The Evolution of Political Knowledge

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Introduction

Global interconnectedness seems manifestly obvious in the everyday lives of people, at least many people in advanced industrialized countries. E-mail is instantaneous and virtually free. Intercontinental telephone calls cost pennies. During the Gulf War, CNN broadcast live pictures of American laser-guided weapons striking buildings in Baghdad. In many major cities in Europe and North America, more than 10 percent of the population is made up of individuals born in other countries, some of whom have migrated legally, others not. Cuisines that were exotic in the 1970s—tandoori in San Francisco, sushi in Berlin—are readily available. The everyday pieces of clothing worn by Europeans and North Americans are most likely to bear labels showing that they were made in some Asian or Latin American country. It is possible to fly from one capital city in the world to almost any other in less than a day, and then to disembark and find an ATM machine that will dispense the local currency against a bank account in Kalamazoo.

The Globalization Challenge

These quotidian developments, and darker elements as well, such as global terrorism, have hardly escaped the attention of analysts. Globalization has become the buzzword of the new millennium. In Sociological Abstracts citations to the term globalization increased from about twenty in 1980 to more than one thousand in 1998, in Books in Print from about forty to six hundred, and in PAIS from about fifty to seven hundred (Guillén 2001, 241). Many of these observers see a new world, one in which the structures of political authority, especially those associated with national states, will be transmuted if not eliminated. One
observer of the global telecommunications situation has written that “In the long run telecommunications will transcend the territorial concept and the notion of each country having territorial control over electronic communication will become archaic in the same sense that national control over the spoken (and later the written) word became outmoded” (Noam 1987, 44). James Rosenau (1990, 13) avers that new issues have emerged such as “atmospheric pollution, terrorism, the drug trade, currency crises, and AIDS” that are a product of interdependence or new technologies and are transnational rather than national. States cannot provide solutions to these and other issues. Charles Kindleberger proclaimed that “the state is about through as an economic unit” (quoted in Garrett 1998, 793). And perhaps most famously in recent years Thomas Friedman, the foreign affairs editorial columnist for the New York Times, has argued in many of his columns and in his widely read book The Lexus and the Olive Tree (1999) that globalization is the key to understanding the contemporary world. The integration of financial markets, information, and trade is shifting power from governments to markets. Once policymakers opt for integration they place themselves in what Friedman has called the golden straightjacket, constraining their scope for policy initiatives in exchange for the benefits of participation in world markets. Friedman recognizes that there were also high levels of integration of trade and finance in the nineteenth century which also had political ramifications, but he sees the contemporary era as quantitatively and qualitatively different because of the extent and intensity of integration produced by new technological developments including computerization, digitalization, fiber optics, and the Internet. September 11 reframed Friedman’s concerns, but hardly led him to back away from the consequences, malevolent as well as benign, of globalization (Friedman 1999, introduction and chap. 1).

Some, appropriately labeled hyperglobalists, aver that the traditional nation-state is becoming unnatural, incapable of effectively governing the economic and other international transactions that concern its citizens. Hyperglobalists see authority hemorrhaging out of the state to a variety of private and public actors and, above all, to the private market (Held et al. 1999, 2–4).

A less extreme understanding of the contemporary environment points to qualitative changes in international transactions that are leading to a transformation but not the disappearance of authority structures associated with the national state. Transformationists, to again deploy the very useful terminology of David Held and his colleagues, see the national state being profoundly changed but not evaporating. The transformationists see a world in which the intensity, magnitude, geographic reach, interconnectedness, and speed of international exchange have created a historically unique environment of exceptional complexity different from any previous epoch. Network effects, in which developments in one area can impact on others, have become pervasive. Small changes in
initial conditions in one arena can have large and unexpected consequences in others. Actors cannot predict, and sometimes not even comprehend, the political, economic, and social consequences of alterations in private incentives or public policies. A reduction in labor costs in one country can lead to the reallocation of manufacturing facilities which can generate environmental hazards which can mobilize nongovernmental organizations which can pressure governments (Keohane and Nye 2000, 9).

National governments are no longer necessarily the locus of power. Power is parceled out among different agents, national, regional, and international, public and private. The state now shares center stage with other entities such as international organizations like the World Bank and the International Monetary Fund, with nongovernmental organizations like Greenpeace and Amnesty International, and with multinational corporations, or perhaps there is no longer a center stage at all but rather a multiplicity of sites, some real, some virtual, where global transactions are governed. Crisscrossing structures of power and authority, conflicting interpretation of rights, interconnected legal structures have displaced “the notion of sovereignty as an illimitable, indivisible, and exclusive form of public power” (Held et al. 1999, 81). Internal and external questions are no longer clear-cut. AIDS, BSE, the management of nuclear power plants, global terrorism, and nuclear waste are not just national issues; decisions taken in one country can affect developments, indeed life and death, in others. Changes in monetary policy implemented by one country can undermine the macroeconomic policy of another. Political space is no longer delimited by political territory. The “contemporary world order is best understood as a highly complex, contested, and interconnected order in which the interstate system is increasingly embedded within evolving regional and global political networks. The latter are the basis in and through which political authority and mechanisms of governance are being articulated are rearticulated” (Held et al. 1999, 85; see also Keohane and Nye 2000, 12). For transformationists 9/11 has only underlined the complexity of global problems and the tenuousness of sovereign authority: the failure of one state to control violence originating within its borders can threaten the lives of thousands in other states.

At the core of the transformationist argument is the sense that state authority is being changed and probably eroded in a deep and enduring way, and this erosion is driven by the complexity and interconnectedness of global transactions, which is manifest in their growing geographical, reach, and increased intensity. These uniquely intense and complex flows have been accompanied by the development of new institutional arrangements both public and private. Regional organizations, not only the European Union but also NAFTA, ASEAN, the Andean Community, the Common Market for eastern and southern Africa, the CIS (Community of Islamic States) and others, have developed. The number of international government
organizations has increased dramatically over the last century, examples being the United Nations, the International Telecommunications Union (founded in 1865 as the International Telegraph Union and among the very first international organizations), the World Health Organization, the Arctic Council, the International Coffee Organisation, the World Meteorological Organization, and many, many more. Along with the growth in the number of public organizations whose members are states or particular state bureaucracies (the International Labour Organisation, whose members include states, labor unions, and employer groups, is an unusual hybrid), there has been an even greater increase in the number of international nongovernmental organizations (INGOs), including groups such as Greenpeace, Amnesty International, Oxfam, Save the Children, and Friends of the Earth. The number of INGOs increased from around two hundred in 1900 to more than four thousand in 1980 (Boli and Thomas 1999, 14).

The growing quantity and complexity of transnational interactions and the growth of new public and private institutions has presented, according to the transformationist view, an unprecedented challenge to the sovereignty of the state. David Held and his coauthors see five issues that define the changing relationship between globalization and the state:

1. National governments are no longer necessarily the locus of power. Power is shared among different agents, national, regional, and international.
2. The individual nation-state can no longer be a self-determining entity.
3. Crisscrossing structures of power and authority, conflicting interpretation of rights, interconnected legal strictures “displace the notion of sovereignty as an illimitable, indivisible, and exclusive form of public power” (Held et al. 1999, 81).
4. There are new boundary problems that cannot be resolved by force.
5. Internal and external questions are no longer clear-cut. AIDS, BSE, the management of nuclear waste cannot be only national issues. Decisions by MNCs and national financial and labor policies have both external and internal consequences. Political space is no longer delimited by political territory.

The predominant view of globalization is not that it has disappeared from the state but rather that sovereignty, as it has been known, has been in some fundamental and qualitative way curtailed. States, that is, the ruling political authorities within polities, just cannot do what they have done in the past. They cannot raise tariffs because this would violate commitments made in the World Trade Organization. They cannot control their own monetary policies because of open international capital markets. They cannot treat their own population as they might wish because of global human rights norms and pressure from NGOs. They cannot guarantee economic well-being for their own populations because
States as Organizers of the Environment

The basic argument of this paper is that the globalization perspective in all of its variations, and there are many, exaggerates the amount of change in the contemporary global system. States are for the most part exactly what they have always been, the most important actors in the modern international system which is not to argue that they are now, or have ever been, immune to influence from other actors or that they have ever been able to fully control economic or other kinds of transactions. The hyperglobalist argument, which sees states as fundamentally outmoded, incapable of carrying on the basic functions of governance, is wrong. Transformationist arguments are also for the most part incorrect, but here it is necessary to distinguish among different kinds of claims, which are obfuscated by the emphasis on complexity, interconnectedness, and multiple actors.

States and International Organizations

The claim that intergovernmental organizations have displaced states is wrong. International organizations, whether regional or universal, are created by states because they serve the functional interests of political leaders. Once created, these organizations do have some autonomy because their activities cannot be effectively monitored, or because disagreements among member states open a space for independent action, or because their effectiveness for states depends on them being independent from the close control of any single state or group of states, or because their effectiveness can depend on decisions made by nonstate actors whose preferences they must attend to (See Gould 2001 for a discussion of the IMF’s responsiveness to banks). Indeed, one reason these organizations are created is because powerful states want a mechanism to limit their own freedom of action; without such a mechanism other weaker states might not accept the preferences of the powerful in the first place, fearing that they would be exploited.
in the future. International organizations are not, however, a substitute for states. Rather they are instruments through which national political leaders can enhance their interests; were this not the case the organizations would not have been created in the first place nor would they be supported over time. The policies of IGOs may not always correspond with the preferences of a majority of its members, but no IGO will consistently adopt positions that would undermine support from more powerful states.

There is one exception to the argument that international organizations are not some kind of transnational authority structures that have displaced states, the European Union. The EU, which has both supranational authority structures such as the European Court of Justice and the European Parliament, and pooled sovereignty, notably qualified majority voting in the council for some issues, is a new thing. The member states of the European Union are no longer conventional sovereign states even though their voluntary decisions have created the institutional arrangements that have undermined their own sovereign autonomy. The EU, however, is a unique institutional development that would have been impossible absent two peculiar political conditions. First, American support for European integration and commitment to the defense of Europe during the first decades of the Cold War essentially took security issues off the table for continental Europe. Second, Germany’s constant support for integration both because of a desire to transcend the Nazi experience and because postwar German leaders recognized that they could only reassure their neighbors by constraining their own freedom of action. The European Union is not a reaction to globalization even though specific economic calculations have driven its development in many ways (Moravcsik 1998). There is no other IGO, regional or universal, that is in any way comparable to the EU, no other organization that has fundamentally altered the domestic authority structures of all of its member states.

**States and TNGOs and MNCs**

What then of various nongovernmental organizations and other kinds of private actors such as multinational corporations? Are they fundamentally transforming the nature of authority in the international system? Have they displaced, undermined, or replaced state authority? There is no evidence for any such fundamental change, but this is not to say that transnational non-governmental organizations (TNGOs) and other private groups, notably multinational corporations, do not matter. Such actors do influence political decisions, but these decisions are made by states. The ability of these groups to exercise influence depends upon the domestic political structures within which they must act. Organizations with transnational capabilities, which include multinational corporations and religious organizations, not just TNGOs, do have unusual capabilities
because they may be able to alter policies in one country by pressuring governments in other countries. Human rights organizations have influenced the treatment of detainees in autocratic regimes by insisting that democratic governments pressure the offending state (Keck and Sikkink 1998).

The dramatic growth in the number of TNGOs is the result not of changes in technology, complexity, or interconnectedness at a global level but rather of the spread of democracies. Absent modern democracies TNGOs would not exist. TNGOs like corporations, unions, medical associations, gun lobbyists, and the Catholic Church matter because they can influence policymakers who need to win elections or judges who render authoritative decisions. The growth in the number of democratic states, not globalization, has been the driving factor in the growth of TNGOs. In a world of autocratic regimes TNGOs would not exist in the first place.

The relationship between the growth of multinational corporations and the nature of domestic authority structures in the contemporary world is even more apparent than that between TNGOs and democracy. No capitalism, no multinationals. Large corporations can operate in autocratic states. They might feed the rent-seeking proclivities of political elites. But MNCs could not exist in the first place without the legal and institutional structures provided by capitalist states. Despite comparatively high levels of development, multinational corporations were not exactly prominent features of the Soviet bloc. Moreover, with regard to ownership, management, financing, and suppliers almost all MNCs are clearly identified with particular states (Doremus et al. 1999; Garrett 1998).

Why States Matter

States have in the past and continue to perform three critical functions without which globalization, that is, high levels of international transactions and market integration, could not take place:

1. Establishing the legal and institutional environment for nonstate actors.
2. Cushioning domestic constituencies from the negative impact of international transactions.
3. Setting the rules that govern the movement of goods, capital, and people across national borders.

First, nonstate actors operate in a legal and physical space created by state decisions. International organizations, nongovernmental organizations, and multinational corporations are a reflection of and dependent upon decisions taken by some, usually the most powerful, national states. These very institutional forms could not exist without being authorized by the policies of national states. The robustness of nongovernmental organizations is contingent upon the existence
of democratic polities. Multinational corporations can only operate effectively in a world of capitalist states. International organizations are created by treaties among states. Even criminal organizations, such as international drug cartels, reflect state decisions that have generated extraordinary profits by making some kinds of transactions illegal. This is not to say that the specific decisions taken by such entities are dictated by state policy; obviously this is not the case. But it is to say that in the contemporary world states are the only entities that can create the legal and institutional structure that makes it possible for many other kinds of organization to exist in the first place.

Second, for globalization to progress political leaders must have an incentive to create conditions that make it possible to take advantage of global opportunities and they must be able to some extent to insulate their constituents from the adverse impacts of openness. Political leaders are not motivated by some abstract commitment to higher international flows. They have encouraged international openness in some instances because it has enhanced the well-being of their constituents. If these constituents find themselves threatened by imports or immigrants, they will pressure their leaders to adopt policies that discourage the movement of goods and people. Autocratic leaders who derive much of their revenue by creating artificial barriers between external and internal markets will be loath to open their economies to international competition even though such programs might leave their country as a whole better off. Leaders in Leninist polities could not engage in a globalized open market because within such political economies the distribution of goods was determined by a central planning authority rather than by market prices.

Third, the rules under which globalization occurs are a reflection of state choice. Interconnectedness does not occur in a vacuum. The height of tariff and nontariff barriers can vary across products. Intellectual property rights may provide for zero, one, five, twenty, or fifty years of protection. The relative values of national currencies may be fixed or allowed to float. Even decisions that have been taken entirely by private actors, such as the technical protocols for the Internet, are contingent upon the willingness of public authorities to refrain from intervention. The fact that explicit public policy is not evident in certain issue areas does not necessarily mean that the state is irrelevant. This absence may simply reflect the fact the private actors have avoided the equilibrium path choices that would provoke public intervention; they never explore certain options because they know that policymakers would reject them.

State decisions, or nondecisions, not only determine the pattern and level of international transactions but also the distribution of benefits within countries and between them. Weighted voting in international organizations like the International Monetary Fund and the World Bank strengthens the position of powerful or rich states compared to what their influence would be if votes were allocated equally, as is the case in the United Nations General Assembly. Pharmaceutical
companies will make more money if their patents are issued for fifteen years than if they are issued for three. The wages of unskilled labor within a country will decrease if foreign unskilled workers are encouraged to immigrate. Higher trade barriers will benefit relatively scarce factors of production.

**Market Failures and Distributional Conflicts**

In setting the international rules of the game political leaders have confronted two distinct challenges: market failures and distributional conflicts. Market failure problems involve issues of how to reach the Pareto frontier when individual choice leads to suboptimal outcomes. Distributional conflicts involve movement along the Pareto frontier, where benefits for one actor involve losses for another.

The major theoretical debate in international political economy has been between liberal approaches, which view market failure as the exemplary problem, and realism, which sees distributional conflicts, and less frequently relative gains, as the major issue confronting political leaders. For liberalism the international rules of the game are the result of voluntary agreements, treaties, that establish institutional structures that can overcome market failure problems like asymmetrical information, prisoners’ dilemma payoff structures, and the under-provision of collective goods. Institutions can provide information, increase iterations, offer opportunities for issue linkage, and establish salient solutions, which make it possible to reach Pareto improving Nash equilibrium outcomes from which no party has an incentive to defect.

For realism international institutions reflect the efforts of political leaders to resolve distributional conflicts in favor of their constituents. In some instances everyone may be better off but some will be better off than others; and there may even be situations in which making some parties better off will leave others worse off. Power, rather than cleverness in designing institutions, matters. Power may involve physical coercion, the ability of one party to unilaterally impose losses on another, or, in the most extreme instance, to subjugate or eliminate an opponent using military force. Most issues associated with international political economy and globalization involve asymmetrical bargaining power rather than physical annihilation. More powerful states can coerce their opponents by credibly threatening to impose sanctions if the other party does not capitulate, or they can use go-it-alone power (Gruber 2000) to unilaterally change the status quo in ways that leave their opponents with no choice but to compromise or capitulate. Both the ability to make credible threats and to engage in go-it-alone strategies reflect underlying capabilities such as economic size and level of development.

To understand the international rules of the game that have facilitated increasing globalization, both liberal and realist perspectives must be deployed.
International rules usually reflect both efforts to overcome market failures and the ability of stronger states to skew distributional outcomes in their favor.

In sum, the proponents of globalization are right to argue that there have been real changes in the nature of international interconnectedness: more areas of the world, although not all, are enmeshed in the international system; the number of international organizations has grown dramatically since the end of the Second World War; by the end of the twentieth century there were thousands more nongovernmental organizations than there had been at the beginning; world trade has grown for most countries since 1950 and has reached unprecedented high levels for many but not all countries; short-term gross financial flows, although not long-term net ones, have never been greater; transactions within multinational corporations account for a significant share of world trade. The kinds of technological innovations emphasized by hyper- and transformational globalists have been a necessary condition for increased globalization but not a sufficient one. Without the authority of states increased globalization would not have occurred or at least not have occurred in the same way. State authority has generated and legitimated most nonstate actors. The rules under which international transactions take place and their distributional consequences reflect the power and preferences of states (preferences which may, of course, be driven by different societal interests). When national political actors have been unable to insulate their own constituents from the deleterious consequences of globalization, the result has been retrenchment and not further integration. States must react to the opportunities presented by globalization, but these opportunities reflect in the first instance political choices and not just technological change.

More specifically, the dramatic increase in global flows that has taken place since the end of the Second World War has depended profoundly and critically on the power, institutional structure, and policies of the major Western industrialized countries, especially the United States, the most powerful state in the international system. International openness has been, in general, consistent with the interests of American political leaders, interests that included both collective objectives like the preservation of national security and particular electoral incentives. The nonstate actors that have driven globalization have existed because of the institutional structures that characterize advanced democratic capitalist states. Had the Soviet Union, rather than the United States and its allies, been able to set the rules of the game after 1945, the distributional consequences and level of international openness would have been very different. The kind of centralized planning that was practiced under the Soviet system was incompatible with open market transactions. Market prices based on supply and demand did not exist. Private enterprises played hardly any role in the Soviet system. The kinds of concerns that have been addressed by the major regimes of the postwar period, such as the reduction of tariff levels, the legitimacy of
nontariff barriers to trade, the openness of capital market, and the capitalization of banks, would have been irrelevant in a world dominated by a centrally planned Marxist-Leninist state rather than the United States, Germany, Britain, France, and Japan. Transnational advocacy groups for human rights or the environment could not have existed.

What Is Sovereignty?

While one part of the globalization argument is that new technologies have generated new levels of transactions, complexity, and unpredictability, the other is that these flows have transformed the nature of sovereignty, the defining institution of the modern world system. Power has shifted. Control has eroded. States are no longer necessarily the locus of authority. Sovereignty is no longer indivisible and exclusive.

These assertions about the erosion of sovereignty ignore how contingent and persistently challenged the basic principles associated with sovereignty have always been. The scope of state authority claims has varied across countries and from one historical period to another. Powerful states have persistently intruded on the domestic authority structures of their weaker counterparts. The kinds of flows that states have been able to control have changed over time. Opportunities and constraints emanating from the international environment have always limited the opportunity set available to national decision makers.

In contemporary usage four different meanings of sovereignty can be distinguished: interdependence sovereignty, domestic sovereignty, Vatellian/Westphalian sovereignty, and international legal sovereignty (Krasner 1999, 9–25). These four different aspects or meanings of sovereignty are not logically linked nor have they changed empirically in a coordinated way. Losses of one kind of sovereignty, for instance, have sometimes strengthened others. The challenges to state control and authority that are present in the contemporary world have analogues in the past not just in the nineteenth century, when the industrial revolution began to rapidly generate new technologies, but even earlier. Only a very few states have ever enjoyed exclusive and indivisible sovereignty.

Interdependence Sovereignty

Interdependence sovereignty refers to the ability of states to control movement across their borders. Hyperglobalists and transformationists have pointed to a loss of interdependence sovereignty as one of the key elements of the contemporary world. Technological change is understood to have undermined the ability of states to regulate transborder movements of goods, capital, people, ideas,
or disease vectors. Governments can no longer engage in activities that have traditionally been understood to be part of their regulatory portfolio; they cannot conduct effective monetary policy because of international capital flows; they cannot control information because of the Internet; they cannot guarantee public health because individuals can move so quickly across the globe. The immediate issue is a loss of control, but globalists argue that an inability to regulate transborder flows ultimately leads to a transformation of state authority, which either disappears or flows to other actors such as international organizations, multinationals, regional organizations, or various kinds of nonstate entities.

Transnational flows are, however, not new and public authorities have never been able to exercise perfect control. The development of the Gutenberg press in the fifteenth century transformed the dissemination of information, one consequence of which was that Luther’s 95 Theses, nailed to the door of the Schlosskirche in Wittenberg in 1517, had revolutionized European politics within a decade. CNN and MTV have not been quite so consequential. The Protestant Reformation, which was made possible only by the transnational flow of information, precipitated a dramatic retreat in claims about the scope of public authority. Before the Protestant Reformation all of the political entities in Europe asserted the right, along with the Church, to engage in authoritative decision making about religious issues. By the end of the seventeenth century many of the major states of Europe had begun to move toward some form of religious toleration. By the end of the twentieth century most advanced industrialized countries had embraced religious freedom. Authority over religion was not moved to some new entity; rather, political leaders had decided first as a matter of survival (the Thirty Years’ War killed two and half million people in Germany; religious conflicts in France and England had threatened to destroy any form of order), and then as a matter of principle (first in the United States and then elsewhere), that dictating religious belief was not the business of the state. For most of human history it was taken for granted that political authorities would be engaged in the business of saving men’s souls. In the contemporary world only a limited number of states make such a claim.

In the last part of the nineteenth century most states adopted the gold exchange standard, eschewing control over their own monetary and foreign exchange policies. From the late 1940s to early 1971 major states endorsed a more or less fixed exchange rate system and control over international capital flows, which allowed them to conduct an independent monetary policy. After 1971, with the collapse of the Bretton Woods system, the enticement or inability to control capital movements, exhibit number one for hyperglobalists and transformationists, meant that states could no longer fix their exchange rates and at the same time engage in an independent monetary policy. They would have to abandon one or the other. The United States has abandoned capital controls and fixed
exchange rates but conducts an active monetary policy; indeed, if one person is credited with the sustained growth of the American economy during the 1990s it is Alan Greenspan, the Chairman of the Board of Governors of the Federal Reserve System. With the exception of Britain the most important members of the European Union have given up their monetary autonomy and become members of the European Monetary Union, which has its own currency and central bank. In the wake of the Asian financial crisis of the late 1990s Malaysia imposed controls on the flow of capital, providing it with the ability to conduct an independent monetary policy. At the same time Ecuador embraced dollarization and made the U.S. dollar legal tender, completely giving up any pretense of state control over the money supply. During the 1990s Argentina embraced a currency board, which tied the peso to the dollar, only to be forced to abandon this effort in 2002 as a result of fiscal deficits and Brazil’s depreciation. These variations over time and in the contemporary period do not suggest that globalization in the area of capital flows has eviscerated that ability of states to regulate their own economies, although it has meant that the ways in which they have done this have changed.

Since the end of the nineteenth century multinational corporations have operated in many different countries. Some globalists have argued that states cannot effectively regulate such entities or the transborder flows that they generate because MNCs can move their assets around the globe so easily and because the benefits that they offer are so substantial. Empirical data do not, however, support these claims. For instance, higher levels of government expenditure and higher levels of foreign direct investment are positively correlated, a result inconsistent with hyperglobalist and transformationist arguments which contend that tax rates will be constrained to attract more investment (Garrett 1998). The fact that multinationals are operating in different jurisdictions may, in fact, constrain rather than expand their options. In the summer of 2001 the antitrust regulators of the European Union blocked a proposed merger of Honeywell and GE, which had been approved by their American counterparts.

States in the contemporary world are hardly able to effectively regulate all of their transborder movements. Despite billions of dollars spent on enforcement, the United States has not been able to stop the flow of illegal drugs. (Of course, the huge profits generated by such transactions are produced by public decisions to make such activities illegal. Legalized drugs would be much cheaper and incentives to escape regulation much less.) Cyberspace has made possible cybercrime. Individuals in one jurisdiction can steal resources located in a different country.

The relationship between transnational flows and national regulations is not static. Sometimes states will abandon efforts to regulate activities, religion being an example. Sometimes they will change their strategies, opting, for instance, for flexible exchange rates, open capital markets, and monetary autonomy rather than...
fixed rates, capital controls, and monetary autonomy. Sometimes the transnational operations of private actors will give states more opportunities to regulate rather than less. And sometimes illegal transnational flows will overwhelm state efforts to regulate or criminalize particular products leading decision makers to reduce their ambitions; the effort to prohibit alcohol in the United States is one example from the past and current problematic attempts to interdict drug flows may be an example in the future. While the scope of state authority has declined in some areas and increased in others, it is not obvious that there is any systematic trend associated with globalization nor that authority is migrating to other entities such as international organizations or nongovernmental organizations.

**International Legal Sovereignty**

The basic norm of international legal sovereignty is that recognition is accorded to juridically independent territorial entities. These entities can enter into voluntary contractual agreements—treaties. States in the international system, like individuals in domestic polities, are free and equal. International legal sovereignty is consistent with any agreement provided that the state is not coerced (Oppenheim 1992, 365–67; Weiler 1991, 2479–80).

The idea that the international system is comprised of mutual recognized, formally equal, and ostensibly juridically independent political entities can be contrasted with other constructs, such as the traditional Sino-centric one. For two thousand years the prevalent norms in China saw the Chinese emperor as the apex of the universe. Other states were not equal with China but were rather tributaries offering symbolic obeisance and material tribute to the emperor. Relations among political entities within the Sino-centric world were governed by customs, rules, and rituals, not by treaties. There were no permanent diplomatic representatives, only episodic tribute missions which were often a way to thinly disguise trade. External relations legitimated the internal position of the emperor (Wang 1968, 60; Onuma 2000, 12–14; Fairbank 1968). International legal sovereignty did not exist in the Sino-centric world.

Whatever else might be suggested about the relationship between globalization and sovereignty, international legal sovereignty has not withered in the face of increasing transnational flows. The number of recognized territorial entities has increased dramatically. In 1945 there were 51 members of the United Nations, in 1970 there were 127, in 2000 there were 189 (United Nations 2002). While in the past international recognition was usually limited to juridically independent territorial entities with some minimum level of resources, in the contemporary world even very small entities have enjoyed international legal sovereignty. There are more people in a medium-sized city than in some of the world’s smallest states. In 1999 the population of Vanuatu was 193,000, of Sao
Tome 145,000, of Tonga, 100,000, of Grenada 97,000, and of Palau 19,000, all members of the United Nations (World Bank 2002). Andorra became a member of the UN despite the fact that it is not juridically independent; the coheads of state, who must approve treaties and who appoint some judges, are the president of France and the Spanish bishop of Seu d’Urgell.

International legal sovereignty is a valuable resource for political leaders. It gives them the right to sit at the table, at least some of the tables, where decisions about international rules are made. It gives them the ability to enter into contracts that may increase their utility even at the expense of their interdependence or Vatellian/Westphalian sovereignty. Once a political entity secures international recognition in the contemporary world it rarely loses it (Strang 1991). Hardly any states have disappeared—suffered state death—since the end of the Second World War (Fazal 2001). One standard tactic for states in the globalized world of the late twentieth century has been to enter into international agreements that have enhanced their joint level of control over transborder activities, which they were not able to effectively regulate unilaterally. While the European Union is the contemporary institution that has most severely challenged central elements of sovereignty (members have given up their Vatellian sovereignty and abandoned their interdependence sovereignty with regard to other members), none of the states of the European Union have given any indication that they are anxious to forego their international legal sovereignty. The European Communities is a member of the WTO, and so are its individual countries. Hence, while the level of international transactions has grown, there is no indication that political leaders want to abandon their international legal sovereignty.

**Domestic Sovereignty**

Domestic sovereignty refers to authority structures within states and the ability of these structures to effectively regulate behavior. The classic theorists of sovereignty, Bodin and Hobbes, were concerned primarily with domestic sovereignty. Both wrote in the context of religious wars in Europe that were destroying the stability of their own polities; Bodin himself was almost killed in religious riots in Paris in 1572. They wanted above all to establish a stable system of authority, one that would be accepted as legitimate by all members of the polity regardless of their religious affiliation. Both endorsed a highly centralized authority structure and rejected any right of revolt (Bodin 1992, 13–14; Skinner 1978, 284–87; Hinsley 1986, 12, 181–84). In practice, the vision of Bodin and Hobbes has never been implemented. Authority structures have taken many different forms, including monarchies, republics, democracies, and unitary and federal systems. High levels of centralization have not been associated with the order and stability that Bodin and Hobbes were trying to guarantee.
The acceptance or recognition of a given authority structure is one aspect of domestic sovereignty; the other is the level of control that officials can actually exercise. This has varied dramatically. Well-ordered domestic polities have both legitimate and effective authority structures. Failed states have neither. The loss of interdependence sovereignty, which is purely a matter of control, would also imply some loss of domestic sovereignty, at least domestic sovereignty understood as control, since if a state cannot regulate movements across its borders, such as the flow of illegal drugs, it is not likely to be able to control activities within its borders, such as the use of these drugs.

With regard to domestic sovereignty there are two developments that distinguish the contemporary environment from earlier periods. First, there are more democratic states, and second there are more failed states; that is, states with international legal sovereignty (formal international recognition) but without effective control over developments within or across their borders. The distribution of regimes types has changed over the last several hundred years. Monarchies were the dominant form of regime in the seventeenth and eighteenth centuries. In the middle of the twentieth century there were more than a dozen Marxist-Leninist regimes. By the end of the century they had all but disappeared in substance if not in name. The number of democracies has increased since the early part of the nineteenth century. In 1990 there were sixty democratic states compared with thirty-five in 1950. The percentage of democratic states had not changed very much overall, but the percent of democracies in the seventy-three states that existed in 1950 had increased from 48 to 76 percent, while only 17 percent of the countries that came into existence after 1950 were democracies in 1990 (Przeworski et al. 2000, 39).

The growth in the number of democracies does mean that the way in which policies are made in many states is different from the past. Societal groups, including TNGOs, have more influence than would be the case in autocratic regimes. TNGOs are not simply the result of technological changes associated with globalization; such changes are a necessary but not sufficient condition to explain the dramatic increase in TNGOs. TNGOs would not exist without democracies. Democracies create a protected sphere for civil society within which individuals have an incentive to organize because they know that their efforts can affect public policy. The growth of democracy is a profound change in human society, but it is this alteration in the nature of domestic sovereignty, not globalization, that is really new.

A second change in the nature of domestic sovereignty at the end of the twentieth century is the number of failed states. The expansion of European power culminated in the colonial expansion of the nineteenth century. Weaker areas of the world in Africa and Asia were directly controlled by the major European powers and to a lesser extent the United States and Japan. These colonies,
obviously, did not have sovereignty. European colonialism was hardly different from earlier episodes in which stronger polities had directly controlled weaker ones except for its overseas reach. The European empires came to an end after the Second World War. With a few exceptions, such as Algeria, Vietnam, Mozambique, and Angola, the Europeans just left. The new political entities were all granted international legal sovereignty. They all had, at least on paper, a domestic authority structure. But, in effect, the ability of many of the newly independent states to effectively control activities within and across their borders was limited. Corruption was rampant. Many were plagued by civil war. Economic policies were ineffective. For sub-Saharan Africa private per capita consumption fell by an average annual rate of 1.5 percent for the period 1980 to 1998, compared with annual average increases of 5 percent for East Asia, 2.6 percent for South Asia, and 2.2 percent for all of the advanced industrialized countries. In 1997 central government revenues for low-income countries averaged 10 percent of GDP, those for high-income countries 30 percent (World Bank 2000). A few formerly colonized polities in Asia, including Taiwan, Korea, and Singapore, have experienced stunning economic growth, but in many other cases economic performance has been dismal. By the end of the twentieth century it was apparent that international legal sovereignty had been granted to many political entities that were unable to exercise effective domestic sovereignty (Jackson 1990).

There is a strong positive correlation between efficacious domestic sovereignty and participation in global markets. The states with the most effective governance structures have been the ones that have been most engaged in the world economy. The greatest increase in trade and international investment has been among the advanced industrialized countries. Only states with effective domestic sovereignty can provide the infrastructure that facilitates global involvement and the social welfare payments that make it politically acceptable. In many autocratic states with limited governance capabilities it is more attractive for political leaders to generate rents by imposing barriers between the international and domestic economy, which they can then exploit for themselves and their limited number of followers, than to promote policies that would facilitate integration. Globalization is not, as hyperglobalists suggest, a threat to sovereignty; rather, sovereignty, or more to the point, effective domestic governance structures, is a precondition for participation in the world market.

**Vatellian/Westphalian Sovereignty**

Vatellian/Westphalian sovereignty refers to the exclusion of external sources of authority both de jure and de facto. The basic rule of Vatellian/Westphalian sovereignty is noninterference in the internal affairs of other states. Within its own
boundaries a fully Vatellian/Westphalian state is one in which authority structures are a product of decisions made by indigenous actors and in which these structures have a monopoly over authoritative decision making. Weber’s view that the state enjoys a monopoly over “the legitimate use of physical force within a given territory” is almost always true but also too simple because it ignores the possibility that the purposes to which the military or police might be put could be determined by some external actor as, for instance, was the case for the armed forces of the Soviet satellite states in Eastern Europe.

This notion of sovereignty as the exclusion of external authority is frequently associated with the Peace of Westphalia, which ended the Thirty Years’ War in 1648. This claim is historically incorrect. The Peace did formally endorse the principle *cuius regio, eius religio* (the prince can set the religion of his territory) originally formulated in the Peace of Augsburg of 1555, but in practice the specific terms of the treaties of Osnabrück and Münster which comprised the settlement established an internationally sanctioned regime for religious toleration in Germany: the Peace restricted rather than legitimated the right of rulers within Germany to do whatever they wanted within their own boundaries, a hardly surprising result given that European rulers were coming to realize that efforts to suppress religious practices were a threat to the stability of almost any political regime (Whaley 2000, 175–82). While logics of appropriateness dictated recognizing the authority of rulers (*cuius regio, eius religio*), logics of consequences demanded accepting religious toleration.

The Westphalian settlement did not end the Holy Roman Empire, a very medieval institution, but rather wrote a new constitution for it, including a redesign of the Electoral system for the emperor. Westphalia was a break point from the past not because it authorized the independence of Switzerland from the empire—which was not how the Peace was understood by the Swiss (Croxton 1999, 577) — nor because it recognized the right of the principalities of the empire to make treaties, a right which they already had but which had been and continued to be constrained by the admonition that “nevertheless, such Alliances be not against the Emperor, and the Empire, nor against the Publick Peace, and this Treaty, and without prejudice to the Oath by which every one is bound to the Emperor and the Empire” (Treaty of Münster 1967, XV, 27–28), but rather because Westphalia ushered in a period in which balance of power became the principle upon which European statecraft was formulated and legitimated. The attempt to resurrect some notion of Christendom was abandoned. The idea that states have the right to exclude external authority sources, to choose their own domestic structures, is more accurately associated with Emmerich de Vattel, an eighteenth-century Swiss international legal theorist who introduced the norm that one state should not intervene in the internal affairs of another (see Krasner 1995/1996; Krasner 1999; Osiander 2001). The Peace of Westphalia had nothing to do with it.
Vatellian/Westphalian sovereignty could never be taken for granted. The contemporary human and minority rights agreements that many observers have pointed to as an indication of the erosion of state sovereignty are merely the most recent example of situations in which powerful states have attempted to impose the rules that govern the relationship between rulers and ruled in weaker states (a violation of both international legal and Vatellian/Westphalian sovereignty), or in which states have themselves voluntarily made commitments to limit their own freedom of action (a violation of Vatellian/Westphalian sovereignty but not international legal sovereignty). The Peace of Westphalia guaranteed some degree of toleration for religious minorities in Germany. The settlements after the Napoleonic wars provided for protection of the rights of Catholics in the Netherlands and a pledge by Prussia, Russia, and Austria to respect the national rights of the Poles, the first instance of protection of an ethnic as opposed to a religious minority. As a condition of recognition by the major European powers, the would-be leaders of every state that emerged from the Ottoman Empire during the long nineteenth century, beginning with Greece in 1832 and ending with Albania in 1913, had to recognize the civil and political rights of their religious minorities. After the First World War, as a condition of either recognition or membership in the League of Nations, more than thirty states conceded protections to their national minorities. A Minorities Bureau was established in the League of Nations, and an extensive appeals procedure, including taking cases to the International Court of Justice, was enacted (Krasner 1999, chaps. 3 and 4). In the 1990s the European Union conditioned recognition of Croatia and Slovenia on their acceptance of minority rights including major international human-rights treaties. The Dayton accords dictated the domestic political structure for Bosnia (Woodward 2001).

Similarly, violations of Vatellian/Westphalian sovereignty by international financial institutions such as the International Monetary Fund were mirrored in earlier historical periods. During the nineteenth century international loans often stipulated the specific government revenues that would be dedicated to repayment. In the Ottoman Empire, Egypt, and Serbia lenders established their own institutional structures to oversee tax collection and even to conduct economic policy. The Ottoman Administration of the Public Debt, controlled by foreign bondholders, had, by the first decade of the twentieth century, more employees than the Ministry of Finance. In Latin America, when states failed to repay their debts, the government of foreign creditors sometimes engaged in gunboat diplomacy, forcibly taking control of customs houses (the major source of government revenue) to assure repayments (Krasner 1999, chap. 5).

In sum, Vatellian/Westphalian sovereignty is a well-established norm, but it has been frequently violated in the past. Indeed, in an international environment where there is no final source of authority, norms have often been contested, and
state power has been asymmetrical, it is hardly surprising that powerful states would sometimes compromise the domestic autonomy of weaker ones or even that political leaders might voluntarily welcome external influence over their own domestic authority structures. The fact that such violations are more extensive in the contemporary world reflects neither the impact of globalization nor a change in the way in which the international sovereign, or not so sovereign, state system has always operated, but rather a proliferation of very weak states whose domestic authority structures can be easily penetrated by external actors. The existence of these weak states is a reflection of the legitimacy of sovereignty as the only logic of appropriateness for organizing political life even though in practice the norms of sovereignty are frequently violated.

Finally, the rules, institutions, and practices that are associated with these four meanings of sovereignty are neither logically nor empirically linked in some organic whole. Sovereignty refers to both practices, such as the ability to control transborder movements or activities within a state’s boundaries, and to rules or principles, such as the recognition of juridically independent territorial entities and nonintervention in the internal affairs of other states. A state might have little interdependence sovereignty, be unable to regulate its own borders, but its Westphalian/Vatellian sovereignty could remain intact so long as no external actor attempted to influence its domestic authority structures. A failed state like Somalia in the late 1990s offers one example. States can enjoy international legal sovereignty, mutual recognition, without having Vatellian/Westphalian sovereignty; the Eastern European states during the Cold War whose domestic structures were deeply penetrated by the Soviet Union are an illustration. States can voluntarily compromise their Vatellian/Westphalian sovereignty through the exercise of their international legal sovereignty: the member states of the European Union have entered into a set of voluntary agreements, treaties, that have created supranational authority structures such as the European Court of Justice and the European Monetary Authority. States can lack effective domestic sovereignty understood either as control or authority and still have international legal sovereignty—Zaire/Congo during the 1990s is an example. Sovereignty is a basket of goods that do not necessarily go together (Fowler and Bunck 1995, 116–17).

In sum, the ability of states, of governments to exercise effective control and authority, could never be taken for granted. States have never been able to fully regulate their borders. Domestic sovereignty, the authority structures within states, and the actual ability of political rulers to exercise control has varied. The most striking developments of the contemporary world, the biggest change from the past, has been the growth of democracy, which has made decision making much more open to societal influences, and the simultaneous growth in the number of failed states, whose governments cannot control activities across and
within their own borders. Weaker states have always had trouble making their Vatellian/Westphalian sovereignty operational when more powerful states have sought to influence their political structures. Although the basic rule that only juridically independent territorial entities should be recognized has sometimes been violated, international legal sovereignty has been more consistently honored. What is again different in the contemporary world is not only that there are many states with international legal sovereignty that are small and weak in comparison with more powerful actors in the international system, but also many whose domestic structures are ineffective. This weakness and ineffectiveness make their Vatellian/Westphalian sovereignty vulnerable even while their international legal sovereignty is unchallenged.

**Conclusion**

The hyperglobalist position, which contends that the authority of the state is being replaced or displaced by other entities, is not empirically defensible. The transformationist argument, which holds that the contemporary environment is characterized by multiple actors and increased complexity, connectedness, and unpredictability, is misleading. States remain the critical actors in the international environment. They set the rules that direct international transactions. They define and sustain the legal environment that allows NGOs and multinational corporations to exist and operate in predictable ways. More prosperous states provide social safety nets, which make globalization acceptable even to groups that are negatively affected. Rent-seeking states create barriers that inhibit transactions and allow their leaders to exploit those that remain. International organizations are created by states using their international legal sovereignty.

The high level of international flows identified as the hallmark of the new era of globalization is not so different from transactions rates in the nineteenth century. Trade grew dramatically during the long nineteenth century, fell in the interwar period, and commenced growing again as a share of GNP after the Second World War, reaching levels comparable to or greater than those in the nineteenth century for some countries only in the last decade or two. The greatest growth in trade has not been among states with dissimilar factor endowments as classical trade theory would expect, but rather among western Europe, North America, and east Asia. Africa’s share of world trade has declined. Latin America has barely held its own. What has mattered most for trade has been the legal, economic, and political environment provided by well-ordered democratic capitalist polities. Most foreign direct investment has been among these same states. U.S. investment in Europe was about 1.7 billion in 1950, about one-seventh of total investment abroad. By 1990 it was $215 billion, about half of all American direct foreign investment (DFI) (Lundestad 2002). Gross capital flows have
reached unprecedented levels, a reflection of technological change, but net flows as a percentage of GNP are lower than they were before the First World War. The movement of people is also comparable to rather than greater than what it was at the end of the nineteenth century (O’Rourke and Williamson 1999, chaps. 8, 11).

What is different about the contemporary world is not globalization or the loss of sovereign authority but rather changes in the nature of domestic sovereignty. The number of states with democratic governments and capitalist economies has increased. Democratic polities legitimate the existence of private actors and empower them as autonomous actors. At the same time the number of weak and failed states has increased, making not only domestic sovereignty, but also Vatellian/Westphalian sovereignty problematic. Well-ordered polities can defend their autonomy; failed states cannot. These changes in the nature of domestic sovereignty do not imply that there has been any transformation in the nature of the international system. Sovereignty, especially effective domestic sovereignty, is a necessary condition for globalization.