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*Benjamin J. Cohen*

### Introduction

The financial crisis that engulfed the world economy in 2008 would not have surprised Susan Strange. Indeed, some would say that she predicted it in her last publications prior to her untimely death in 1998. “The Western financial system,” she wrote in 1986, “is rapidly coming to resemble nothing as much as a vast casino. . . . This cannot help but have grave consequences” (1986: 1–2). Little more than a decade later, she concluded, the casino had gone mad—“erratically manic at one moment, unreasonably depressive at others” (1998a: 1). For Strange, financial instability had become “*the* prime issue of international politics and economics” (1998a: 18, emphasis in the original), calling urgently for a remedy of some kind. Disaster awaited if we could not find a way to prevent the sort of contagious crises that had hit Latin America in the 1980s and East Asia in 1997–8.

The core problem, Strange insisted, was that markets had “outgrown” governments, eroding the global system’s “political underpinnings.” In her words: “The international political system, based on an obsolete principle of the sovereignty (i.e., immunity from interference) of territorially defined states, lags pathetically behind a world market economy of great power but little sense of social or moral responsibility” (1998a: 44). The result, she lamented, was a loss of any semblance of governance—a dispersal of power that had, in effect, left no one in charge. Again in her words:

At the heart of the international political economy, there is a vacuum. . . . What some have lost, others have not gained. The diffusion of authority away from national governments has left a yawning hole of non-authority, ungovernance it might be called.

(1996: 14)

Was Strange right? Has authority dissolved into a mist of ungovernance—a vacuum of power at the heart of the system? Or was she unduly pessimistic, her vision perhaps clouded by impending signs of her own mortality? At issue are the links between money and power in the world economy today. Strange thought long and hard about the many complex ways in which money and power interact in global affairs. My goals in this essay are twofold—first, to provide some retrospective

comments on what Strange had to say on the nexus of money and power: and second, in the light of what she had to say, to assess her vision of where the monetary system is heading. Following Strange, money for the purposes of the essay will be understood to encompass all aspects of currency and financial relations, including the processes and institutions of financial intermediation as well as the creation and management of money itself.

My view is that Strange was both right and wrong. An acute observer, she was certainly right about the growing danger of crisis in the mad casino of global finance. The proof of the pudding is in the eating. Disaster did in fact strike, starting with the collapse of America's housing boom in 2007–8, and its effects linger yet. She was also right that markets have outgrown governments, dispersing power among a widening cast of actors. It has now become a cliché among students of globalization to bring attention to the widening disparity between the legal jurisdiction of states and the operational domain of markets. But she was wrong, in my opinion, to label this as “ungovernance.” Chaotic though it may be, the system is not without authority: faulty management is not the same as a power vacuum. The error lies in Strange's understanding of power, which for all its insight was regrettably too limited to capture all that is going on in today's international finance. Power still matters, but in ways that Strange does not appear to have fully appreciated or anticipated. This interpretation puts me at odds with most of the other contributors to this collection, who are inclined to take a somewhat less critical view of Strange's ideas on power.

### Strange on money and power

The linkage between money and power was one of the most enduring themes in Strange's work, forming literally the alpha and omega of her lifetime corpus of scholarship—the subject of her first book, *Sterling and British Policy* (1971), as well as of her last, *Mad Money* (1998a). In between came two other major financial studies: a detailed and comprehensive history of post-World War II monetary relations (1976a) and *Mad Money*'s predecessor, *Casino Capitalism* (1986). Currency and financial issues also figured prominently in her widely read text *States and Markets* (1988b; second edition 1994) as well as in many shorter papers. The politics of money, it is safe to say, was never very far from her thoughts.

By her own admission, however, Strange was no theorist. Indeed, she had a suspicion of grand theory in the study of international political economy (IPE). Her aim, as two of her colleagues once put it, was not “to develop a full theory of IPE, but a way of thinking, a framework for thinking” (Tooze and May 2002: 15). Nothing better illustrates the nature of her intellectual approach than her thoughts on the issue of power, which have been described as her “most significant contribution towards IPE” (ibid.: 8).

For Strange, power was central to any explanation of the character and dynamics of the global economy. Her views on power began to crystalize systematically as early as 1975 in an article entitled “What is Economic Power and Who Has It?” (Strange 1975), though at the time she was much more interested in the Who than

the What. The main goal of the article was to emphasize the role played by private transnational actors, in addition to governments, in the exercise of economic power. In bringing transnational actors into discussions of power Strange was a pioneer, though in this volume she is criticized by Ronen Palan for not casting her net wide enough. For Palan, Strange's omission of what he calls ARMA—networks of activist organizations, regulators, the media and (some) academics—is a serious deficiency.

Two decades later Strange's views were still evolving in another article published in 1994, entitled “Who Governs? Networks of Power in World Society” (Strange 1994a), and in her 1996 book *The Retreat of the State* (Strange 1996). Over the course of the intervening years her thoughts were most fully spelled out in *States and Markets*, where she first formally highlighted the insight on power for which she was to become best known—her idea of *structural power*.

Traditional studies of world politics, which Strange criticized as narrow and old-fashioned, had mostly tended to identify power with tangible resources of one kind or another that enhance an actor's capabilities: territory, population, armed forces, and the like. But in economic affairs, Strange argued, what mattered most was not physical endowments but rather structures and relationships—who depends on whom and for what. As she later summarized (1996: 25): “I think capabilities or resources are a poor way of judging relative power; it is more ‘power over’ than ‘power from’ that matters.”

Seen in this light, she continued, power could thus be understood to operate at two levels, relational and structural. *Relational power* was the conventional “power of A to get B to do something they would not otherwise do” (1988b: 24), relying on instruments of overt coercion and/or bribery. *Structural power*, by contrast, was “the power to shape and determine the structures of the global political economy . . . the power to decide how things will be done, the power to shape frameworks within which [actors] relate to each other” (1988b: 24–5). In other words, structural power was the power to set the agenda that defined the choice set available to others. Four key structures were identified: security, production, finance, and knowledge. Of most direct relevance here of course is the financial structure: “the sum of all the arrangements governing the availability of credit plus all factors determining the terms on which currencies are exchanged for each other” (1988b: 90).

Over the years, Strange's ideas about power proved transformative, providing precisely what she aspired to offer—a handy way of thinking. Her approach soon became extraordinarily popular, owing no doubt to its seeming clarity and insight. For generations of scholars in Britain and elsewhere, her notion of structural power has been a core inspiration—a central tenet of what I have elsewhere described as the British school of IPE (Cohen 2008a). In this volume, her notion of structural power is used in this vein—which is to say, more or less uncritically—by most of the contributors, including in particular Murphy, Schwartz, and Germain.

Even the most inspired thoughts, however, are apt to have their limitations—and Strange's ideas about power are no exception. By no stretch of the imagination could her musings be described as genuine theory in the accepted sense of the term: formal analysis of causal relationships. In this volume the point is noted

*inter alia* by Cutler, who concedes that “what is missing is a sense of causation.” Strange’s great gift was her talent for making even the dreariest subjects come vividly alive. A one-time journalist, she tended to paint in broad strokes—to Think Big—downplaying niggling caveats or qualifications. Not for her the demands of standard positivist analysis or any of the sophisticated empirical methodologies that are so central to what I have called the American school of IPE. (That explains, perhaps, why her ideas have met with much less favor in the United States.) There is no doubt that her capacity to Think Big added much to our understanding of power in the global economy. But there is also no question that her framework left many loose ends to be tied up by others.

With the wisdom of hindsight, three lessons become clear. First, Strange’s approach emerges as less original than many have imagined. That, by itself, is no crime, but it does take some of the luster off her historical legacy. Second, her core concept of structural power is more ambiguous than many have admitted. The clarity of her conceptual approach, however appealing, was in fact rather deceptive. And third, it is evident that her understanding of the meaning of power was incomplete, limiting her vision of where the financial system was heading. The intense pessimism of her outlook seems excessive and unwarranted.

### Originality?

The two key ingredients of Strange’s approach to power were, first, the distinction between tangible resources and actor relationships as alternative sources of power; and second, the distinction between relational power and structural power as alternative means to achieve objectives. Both ingredients were insightful and certainly deserve the popularity that they have sustained among British-school scholars. Neither, however, was especially original. Each, in fact, had been anticipated by others in the literature of international relations (IR) or IPE, though nowhere in *States and Markets*—apart from one brief, unhelpful endnote—are previous contributions acknowledged in any way. Strange’s own thoughts on these matters may be fairly described as derivative.

Consider, for instance, the sources of power. What endows an actor with power capabilities? Strange was right in suggesting, at the time she was writing *States and Markets*, that tradition mostly tended to favor an emphasis on tangible resources. With roots going back to the early realists, that view has been variously labeled the “elements-of-power” approach or “power-as-resources” approach. Power was said to be derived from specific properties or characteristics of actors, which could be called power assets. Strange was also right to criticize the traditional approach as narrow and old-fashioned, since it tended to ignore what David Baldwin (2012), an acknowledged expert on the subject, terms the “fungibility problem”—the fact that what functions as a power asset in one context (say, nuclear weapons) may be totally useless in another context (say, trade negotiations). In short, diverse power resources may not be interchangeable (fungible). And she was right to identify power as a type of causation derived from the structure of relationships among actors. Today, most mainstream scholarship agrees that what really matters are the

structures and relationships in which power assets may be used. Various labels—the “relational power” approach or “social power” approach, the now dominant view sees power as a function of actual or potential interactions—a social or relational property—rather than derived simply from the material possessions of actors.

But being right is not the same as being novel. With good reason, Baldwin (2012: 275) describes the shift to a relational concept of power—the social power approach—as a “revolution” in power analysis. But as he goes on to note, challenges to the older property concept actually began as early as the 1950s and were already widespread by the 1980s. And nowhere was that more evident than in the emerging field of IPE in the United States, well before the first appearance of Strange’s *States and Markets*. As early as 1968, economist Richard Cooper began to pave the way with a landmark study of the political challenges posed by the growing interdependence of national economies (Cooper 1968). And a year later came the reissue of a long-neglected classic by Albert Hirschman, *National Power and the Structure of Foreign Trade* (Hirschman 1945/1969), highlighting how relations of dominance and dependence among states may arise naturally from the asymmetries of foreign commerce. Summarized by Robert Keohane and Joseph Nye in 1973, it was now possible “to regard power as deriving from patterns of asymmetrical interdependencies between actors in the issue-areas in which they are involved with one another” (Keohane and Nye 1973: 122). The basic question, in simplest terms, was: Who needs whom more? Power could be understood to consist of an actor’s control over that which others are dependent on. Strange, in later writings, showed some awareness of these earlier contributions but gave them no credit for helping to inspire her own analytical approach.

Likewise, consider Strange’s distinction between relational and structural power. That element was not entirely new, either. It is true that in the mainstream IR literature, going back to the early work of Robert Dahl (1957), scholars had long tended to equate power with a direct capacity to shape the behavior of others. But as early as 1962 two US political scientists, Peter Bachrach and Morton Baratz (1962), had usefully pointed out that direct action represented just one “face” of power, and perhaps not even the most important. Power might also have a *second* face that operates more indirectly through the constraints and opportunities created by systemic infrastructure. They too thought in terms of agenda setting—the capacity to shape the incentives and payoffs available to other actors. Behavior might be driven by a logic of consequence determined at the *systemic* level. For the second face of power, what matters is not the character of specific interdependencies but rather the overall *structure* of relationships in the world economy. In most respects, Strange’s concept of structural power corresponds closely to Bachrach and Baratz’s second face, which can also be understood as a form of structural power.

Similarly, I might modestly point out that in a study that I published in 1977 (Cohen 1977)—a book that Strange reviewed, not unkindly (Strange 1979a)—I tried to make the same distinction that Strange did later, labeling the two levels as “process power” and “structure power.” The genealogy of the distinction between the two forms of power has more recently been spelled out by Eric Helleiner (2006) and Carla Norrlof (2014). Here too, in later writings, Strange showed some

awareness of earlier contributions—most explicitly in her 1994 article “Who Governs?” (Strange 1994), where she cited previous theorizing about separate “levels” of power by *inter alia* Steven Lukes (1974) and Robert Dahl (1984). Lukes and Dahl are also listed, albeit without discussion, among the references in *The Retreat of the State* (Strange 1996).

Remarkably, there is an entire chapter in *The Retreat of the State* devoted to “Patterns of Power” that fails even to mention Lukes or Dahl, nor is there any acknowledgment of what role, if any, the US-based IR literature might have played in inspiring her own work. Today it is well understood that Strange was by no means the first to think along these lines.

### Structural power

Of course, there is no shame in being derivative. Indeed, if the Old Testament Ecclesiastes is to be believed, there is really nothing new under the sun. We all stand on the shoulders of giants, as Sir Isaac Newton put it. That is, we all build on foundations laid by others. So did Susan Strange. The test is how well we build on those foundations: what value we add. Judging by the longevity of Strange’s ideas, it seems fair to say that the value she added was considerable. That would appear to be especially true of her notion of structural power, which she elaborated in detail and which continues to animate much contemporary scholarship.

The appeal of the notion is understandable. Structural power appears to obviate the need to engage in purposive acts of coercion or bribery to get others to do what you want. Once structures are established, shaping incentives and payoffs, behavior will follow naturally. Control can be exercised indirectly rather than directly. In Strange’s words (1988b: 31):

The possessor [of structural power] is able to change the range of choices open to others, without apparently putting pressure directly on them to take one decision or to make one choice rather than others. Such power is less “visible.” The range of options open to the others will be extended by giving them opportunities they would not otherwise have had. And it may be restricted by imposing costs or risks upon them larger than they would otherwise have faced, thus making it less easy to make some choices while making it more easy to make others.

Appearances, however, can be deceiving, as we well know, and Strange’s notion of structural power is no exception. As Helleiner (2006: 74) notes, the idea has long been criticized for its “lack of precision.” Put differently, it is seriously undertheorized, leaving important questions unanswered. A brief review of three key questions should suffice to illustrate some of the ambiguities that remain.

- (1) *Where do structures come from?* One is tempted to reply that structures are derived from either specific properties (the power-as-resources approach) or relational asymmetries (the social power approach). But as Robert Keohane (2000)

has pointed out, both responses would be essentially tautological, since they each conflate the key distinction between power as a set of capabilities and power as the ability to affect outcomes. In Keohane’s words: “If structure is the ability to affect outcomes, then it will *necessarily* determine power relationships, as a matter of definition” (Keohane 2000: xi, emphasis in the original). The issue is how one particular actor, rather than another, comes to be the arbiter of how things will be done. On this point, Strange offered little in terms of causal analysis. Her approach was essentially descriptive. Though her discussion in *States and Markets* set out a rich array of illustrations, it lacked any kind of formal conceptualization of origins or historical evolution. Acknowledges one of Strange’s most devoted followers, her “famous four structures” were really no more than “a mere organising framework, a heuristic typology in place of a theory” (Palan 2003a: 121).

- (2) *Is structural power purposive?* At issue here is agency (action). Does structural power entail deliberate manipulation of systemic infrastructure to alter incentive structures? Or may it operate more passively, without conscious intent, simply through the weight of the existing framework of activity? For Bachrach and Baratz (1962), the second face of power—their version of structural power—was essentially passive. The capacity to shape constraints and opportunities was not necessarily sought; for the most part, it was simply the incidental by-product of other capacities. The idea is captured well by Lloyd Gruber (2000), who coined the term “go-it-alone” power: the ability to unintentionally influence the choice sets available to others. Going it alone, he writes, some actors

can have the effect of restricting the options available to another group (the losers), altering the rules of the game such that members of the latter group are better off playing by the new rules despite their strong preference for the original . . . status quo.

(Gruber 2000: 7)

The causal mechanism works along the lines of the sequential Stackelberg leadership model of game theory. One actor (the leader) moves unilaterally, establishing a payoff structure; others (the followers) then must decide how best to respond.

For Strange, by contrast, much more intentionality was involved. It is true, she conceded, that structural power “need not be . . . consciously or deliberately sought. . . . Power can be effectively exercised [simply] by ‘being there’” (Strange 1996: 26). But for her that was the least interesting aspect of the concept. In her view, the whole point of structural power was the ability to extract advantage—to favorably control outcomes. Even if it was not sought, once a capacity to set the agenda became manifest it was bound to be used purposively to promote self-interest at the expense of others. What good is an ability to bend the rules in your favor if it is not used? Targeted exploitation of privilege was the name of the game. Throughout *States and Markets*, Strange’s illustrations of structural power largely involved pro-active policies by dominant actors—most prominently, the United States,

whose global hegemony she seemed at pains to demonstrate was at the time as great as ever. "Using this model or analytical framework," she wrote, "the conclusion seems inevitable that the United States government . . . [has] not in fact lost structural power in and over the system" (1988b: 28). In an insightful analysis, Stefano Guzzini (1993) labels this aspect of the concept "indirect institutional power"—the deliberate manipulation of the rules of the game through specific decisions or even what Strange (1986) elsewhere called "non-decisions."

But this interpretation leaves two major questions unanswered. First, if structural power is wielded intentionally, just like relational power, is there really any difference between the two? Both are forms of authority that are deliberately exercised to achieve preferred outcomes. At one point, in an article published in 1989 (Strange 1989), Strange took a stab at resolving the issue by introducing a distinction between America the *state*, wielding policy instruments directly to achieve narrowly self-interested goals, and America the *empire*, a kind of expanded version of US hegemony concerned with broader systemic rules and institutions. But she never followed up in any systematic way. The question remains unanswered.

Second, why would the *diktat* of structural power be tamely accepted? In a widely cited treatise, Hirschman (1970) analyzed the possible choices available to the members of an organization or system when circumstances become less favorable. Three options, he suggested, were available: *exit* (withdraw from the relationship), *voice* (seek to improve the relationship), or *loyalty* (acquiesce in the relationship). Strange's approach seems to assume that loyalty is the only possible response. The revised payoff structure, however exploitative, will quickly take force. Nowhere does she seriously consider the alternative possibilities of either voice or exit. Hence we have no clue as to what could determine when actors might choose to contest or abandon a new set of rules rather than passively comply.

At issue, as Sell (this volume) perceptively notes, is the question of legitimacy. Strange's approach implies willing acceptance of the authority of the leader. But as has often been pointed out (Pauly 2006; Walter 2006), followership cannot be taken for granted. Authority, in the famous formulation of Hannah Arendt (1968), falls somewhere between the contrasting modalities of coercion and persuasion. And we know from Max Weber (1925/1947) that authority may derive from a variety of sources, including law, tradition, and charisma. But we also know that there is nothing inevitable about authority. Followers must regard the rules as legitimate. If they do not, structural power may have much less grip than Strange tended to assume.

- (3) *Is structural power beneficial?* Implicit throughout *States and Markets* is an assumption that structural power must be good for the leader. That would certainly not seem an unreasonable premise. Indeed, it would almost surely hold true for the kind of structural power that is exercised purposively. Why deliberately manipulate the rules of the game, after all, if no gain is to be expected? But it would not necessarily hold true for the kind of structural power that emerges without conscious intent—"go-it-alone" power that simply results from "being there." At times, in such circumstances, agenda setting

may actually operate not to the leader's benefit but rather to its disadvantage. A single illustration should suffice to demonstrate the point.

Consider the central position of the US dollar in the monetary system, which is assumed to give the United States considerable structural power. Among the several international roles played by America's greenback is that of anchor currency: the money that other countries use to guide their own exchange-rate policies. A money can function as an anchor when other currencies are tied to it in one way or another—e.g. as a formal peg or as a key component of a currency "basket." In recent years as many as sixty countries have aligned their exchange rates with the dollar, formally or informally, and use the greenback as their principal medium of exchange intervention. That would certainly seem to be evidence of a Stackelberg model at work. The United States acts unilaterally, as it typically does, exploiting what is often described as its "exorbitant privilege." Others then decide whether or by how much to follow in Washington's wake.

But does this work to America's advantage? The answer is: Not necessarily. At the microeconomic level, admittedly, there may be some gain for US market actors. More stable currency relationships mean lower exchange risk, reducing transactions costs. But at the macroeconomic level there may actually be considerable disadvantage, since the United States effectively loses control of its exchange rate. The nominal value of the dollar is determined not by US policy makers, but by the intervention practices of others. Foreign preferences cannot always be expected to coincide with the interests of the United States. Faced with external deficits, for instance, Washington might wish to engineer a depreciation of the greenback in order to gain a competitive edge in foreign trade. But depreciation is impossible unless it is ratified by the interventions of America's trading partners, who may prefer otherwise. Others retain the freedom to manage their own exchange rates. The price of the dollar simply adjusts as a residual. The United States thus loses a degree of policy autonomy—in effect becoming, in the words of the historian Harold James (2009a: 30), "a hostage of the international monetary system." Scenarios like this do not seem to have been anticipated in Strange's discussion of monetary power.

### Meaning of power

Finally, we come to what is perhaps the most serious loose end left to us by Strange's analytical framework: her largely unquestioned assumption about what we mean by power. For Strange, power was synonymous simply with influence: a capacity to exercise leverage or enforce compliance. That was a consistent theme throughout all of her writings on the subject (e.g. Strange 1975; 1988b; 1994a; 1996). In this respect her understanding was utterly conventional. She was also in good company. Most scholars of IR and IPE share the same view. Power is seen as an ability to control behavior—to "let others have your way," as diplomacy has jokingly been described. Typical is a recent survey of the subject by Baldwin (2012) in which he explicitly equates power with influence or control. Strange could hardly be faulted for following what is still common practice.

Influence, however, is not the only possible meaning of power. There is also a vital second meaning, as peace researcher Berenice Carroll (1972) long ago reminded us. That meaning corresponds to the generic dictionary definition of power as a capacity for action (going back to the Latin root for power, *potere*—"to be able"). We might call it "policy space." An actor is also powerful to the extent that it is able to exercise policy independence—to act freely, more or less insulated from outside pressures, and to deflect the influence of others. In this sense, power does not mean influencing others; rather, it means not allowing others to influence *you*—others letting *you* have your way. A useful synonym for this meaning of power is *autonomy*.

Conceptually, as I have argued elsewhere (Cohen 2006), influence and autonomy may be understood as two distinct (albeit interrelated) dimensions of power. We may label them, respectively, the external and internal dimension. Roughly analogous is the familiar distinction between the notions of "power over" and "power to" that is increasingly found in the IR and IPE literatures (Pansardi 2011). Scholars who focus on one actor's power *over* others are speaking of influence, the external dimension. Those who, by contrast, concentrate on what actors can achieve (power *to*) are speaking of autonomy, the internal dimension. In practical terms, it is evident that power has two dimensions, not just one. As Robert Dahl notes (1984: 33): "The logical complement of influence is autonomy."

For the most part, regrettably, the extant literature tends to downplay the dimension of autonomy, focusing attention primarily on questions of influence. Only rarely does the "power to" take center stage, as in the "realist structural theory" of Richard Harknett and Hasan Yalcin (2012) with its core emphasis on the "struggle for autonomy." I would submit, however, that the distinction between the two dimensions is critical. Both are based in social relationships and can be observed in behavioral terms; the two are also unavoidably interrelated. Real value is added by bringing autonomy into the picture alongside influence.

Not everyone agrees. For many, this may simply be a distinction without a difference—a conceptual redundancy. Influence, it could be argued, is inherent in the notion of autonomy, inseparable in practice. International relations are inescapably reciprocal. Hence a potential for leverage is automatically created whenever policy independence is attained. By definition, a capacity to act unilaterally may generate repercussions or ripple effects—in technical language, "externalities"—that compel others to react in one way or another. In that sense, a measure of influence is necessarily generated as an inescapable corollary of autonomy. The two, it might be said, are not really complements at all. Rather, they could be seen merely as two parts of the same whole.

That kind of argument, however, overlooks a key additional distinction. We may also speak of two distinct *modes* of influence: passive and active. The influence that derives inherently from autonomy is *passive*, representing at best an incidental by-product of power: it can be said to exist at all only because of the exercise of autonomy. Moreover, the impacts involved are diffuse and undirected. There is no agency (action) or intentionality involved. That kind of passive power is very different from what is conventionally meant by influence in power analysis, which

most often is understood to imply some degree of deliberate targeting or intent—"purposeful acts," in the words of David Andrews (2006). Autonomy translates into influence in the accepted sense of the term—a dimension of power aiming to shape the behavior of others—only when the potential for leverage is *activated*, self-consciously applied to attain economic or political goals. Otherwise, when the potential is not activated, autonomy remains distinct from influence in the accepted sense.

Moreover, as a practical matter, the distinction between autonomy and influence can have profound implications for the way we understand the balance of power among states. Arguably there is a critical organic relationship between the external and internal dimensions. Though not all scholars agree, logic would seem to suggest that power begins with autonomy; influence should be best thought of as functionally derivative. In practice, an ability to exercise leverage abroad would seem inconceivable without first attaining and sustaining a relatively high degree of policy independence at home. First and foremost, actors must be free to pursue their goals without outside constraint. Only then would they be in a position, *in addition*, to exercise authority elsewhere. As the saying goes in American football, the best offense starts with a good defense.

That does not mean that autonomy must be enjoyed in *all* aspects of international affairs or in *all* geographic relationships in order to be able to exercise influence in any single context. States can successfully apply leverage in selected issue areas or relationships even while themselves being subject to pressure or coercion in others. But it does mean that in a *given* context, power would seem to begin at home. First and foremost, policy makers must be free to pursue national objectives in the specific issue area or relationship without outside constraint; to avoid compromises or sacrifices adopted in order to accommodate the interests of others. Only then would a state be in a position, *in addition*, to enforce compliance elsewhere. Autonomy, the internal dimension, may not be *sufficient* to ensure a degree of foreign influence. But it would certainly appear to be *necessary*—the essential foundation of influence. In any given context it is possible to think of autonomy without influence; it is very difficult to think of influence without autonomy.

Autonomy is, of course, prized by actors in every aspect of international relations. But its salience is most evident in the monetary sphere, where actors are inescapably linked through a bewildering diversity of transactional flows and stocks of claims and liabilities, all based ultimately on some degree of trust. In a climate where emotions can turn on a dime, causing fortunes to shift abruptly, a measure of insulation from worldly vicissitudes is likely to be especially highly prized. Not everyone in the monetary sphere is necessarily looking for influence. But we can be sure that most are highly conscious of the value of effective autonomy.

Strange's failure to consider the internal dimension of power helps to explain where she went awry in her reading of casino capitalism. Power has not necessarily disappeared into a "yawning hole of non-authority." Authority remains but to a striking degree has taken a different shape, with unanticipated consequences for the quality of monetary management.

### Leaderless diffusion

As indicated, Strange was not wrong in insisting that authority in the system had diffused. There is no question that monetary power today is far less concentrated than it once was. But this does not mean that we are all doomed to a bleak future of anarchic “ungovernance.” Governance has not disappeared, no matter how mad the casino seems to have become. Rather, the nature of governance has changed, albeit not necessarily for the better. Overall, as I have suggested elsewhere (Cohen 2008b), the system has become increasingly *leaderless*, and as a result governance structures have become more ambiguous, adding considerably to uncertainty and risk for all. A proper understanding of power helps us to understand how authority is really exercised in contemporary circumstances.

### Diffusion

For both states and societal actors, the distribution of monetary power has shifted dramatically in recent decades. Not long ago the global system was dominated by a small handful of national governments, led first and foremost by the United States. Most actors felt they had little choice but to play by rules laid down by America and, to a lesser extent, its partners in the Group of Seven (G7): markets operated within strict limits established and maintained by states. Today, by contrast, power has become more widely diffused, both among governments and between governments and market agents, just as Strange said.

What Strange missed, however, is that the diffusion of power has been mainly in the dimension of autonomy rather than influence—a point of critical importance. While more actors have gained a degree of insulation from outside pressures, few as yet are able to exercise greater authority to shape events or outcomes. Thus it is not that *no one* is left in charge, as Strange lamented. Rather, it is that *too many* are now in charge—that is, more in charge of their own destiny, able to act freely regardless of the preferences of others. Leadership can no longer be exercised by any one actor or group of actors in particular—a pattern of change in the governance of finance that might be called *leaderless* diffusion.

Three major developments are principally responsible: (1) the creation of the euro; (2) wide global payments imbalances; and (3) the globalization of financial markets. Each of these developments has effectively added to the population of actors with a significant degree of autonomy in monetary affairs.

In the case of the euro, the creation of a common currency was always expected to give Europe a greater degree of autonomy in monetary affairs. Monetary union would reduce the region’s vulnerability to foreign-exchange shocks. With a single joint money replacing a plethora of national currencies, participants would no longer have to fear the risk of exchange-rate disturbances inside Europe and, in combination, would now be better insulated against turmoil elsewhere. Moreover, with growing acceptability of the euro elsewhere, Europeans would now enjoy a much improved international liquidity position. Deficits that previously required foreign currency could now be financed with Europe’s own money, thus enhancing

the region’s insulation against outside pressures. Conspicuously, Europe has so far failed to convert its enhanced autonomy into a greater capacity for influence in monetary affairs. Contrary to the predictions of many, the euro has yet to establish itself as a truly global currency, thus depriving participants of an instrument that might have been used to help shape behavior or outcomes. Nor has the monetary union yet enabled European governments to play a more assertive role at the International Monetary Fund or other world monetary forums. Nor have the region’s sovereign debt problems helped. Yet there seems little doubt that Europe today, as a group, is now freer than before to pursue internal objectives without external constraint.

Other governments have also enhanced their policy space as a result of the wide payments imbalances that have persisted across the globe in recent years—in particular, the large and persistent deficits of the United States, matched by counterpart surpluses elsewhere, most notably in East Asia and among energy-exporting nations. In terms of the autonomy dimension of power, the impact is obvious. The vast stockpiles of reserves that have been amassed by surplus countries—China, above all—offer an effective form of self-insurance against external shocks. To date there is little evidence that influence has been much amplified as a result. But it is certainly clear that with their vastly improved international liquidity positions, such countries now enjoy more leeway for action than they did before. Their “power to” is not absolute; as much as their policy independence has been expanded, they still remain in a dependent relationship vis-à-vis reserve centers like the United States, which control access to their reserve holdings. Yet there is little doubt that, relatively, they are now much better placed than before to resist most kinds of outside pressure.

Finally, there is the change in the international monetary environment that has been wrought by the globalization of financial markets. The story is familiar. Where once most financial markets were firmly controlled at the national level and isolated from one another, today across much of the globe barriers to the movement of money have been greatly reduced or effectively eliminated, resulting in a scale of financial flows unequalled since the glory days of the nineteenth-century gold standard. One consequence, observers agree, is a distinct shift in the balance of power between states and societal actors. By promoting capital mobility, financial globalization enhances the authority of market agents at the expense of sovereign governments. Key to the shift is the wider range of options that comes to privileged elements of the private sector with the integration of financial markets: a marked increase of autonomy for societal actors in a position to take advantage of the opportunities now afforded them. In effect, financial globalization means more degrees of freedom for selected individuals and enterprises—more room to maneuver in response to actual or potential decisions of governments.

### Ambiguity

All these developments, in turn, have had a profound impact on governance structures in the financial sphere. The greater the population of actors with a significant



degree of autonomy, the harder it is to reach any sort of consensus on critical questions. By definition, autonomous agents can more easily resist pressures to conform. Hence a greater degree of ambiguity has been introduced into the way the system is run. Strange was hardly exaggerating when she said that the system's political underpinnings were eroding. Effective management is clearly more elusive than ever. But by no means is that the same as a vacuum. A leaderless system still makes rules. It just makes them differently.

Traditionally, monetary governance relied most heavily on formal or informal negotiations among states, often in partnership with selected market actors, to lay down the rules of the game. As far back as the famous Genoa conference of 1922, the dynamics of rule setting have centered on hard-won bargains struck among a few leading states with the capacity to cajole or coerce others into agreement. That was the scenario at the Bretton Woods conference of 1944, which was dominated by the United States and Britain. The pattern could also be seen in the negotiations that led up to the earliest amendments of the charter of the IMF, providing for the creation of special drawing rights (negotiated in the 1960s by the Group of Ten) and ratifying a new system of flexible exchange rates (mainly the product of a 1975 agreement between France and the United States).

But that was before so many more actors gained a degree of autonomy in monetary affairs. The more players feel insulated from outside pressure, the less likely it is that they will meekly accept the *diktat* of an inner circle of self-appointed leaders. Bargains at the top will not be treated with the same respect as in the past. Existing or proposed new rules will no longer enjoy the same degree of legitimacy among actors further down the hierarchy, unless those actors too are made part of the decision process. One of the most distinctive characteristics of the current era is the sheer number of participants who now feel entitled to a seat at the high table.

Wider participation, however, does not make formal rule setting any easier. Quite the contrary, in fact. The efficiency of decision making obviously suffers as more actors are given a part in the process. According to standard organization theory, the difficulties of negotiation actually increase exponentially, not just in proportion, with the number of parties involved. The more voices there are at the table, the greater is the temptation to smooth over unresolved differences with artful compromises and the deliberate obfuscations of classic diplomatic language. Clarity is sacrificed for the sake of avoiding the appearance of discord. Much room is left for creative interpretation.

Overall, therefore, the prospect is for growing ambiguity in the system's governance structures. Whether they are part of the bargaining process or not, newly autonomous actors now have more leeway to follow their own instincts. In effect, many have been freed to make up their own rules as they go along through practice and the gradual cumulation of experience. Increasingly, therefore, structures of governance are being remolded not via negotiations but rather in a more evolutionary fashion through the incremental accretions of custom and usage.

Over time, patterns of behavior that originate in self-interest may lead to shared expectations (inter-subjective understandings) and can eventually even become infused with normative significance. Often, what starts from a logic of consequences

(a concern with material impacts) comes ultimately to rest on a logic of appropriateness (a concern with what is "right"). Formal rules (specific prescriptions or proscriptions for behavior) come to be superceded by more informal norms (broad standards of behavior defined in terms of rights and obligations)—a form of unwritten law (*lex non scripta*) in lieu of written or statute law (*lex scripta*).

A system governed by unwritten law is not "ungovernance" or a "yawning hole of non-authority." It is simply a different way to govern. An evolutionary process, relying on the development of informal norms rather than formal rules, is the hallmark of English common law. Increasingly, it is becoming central to international monetary governance as well. The surprise is that Strange, an Englishwoman to the core, did not recognize the similarity.

### Conclusion

Strange was certainly right that the dynamics of power and governance in global finance today are changing. A leaderless diffusion of power is generating greater uncertainty about the underlying rules of the game. Greater ambiguity, however, is not necessarily a bad thing, especially if it allows states and societal actors to go along without undue friction. But it does also have distinct disadvantages that cannot be ignored. Governance plainly is less tidy when effectuated through social conventions rather than formal agreements. *Lex non scripta* is inherently more opaque than *lex scripta*. Hence a wider latitude is afforded actors for strategic maneuvers that could come at the expense of others. Outcomes may be neither as stable nor as equitable as we might prefer. As the last half decade has demonstrated, crises could become more frequent or difficult to manage if more governments feel free to do their own thing, discounting disruptive externalities. Burden of adjustment could fall disproportionately on the weakest members of the system that have benefitted least from the leaderless diffusion of power.

Can anything be done to lessen such risks? Since states remain the basic unit of world politics, responsibility continues to reside with governments, which still have little choice but to try to resolve their differences through negotiation. What might work is a change of bargaining strategy to conform more comfortably to the new distribution of power. With autonomy spread more widely among actors, it is becoming increasingly fruitless to aim for specific prescriptions for behavior—what in biblical language might be called "thou-shalt" types of rules. More governments are now in a position simply to ignore detailed injunctions when they wish. But it is not impractical to aim for the reverse—general "thou-shalt-no" types of rules that set outer limits to what might be considered acceptable. Even the most insular governments are apt to recognize that there is a common interest in keeping potential externalities within bounds. If prevailing governance structures are to retain any practical influence at all, that is the direction in which the dynamics of rule setting might now move.