Globalization and the changing logic of collective action
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In both modern domestic political systems and the modern international system, the state has been the key structural arena within which collective action has been situated and undertaken, as well as exercising structural and relational power as an actor in its own right. However, the state is being not only eroded but also fundamentally transformed within a wider structural context. The international system is no longer simply a states system; rather, it is becoming increasingly characterized by a plural and composite—or what I have elsewhere called "plurilateral"—structure.1 This transformation has significant consequences for the logic of collective action. The word "globalization" often is used to represent this process of change. Globalization is neither uniform nor homogeneous; its boundaries are unclear and its constituent elements and multidimensional character have not as yet been adequately explored.2 But by reshaping the structural context of rational choice itself, I am particularly grateful to Louisa Gosling, formerly of the European University Institute, for having initiated a dialogue that led to the elaboration of the theoretical framework explored here. Stephen Kobrin, Ronen Palan, Geoffrey Underhill, and, of course, John Odell and two anonymous reviewers for *International Organization* have provided particularly valuable comments on the manuscript. Earlier versions were presented at the annual workshop of the International Political Economy Group of the British International Studies Association, University of Sussex, 20 February 1994; the 2d international conference of the Committee on Viable Constitutionalism, State University of New York at Albany, 17–20 March 1994; the conference on Global Politics: Setting Agendas for the Year 2000, Nottingham Trent University, 25–27 July 1994; and the annual meeting of the British International Studies Association, University of York, 19–21 December 1994. I thank a wide range of participants in those meetings for their comments.


2. The notion that transnational interpenetration is not homogeneous is essential to the concept of complex interdependence as developed in Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence* (Boston: Little, Brown, 1977). The implications of the growing heterogeneity of specific so-called transnational structures for domestic and international politics are more thoroughly explored in Susan Strange, *States and Markets: An Introduction to International Political Economy* (London and New York: Pinter and Basil Blackwell, 1988). For a consideration of some

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globalization transforms the ways that the basic rules of the game work in politics and international relations and alters the increasingly complex payoff matrices faced by actors in rationally evaluating their options.

In contrast, the state has played a key role in defining the character of the global discipline of international relations and the domestic discipline of political science. The classic statement of this position is found in the first paragraph of Aristotle’s *Politics*:

Observation shows us, first, that every polis (or state) is a species of association, and, secondly, that all associations are instituted for the purpose of attaining some good—for all men do all their acts with a view to achieving something which is, in their view, a good. We may therefore hold that all associations aim at some good; and we may also hold that the particular association which is the most sovereign of all, and includes all the rest, will pursue this aim most, and will thus be directed to the most sovereign of all goods. This most sovereign and inclusive association is the polis, as it is called, or the political association.3

Michael Oakeshott described the state in the Western constitutional tradition as a “civil association”—the sole purpose of which is to enable other, more circumscribed social, political, and economic activities to take place and which is necessary (but not sufficient) for the pursuit of those other activities. The existence of such a civil association enables socially legitimate collective action to be undertaken in the first place. Oakeshott distinguishes this from an “enterprise association,” which has particular ends and can be dissolved when those ends are no longer or are unsatisfactorily pursued.4 In the modern study of international relations, the state has constituted the key unit of collective action, while the interaction of states has been the very object of inquiry; similarly, in the domestic arena, the state has both encompassed the political system and constituted a potentially autonomous collective agent within that field.5

Globalization, however, is changing all that. Globalization is defined here as a set of economic and political structures and processes deriving from the changing character of the goods and assets that comprise the base of the international political economy—in particular, the increasing structural differentiation of those goods and assets. “Structures” are more or less embedded sets—patterns—of constraints and opportunities confronting decision-making

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agents ("institutions" simply being more formalized structures); "processes" are dynamic patterns of interaction and change that take place on or across structured fields of action. Structural differentiation increasingly is spreading across borders and economic sectors, driving other changes and resulting in the increasing predominance of political and economic structures and processes that (1) are frequently (although not always) more transnational and multinational in scale (i.e., are in significant ways more inclusive) than the state, (2) potentially have a greater impact on outcomes in critical issue-areas than does the state (i.e., may in effect be more "sovereign"), and (3) may permit actors to be decisionally autonomous of the state. In particular, I argue that the more that the scale of goods and assets produced, exchanged, and/or used in a particular economic sector or activity diverges from the structural scale of the national state—both from above (the global scale) and from below (the local scale)—and the more that those divergences feed back into each other in complex ways, then the more that the authority, legitimacy, policymaking capacity, and policy-implementing effectiveness of states will be challenged from both without and within. A critical threshold may be crossed when the cumulative effect of globalization in strategically decisive issue-areas undermines the general capacity of the state to pursue the common good or the capacity of the state to be a true civil association; even if this threshold is not crossed, however, it is arguable that the role of the state both as playing field and as unit becomes structurally problematic.

Most of the literature on collective choice or collective action focuses on options and choices that actors (or players) make within the context of a particular payoff matrix or set of alternative payoff matrices—i.e., within existing sets of constraints and opportunities, or rewards and penalties—which confront the players. However, the focus of the analysis here is on the structural context within which collective action takes place, rather than at specific processes or outcomes of choice in a given setting. Choices are always made within specific "structured fields of action." Structurally diverse fields elicit different strategies and tactics. Furthermore, such fields are themselves made up of complex multilayered structures that incorporate distinct and often asymmetric structural levels—i.e., different games with different payoff matrices. Finally, of course, their structural form can change over time.

The analysis here will focus on the changing nature and scale of public goods and private goods (expanding on the work of Manur Olson) and on the relationship between specific assets and nonspecific assets (expanding on the work of Oliver Williamson) as the bases of both political-institutional and

6. For an extensive discussion of the concept of structure (and of structural differentiation), see Cerny, *The Changing Architecture of Politics*.
industrial market structure. "Goods" and "assets" are broadly interchangeable terms that refer to tangible or intangible property, effects, wealth, and other resources. Whereas the term "goods" is more likely to be used for items or commodities that are themselves produced and/or traded, from raw materials to final products, the term "assets" is more likely to be applied to the production facilities or systems of production by which goods are produced. However, the two terms are not easily distinguished linguistically, and the overlap between them both in the real world and in analytical usage is great. Indeed, Olson and Williamson each uses his preferred term as an overarching category or genus implicitly including the other.

This article focuses on the development of particular historical matrices or patterns of imbrication between economic-organizational and political-institutional structures; I call such composite patterns "political economies of scale." In small-scale societies, goods and assets—and the structures and institutions that stabilize and regulate them—remain relatively undifferentiated. However, as the scale of goods and assets expands, major structural gaps can develop between different types of assets and between public goods and private goods. In particular, as European societies and economies grew in the late feudal and early capitalist periods, such a gap was filled by the emergence of the modern nation-state as an organizational form for providing public goods across both domestic and international arenas. Moreover, the development of scale economies in both the economic system and the political order during the nineteenth and early twentieth centuries dramatically reinforced and expanded the scope of this institutional isomorphism. A powerful structural convergence developed between the second industrial revolution economy, on the one hand, and the bureaucratic state, on the other. Notions of the modern state even today inordinately reify the characteristics of this period. In recent decades, however, an accelerating divergence has taken place between the structure of the state and the structure of industrial and financial markets in the complex, globalizing world of the third industrial revolution. There is a new disjuncture between institutional capacity to provide public goods and the structural characteristics of a much larger-scale, global economy. I suggest here that today's "residual state" faces crises of both organizational efficiency and institutional legitimacy. The conclusion derives a set of more complex hypotheses from the overall framework as an agenda for future research.


Goods, assets, and political economies of scale

The development of the modern state and the growth of capitalism involve a complex process of interaction between cross-cutting structural dimensions: first, between politics and economics and, second, between market and hierarchy. Central to such developments are "political economies of scale," in which specific political structures—and the forms of action they ostensibly foster or dictate—appear to be more or less efficient in stabilizing, regulating, controlling, or facilitating particular economic activities. Different economic processes are said to be characterized by different minimum efficient scales, given existing technology and size of market demand. Some optimal plant sizes remain small; others exhibit increasing returns to scale—that is, greater efficiency the bigger the factory or distribution system.\(^{10}\) Thus, in some cases, big is economically the most efficient, whereas in other cases small is beautiful. In the case of political economies of scale, the concept is expanded to include the scale of state structures, institutions, and processes and the economic tasks, roles, and activities they perform. Optimal political economies of scale therefore continually shift, adjusting to technological, sociological, and political change. Indeed, they have been shifting dramatically in the late twentieth century, both upward to the transnational and global levels and downward to the local level. In this more fluid environment, actors' choices have significant consequences for the changing structure of the state and, indeed, for the wider evolution of politics and society.

It is mistaken to assume that state structures are overwhelmingly hierarchical and bureaucratic in some inherent way, while economic structures are based essentially on market exchange.\(^{11}\) On the contrary, both state and economy are complex compounds of market and hierarchy as well as the outcome of the interaction between politics and economics. Evolution of political-economic structures results from the interaction of independent changes along each dimension (market/hierarchy and politics/economics) and from complex feedback effects that occur as the consequence of that interaction. For a state to approximate an overarching public role of the classical type would require it to have real and effective organizational capacity to shape, influence, and/or control designated economic activities (that is, those perceived to be the most socially significant such activities). In other words, it must stabilize, regulate, promote, and facilitate economic activity generally as well as exercise other forms of politically desired and/or structurally feasible control over more-specific targeted processes of production and exchange. The core of this problematic lies in the character of the different kinds of material and

\(^{10}\) For the main synthesizing work on economies of scale (and economies of scope, which we will not deal with separately here), see Alfred D. Chandler, Jr., *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass.: Harvard University Press, 1990).

\(^{11}\) Cerny, *The Changing Architecture of Politics*, especially chap. 3.
nonmaterial resources and values that are needed and/or desired by individuals and by society—that is, in the different kinds of goods or assets (including services) being produced and exchanged, whether through the state or through nonstate economic mechanisms. Identifying the structural characteristics of different goods and/or assets is crucial to understanding what rational players are likely to do in different situations.

I begin, like others, by distinguishing between two main polar types of good or asset. The best-known is Olson's contrast between public goods (those that are nondivisible in crucial ways and from the use of which specific people cannot be easily or effectively excluded), on the one hand, and private goods (those that are both divisible and excludable), on the other.\footnote{12} Note that "public" and "private" in this context do not refer to who owns the goods but to the specific structural features of the goods themselves: (1) whether the good(s) in question can in practice be divided between different users/owners, or whether they are composed of inseparable parts of a wider, inherently integrated entity; and (2) whether some people can be effectively excluded or prevented from using/owning the good(s) in question, or whether to make them available for one is to make them available to all.

A second distinction, found in institutional economics, is that which Williamson makes between specific and nonspecific assets.\footnote{13} This distinction is based upon two dimensions. The first is that of economies of scale in production, distribution, or exchange. Where returns to scale are high, then the more units of a good that are produced in a single integrated production process, the lower will be the marginal unit cost of production compared with smaller separate production processes; in asset terms, this means that the value of the entity kept as a whole would in theory be far more valuable than its "breakup" price. The second dimension is that of transaction costs, i.e., those costs incurred in the process of attempting to fix an efficiency price for an asset and actually to exchange it for another substitute asset. Transaction costs normally include negotiation costs, monitoring costs, enforcement costs, and the like. A specific asset is one for which there is no easily available substitute. Its exchange would involve high transaction costs, high economies of scale, or both, leading to difficulty in finding efficiency prices and ready markets. In turn, different types of good or asset are said to be more or less efficiently provided through distinct sets of structural arrangements or institutions, rather than simply through abstract economic processes. Markets in the real world are institutions—not spontaneous, unorganized activities.\footnote{14} Williamson refers to

\footnote{12} Olson, \textit{The Logic of Collective Action}. In between the two main categories, and deriving from the interaction of these polar types, stands a range of crucial intermediate categories of semipublic or quasi-private (mixed) goods.

\footnote{13} See Williamson, \textit{Markets and Hierarchies}; and Williamson, \textit{The Economic Institutions of Capitalism}.


two contrasting institutional forms: market and hierarchy. For Olson, public goods cannot be provided in optimal amounts through a market, for free riders will not pay their share of the costs. Only authoritative structures and processes make it possible for costs to be efficiently recouped from the users of public goods. For Williamson, specific assets are also more efficiently organized and managed authoritatively, through hierarchy. In his own work, of course, the authoritative unit in question is not the state but the firm. Such authoritative allocation is done through long-term contracting (keeping the same collaborators) and decision making by managerial fiat (integration, merger, cartellization, etc.) rather than through the short-term, "recurrent contracting" of marketable, easily substitutable, nonspecific assets. Whereas efficient regulation of the market for the latter merely requires post hoc legal adjudication through contract law and the courts, the former requires increasing degrees of proactive institutionalized governance in the allocation of resources and values. Different kinds of structural integration—distinct mixes of market and hierarchy—may be judged to suit particular mixes of specific and nonspecific assets.

The sort of legitimate, holistic political authority characteristic of the traditional state reflects either an institutionalized commitment to provide public goods efficiently, or the presence of extensive specific assets, or both. The latter are mainly embodied in people (human capital), immobile factors of capital such as infrastructure, and the promotion of certain types of large-scale integrated industrial processes. Of course, traditional conceptions of the state also extend to other specific factors, especially national defense (the capacity to wage war being particularly public and specific); promotion of a common culture, national ideology, or set of constitutional norms; preservation of collective unity in the face of the "other"; and maintenance of a widely acceptable and functioning legal system. These sorts of tasks and activities also would normally be more efficiently carried out through predominantly hierarchical institutions (a classic conundrum of decision making in a liberal democracy). However, in the real world, most economic and political processes involve either a mix of market and hierarchy or goods having mixed public and private characteristics. In this context, it is important to remember that politics involves not only constructing relatively efficient structures within which to provide public goods and minimize transaction costs in the maintenance of specific assets but also managing the overarching system within which both types of goods and assets are produced and exchanged—this system itself constituting a public good.

The historical evolution of political economies of scale

Such complex political-economic structures develop mainly through a continuing process of bricolage or tinkering. Occasional paradigmatic change does occur however when the requirements for providing (at its simplest) both public goods and private goods in some workable combination increase beyond the capacity of the institutional structure to reconcile the two over the medium-to-long term. Such major transformations are reflected in historical changes from small-scale to large-scale societies. At one end of the spectrum, the smaller the scale of an economy/society the more the public and private are likely to overlap and coincide. Such mechanisms remain relatively undifferentiated. The outstanding exemplar of how this management system works can be seen in the role of kinship as studied by anthropologists. Subsistence and early surplus production and reproduction in small, relatively isolated communities usually involve the emergence of a single, relatively homogeneous institutional structure in which economic and political power are part of the same more or less hierarchical system. It could even be suggested that by basing society for political and economic reasons around an extended kinship structure, the range of what Fred Hirsch calls “positional goods” (those goods that can be used only by a small number of people, such as those standing on the top rung of a ladder or, in this case, occupying a patriarchally determined position of power in a kinship hierarchy) might therefore also be constrained and controlled in one virtual natural monopoly of power.16

In contrast, however, the larger and more complex the structural scale of a society/economy, the more assets and goods become differentiated. The scale of existing social and political arrangements for the stabilization and regulation of production, exchange, and consumption—i.e., for the provision of public goods—is likely to be suboptimal for the scale of public goods required and of specific assets involved. Furthermore, some former public goods and specific assets may be more readily and efficiently provided by the market, given the greater range of factors of production available and the greater number of participants in larger-scale markets. A new structural settlement reflecting altered optimal political economies of scale must therefore be found—what Spruyt calls “institutional selection.”17

Sociological theorists have long identified structural differentiation as the core process of the development of societies.18 Analogous processes of political and economic differentiation are the key to understanding how political economies of scale shift over time. In agricultural societies, early states exhibited analogous structural characteristics whether they emerged as the result of predation by a single group or through the development of a more

17. Spruyt, “Institutional Selection in International Relations.”
complex division of labor. Later, modern states, whatever their specific historical origins, developed not only from the need to provide appropriate levels of new and more broadly defined public goods in material terms but also in order to create appropriate conditions for stabilizing and promoting rapidly expanding market processes. Establishing and maintaining a stable and ordered playing field on which both private and public goods could be provided efficiently came increasingly to be seen as a public good in itself, in contrast to the quasi-private predatory state that had first succeeded feudalism. These structural innovations enabled postfeudal societies to survive and compete in the fierce military and economic struggles of that period.

The central process in the development of the modern capitalist nation-state thus involved a complex and interdependent shift of both political and economic structures to a broader scale. Interaction between states—economic competition and military conflict—was crucial to this convergence. To foster the expanding provision of private goods, the development of national markets and production processes was promoted by otherwise quite different types of states. States in general, which previously had fulfilled only limited socioeconomic functions, thereby came to undertake an increasing range of core social, economic, and political functions—notably stabilization of the social order, promotion of a national culture, the establishment and defense of more clearly defined territorial borders, increased regulation of economic activities, and the development and maintenance of a legal system to enforce contracts and private property. Although the expansion of these general functions of the state was accompanied by growing demands for constitutional and democratic government to define and secure those func-

tions, hierarchical and authoritarian bureaucracies were set up at the same time to carry them out. In addition, states took on more specific public goods functions such as public works, promotion and protection of particular industries, development of monopolies, provision of infrastructure, and the like. The evolution of these functions was highly uneven both within and across state borders.

Only with the coming of the so-called second industrial revolution in the late nineteenth and early twentieth centuries did the process shift reach a more comprehensive stage of convergence. The second industrial revolution comprised the development of advanced forms of mass production, the increasing application of science and scientific methods to both production processes and management techniques, and the expansion of economies of scale—often called Fordism, or, in Alfred Chandler’s terms, the modern industrial enterprise. This era is generally acknowledged to have taken off with the growth of railroad systems from small lines to national networks. In the United States, oligopolistic firms emerged as the core of the new heavy industrial capital as America in the 1880s became the world’s largest industrial producer. In other newly industrializing countries the state took a more direct role in tying economy and society together. This process occurred not only in Europe and later Japan but to a greater or lesser extent throughout the world as emerging states sought to industrialize. First the steel, then the chemical, automobile, and other large-scale heavy industries grew up, generally in highly favorable political and bureaucratic conditions. Central to this process was the growth of large-scale finance capital, whether under the wing of the state or in a more freewheeling liberal environment, as in the United States.25 Along with these developments came national-scale processing and packing industries, integrated distribution systems, and the emergence of chains of large retail firms. The rise of the modern corporation and “scientific management” was part and parcel of this era.26 Despite the different absolute sizes of such new industrial states, the combination of internal hierarchization and external competition gave them a certain unitary character and relative equality compared with the patchwork of political and economic units that had characterized late feudalism and even early industrial capitalism.

State promotion of industrial development further unified the nation-state—despite the growing conflict between democratic and authoritarian forms of government and struggles among emerging economic classes—and led to an intensification of national economic competition. In the United States, with its


huge domestic market, this involved relatively less direct state intervention, whereas in Germany and Japan state promotion was critical to large-scale capital. Max Weber's conception of modern social organization (the development of large-scale political and economic bureaucracies) as well as Karl Marx's belief that the end result would be a top-heavy monopoly capitalism shored up by the state were essentially second industrial revolution theories. 27 Ironically, Britain's decline was inextricably intertwined with its inability to develop much beyond the structures of a first industrial revolution state. 28 The subsequent development of the second industrial revolution state can be traced forward to the intense national competition of the 1930s, most strikingly embodied in the rise of fascism and Stalinism, but also reflected in President Franklin Roosevelt's New Deal in the United States. This worldwide scale shift led to what Karl Polanyi called the great transformation: namely, a change from the first industrial revolution attempt to establish a global self-regulating market, to the corporatist, social democratic, national welfare state, which crystallized in the 1930s and became dominant after World War II. 29 Second industrial revolution states thus converged on a more or less centralized model concerned with a growing range of policy functions: promoting and maintaining large-scale mass production industries; providing the requisite levels of regulation and demand management to ensure, in particular, that their extensive specific assets would not be undermined by economic downturns; and creating not only mass markets but also a disciplined work force to keep the factories humming.

The above account of the convergence of the political and economic structures of the second industrial revolution is, of course, a schematic oversimplification. One obvious problem is that it does not take much notice of the tensions and contradictions within the political-economic structures of the second industrial revolution. A more critical problem, however, is that this account cannot anticipate those new developments that would create pressures for fundamental structural change beyond the second industrial revolution model. On the endogenous level, the principal economic pressures for change stemmed from the competition among different fractions of capital and the increasing differentiation of production and consumption processes. The "competition of capitals" did not so much concern competition between rival capitalist firms as that between sectors rooted in different asset structures, producing and marketing different types of goods. Large-scale production sectors characterized by high levels of specific assets, especially natural monopolies and sectors producing capital goods, were best placed to benefit

structurally from state promotion and procurement and from centralized structures of public and/or private finance capital. Small-scale sectors characterized primarily by nonspecific assets were structurally oriented toward other small producers and final consumers and found their relationships with the state or with high finance nonexistent, irrelevant, or threatening to their markets. The United States was probably the only country that, because of the size of its home market, could institutionally cater to both sectors. In most countries, however, tension between these economic sectors was interwoven with political and ideological clashes across a range of social and economic groups supporting different forms and combinations of authoritarianism and democracy. The internal control span of the state qua hierarchy was continually under challenge, even in the most outwardly authoritarian of states, and failures of hierarchy to work efficiently were commonplace.

Even more important in the long run was the interaction of these endogenous tensions with exogenous ones. On the exogenous level, the principal forms of tension between different types of goods or asset structures were those between the nationalization of warfare (and the production system necessary for modern total war), on the one hand, and the gradual but uneven internationalization of civilian production and exchange, on the other. Until World War I, the dynamics of economic competition and those of military rivalry were not so different with regard to many key issues, such as the development of dual-use railway systems, steel industries, and shipbuilding industries. Additionally, the nation-state constituted the predominant (although not the only) organizational unit for both types of activities. The international economic instability of the 1920s and the Great Depression of the 1930s, however, represented a fundamental loss of control by states, both authoritarian and liberal, over international economic processes. The immediate result was, of course, the attempt to reassert previously existing forms of control in more intensified forms—more potent authoritarian autarchic empires and the withdrawal of even liberal states behind trade barriers—as all major states tried to recapture hierarchical control over their economic processes.

Thus the story of capitalism in the second industrial revolution was one of uneven internationalization if not yet of globalization. Britain’s relatively free-trading empire, increasingly reinforced (and later replaced) by America’s open door, created productive financial and trade links that drew second industrial revolution states out of their national shell and into an international web of linkages. Despite the growth of autarchic empires in the 1920s and

30. This general loss of control was perhaps even more significant than the loss of leadership addressed by Kindleberger (which was a key symptom of the broader phenomenon, nonetheless). See Charles P. Kindleberger, The World in Depression, 1929–1939 (London: Allen Lane the Penguin Press, 1973).
1930s, the internationalists who prevailed within the Roosevelt administration by the mid-to-late 1930s and who later dominated wartime planning for the peace aimed to establish an arm's-length, increasingly multinational, free-trading system after the war. Postwar U.S. hegemony, furthermore, was itself based on quasi-multilateral international economics and quasi-integrated defense systems; these were not entirely dependent upon the continuance of U.S. military dominance for their survival. Free trade outlived the recession and new protectionism of the 1970s, while French President Charles de Gaulle's attempt in the 1960s to revive the notion of purely national, nonintegrated defense petered out even before his exit from power.

Thus, although political consciousness remained overwhelmingly national, both security and economic structures—especially the latter—became increasingly internationalized. The later stages of the second industrial revolution itself—the so-called long boom—saw the beginnings of the decay of the second industrial revolution state. By the time John Kenneth Galbraith had published *The New Industrial State* in 1967, the relatively monolithic political-economic "technostructure" that he depicted was already out of date. Existing contradictions interacted with a new phase of scale shift. Many of what constituted public goods in the second industrial revolution (national-level strategic industries and regulatory and welfare systems, for example) increasingly are integrated into a wider world marketplace. The third industrial revolution—characterized by the intensive application of information and communications technology, flexible production systems and organizational structures, market segmentation, and globalization—also has profoundly altered the way that the structure of goods and assets themselves is shaped. Differentiation within production processes and through the segmentation of markets have contributed to this newer shift, as has the globalization of finance, which increasingly has divorced finance capital from the state. Institutional capacities for political control, stabilization, regulation, promotion, and facilitation of economic activities have therefore become increasingly fragmented. From international regimes to cross-cutting local pressures, new circuits of power are emerging. These circuits of power result, in effect, both from new forms of collective action and from a revival of old forms in response to the changing structural context. They have not merely challenged the state but


instead overlap with it, cut across it, and fragment it. Forms of collective action
tailored to the nation-state have proved increasingly ineffective—leading at
first to political polarization and then to attempts to reinvent government.36

Globalization and the changing public goods problem

The most important dimension of convergence between political and economic
structures in the second industrial revolution state was the dominance of
national-level organizational apparatuses in each sphere and the development
of complex organized interfaces cutting across and linking the two spheres.
Among these interfaces was corporatism, both state and societal.37 Expanding
national bureaucracies continually took on new social and economic tasks,
while national capital found that national markets (and the national state)
provided a congenial and appropriate framework around which to organize.
International capital, too, looked to the home state for promotion and
protection while seeking to control and manipulate host states. Political
consciousness and growing demands from below emerged and consolidated in
practice within the arena of the national constitutional state, even when
opposing that state in principle. It is still difficult today to conceive of working
democratic systems other than through the lens of the nation-state. Even
Marxist internationalism, especially under the revisionist influence of Lenin,
became increasingly focused on taking power by appropriating the apparatuses
of the state.38 Public goods were perceived by all interested parties as
national-level phenomena, even when they were externalized through imperial
expansion. Nevertheless, a fundamental transformation has taken place in the
structure of public goods in today’s global era, making both their pursuit and
their provision through the nation-state more problematic.

Those traditionally conceived public goods have been primarily of three
kinds.39 The first involves the establishment of a workable market framework
for the ongoing operation of the system as a whole—regulatory public goods.
These include the establishment and protection of private (and public)

36. See David Osborne and Ted Gaebler, Reinventing Government: How the Entrepreneurial Spirit
is Transforming the Public Sector, from Schoolhouse to Statehouse, City Hall to the Pentagon (Reading,
Mass.: Addison-Wesley, 1992). This book has had an enormous impact on both right and left in the
United States and elsewhere.
37. The classic statement of the neocorporatist approach is that in Philippe C. Schmitter, “Still
the Century of Corporatism?” in Frederick Pike and Thomas Stritch, eds., The New Corporatism
38. See V. I. Lenin, Imperialism, the Highest Stage of Capitalism (1917; reprint, Moscow: Progress
Publishers, 1978); and V. I. Lenin, State and Revolution (1918; reprint, New York: International
39. I am here borrowing freely from Theodore Lowi’s three categories of public policy:
distributive, regulatory, and redistributive. See his works “American Business, Public Policy, Case
Studies, and Political Theory,” World Politics 16 (July 1964), pp. 677–715, and The End of
property rights, a stable currency, the abolition of internal barriers to production and exchange, standardization of weights and measures, a legal system to sanction and enforce contracts and to adjudicate disputes, a more specific regulatory system to stabilize and coordinate economic activities, a system of trade protection, and other systems that could be mobilized to counteract system-threatening market failures (such as lender of last resort facilities and emergency powers provisions). The second involves specific state-controlled or state-sponsored activities of production and distribution—productive/distributive public goods. Among these are full or partial public ownership of certain industries, direct or indirect provision of infrastructure and public services, direct or indirect involvement in finance capital, and myriad public subsidies. The third type of public goods are redistributive public goods, especially those resulting from the expanding political and public policy demands of emerging social classes, economic interests, and political parties and the responses of state actors to those demands. Redistributive goods include health and welfare services, employment policies, corporatist bargaining processes (although these often have had a significant regulatory function as well), and environmental protection—indeed, the main apparatus of the national welfare state. The provision of all three kinds of public goods in second industrial revolution states was dependent on the interweaving of large-scale specific assets between bureaucratic structures and structures of capital.

In a globalizing world, however, national states have difficulty supplying or fostering all of these categories of public good. Regulatory public goods are an obvious case. In a world of relatively open trade, financial deregulation, and the increasing impact of information technology, property rights are more difficult for the state to establish and maintain. For example, cross-border industrial espionage, counterfeiting of products, copyright violations, and the like have made the multilateral protection of intellectual property rights a focal point of international disputes and a bone of contention in the Uruguay Round of the General Agreement on Tariffs and Trade (now the World Trade Organization). International capital flows and the proliferation of offshore financial centers and tax havens have rendered firm ownership and firms' ability internally to allocate resources through transfer pricing and the like increasingly opaque to national tax and regulatory authorities. Traditional forms of trade protectionism, too, are both easily bypassed and counterproductive.Currency exchange rates and interest rates are increasingly set in globalizing marketplaces, and governments attempt to manipulate them at their peril. Legal rules are increasingly easy to evade, and attempts to extend the legal reach of the national state through the development of extraterritoriality are

ineffective and hotly disputed. Finally, the ability of firms, market actors, and competing parts of the national state apparatus itself to defend and expand their economic and political turf through activities such as transnational policy networking and regulatory arbitrage—the capacity of industrial and financial sectors to whipsaw the state apparatus by pushing state agencies into a process of competitive deregulation or what economists call competition in laxity—has both undermined the control span of the state from without and fragmented it from within.42

Furthermore, real or potential inefficiencies in the provision of regulatory public goods have much wider ramifications than merely for the provision of public goods per se, because they constitute the framework, the playing field, within which private goods as well as other public goods are provided in the wider economy and society. In other words, actors seeking to pursue regulatory public goods today are likely to see traditional state-based forms of regulation as neither efficient nor sufficient in a globalizing world. Perhaps a more familiar theme in the public goods literature, however, has been the impact of globalization on the capacity of the state to provide productive/distributive public goods. The most visible aspect of this impact has been the crisis of public ownership of strategic industries and the wave of privatization that have characterized the 1980s and 1990s. Once again, both political and economic scale factors are at work. At one level, such industries are no longer perceived as strategic. Steel, chemicals, railroad, motor vehicles, aircraft, shipbuilding, and basic energy industries were once seen as a core set of industries over which national control was necessary for both economic strength in peacetime and survival in wartime. Today, internationalization of the asset structure of these industries, of the goods they produce, and of the markets for those products—with foreign investment going in both directions—has caused the internationalization of even high-technology industries producing components for weaponry.43

At the same time, the state is seen as structurally inappropriate for the task of directly providing productive/distributive goods. Public ownership of industry is thought so inherently inefficient economically (the "lame duck syndrome") as to render ineffectual its once-perceived benefits of permitting national planning, providing employment, or enlarging social justice. Third World countries increasingly reject delinkage and import substitution industrialization and embrace export promotion industrialization, thereby imbricating their economies even more closely with the global economy.44 Even where

public ownership has been expanded, its ostensible rationale has been as part of a drive for international competitiveness and not an exercise in national exclusiveness, as in France in the early 1980s. The same can be said for more traditional forms of industrial policy, such as state subsidies to industry, public procurement of nationally produced goods and services, or trade protectionism. Monetarist and private sector supply-side economists deny that the state has ever been in a position to intervene in these matters in an economically efficient way and argue further that the possibility of playing such a role at all in today's globalized world has utterly evaporated in the era of "quicksilver capital" flowing across borders. However, even social liberal and other relatively interventionist economists nowadays regard the battle to retain the homogeneity of the national economy to be all but lost and argue that states are condemned to tinkering around the edges.

The outer limits of effective action by the state in this environment are usually seen to comprise its capacity to promote a relatively favorable investment climate for transnational capital—i.e., by providing an increasingly circumscribed range of goods that retain a national-scale (or subnational-scale) public character or of a particular type of still-specific assets described as immobile factors of capital. Such potentially manipulable factors include: human capital (the skills, experience, education, and training of the work force); infrastructure (from public transportation to high-technology information highways); support for a critical mass of research and development activities; basic public services necessary for a good quality of life for those working in middle- to high-level positions in otherwise footloose (transnationally mobile) firms and sectors; and maintenance of a public policy environment favorable to investment (and profit making) by such companies, whether domestic or foreign-owned. I have called this mixture the "competition state."

Finally, of course, globalization has had a severe impact, both direct and indirect, on the possibility for the state efficiently to provide redistributive public goods. With regard to labor market policy, for example, corporatist bargaining and employment policies are everywhere under pressure—although somewhat unevenly, depending less on the country than on the sector concerned—in the face of international pressure for wage restraint and flexible working practices. The provision of education and training increasingly is taking priority over direct labor market intervention, worker protection, and

48. Ibid.
incomes policies. With regard to the welfare state, although the developed states generally have not been able to reduce the overall weight of welfare spending in the economy, a highly significant shift from maintaining freestanding social and public services to merely keeping up with expanding existing commitments has occurred in many countries. Unemployment compensation and entitlement programs have ballooned as a consequence of industrial downsizing, increasing inequalities of wealth, homelessness, and the aging of the population in industrial societies, thereby tending to crowd out funding for other services. Finally, the most salient new sector of redistributive public goods, environmental protection, is especially transnational in character; pollution and the depletion of natural resources do not respect borders. Therefore, in all three of the principal categories of second industrial revolution public goods, globalization has undercut the policy capacity of the national state in all but a few areas.

This view is contested, of course—for example by Geoffrey Garrett and Peter Lange. They argue that nationally autonomous corporatist policy approaches have been remarkably resilient in terms of developing labor-friendly supply-side alternatives for increasing international competitiveness, even though macroeconomic policy autonomy has been severely curtailed. This argument is not necessarily wholly incompatible with the approach taken here, especially in the light of Robert Reich's distinction between mobile and immobile factors of capital and the greater capacity of the state to manipulate the latter; indeed, elsewhere I provisionally explore supply-side alternatives for the left in the context of the competition state. Nevertheless, I believe Garrett and Lange's analysis does not fully capture the ongoing knock-on effects of financial globalization on other sectors—for example, in the stuttering cycle of recession and partial recovery since the October 1987 economic crash, which led to greater exposure to international constraints of many corporatist economies.

Scale shift and the third industrial revolution

In addition to the changing scale of public goods, the changing technological and institutional context in which all goods are increasingly being


produced and exchanged has been central to this transformation. The third
industrial revolution has many characteristics, but those most relevant to our
concern with scale shift involve five trends in particular, each bound up with the
others. The first is the development of flexible manufacturing systems and their
spread not only to new industries but to older ones as well. The second is the
changing hierarchical form of firms (and bureaucracies) to what has been
called “lean management.” The third is the capacity of decision-making
structures to monitor the actions of all levels of management and of the labor
force far more closely through the use of information technology. The fourth is
the segmentation of markets in a more complex consumer society. Finally, the
third industrial revolution has been profoundly shaped by the emergence of
increasingly autonomous transnational financial markets and institutions.

The issue of flexible manufacturing systems has been at the heart of the new
comparative and international political economy over the past decade and a
half. Given the huge amount of fixed capital advanced industrial states had
inherited from the various phases of the second industrial revolution (and
Britain from the first), much “creative destruction” of fixed capital stock would
be required before the next phase of capital investment could take off. The first
reaction of the state, still shaped by the experiences and characterized by the
structures of second industrial revolution bureaucracies, was to attempt to take
industry under its wing again in the traditional way. But the more open
international environment has made such measures increasingly counterproduc-
tive. International competition from flexible, high-technology economies like
Japan and some other newly industrializing countries (whose governments
promoted such flexibility) seemed to turn decline into a vicious circle.

Flexible production itself requires not an integration but a differentiation—
both of distinct stages of the production process and of increasingly complex
and variable production-line tasks themselves. Rather than being managed
authoritatively through the hierarchical firm, flexible production is organized
through a range of processes that Williamson would call “recurrent contract-
ing.” These include: increased subcontracting (rather than direct control) of
the manufacturing and supply of peripheral components of the production
process; increasingly autonomous labor and management teams charged with
evolving more efficient ways of carrying out specific tasks (for example,
intrapreneurship and Japanese-style quality circles); and shortening process
and product cycles in both technological and organizational terms—including
“just in time” procurement of parts supplies and the ability to switch both
machines and workers from product to product and task to task. This structure
obviously requires not merely a workforce that is both flexible and highly
trained but also the latest in high-technology production techniques such as
robots, reprogrammable machine tools, and computerized production lines.
These production facilities require a range of new conditions to operate
efficiently, including such factors as the availability of greenfield sites—sites
away from the decaying fixed capital and unionized work forces of the second

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industrial revolution industries, e.g., in the U.S. Rust Belt—and proximity to other similarly structured industries. In such locations, cross-fertilization between the experiences of workers and managers, the development of product improvements in related fields, and the learning curve of process innovation can create a virtuous circle or synergy among firms. The electronics industry is the example, and Silicon Valley the exemplar. Flexible production, not a respecter of borders, is a crucial element in internationalizing production and competition.

This trend has, of course, been analyzed at several levels since the late 1970s from neo-Marxist, center-left, and neoliberal perspectives. The right, especially in the Ronald Reagan and Margaret Thatcher years, spoke much the same language about the need for flexible structures; however, certain other groups within the right rejected this analysis in favor of a more active, pro-business industrial policy approach. In the ongoing academic debate, John Zysman showed as early as 1977 how the attempt by the French government in the 1970s to promote the development of the electronics industry (through the Plan calcul) just as in earlier years it successfully had promoted the oil and steel industries, failed because of the differing asset structures of the industries involved.53 Several authors, including Reich, argued in the early 1980s that restructuring the U.S. economy would require a thoroughgoing change not only in the organization of industry and of the state but also in the economic and political culture of the country.54 Zysman and Laura D'Andrea Tyson examined challenges to U.S. competitiveness in a range of sectors and diagnosed a lack of flexibility as the main problem; they suggested that a proactive state could manipulate competitive advantages possessed by different sectors to facilitate the necessary adjustment processes.55 Michael Piore and Charles Sabel examined the experience of “craft” production in Europe and argued that the flexible specialization of those industries also had lessons for U.S. adjustment.56 These approaches also were reflected in sociological analysis, partly influenced by sea changes in neo- and post-Marxism, and in economic analysis as well, from the more radical regulation school in France to the new institutional economics of Williamson and others in the United States. What have been called post-Fordist social and economic structures have been examined extensively across the social sciences.57

Closely linked with the development of more flexible production processes was the structure of firms as such. In addition to experimenting with new forms of differentiation outside the core firm (as with subcontracting), managerial theorists focused on the "flexibilization" of the bureaucratic layers of the firms themselves. This did not merely require firing layers of cadres—although downsizing has become increasingly important—but it also required altering the consciousness of managers themselves. Although management literature has always been filled with exhortations to such qualities as excellence, the emphasis in the scientific management era of the second industrial revolution focused on the efficient division of responsibilities among individuals who were highly skilled at discrete tasks. In the third industrial revolution, in contrast, two sorts of individual became the totems of the new excellence: brilliant innovator/managers such as Steven Jobs or William Gates, who could singlehandedly envision and construct new processes and products from outside the established structures (the entrepreneurs), and the leaders of autonomous teams within large but more flexible organizations who could change the direction of those institutions (so-called intrapreneurs).

Even IBM, which had long attempted to incorporate new practices piecemeal without having to relinquish the specific asset base it had built (its second industrial revolution-style managerial hierarchy and its secure and reliable workforce), eventually had to adjust. It did so both by dramatically increasing subcontracting globally and locally and, more recently, by extensive downsizing. What had previously been built up as specific assets, from a skilled and loyal workforce to large-scale mass production facilities—and had been prized as such—increasingly are being destroyed or transformed into nonspecific assets that can be exchanged in more open and extensive world markets. The restructuring of firms and production processes in the developed world and the Third World alike has been dramatic, and such firms are psychologically as well as materially better prepared and more eager to participate.

At the heart of the flexibilization of both production processes and firms themselves has been the explosive development of information technology. Olson argued that a key factor making collective action difficult in large groups was the inability of such groups to monitor the behavior of members who might be tempted to ride free. Electronic computer and communications technology has of course transformed this problem. The ability to coordinate centralized and therefore coherent strategic decision making with decentralized and therefore innovative operational decision making is the principal predicament faced in experimenting with the new organizational structure of the firm. The most efficient relationship between market and hierarchy varies from sector to sector, technology to technology, and product to product. Today, workers and lower-level managers increasingly are left on their own to learn how to carry out their tasks more productively and competitively; however, at the same time, financial managers are watching ever more effectively from a distance through complex and flexible information networks, using a panoply of financial
controls and performance indicators.\textsuperscript{58} This capacity to monitor ostensibly autonomous activity bridges the gap between public and private goods within the firm, enabling central decision makers to harness the initiatives of peripheral managers and workers to the wider aims of the more amorphous organization. This monitoring capability also leaps national borders and brings firms, markets, and consumers into a single, global production process in an increasing number of sectors.

But these aspects of the third industrial revolution—flexibilization of production, firm structure, and monitoring—are only part of the picture. They represent the supply side of the equation. The demand side involves the development of ever more complex consumer societies and the resulting segmentation of markets. This reflects the convergence of two developments. The first is the technological capacity to produce flexibly—the capacity of business to produce at the appropriate scale for a much more highly differentiated structure of demand, however multilayered. The second, however, is the increasing differentiation of the class system itself in advanced capitalist societies. In the second industrial revolution, workers in particular but the middle classes too, could mainly expect to buy fairly standardized products—sometimes referred to as the one-size-fits-all approach. Growing factories technologically were capable of—and often limited to—long-run, large-scale production; at the same time, social mobility meant that first-time buyers were glad to get whatever products were available. However, by the end of the 1960s, first-time markets were becoming saturated in the advanced capitalist world. Much of the long boom had involved burgeoning first-time markets for such products as “white goods” (refrigerators, washing machines), cars, and television sets. Customers making a subsequent purchase, however, demanded higher specifications and greater choice. Differentiating demand and flexible supply thus converged on market segmentation, producing a wider range of variations on a particular product or set of products, with each variation targeted to a particular subset of consumers. This process also created consumer demand for foreign-produced goods and forced firms to internationalize. These pressures now apply to the provision of public goods by governments, as well.

The final characteristic of the third industrial revolution is the growing significance of global financial markets.\textsuperscript{59} The abstract or “dematerialized” character of finance in a world of information technology and cutting-edge communications systems makes trading in financial instruments virtually instantaneous. Even in the 1930s, Keynes believed that financial markets were too easy to play, too readily divorced from the real economy, for socially and economically necessary production to occur; they tended to constitute a giant


\textsuperscript{59} For a more extensive treatment of the political implications of financial globilization, see Cerny, \textit{Finance and World Politics}.
casino. In the period since the 1950s—and especially since the breakdown of the Bretton Woods system—finance has once again become globalized, with newly deregulated markets increasingly absorbing money from the real economy.\textsuperscript{60} Indeed, finance embodies each of the main characteristics of the third industrial revolution described above. In product terms, it has become the exemplar of a flexible industry, trading in notional and infinitely variable financial instruments. Financial innovation has been rapid and far-reaching, affecting all parts of the financial services industry and shaping every industrial sector.\textsuperscript{61} Furthermore, product innovation has been matched by process innovation. Traders and other financial market actors and firms are expected to act like entrepreneurs (or intrapreneurs) as a matter of course. Financial globalization has been virtually synonymous with the rapid development of electronic computer and communications technology.\textsuperscript{62} The ownership and transfer of shares and other financial instruments increasingly are recorded only on computer files, without the exchange of paper certificates—what the French call dematerialization—although written documentation can always be provided for financial controllers, auditors, or regulators (in principle, at least although in practice fraud adapts quickly). With increasing globalization of production and trade, market demand for financial services products continually is segmenting, too.

Probably the most important consequence of the globalization of financial markets is their increasing structural hegemony in wider economic and political structures and processes. In a more open world, financial balances and flows increasingly are dominant—with the volume of financial transactions variously estimated as totaling twenty to forty times the value of merchandise trade. This gap is growing rapidly as private international capital markets expand. Exchange rates and interest rates, as essential to business decision making as to public policymaking, increasingly are determined by world market conditions. In addition, as trade and production structures in the third industrial revolution go through the kinds of changes outlined earlier, they will be increasingly coordinated through the application of complex financial controls, accounting techniques, and financial performance indicators (because nonfinancial performance is complex and difficult to measure in a globalizing world). These strictures are applicable to a range of organizations, including government bureaucracies. Financial markets epitomize, in Williamson’s terms, the structural ascendancy of almost purely nonspecific assets over specific assets in the global economy, pushing and pulling other economic sectors and activities unevenly into the global arena.

\textsuperscript{60} Allen, \textit{Financial Crises and Recession in the Global Economy}.
\textsuperscript{62} The implications of technological change in the financial services industry are examined in Susan Strange, “Finance, Information, and Power,” \textit{Review of International Studies} 16 (July 1990), pp. 259–74.
Collective action and the residual state

The economic and political world of the third industrial revolution revolves around a central paradox. On the one hand, globalization would seem to entail the shift of the world economy to an even larger structural scale. This perception of globalization was what led observers a decade or two ago to misinterpret the significance of multinational corporations, which were seen as involving the worldwide integration of specific assets. Of course, many such firms, and some problems like environmental pollution, do resemble this model of an upward shift in scale, potentially requiring transnational-level institutions for effective regulation. However, economic restructuring has involved a more complex process, altering the composition of public goods and specific assets and even involving the privatization and marketization of the political-economic structure itself. These processes lead in turn to the whipsawing of states between structural pressures and organizational levels that they cannot control in a complex, circular fashion. Thus economic globalization contributes not to the supersession of the state by a homogeneous world order as such but to the differentiation of the existing national and international political orders, as well. Indeed, globalization leads to a growing disjunction between the democratic, constitutional, and social aspirations of people—which continue to be shaped by and understood through the framework of the territorial state—and the increasingly problematic potential for collective action through state political processes. Certain possibilities for collective action through multilateral regimes may increase, but these operate at at least one remove from democratic accountability. Indeed, the study of international regimes is expanding beyond intergovernmental institutions or public entities per se toward “private regimes” as critical regulatory mechanisms. New nodes of private and quasi-public economic power are crystallizing that, in their own partial domains, are in effect more sovereign than the state.

Despite these changes, of course, states retain certain vital political and economic functions at both the domestic and international levels. Indeed, some of these have paradoxically been strengthened by globalization. But the character of these functions is changing. New collective action problems undermine the constraining character of previously dominant political and economic games. As a result, policymakers everywhere are seeking to restructure the state so that it can play new roles in the future. While the state retains

63. A more complex and sophisticated analysis of multinational corporations—how they work, how they interact with each other, and how they interact with states—can be found in John Stopford and Susan Strange (with John S. Henley), Rival States, Rival Firms: Competition for World Market Shares (Cambridge: Cambridge University Press, 1991).


a crucial role in the political-economic matrix of a globalizing world, however, its holistic and overarching character—as reflected in Aristotle's "most sovereign and inclusive association" or Oakeshott's "civil association"—may be increasingly compromised. The state today is a potentially unstable mix of civil association and enterprise association—of constitutional state, pressure group, and firm—with state actors, no longer so autonomous, feeling their way uneasily in an unfamiliar world. At this point, I will briefly consider some of the issues facing this "residual state."

The structural coherence, power, and autonomy of states themselves clearly have become problematic in recent years. Over the past four centuries, the state has become the repository of probably the most important dimension of human society—social identity, and in this case, national identity. This sense of national identity has been reinforced both by nationalism and by the spread of democratic institutions and processes. Indeed, liberal democracy has constituted the most important linkage or interface between social identity on the one hand and state structures and processes on the other. Therefore, the first main bulwark of the state, even in a globalizing world, is found in the deep social roots of *gemeinschaftlich* national identity that have developed through the modern nation-state. Such identities are bound to decline to some extent, both through the erosion of the national public sphere from above and from the reassertion of substate ethnic, cultural, and religious identities from below. Thus the decay of the cultural underpinnings of the state—of rain-or-shine loyalty—will be uneven, and in economically stronger states this decay is likely to proceed more slowly than in weaker ones.

This will be particularly true if the potential capacity of the more developed states to provide infrastructure, education systems, workforce skills, and quality-of-life amenities (usually classed among the immobile factors of capital) to attract mobile, footloose capital of a highly sophisticated kind is effectively mobilized. On the one hand, the ability of states to control development planning, to collect and use their own tax revenues, to build infrastructure, to run education and training systems, and to enforce law and order gives actors continuing to work through the state a capacity to influence the provision of immobile factors of capital in many highly significant ways. If Europe, Japan, and the United States along with perhaps some others are better able to provide these advanced facilities, then *gemeinschaftlich* loyalty in those states may recede more slowly or even stabilize, maintaining the civil-associational character of the state even as many of its narrower functions

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66. For a consideration of the problem of state autonomy and the different approaches taken to it in the neo-Marxist, neo-Weberian, and neo-pluralist debates of the 1980s, see Cerny, *The Changing Architecture of Politics*, especially chap. 4.


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are eroded. On the other hand, mobile international capital may well destabilize less-favored states, whose already fragile governmental systems will be torn by groups attempting to recast those gemeinschaftlich bonds through claims for the ascendancy of religious, ethnic, or other grass-roots loyalties. The extent to which richer states are able to avoid such destabilization in the long run remains problematic, however.

State-based collective action continues to have a major role to play in the provision of certain crucial types of public goods and in the management of a range of significant specific assets, even if it must do so in a context where the authoritative power of the state as a whole is weaker and more circumscribed than it has been in the past. But rather than the state being directly responsible for market outcomes that guarantee the welfare of its citizens, the main focus of this competition state in the world—partly analogous to the experience of state governments in the United States—is the proactive promotion of economic activities, whether at home or abroad, that will make firms and sectors located within the territory of the state competitive in international markets. The state itself becomes an agent for the commodification of the collective, situated in a wider, market-dominated playing field. In David Andrews's terms, the competition state will increasingly "cheat" or ride free on opportunities created by autonomous transnational market structures and other public goods provided not by other states or the states system but by increasingly autonomous and private transnational structures, such as financial markets. The state is thus caught in a bind in which maintaining a balance between its civil-association functions and its enterprise-association functions will become increasingly problematic.

In this new context, the logic of collective action is becoming a heterogeneous, multilayered logic, derived not from one particular core structure, such as the state, but from the structural complexity embedded in the global arena. Globalization does not mean that the international system is any less structurally anarchic; it merely changes the structural composition of that anarchy from one made up of relations between sovereign states to one made up of relations between functionally differentiated spheres of economic activity, on the one hand, and the institutional structures proliferating in an ad hoc fashion to fill the power void, on the other. Different economic activities—differentiated by their comparative goods/assets structures—increasingly need to be regulated through distinct sets of institutions at different levels organized at different optimal scales. Such institutions, of course, overlap and interact in complex ways, but they no longer sufficiently coincide on a single optimal scale in such a way that they could be efficiently integrated into a multitask hierarchy like the

69. The question of foreign or domestic ownership is highly problematic here. Reich argues that ownership is far less important than the ability to attract capital. See Reich, The Work of Nations.
71. Strange, States and Markets.
nation-state. Some are essentially private market structures and regimes, some are still public intergovernmental structures, and some are mixed public-private.

The paths taken in the future in terms of both democratic accountability and political legitimacy will be crucial for the reshaping of the logic of collective action, especially where the state is no longer capable of being an effective channel for democratic demands. What sort of complex overall pattern of conflict and stability, competition and cooperation, will emerge from this process—in particular, whether the state will, despite its changing roles, remain a key element in a stabilizing, plurilateral web of levels and institutions or whether its decay will exacerbate a long-term trend toward greater instability—is not yet clear. We are only now in the first stages of a complex, worldwide evolutionary process of institutional selection. 72

Conclusions: a framework for future research

In the course of this analysis, I have examined some of the consequences that derive from my basic argument that the more economies of scale of dominant goods and assets diverge from the structural scale of the national state—and the more that those divergences feed back into each other in complex ways—then the more that the authority, legitimacy, policymaking capacity, and policy-implementing effectiveness of the state will be eroded and undermined both without and within. At this point, I will present a number of more specific hypotheses derived from this basic problematic that might form the core of a wider research agenda in this area. These hypotheses concern the impact of the increasing differentiation of goods and asset structures on the state and other cross-cutting structured fields of action in a globalizing world.

Hypothesis 1

Developments in the production, exchange, and/or use of private goods and nonspecific assets will more and more be shaped and determined primarily by transnational or global factors and trends. While the paradigmatic case is finance, an increasing range of substitutable commodities produced through easily transferred technology come into this category. A classic example is textiles and footwear; semiconductors are a more recent one.

Corollary 1a. Such global factors and trends, however, do not only exist above the nation-state on the international level; they include direct, cross-cutting linkages between the transnational and the subnational (local/regional) levels, bypassing the national level. The regional craft economies studied by

72. Spruyt, "Institutional Selection in International Relations."
Piore and Sabel are criss-crossed by such linkages. However, some subnational activities that are not closely linked to the transnational level may fall under corollary 2c.

**Corollary 1b.** Many—though not all (see corollary 2a)—of what previously have comprised public goods and specific assets will be transformed into private goods and nonspecific assets in the wider, global economic arena. Increasing sectors of the defense industry may constitute a paradigmatic case.\(^{73}\)

**Hypothesis 2**

Developments in economic sectors characterized predominantly by the production, exchange, or use of public goods and specific assets will be increasingly shaped and determined by the particular scale of those goods and assets, whether transnational, national, local, or somewhere in between.\(^{74}\) Three categories of public goods/specific assets can be distinguished, and for each of these I suggest a corollary.

**Corollary 2a.** With regard to those public goods and specific assets where economies of scale already or increasingly transcend the scale of the purely national economy—i.e., where public goods and specific assets require the integration of production processes and economic activities at a global or international-regional scale—then developments in such sectors and activities will be broadly shaped by global and/or transnational factors and trends. Strategic alliances among multinational corporations and the provision of environmental protection often will come into this category.\(^{75}\)

**Corollary 2b.** At the same time, however, in those economic sectors and activities where the scale of the goods/assets structure remains broadly congruent with the territorial parameters of the national economy—and where such goods and assets are not in effect transformed into private goods or nonspecific assets in the wider global economic space (as in corollary 1b)—then developments will continue to be determined and shaped primarily by national-level factors and trends. The provision of terrestrial transportation infrastructure and public housing still are primarily organized at the national


level, but the range of goods and assets that fall neatly into this category is shrinking. States of different sizes may of course have institutional advantages for the stabilization and regulation of particular sectors of economic activity, those characterized by optimal scale economies congruent with the institutional scale of the state. The differentiation of economic structures in general, however, is likely to mean that such congruence will be appropriate for only a limited range of activities and not for integrated, multifunctional or multitask (statelike) institutional efficiency.

**Corollary 2c.** As a limited exception to corollary 1a, in some of those economic activities where the goods/assets structure is locally or regionally public/specific (here in the sense of subnational rather than international regions)—rather than organized on a national scale per se—but where those activities are relatively isolated from transnational market linkages, developments may be shaped either by purely local/subnational factors and trends or by national factors and trends, where such activities are widespread within the national territory despite not being linked through markets. Subsistence farming, cooperative organizations, barter circles, and some ethnically specific activities might come into this category. The range of activities genuinely delinked from wider markets is small and shrinking.

**Hypothesis 3**

The authority, policymaking capacity, and policy-implementation effectiveness of national governments will be more eroded and undermined where the goods/assets structure is most globalized or transnationalized. In these circumstances, the state will be eroded from without. This is true whether globalization takes the form of nonspecific assets traded in transnational markets or of integrated specific assets operating at a transnational scale (see, for example, hypothesis 1 and corollary 2a above).

**Hypothesis 4**

The authority, capacity, and effectiveness of the state also will be increasingly eroded and undermined where the goods/assets structure is effectively localized—i.e., from within. This process is particularly significant, of course, where local activities are linked directly to transnational markets or asset structures (i.e., craft-based regions such as Silicon Valley), as fewer and fewer local activities can exist in isolation from wider market and asset structures.

**Hypothesis 5**

The combination of hypothesis 1, corollary 2a, hypothesis 3, and hypothesis 4 will take the form of a complex, nonlinear process, in effect whipsawing the
state from above and below and magnifying tendencies toward its structural decay. Thinking globally but acting locally undermines the state as an arena of collective action.

Hypothesis 6

In contrast to hypothesis 1, corollary 2a, and hypotheses 3, 4, and 5, the role of the state will be maintained or even increased in sectors where the goods/assets structure or mix retains or attains a national or quasi-national scale, as in corollaries 2b and 2c. Once again, though, this is an increasingly empty category. Nevertheless, the search for such activities, especially those of a symbolic nature (e.g., representing gemeinschaft-type aspirations for cultural homogeneity or the desire to expand national-level subsidiarity in the European Union), is likely to increase as states seek to retain their legitimacy.

Hypothesis 7

After a first phase—deriving from the policy inertia that exists in the early part of a learning curve—of attempting to use traditional state policy approaches and instruments to control or reverse the processes posited in hypothesis 1, corollary 2a, and hypotheses 3, 4, and 5, state actors will attempt to engineer a restructuring of the state toward the development of a more flexible and “marketized” state form and policy process in the attempt to regain lost authority, capacity, and effectiveness (reinventing government).

Hypothesis 8

Where the combined impact of corollaries 2b and 2c and hypotheses 6 and 7, on the one hand, remains in rough balance with the cumulative impact of hypothesis 1, corollary 2a, and hypotheses 3, 4, and 5, on the other, the state will take on the character of an enterprise association. However, although states may lose some of their civil functions, they may nonetheless be able to retain a vital minimum of authority, capacity, effectiveness, and legitimacy in significant, if circumscribed, areas of economic and social life. In these circumstances, governments may begin to take on the characteristics of U.S. subnational states.

Hypothesis 9

In contrast, where the cumulative impact of the trends posited in hypothesis 1, corollary 2a, and hypotheses 3, 4, and 5 is significantly greater than the combined impact of the trends posited in corollaries 2b and 2c and hypotheses 6 and 7, the state itself will be increasingly characterized by a general loss of civil legitimacy. Under these conditions, government per se will essentially
become privatized, losing much of its public character. The world will be a neofeudal one, in which overlapping and democratically unaccountable private regimes, regional arrangements, transnational market structures, “global cities,” nongovernmental organizations (NGOs), quasi-autonomous NGOs, and international quasi-autonomous NGOs, with rump governments—the extreme form of the residual state—attempting to ride free on global/local trends for short-term competitive interests. Collective action will take many forms, and the state will be perceived as relatively powerless with regard to the pursuit of a wide range of collective goals.

_Hypothesis 10_

Finally, under these conditions the state will lose its structural primacy and autonomy as a unitary actor in the international system. The anarchy of the international system will no longer be one of states competing for power but one of neofeudal rivalries and asymmetric cooperation among a range of interests and collective agents reflecting differentiated economic activities with diverse goods/assets structures. These will operate at different institutional levels, in different issue-areas, and according to rules and payoff matrices that will vary with the structure of the particular goods and assets concerned. The interaction among these different forms and levels of collective action will be complex and nonlinear. The main question that remains to be asked is whether such a system will tend toward chaos or toward a certain stability of a plurilateral kind.