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The Return of the State?

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Massive government-financed rescue operations for banking and insurance industries in the United States and in Europe, seeking to contain the financial crisis that culminated in 2008, amounted to ‘the biggest, broadest and fastest government response in history.’¹ This ‘great stabilisation,’ as *The Economist* called it, resulting in ‘quasi’ or ‘shadow nationalization,’² cast doubt on the notion, fashionable at the height of the neoliberal wave, that the state was essentially on its way out, as many of its tasks and responsibilities were oozing steadily and irreversibly toward the market. The state and, by the same token, the political seemed back – with a vengeance, triggering solemn announcements of ‘the return of the state’ and ‘the end of the ideology of public powerlessness.’³ Observers concurred. ‘Free-market capitalism, globalization, and deregulation’ had been ‘rising across the globe for 30 years,’ yet that era now had ended: ‘Global economic and financial integration are reversing. The role of the state, together with financial and trade protectionism, is ascending.’⁴ Triggering a perceived ‘paradigm shift towards a more European, a more social state,’ even in the United States and in China, the crisis was seen to herald a move ‘back towards a mixed economy.’⁵ The question, meanwhile, remained: had the state indeed withdrawn as much during the neoliberal era as is often assumed?

During the neoliberal era, starting in the 1970s with the reconstruction of the global economy in response to ‘deep problems of stagflation,’⁶ many an observer, whether concerned, resigned, or triumphant, drew a grand picture of a state in ‘retreat.’⁷ ‘By the mid-1990s, large numbers of political economists had become convinced that the state was now eclipsed by business in a world economic system in which capitalism was converging on a single neoliberal model.’ That way they tended ‘to underestimate if not ignore the importance of one crucial player: the state.’⁸ The modern nation-state, with its ambition to secure

and integrate its citizens, was giving way to a 'market-state'⁹ or 'competition state,' as capital, ever more mobile, was able to shove the costs of maintaining public goods onto labour, inherently much less mobile. This was an ineluctable development that would eventually force states into a 'race' toward a 'bottom' where public goods provision from above would be hollowed out to a bare bones minimum.¹⁰ Liberalization, deregulation and privatization thus formed a 'golden straitjacket' that societies would have to don if they wanted to grow economically, and that by the same token severely reduced the margin for politics.¹¹

Such a 'straitjacket'-logic was seen to be at work, at least to some extent, in a world where markets were integrated yet politics remained organized on a national basis. In such a world, the rules of the game are determined by the needs of the global economy; hence, the shrinking of politics, curtailing the capacity of organized social groups to affect economic policy, takes on several forms: shielding economic governance institutions like central banks and fiscal authorities from political pressure; the privatization or elimination of social security; abandoning development goals for the sake of the overriding need to maintain the confidence of the markets.¹² The logical solution for this straitjacket-dilemma – the shrinking of politics in exchange for expanding markets – was seen in politics that would be as global as the economy, i.e. in a 'global federalism'¹³ or a 'world government' in lieu of the governance offered by a few international organizations such as the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO), plus 'a few players' such as 'the finance, commerce and trade ministries, closely linked to certain financial and commercial interests,' leaving 'many of those affected by their decisions ... almost voiceless.'¹⁴ In order to restore politics at the global level, some authors advocated nothing less than a 'cosmopolitan democracy'¹⁵ and 'world citizenship.'¹⁶

Looking for a middle road between, on one hand, 'anarchy' and, on the other, the daunting idea of a world government, authors searched for answers to the question of how essential public goods that cannot be delivered either by national governments or by global markets, could somehow be provided. 'Governance' appeared to provide a key, which some, famously, could see thriving also 'without government.'¹⁷ In the thinking about global governance, Robert Gilpin distinguished three major currents.¹⁸ One of these currents, neoliberal institutionalism, starts from the continuing importance of the state and deems forms of common governance to be possible only on the basis of formal international regimes and institutions like the World Trade Organization (WTO). Neoliberal institutionalists (or, plainly: institutionalists) seek an alternative to the daunting vision of a world government in 'an intermediate solution: a set of practices for governance that improve coordination and create safety valves for political and social pressures, consistent with the maintenance of nation-states as the fundamental form of political organization.'¹⁹ A second current, which Gilpin called the 'new medievalism,'

starts from the assumption that states and the international system, painstakingly built since the Middle Ages, are gradually being undermined by economic, technological and cultural developments, as a result of which non-governmental actors and international civil society play an ever-increasing role.²⁰ Neo-medievalists, seeing globalization and ‘denationalization’ as an opportunity for finding democratic ways to ‘govern beyond the nation state,’ seek ways to complement the classic political legitimacy provided by parliamentary majorities, or to replace it altogether by ‘alternatives’ such as horizontal, deliberative networks.²¹ A third current, ‘transgovernmentalism’, discerns transnational cooperation developing between members of certain government institutions (like ministries of finance, regulators, judges) in specific areas, constituting horizontal networks that govern the world economy ever more independently from governments, eventually generating ‘the real new world order.’²²

The governance schools haven’t quite managed to solve the question of legitimacy.²³ Who votes for networks? How is the leadership of a non-governmental organization (NGO) selected or deposed? Power, critics remark, continues to play a vital role even in a transnational civil society: transnational regulating networks actually do enable powerful actors to exert influence unhampered by formal negotiations, while a larger role in global governance for NGO’s that are based primarily in the north, would reinforce the perception of a distortion in favour of northern states, societies and interests.²⁴ Moreover, the state does remain so far the primary, indeed unparalleled focus of loyalty and legitimacy.²⁵ As Benjamin Cohen concludes: ‘no one else enjoys the legitimacy that comes with internationally recognized sovereignty, nor can any other actor legally exercise the ultimate right of coercion. The state is privileged in analysis because it is privileged in reality.’²⁶

Retreat?

Some of the claims made at the height of the neoliberal era concerning the retreat of the state sound particularly sobering in light of the financial crisis experience. The new state, it was asserted, ‘depends on the international capital markets and, to a lesser degree, on the modern multinational business network to create stability in the world economy, in preference to management by national or supranational bodies.’²⁷ This development was often presented as all-encompassing and ineluctable. Scholars warned against such determinism, reminding that a rollback of the globalization process could not be excluded,²⁸ as had happened with the ‘very big globalization bang’ of the nineteenth century, a bang so impressive that it could be paralleled again only after World War Two.²⁹ From a *longue durée* perspective, Geoffrey Garrett mused, the major question of the 20th century

might turn out to have been the collapse of globalization around mid-century, rather than its subsequent revival.³⁰

Meanwhile, even a 'realist' international-relations scholar like Gilpin, though sceptical about the globalization thesis, and emphasizing essential continuities in the state's international role and importance, wondered whether the state hadn't passed its zenith. The prominent role of the state, Gilpin noted, had been carried by swift economic development since the mid-19th century and the ever-more extensive wars made possible by it: the American Civil War, the Franco-Prussian War, and the Russo-Japanese War. 'World War I, World War II, and the Cold War forged the modern state as an economic and war-making machine. During these decades of interstate rivalry, the economy was often harnessed to the needs of the national war machine. This bellicose epoch appears to have ended, and the industrialized countries may be retreating to their more modest late-nineteenth-century status.'³¹ The question is whether retreating to a 'more modest late-nineteenth-century status' is indeed an option. Under the impact of the extension of suffrage, social mobilization and the Great Depression, governments began to discover the virtues of social protection.³² After the Second World War, economic liberalism in highly industrialized countries carried a price tag, namely providing social security in exchange for freer trade.³³ Generally, economists and social scientists have emphasized the importance of governments providing social services in order to prevent instability and to protect the market against itself.³⁴ The more an economy is exposed to international trade, the larger its state apparatus becomes and the faster it grows, as a compensation for accepting 'larger doses of external risk.'³⁵ Vocal advocates of globalization and liberalization, keen to ensure the needed 'support' for it, call for 'appropriate governance,' more specifically 'general and comprehensive schemes such as employment insurance and retraining programs for all workers who are laid off...'³⁶

To what extent can welfare states resist and survive the pressures emanating from global markets? The 'capital mobility hypothesis,' as it is called, remains the focus of debate. Capital mobility does constrain states, it is argued, 'but not in an absolute sense': states are still able to defy markets, 'if they are willing to pay the price.'³⁷ Financial markets are primarily interested in economic results, not so much in the policies by which these results are obtained, which leaves governments room for manoeuvre.³⁸ Investors are not attracted by poor working conditions, but by factors such as investment climate and market size.³⁹ The pressures on the welfare state, some believe, stem primarily from economic, sociological, and ideological sources, namely: the transition from an industrial to a services economy, stagnation, an ageing population, and Thatcherism, hence not from the usual suspects like international integration, outsourcing or 'deterritorialization'.⁴⁰

With regard to social security, differences subsist between Anglo Saxon and continental European countries.⁴¹ Denmark is celebrated as an example of a

vested welfare state that has managed to reform itself, successfully combining social security with labour flexibility ('flexicurity'), although it still faces the challenge of eliciting continued broad support for maintaining a high level of expenses in a more diverse, multicultural societal context.⁴² Also among young 'tiger' economies, exposed to similar global pressures, differences can be observed between, on one hand, democratized South Korea and Taiwan, which considerably expanded their social security institutions, and, on the other hand, oligarchic Singapore which (with the notable exception of housing policy) observed strictly liberal socio-economic policies.⁴³ Democracies, some analysts conclude, 'respond to increases in openness by increasing spending,' dictatorships, by contrast, 'by decreasing spending.'⁴⁴ Hence, there appears to be no such thing as an inexorable convergence toward a lowest common denominator, or a 'race toward the bottom.'⁴⁵ Democratic processes, national institutions and traditions, and the ideas and the discourse of key actors determine the extent to which the answers to the pressures emanating from globalization take on a neoliberal character.⁴⁶ Meanwhile unskilled labour in developed countries does confront difficulties (and, as a result, places increasing pressures on the welfare state). But even here the competition from low income countries cannot unambiguously be singled out as the primary culprit.⁴⁷ Unskilled workers, Robert Flanagan argues in his eminently lucid fashion, benefit not from conservative protectionism, but from openness and enhanced opportunities.⁴⁸ Globalization and flexible social security appear able to mesh.

Borders

Neo-liberalism thus had to traverse the prism of domestic institutions. Different societies have responded differently to the challenges posed by globalization. States do matter. Another sign of the continuing relevance of states is the prominence that borders retained under contemporary globalization. National borders continue to negatively affect trade, even when largely free of cultural or trade barriers, as between the US and Canada.⁴⁹ Large economies, such as that of the United States, continue to conduct the largest part of their business within national borders.⁵⁰ International migration, often seen as an essential aspect of contemporary globalization,⁵¹ remains rather modest in comparison with the mobility of capital, although labour does remain the most important factor of production, and although the labour market is the only market where many poor countries really do have something to offer.⁵² Labour mobility was actually more much more prominent – some would argue, more important than trade – during the previous globalization when, at the end of the 19th century, Europeans migrated massively, primarily toward the US, thus reducing income differences within the Atlantic world.⁵³ Our current globalization evolved in an environment where labour norms had been regulated, leaving leeway, in negotiations between developed and developing countries, for the

levelling of trade barriers, but not migration barriers, as multinational and financial industries, powerful agenda setters in multilateral trade negotiations, were interested in open markets, but not for labour; moreover, immigration remains a moot issue, due notably to fears of increased pressures on the welfare state, particularly in Europe, and fears of a dilution of national identity, also in the United States.⁵⁴ This again suggests that globalization is not a broad and blind wave, but a development structured by power and preferences.

Labour standards are another domain where, as is the case with migration, globalization has had a limited impact, although for different reasons. The International Labour Organization (ILO) functions on the basis of cumbersome compromises aimed primarily at labour conditions in developed societies.⁵⁵ Meanwhile, developed and developing countries have diverging needs, hence the question to what extent standards from the West can be imposed on developing societies is moot.⁵⁶ Developing countries, even under left-wing governments, reject the imposition of such standards. Flanagan points out that most people in developing countries, including children, work in the informal sector, where international standards do not penetrate anyhow; they do, however, benefit from employment in the formal sector, linked to exports and globalization, which pays higher wages, wages that, in turn, entail more rights and better conditions for workers.⁵⁷ Developing countries are above all interested in negative integration, i.e. the elimination of barriers to trade, not in positive rules like the notorious trade-related intellectual property rights (TRIPS) they had to swallow before being allowed to join the WTO; generally, they prefer to entrust issues of public interest to weak international organizations.⁵⁸

Environmental protection issues are yet another area where borders continue to matter, not, needless to add, in stopping pollution, but in structuring attempts at global regulation. With regard to global environmental governance, the United Nations Environment Programme (UNEP) has built up a creditable record, yet its size remains modest.⁵⁹ The UNEP cannot not weigh up against the WTO, for instance, or cooperate with it on an equal level; the WTO, although sometimes called upon to play a stronger role in global environmental governance, functions well in its domain, but less so when linkages between trade and environmental issues are at stake.⁶⁰ A world environment organization does not appear prominently on the international agenda,⁶¹ hence hopes have been placed in 'networks' created by international organizations around and within states, as well as in the input of companies and NGOs.⁶² Yet any truly coordinated global efforts for, instance to combat global warming, require international institutions capable of collecting data and verifying the observance of agreements.⁶³ The United Nations Framework Convention on Climate Change demonstrated its inherent limits with the 2009 global climate conference in Copenhagen, which seemed to confirm the fears of those sceptical about the role international organizations can

play: the talks were ‘so chaotic and contentious’, *The New York Times* commented, ‘that some people believe the United Nations machinery has outlived its usefulness, and real progress will henceforth be made in smaller gatherings of the big players.’⁶⁴ Even the European Union, by far the most tightly knit regional organization, proved unable to affect significantly the Copenhagen negotiations, where the US and China turned out to be the decisive players. ‘The two giants’, reporters for *Le Monde* concluded tartly, ‘have preserved the essential: their sovereignty.’⁶⁵ Other commentators, though, point out that ‘a mere dozen’ countries account for ‘almost all’ greenhouse emissions, and a long-time observer of climate diplomacy concludes: ‘With a deal this complicated and difficult, the fewer countries you need to reach an agreement, the better the chances are.’⁶⁶

International organizations, generally, have been able to acquire a certain authority on various domains of governance, yet overall this record remains modest.⁶⁷ Most international organizations possess only limited competences and mechanisms for implementation; this is why the WTO, which does possess some juridical teeth in order to mediate conflicts, does elicit hopes for linking trade issues with issues of public interest.⁶⁸ Still, the WTO judicial settlement mechanism appears to serve above all the interests of large and powerful states that possess sufficient weight in international trade as well as the required administrative means.⁶⁹ Emerging countries, for their part, have their own priorities that are not enhanced by strong international organization or regulation. International organization, in sum, appears to carry less promise than is often hoped for. States and the shifting alliances among them continue to dominate the international agenda.

Deregulation

The most telling testimony for the tenacity of the state may actually be offered by the impact of neoliberal political practice. A central tenet of neo-liberalism was deregulation. Here, neo-liberalism embodied a broader mood, a *Zeitgeist* that received additional fuel from the collapse of communism. Generally, the state’s tasks ‘after statism’ were seen to be ‘moving from a market-directing to a market-supporting orientation.’⁷⁰ Given the complexity and also the speed of many operations in global markets, classical regulation came to be viewed as something of a mission impossible, hence much faith was placed in the self-regulation of companies and industrial sectors, on the model of the ‘global digital interaction’,⁷¹ hopefully leading to a ‘governed interdependence’ in which state actors and representatives of industry would negotiate and lay down broader aims.⁷² Meanwhile governments – above all those of the United States and the United Kingdom – produced the norms that global companies and markets need; and governments remained the ultimate guarantors of property rights, contracts and claims, also for ‘global capital.’⁷³

The reach of state power played a key role in deregulation. ‘One of the main reasons why the liberalization of telecommunications services outpaced that of aviation’, for instance, ‘is that trade negotiators in Washington and Brussels possessed wider jurisdiction and authority in the former sector than in the latter.’⁷⁴ Generally, deregulation signalled government presence, since it boiled down to the recasting of political economies by ‘an intrusive, activist state’, a development reflected in titles of scholarly analyses such as ‘the free economy and the strong state’, and ‘freer markets, more rules’.⁷⁵ Observers note that ‘Much of the deregulation that occurred in the neo-liberal era also involved re-regulation.’⁷⁶ By delegating the responsibility for particular policy areas to ‘arms-length agencies’, Andrew Gamble emphasizes, neoliberals sought ‘to take the politics out of decision-making, and instead of allowing politicians and legislatures to be involved in decisions, to hand them over to boards of experts, who were unelected and only indirectly accountable for their decisions.’ As a result, the so-called ‘quango state’ in which quasi-nongovernmental organizations (‘quangos’) played a prominent role, ‘expanded enormously in the neo-liberal era...’⁷⁷ Gamble argues that this ‘new public management’, while certainly ‘used to involve the private sector much more in the delivery of public services’, could not be equated with privatization: ‘its central thrust is not so much about shrinking the scale of government as expanding its scope’.⁷⁸ In sum, Gamble eloquently concludes,

the state remained a very powerful actor. Despite some of the rhetoric there was no real attempt to roll back the state, or seriously curtail its role. The crisis [of the 1970s] was still politically managed, there was no question of governments standing back and allowing the market itself to sort it out. ... The neo-liberal state was a regulatory state, not a laissez-faire state. ... Despite all the rhetoric of rolling back the state, the actual accomplishments in the advanced economies were much more modest. ... Neo-liberal governments have not been particularly successful at reducing the overall burden of taxation. Often it rose. What did change was the composition of public spending and of taxation.⁷⁹

Overall, then, ‘although the neo-liberals encouraged the dismantling of many of the institutional arrangements and outward forms of the post-war state, they did not reduce very much the scope or scale of the state. They merely redirected its energy and its targets. The state remained very intrusive in the lives of its citizens...’⁸⁰ More fundamentally, it can be argued, as Karl Polanyi did in his *The Great Transformation*,⁸¹ that the state plays a constitutive role in the development of markets and economies, also in the digital age.⁸²

Crisis

At fault, depending on the narrative of the financial crisis culminating in 2008, were either the markets, where ‘greed’ had been let loose, or governments, which

had been feeding bubbles and distorting markets with ill-inspired policies, or, finally, a mix of both market and government actors.⁸³ The debate about the most elucidating narrative, i.e. about the true culprits, tends to be coloured, needless to add, by ideological preference – free marketers versus market discipliners – and is still raging, hence it is too early to try to winnow.

With the roots of the crisis seemingly centred in the US, free marketers point, notably, to the impact of the US government's 'efforts to increase home ownership' through the Community Reinvestment Act and the 'affordable housing "mission"' of the government-sponsored enterprises Fannie Mae and Freddie Mac.⁸⁴ The problem, free marketers believe, was not 'deregulation per se' but, rather, 'a particular set of regulations' circumvented by banks through 'the securitization, or sale, of their assets.' More regulatory power, free marketers stress, could not have offered any insurance against perverse effects of regulation.⁸⁵ Other free marketers focus on global finance, whose liberalization entailed 'blessings' as well as 'perils', and allot part of the blame for the crisis to China, whose 'enormous and rapidly rising current account surplus is a massively destabilizing force in the world economy.'⁸⁶

Market discipliners see the problem not in overly or perversely, but rather inadequately, regulated markets. They stress that 'financial globalization has considerably bolstered the position of private actors, rendered regulators more dependent on market interests, and strengthened the power of private agents to shape and set rules.'⁸⁷ Well before the financial crisis began to erupt in 2007, scholars called for 'international financial standard setting' that would 'adequately address the externality of bank risk taking and its cross-border dimension.'⁸⁸ In the US, a prominent market discipliner called for a 'a restructured regulatory system', as the prevailing system had proved to be 'too myopic', i.e. 'too focused on individual firms, or individual markets', while nobody was 'paying attention to the broad overall financial system'.⁸⁹ Market discipliners also point to the 'global savings-investment imbalances', imbalances that reflected 'the accumulation of excessive international liquidity by countries like the United States, and of excessive savings by countries like China'. These imbalances, some suspect, ultimately stemmed from 'a reduction in the cost of capital and interest rates', particularly in the US, which 'spurred an unsustainable consumption boom as well as excessive risk-taking by consumers as well as financial institutions'.⁹⁰ Other market discipliners, by contrast, while conceding that 'global imbalances' helped to cause the crisis and need to be corrected,⁹¹ find it 'difficult to ascribe the house price bubble either to monetary policy or to the broader macroeconomic environment', and emphasize regulatory failure, not low interest rates, as the cause of the housing bubble and subsequent financial crisis.⁹² They also point to 'one of the biggest problems', faced notably by the US, namely the systemic challenge posed by firms that are 'literally too big to

fail, or too complex to fail, or too interconnected to fail'. This challenge calls for a bankruptcy regime that would 'unwind a failing systemic and critical firm in a way that doesn't destroy the financial system'. That way, 'all banks, not just small ones' would become 'subject to market forces'.⁹³

Some market discipliners single out 'the enormous influence' Wall Street had acquired, notably through campaign contributions, allowing it 'to push for the stripping of regulations and the appointment of regulators who didn't believe in regulations...'.⁹⁴ Free-marketers, for their part, can grow equally concerned about Wall Street's growing influence to the detriment of 'Main Street.' The power shift toward Wall Street undermines 'the traditional American understanding of the difference between free markets and big business'. Many historical restrictions on American banking, designed to contain New York's power, indeed had become outdated due to technological developments. 'But after the restrictions were lifted, the interests of all the major players in the financial industry became aligned, giving the industry disproportionate power in shaping the political agenda', a power that continued to make itself felt in the Obama administration.⁹⁵ 'Wall Street' thus became a US shibboleth for the process of 'financialization' that made the financial sector's share of all profits rise dramatically.⁹⁶

Regardless of regulation or anti-regulation biases, some elements in the debate on the origins of the crisis are of particular interest here. The impact of the credit rating agencies, for instance, does point to a government role in the making of the crisis. Having promoted the agencies to 'quasi-governmental entities' shielded from competition,⁹⁷ the US government turned them into 'quasi official arbiters of risk without overseeing their behaviour properly'.⁹⁸ A long-time student of these agencies concluded that they had come to play 'a central role in organizing markets and, consequently, in governing the world'.⁹⁹ More generally, the issue of regulatory failure as a cause of the crisis, raised also at high US government level, implicitly emphasizes the role of government policies. State policies did have a decisive impact on the financial crisis, also on the response to it, more specifically the 'nationalizations and partial nationalizations of the banking system that took place in many countries in 2008 and continued in 2009', seen by some as 'a classic national protectionist policy'.¹⁰⁰ More importantly, 'behind the apparent similarity of responses'¹⁰¹ making up this great stabilisation, 'the kinds of actions taken', notably the fact that the UK government swiftly resorted to strong state measures while the US government first allowed Lehman Brothers to fail, 'together with the accompanying ideas and discourse', notably with regard to state ownership, suggest that 'differentiation' among states remains.¹⁰² Hopes that global governance would reassert itself with the erupting crisis, notably articulated in calls for a stronger role for the Bretton Woods institutions, most notably the IMF,¹⁰³ received limited support. Bretton Woods, as Eichengreen and James emphasized, did occur under exceptional circumstances – the collapse of

the 1930s, world war, the financial and political predominance of the United States; this US predominance has declined, and the number of weighty negotiators has greatly increased, hence a vast and incisive reform on the 1944 scale seems unlikely.¹⁰⁴ Some market discipliners, weary of global regimes ruled by technocracy and divorced from social concerns, prefer to bet, rather, on 'domestic regulation that attracts public political scrutiny',¹⁰⁵ thus propounding 'a diversity of rules and standards'.¹⁰⁶

Often emphasized aspects of contemporary globalization – international economic integration, the movement of capital (and goods), the reach of global firms, also the speed and volume of communications and transactions – were dramatically illustrated by the collapse of Lehman Brothers in September 2008. The impact of this collapse made a prominent US official muse: 'it's astonishing how quickly that one failure spread throughout the world, and created a very severe recession, not just in the U.S., but around the world,' threatening the 'collapse of the financial system' and forcing governments into a 'collective global effort' aimed at 'stabilizing the global banking system'.¹⁰⁷ The effort, undertaken by states, 'while the European Commission was an onlooker at best',¹⁰⁸ confirmed the impression that, also in a 'globalized' world, also 'after statism',¹⁰⁹ the state remains the key game in town. Meanwhile, the great stabilisation enacted by states may obscure the 'regulatory leverage' that the EU has been able to acquire during the first decade of the 21st century, turning it into a 'global rulemaker', a rulemaker that is sceptical of 'private authority and self-regulation, two pillars of the U.S. approach',¹¹⁰ and which thus may accentuate the revival of the political.

Order

The disruptions created by the global financial crisis raise the broader question of international order. To scholars belonging to the 'realist' school of international relations studies, continuity tends to prevail. In this world, seen mostly through the lenses of a materialist conception of power, states continue to clash like billiard balls in the defence of their interest, without getting caught in the webs of international organizations. States do participate in these organizations, but merely in order to push through their own interests.¹¹¹ 'Realists' seem to underestimate the importance international institutions can have for the stability and effectiveness of power, as they allow powerful states to avoid the 'costly and dangerous' use of violence and coercion.¹¹² Above all, 'realists' (as well as some 'institutionalists' belonging to the American school of International Political Economy)¹¹³ don't see much room for potential systemic transformation; US scholars have tended to emphasize that, for all the literature about the erosion of national sovereignty, governments continue to possess more autonomy than is often supposed.¹¹⁴

The state and the international system are themselves the result of historical processes that introduced revolutionary changes. Examples of such changes are: the rule of law based on individual liberty developed by the medieval city amidst rigid estate dominance and serfdom – ‘*Stadtluft macht frei*’; the consolidation of central governments and the formation, amidst empires and city-states, of territorial states; or the emergence and stimulation of feelings of national solidarity.¹¹⁵ The system that these developments helped to create is not carved in stone, and thus is subject to transformation. Globalization did herald revolutionary developments in research, development and production, making life difficult for regimes that could not partake in it,¹¹⁶ and affecting relations among states.¹¹⁷ Globalization, ‘a double-edged sword,’ confirms the success of the United States in implementing a long-term liberal economic agenda, but by its very success also erodes the position of the US, increasingly constraining its ability ‘to continue to enjoy the special privileges to which it has become accustomed’.¹¹⁸ This erosion cannot but affect the international institutions the US built to structure the post-war order, institutions within which it restrained itself but also provided leadership, institutions that successfully survived the end of the Cold War and the bipolar order.¹¹⁹

The state, so the argument runs here, was never that far away during the neoliberal era and was in fact instrumental in allowing changes that seemed to limit, or indeed did limit, its reach. States remain the most important – and thus far the only legitimate and legal – decision-makers in an international order which, notwithstanding all the international linkages and institution building, remains essentially ‘anarchic’. So, are power politics all that ultimately matters? One scholar, while diagnosing ‘a pattern of leaderless diffusion in financial geopolitics’,¹²⁰ points hopefully to the amount of de facto order reigning amidst de jure anarchy: ‘Something is providing the glue to hold the system together. The state may be in retreat, but there is simply too much order around to suggest that we are left with nothing more than a “yawning hole of non-authority”’.¹²¹ Yet authority and hierarchy have been crucial all along, structuring, notably, the post-war and post-bipolar orders.¹²² So the order that is ‘around’ doesn’t just happen to gel out of ‘anarchy’, by luck, by the working of an elusive Great Watchmaker, or by inter-societal self-regulation; order is created and provided, and the question is what happens when losses of influence though ‘leaderless diffusion’, power shifts or erosion are not compensated by a pooling of influence at an alternative level. How much international order can be hoped for, and counted on? The question is vital, particularly for not so powerful states, or a coalition of not so powerful states such as the European Union, eminently suited to negotiation and compromise, but compelled to spend a great deal of energy on its own consensus building, and inherently constrained if challenged to weigh in on world politics.

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