communications from hitherto sheltered national PTTs.

Consequences

The dominance of corporate demand in the market has had direct effects on the cost structure of the sector – the crucial political economy questions of 'who pays? who benefits?'. As a recent analyst of the business observed, 'The terms and conditions of access to telecom services are instrumental in determining who can participate fully in the social, cultural, political and economic life of society' (Mansell, 1993: x). The key issue is whether the whole costs of the Telecom infrastructure are equally shared among all the users, for instance by a standard charge (as it were for overheads) on each call; or whether the notional 'costs' of long-distance calls are treated separately from the notional 'costs' of the local calls. In the latter case, the long-distance caller pays only for the additional capital overheads of the long-distance network, even though something like 70 to 80 per cent of the overhead costs are common. By artificially separating the basis for tariffs for local and long-distance (including international) calls, the PTOs effectively lower costs to business users. With more revenue from corporate users they are better able to meet the competition of new operators. By leasing whole lines to banks or big companies, they can cut prices even more drastically. And another device, referred to as de-averaging, gives lower prices on 'thick' (heavily used) lines as compared with 'thin' ones, thus discriminating price-wise against rural and in favour of urban users (Hills, 1994: 177). According to Hills, de-averaging was defeated in the Congress, while the debate over 'who pays' was still under discussion by European governments (Natalicchi, 1995).

Even without such discriminatory pricing policies, the dominance of corporate users' interests over household users' interests results from the combination of new technology and vastly increased business demand. The effect has been generally felt in the more rapid fall of international and long-distance calls than of local ones. The power of governments which, for social policy reasons, might want to keep rural areas and lonely old people fully integrated into the communications system at minimal cost has clearly diminished.

So has the control of governments. By means of their ownership of state monopolies, PTTs used to have control over the design and availability of such communications. No longer. The prospect in the mid-1990s is for a mere handful of global corporations to take the place of many mostly publicly owned national operators, and to dominate the business world-wide. Governments everywhere are being forced, willy-nilly, to bargain with these transnational operating firms over the terms on which national systems are incorporated into the global network and the ways in which they develop. In these negotiations, and because of their access to credit and command of the technology, the bargaining power of the large PTOs, often acting in strategic alliance or consortia with one another, is far greater than that of governments of most countries. Even the government of a country with a potential market as large as that of China no longer has the option of controlling and running its own communication system; the range of options open to it has narrowed to picking the foreign partners and negotiating with them the best terms of the alliance.

The story also underlines the power of markets over states. By the mid-1990s, North America and Europe accounted for three-quarters of all Telecom revenues. OECD countries accounted for 85 per cent of these revenues (ITU, 1994: 2). At the beginning of 1993, they had 15 per cent of the world's population – but 71 per cent of the telephone lines. And of the OECD countries, the United States was way ahead of the rest. Nine of the fifteen top PTOs were based in the US, five in Europe, one in Japan, the state-owned NTT (ITU, 1994: 16). In addition, the four long-distance service firms – AT&T, Sprint, MCI and the Japanese KDD – which use the PTO lines all have annual revenues of more than $1.5 billion (ITU, 1994: 20). Their cash reserves give them another kind of bargaining power. The political consequences of this shift from governments to markets are plain. The gap dividing rich people from poor people, big business from small business, was widening. And this was apparent both within national societies and between them in world society.

What is perhaps more controversial is how these changes have affected international 'regimes' as reflected in inter-governmental organisations. Much of the relevant literature tends to underplay the dynamic forces working on these organisations. In telecommunications the question arises whether, through them, US structural power is being converted into relational power over other states, legitimated by economic orthodoxy (Hills, 1994: 170). The evidence for this new (and more sophisticated) version of the old dependency theories is drawn from discussions in the International Telecommunications Union (ITU), with supporting evidence from Intelsat, the World Bank and the GATT's Uruguay Round. ITU grew out of one of the oldest of the nineteenth-century public unions and from coordinating arrangements between state PTTs concerning communications by telegraph, expanded into telephone and radio communications. But it had also always been peculiarly open to private firms and to government regulators in states (like the US) where the telegraph was in private hands (Murphy, 1993: 112). Thus, it was not seen as a great departure from traditional ITU practice when, after World War II, the real work of transnational standardisation and regulation came to be done in working parties and committees in which private firms, rather than national delegations, played a key role. The plenipotentiary conference in which government delegations sat, became largely formal and irrelevant. A point worth stressing here is that this is only an extreme case of a common experience. In many international organisations, the delegate's seat is occupied by a government official; but behind his seat there is often a 'technical adviser' – an *éminence grise* drawn from some interested firm or business association. Much academic analysis on regimes and international organisation overlooks and thus under-rates the part played in inter-state bargaining by private interests.

Over the period 1945–1995, in fact, this shift of decision-making power from governments to business firms substantially affected the policy decisions taken in the organisation. This was done in part by budgetary means; ITU contributions were voluntary and consequently a decision to help telecom development in poor countries was easily negated by the refusal of large delegations to allocate money to it. Partly, it was done by a 1989 restructuring which drastically curtailed, according to Hills, the powers of the numerical majority of LDC representatives. Through the Business Forum in which multinationals are given representative and not just observer status, it may not be long before they are also given voting rights. Hills describes the process as the 'beginning of a form of privatisation of international institutions'.

Meanwhile, Intelsat which was set up in the 1960s to finance and operate earth-orbiting communication satellites on behalf of participating governments as shareholders, from being highly profitable began in the 1990s to suffer competition. This came first from privately owned submarine optic-fibre cables. Secondly, it came from privately-owned satellites. Provided they could find a willing partner to launch the satellite, there was nothing to stop private enterprise from breaking the original Intelsat monopoly. An early challenge from Luxembourg, the Astra satellite, leased space to commercial users. A later one, IRIDIUM, due to start operating in 1996, was a multinational syndicated venture involving Motorola, Bell Canada, Raytheon, Mitsubishi, Sprint and Sony. Such competition had led to a US–UK bid to sell off Intelsat to private enterprise. This was defeated by the other shareholders, but a takeover bid, or a loss of business could still mark another victory for markets over governments.

The tension between public unions and private business is not new. Fundamentally, it is about who pays for technological innovation and who benefits. In telecommunications, the balance of benefit in the last two decades of the twentieth century would seem to have gone to the private sector firms at the expense of governments and their publicly owned and controlled enterprises. The efforts of states, individually and collectively, to use their countervailing powers in the interest of society as a whole and including the weak and the poor seem to have failed, at least for the time being. But capitalist societies in the past have acted sometimes quite successfully to stop an unbalanced concentration of wealth and power, to ensure more equitable distribution of wealth and entitlements. Nor has it been out of pure idealism. The economic history of Latin America or Africa, compared with some east Asian societies, has shown that capitalist societies in which wealth and entitlements were rather evenly distributed in society were often more politically resilient, more adaptable and more stable than those in which a small rich elite prospered while the masses suffered deprivation and hardship. A leading contemporary economist, Amartya Sen, argues that the long-term viability of the capitalist or market economy actually requires a more even social distribution of what he refers to as 'entitlements' – access on reasonable terms to food, to clothes, decent housing, medical care, education and some income security. The market will not always provide such entitlements without help from political authority. This view is in accord with the views of sociologists like Ralf Dahrendorf who emphasise the prevailing inequality in world society of 'life chances' for the individual. Neo-liberal economists do not see this inequality as 'market failure'. Yet in most societies, the political contest has always been between those who gave priority to the short-term advantages of financial and technological bargaining power and those who saw the longer-term advantages of social and political legitimacy as a result of their enlightened concern for the broader interests of civil society. In our own times, that contest continues – but this time on a global scale. Here, the diffusion of power among so many governments, and from them to non-state authorities makes it more difficult for policy-makers to take the long, more socially and economically enlightened view. Yet it would be rash to assume that it cannot be done or that current trends in telecommunications will extrapolate forever-or even far into the next century.