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Response to Sassen

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A few years ago, it was the end of history. Nonetheless, historians have been kept busy treating events that, as before, keep occurring and that might affect the fate or condition of society. Now, the globalization of the economy is said to be challenging the state as we know it, and some scholars are already playing requiem music. Are they on the right path, or is this another overreaction? As you consider my response, it would be useful to have in mind the concept of "creative destruction," which Joseph Shumpeter developed for other purposes but which could be relevant to understanding the ongoing mutations of the state.

States were born in a capitalistic context. Because capitalism is a dynamic process, the structure of the state is not going to remain unaltered by the transformation of the economic rules. Nevertheless, the destruction of some state facets does not mean that the whole institution is going to crumble. The state needs to adapt to this new scenario of globalization. In the midst of such changes, the state is also developing new roles.

I contend that we are experiencing a transitional phase, a new situation, and we don't know where it will lead. So, the destruction of the state is premature. It is arguable that, in the last few decades, the direct role of national governments, in a broad range of public policies, has been declining. But, as Dr. Sassen argues, that does not recognize new aspects related to the states that accompany globalization.

I found four aspects of Dr. Sassen's essay particularly compelling:

1) The new intermediary agents play a major role in managing the world economy, and specific sectors of the state have increased their power.

2) There are attempts to create an institutional framework to govern the global economy.

3) Part of the sovereignty of the states is being entrusted to supranational authorities.

4) The state remains the ultimate guarantor of the "rights" of global capital.

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Dr. Sassen asserts that a new geography of power has emerged, one in which a vast number of economic transactions are made in digital space. Technology and the information revolution have brought us to this reality. Many so-called modernists believe that the state should withdraw from any type of control so that the "natural forces" of the market and technology are free to produce their benefits.

I think, however, that state institutions should also pay attention to global changes so they are ready to act when necessary to overcome major crises in the economy, which are occurring with greater frequency. Political transformations are fundamental when the economy is changing so rapidly.

"Successful economic development must integrate technological and institutional change," wrote Argentina's president, Carlos Menem, recently. "The idea that technological change is the only source of economic growth is pure determinism, a refusal to interpret history as a link between what is political and what is economic."[1]

In Argentina, as in the rest of the world, certain government agencies and ministries have been increasing their power and their skills at inserting their countries into the world market. Ministries of economy, trade, and industry have had to transform themselves to enter the new game, and are now major players who set the rules so that their states are not mere "victims" of the global economy. In addition, agencies related to taxation and imports and exports have become increasingly important to regulate the flow of capital in and out of the country.

This process is not usually analyzed when studying the effects of globalization. As Dr. Sassen puts it, globalization "has to do with the developments inside national states of the mechanisms necessary to accommodate the rights of global capital in what are still national territories under the exclusive control of their states."

Private institutions have also increased their participation in the regulation of the economy. But as Dr. Sassen says, they carry the implicit or explicit participation of select components of national states, retaining for themselves the final say. In Chile, for example, legislation has been passed to more strictly control investment capital that reaches the country, preventing it from vanishing quickly when there is an economic panic. Even Chile, one of the Latin American countries that actively encourages foreign investment, realizes there should be limitations on the fate of that capital. The state becomes a buffer between its people and the world economy. For Dr. Sassen, two significant roles of the state right now are (1) to negotiate the interaction of national law and foreign actors and (2) to make laws that secure the exclusive territoriality of national states.

I agree with these points, and I would add that it is necessary to recognize that states still rely on their armed forces to protect their material resources from other states. As Robert Keohane and Joseph Nye put it: "Military force still plays a significant role in relations between states, and in a crunch, security still outranks other issues in foreign policy."[2] Further, they indicate that states continue to command the loyalties of the vast majority of the world's people, and the state's control of material resources represents a third to half of GDP in most wealthy countries.[3] States themselves are major economic players.

As for the interaction of states and other actors such as multinational companies or international organizations, the powers traditionally regarded as a prerogative of the state now seem more dispersed. Nonetheless, there are attempts to establish a world governance through common laws and practices that regulate the action of new actors within and outside states.

The concept of a world government may remain far in the future, but multilateral work between states is constructing the environment for a new kind of global administration, or, as Dr. Sassen phrases it, "an emerging institutional framework to govern the global economy."

The World Trade Organization (WTO) general director Renato Ruggiero said after a recent meeting to discuss the Multilateral Agreement on Investment: "We are writing the Constitution of a unified world economy."[4] That approach to global economic issues is designed to prevent the disastrous consequences of investors abruptly fleeing from a particular region of the world. Existing international institutions are frequently inefficient and incapable of anticipating market crises such as the one we are now experiencing, but the situation would be much worse without these institutions. Countries like Mexico, Indonesia, Russia, Thailand, and South Korea would suffer even more, and the general panic quite possibly would lead to a severe world recession.

The International Monetary Fund (IMF) may have its serious problems, but the solution is not, as many suggest, to get rid of it. We should work to make it more efficient by giving it more autonomy and a permanent flow of money so that it can quickly intervene when countries have financial difficulties.

In a recent convocation at the IMF, many leaders from 182 countries suggested that there should be a decision-making body within the Fund with real political authority. They have also pressed the United States to approve $18 billion to support the IMF. In short, without states taking a more active role in monitoring and controlling the world economy, the risk of an economic debacle increases. And if the world's most powerful state does not assume its position as a leader, the risk of a general recession is even greater.

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Regional organizations are an important component of the globalized economy. Countries that participate in such groups are more capable of competing with others. My country, Argentina, is part of a regional effort to strengthen our economic position in the world. On March 26, 1991, in Asuncion, Paraguay, a treaty was signed between Argentina, Brazil, Uruguay, and Paraguay providing for the creation of a common market among the four participants, to be known as the Southern Common Market (Mercosur). In 1996 and 1997, the agreement was expanded to include Chile and Bolivia as associate members, and there are plans to eventually include Venezuela and Peru, as well.

Mercosur's member countries have a total population of 200 million individuals living in an area that covers more than 12 million square kilometers. The combined GDP is more than one trillion U.S. dollars, and the productivity in the region has increased at a rate of 5.5 percent per year since 1990, although it is expected to slow down in response to the stock-market crisis in Asia and Russia.

The Asuncion Treaty and the Ouro Preto Protocol established the basis for the institutional Mercosur structure, creating common institutions such as the Common Market Council and the Common Market Group. A whole new legal regime was then necessary to deal with this new multinational structure, and all four member countries had to coordinate their laws to make the new entity more secure and trustworthy for investors. As Argentina's president articulated it: "The central element of a competitive economy, whose fundamental reference is the global scale, is increased juridical trust."[5]

In the meanwhile, new agencies were created to manage the relations between the states involved. And these "intermediary strategic agents," as Dr. Sassen calls them, are becoming increasingly powerful in such areas as finance regulation and arbitration. An example of this is the Socioeconomic Advisory Forum, a consultative body that represents the various socioeconomic sectors of the member nations.

With the formal establishment of Mercosur, whose main objective is to increase our competitiveness in the global market, the members had to reduce their deficits, become fiscally responsible, and banish most of the state-owned companies that were a burden and a drain on national accumulation. Savage privatization took place without consideration for the fact that many of the industries that were sold were major employers. The result was a steep rise in unemployment, which soared to 18 percent at one point in Argentina.

Mercosur is not alien to the processes of centralization of firms and profit appropriation that Professor Sassen describes. The big corporations of Brazil and Argentina got a better share of the market than did their counterparts in Uruguay and Paraguay. The concentration of economic power in cities such as Buenos Aires, São Paulo, and Rio de Janeiro is also evident, while some regions in the interior of these countries have become increasingly impoverished. This is especially evident in northeast and central Brazil. There, the sharp disparity between the rich landowners and the poor peasants led to the formation of the Movement of Landless Workers, an organization that decided to occupy by force the unused land of the region. The conflict has resulted in many grave incidents of violence.

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Dr. Sassen argues that the state has been "weakened in many of its authorities, especially those linked to the social fund," but she doesn't expand on that serious point. I think, however, scholars should pay particular attention to this issue. Although the consequences of this weakness are not yet visible in industrialized countries, they clearly are in developing nations, where so much of the population still depends on welfare, and the gap between rich and poor is getting even wider. If there is no social safety net providing for those who are most in need, the idea of real democracy in capitalistic countries will become a farce. Moreover, when analyzing the changes that a globalized economy produces in the state structure, it is important to monitor the environmental damage that frequently results.

With these two issues in mind, I share the ideas of Robert Cox, who sees a need to redesign the state. Cox proposes that economic growth must be managed in a manner consistent with ecological balance and social equity and that financial transactions must be regulated in order to serve the real economy and to curb speculation, destructive asset stripping, and corruption.[6]

The globalization of the economy has brought a new perspective to such problems as poverty, environmental degradation, the drug trade, corruption, and terrorism. The state cannot be a mere bystander in the face of radical changes, especially in the economic realm. The state is not disappearing. It is, rather, evolving into separate, functionally distinct parts that will eventually render it more effective and more accountable.[7]

The state should act as a competent supervisor of the economic exchanges that affect its people. In a globalized economy, where people are more vulnerable to the negative effects of capitalism, the state has crucial tasks. One of these is to assume an important role in setting the rules for this new game we don't yet know how to play.

Notes

1. Carlos Menem, "Enter Argentina: Democratization, Trade, and Economic Expansion," *Harvard International Review* (Summer 1998): 19.

2. Robert Keohane and Joseph Nye, Jr., "States and the Information Revolution," *Foreign Affairs* (September/October 1998): 84.

3. Ibid., 82.

4. Lori Wallach, "Le nouveau manifeste du capitalisme mondial," *Le Monde Diplomatique* (February 1998): 22

5. Ibid., 20.

6. Robert Cox and Timothy Sinclair, *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), 533.

7. Roy MacLaren, "Government and National Parliaments: How Relevant Is Economic Globalization and Regionalization in the Next Millennium," Vital Speeches (1 May 1998): 425.