

## **Chapter 8**

### **Crises of Authority: Domestic Structures and the Changing American Imperium**

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In their introduction to this volume, Pauly and Jentleson describe a world beset by change, challenges, and hard choices. Many of the challenges they identify are rooted in two global crises of authority, which in turn derive from the constraints and opportunities of the domestic structures of leading states. How well the international community copes with change will be determined in large measure by such structures and how they evolve in the decades ahead.

The first crisis arises from the steady erosion of embedded liberalism by the very process of globalization that it supports. Following World War II, the United States successfully generalized its own “liberal” domestic structure through the American “imperium,” creating interests in most advanced industrialized states (AIS) vested in an open international economy.<sup>1</sup> Over time, however, the cross-class compromise that supported free trade and factor flows has come under increasing threat, especially since the dawn of the Great Recession that began in 2008.

The second crisis is the growth of China as a world power. The rise of economic challengers is not inherently dangerous. Although there were significant stumbles, most notably the failure of collective action in the Great Depression of the 1930s, Britain passed the torch of economic leadership to the United States without major changes in preferred economic policies.<sup>2</sup> China’s politically dominated market economy, however, suggests that its preferences on the rules of a future international economic order will

differ considerably from those of the United States. The potential for conflict depends on these differences in domestic structure, and specifically whether China will embrace the American imperium or resist and eventually challenge that imperium.

This essay makes four points necessary to understand the origins and likely consequences of the crises of authority. First, domestic structures vary from failed states, in which authority is completely dispersed to the private sphere, to totalitarian states, in which authority is centralized and concentrated in the state. Truncating variation in domestic structure to that found only in the AIS confounds our estimates of its role and importance in politics. Second, as “congealed” authority, domestic structure is nonetheless negotiated, dynamic, and a product of politics. Earlier conceptions tended to see domestic structure as largely static. In actuality, structure is variable but made real through “vested” interests. As these interests evolve, domestic structure is also renegotiated and adapted. Third, for all but the most powerful states, domestic structures are at least in part a product of their international environment. Since 1945, the United States has attempted to project its own domestic structure onto other states through a liberal international economy. These targets of American hierarchy have evolved domestic structures that vest their economies, perhaps unwittingly, into the American-led international order. Finally, the challenges of the twenty-first century will be driven by differences in the domestic structures of its two likely superpowers, the United States and China.

### **Domestic Structure Revisited**

Domestic structure is both a product of the international political system and a constraint on foreign policy and policy-making. In its simplest form, it is the distribution and differentiation of political authority within state and society.<sup>3</sup> This discussion begins with some basic definitions and builds a view of domestic structures from the ground up.

### **Authority**

Political authority is legitimate power embodied in the right by A to command B to alter his actions. This right, in turn, implies a correlative obligation by B to comply, if possible, with A's command. B's obligation, finally, implies a further right by A to enforce her commands in the event of B's noncompliance. In any authority relationship, B chooses whether to comply with A's commands, but is bound by the right of A to discipline or punish his noncompliance.<sup>4</sup>

The centralization of the state refers directly to how authority is distributed within the governing apparatus. In the United States, for instance, authority is divided across three branches of government, including two co-equal legislative houses. In the United Kingdom and Japan, political authority is centralized in the lower house of the legislature and the majority party, with other branches playing subordinate roles.<sup>5</sup>

Although not commonly acknowledged, social groups also possess political authority. Weber's definition of the modern state has focused attention on the coercive powers of political authorities and blinded analysts to the broad range of private authorities in many sectors of social life.<sup>6</sup> Some social groups, such as families and clans, do use violence, sometimes legitimately, to enforce rules governing members; "honor killings" are a powerful disciplinary device to enforce traditional rules and societal roles, especially for women. More often, though, social groups enforce rules by various degrees

of exclusion. Hunter-gather societies ostracize individuals who cannot or will not obey the elders. Parents threaten to disown their unruly children. Religions shun or excommunicate sinners, and threaten apostates and nonbelievers with eternal damnation. Professional associations disbar, decertify, or discharge incompetents and transgressors. Exclusion from a group can be an enforcement mechanism equal in power to the legitimate violence wielded by a state. In this way, private actors can often wield political authority over their members in ways that are as binding as the state.

The centralization of society refers implicitly to the distribution of political authority among private actors. Peak associations of business or labor, for instance, centralize authority over their members and thereby speak with a single voice in policy circles. Individuals and units exert influence within the associations, just as voters do in a democratic government, but must ultimately conform to the policy positions adopted by the organization. Those who disagree with the association's majority on an issue often have no other place to go for the benefits provided by the group. Multiple, competing business or labor associations are decentralized and usually have less power over their members because ostracism has less impact on dissatisfied individuals or groups who can simply join another association or form one of their own. The same can be said for clan and tribal structures, religious or sectarian bodies, and other economic or identity groups within society. All exercise more or less authority over their members, and are more or less centralized in structure.

The differentiation of state and society describes how authority is distributed within the polity between the public and private sectors, on the one hand, and across the ruling coalition, on the other. In polities with large public spheres (small private spheres),

the state possesses authority over a wide range of issues and practices. At an extreme, in totalitarian societies the state claims the authority to regulate legitimately all human interactions, although this is usually not possible in practice. In polities with small public spheres (large private spheres), the state possesses only limited and highly constrained authority. Liberal states, for instance, possess only limited powers, and are explicitly denied the right to regulate many social, religious, “personal,” and even political practices. In fragile or failed states, at the opposite extreme, the public sphere is extremely small to nil, with the state unable to exercise authority beyond the border of the capital city and sometimes, as in Somalia, not even there.

The nature of the ruling coalition also matters.<sup>7</sup> Large coalition systems must be responsive to a broad range of social forces, and the boundary between state and society is ultimately more porous as competing elites mobilize different constituencies. Small coalition systems create access for some, but exclude other social groups from the political arena and limit political participation. The size of the coalition interacts with social structure. Large selectorate systems with centralized societies limit points of access in the political process. Peak associations of any denomination have an interest and the ability to regulate access and they channel social demands through their institutions. In large coalition systems with decentralized societies, on the other hand, associations cannot successfully regulate access and the result is an extremely porous border between state and society.

Finally, where the divide between public and private authority lies is a fundamental determinant of the policy instruments available to the state. With decentralized societies and large private spheres, the United States and Britain have fewer

legitimate rights to regulate social practices and largely depend on market mechanisms to cope with globalization and change. With few policy instruments, they can cushion disruptions but must ultimately let them flow through and reshape society over time.<sup>8</sup> Centralized states with more centralized societies, in turn, can solve collective action problems more effectively, have more policy instruments, and can direct change, especially in an extensive growth phase where the future is relatively clear and technocratic elites can reap the advantages of backwardness. These more centralized polities, in turn, acquire more vested interests (see below), and are easily cartelized over time; as the “lost decades” in Japan make clear, this can impede adjustment, and especially so when approaching the technological frontier where innovation counts.

### ***Variation in Domestic Structures***

The causes and consequences of domestic structure are difficult to identify, in part, because the range of variation has been unduly truncated. Compared to other states, the AIS all occupy a middle range wherein state and society are sufficiently balanced that policy is reasonably coherent and effective. Indeed, this may be why the AIS are, in fact, advanced industrialized states. As the discussion here suggests, the centralization of state and society can take on more extreme values than commonly found in the AIS.

North Korea and Myanmar, along with the historical cases of Nazi Germany and Soviet Russia, are totalitarian and highly centralized states that focus power in small ruling cliques that, as the label implies, adopt a totalizing view of their authority and negate the private sphere.<sup>9</sup> The centralization of state authority in totalitarian states far exceeds anything experienced in the AIS. Even authoritarian governments over time

intentionally undercut private authorities, lest they compete with the state or provide mechanisms for solving collective action problems within society. After thirty years of rule by Saddam Hussein, for instance, Iraqi society was completely gutted, a fact that the United States did not anticipate in planning for its invasion and the state-building challenges that followed. A similar problem exists in Egypt following its recent revolution.

Conversely, the problem of failed states typically arises when societies are too strong relative to the state. Although sometimes treated as a disease that befalls unsuspecting victims, state weakness is commonly endogenous, with multiple private authorities—primarily clans, tribes, or sectarian groups—remaining the locus of traditional social, economic, and political life. Either state authority was never consolidated because of these pre-existing private authorities—as in Afghanistan throughout most of its history or many postcolonial African states<sup>10</sup>—or because political entrepreneurs reactivated ethnic or religious cleavages that had waned or been suppressed, as during the breakup of the former Yugoslavia.

Despite this great variation, most attention to domestic structure has occurred within the study of AIS. This focus truncates the range of actual variation in the world. As King, Keohane, and Verba remind us, truncating a dependent variable “attenuates estimates of causal effects on average” while limiting the range of variation in an independent variable increases the uncertainty of the estimate.<sup>11</sup> With domestic structure often being used in typological holistic analyses, studies may suffer from both effects simultaneously. Expanding the range of variation in both state and society promises to reveal more about the sources and effects of domestic structure.

Too much authority vested in the state (a large public sphere, with high state centralization) appears to lead to rent-seeking, economic distortions, slow economic growth, and possibly state collapse. Without a vibrant society to balance state power, abuse may be inevitable. This describes the path of the former Soviet Union, as well as the one North Korea appears to be following today.<sup>12</sup> Too much authority vested in a moderately to highly centralized society (a large private sphere, without a monopoly group) may be equally dangerous, leading to factionalism, rivalry, and possibly violence. Without a state that can act authoritatively and impose a rule of law on powerful social groups, competition may pull apart the society. Domestic structure matters to the fundamental stability of countries in ways not appreciated when limited to the AIS. Indeed, the AIS may exist in a “sweet spot” where state and society are sufficiently balanced that the extremes of state rent seeking and social rivalry are avoided. Variations among the AIS are likely overwhelmed by their similarities. Analyzing the full range of variance is especially important in considering future competition between the United States, with its decentralized state and society, and China, with its highly centralized state fused with society.

### **Stasis and Change in Domestic Structures**

Structure matters only if it is relatively stable and fixed. If the distribution of political authority sways in the wind—turning this way and that with the shifting breeze—it will have little effect, or at least not one that we can easily discern. Fortunately for analysts, domestic structure is a product of long-term historical developments, especially the timing of industrialization and political crises.<sup>13</sup> Similarly, the differences



between Europe, centered on Germany, and Asia, centered on Japan, despite the integrative pull of the American imperium suggests the persistence of domestic structure.<sup>14</sup> Domestic structure does have an enduring quality, and thus is an object worthy of study.

### *The Structure of Domestic Structures*

That institutions are “sticky” is a commonplace observation, but not one that actually explains why institutions endure. The problem is a deep one. We know that in any two-dimensional issue space, nearly any outcome can be an equilibrium under majority rule. Faced with this potential policy chaos, scholars have argued that institutions, and especially rules of agenda setting, “induce” an equilibrium, privileging some outcomes over others. Yet if institutions matter, then cycling between policy alternatives is likely to be displaced onto cycling between institutions; rather than fighting over alternative policies, this implies that political actors will fight over the choice of institutions.<sup>15</sup> The political chaos is merely shifted from policy down one level to institutions. The critical point is that if institutions are a choice, then they are an output of the political process like any other, subject to the same pushing and hauling as other issues. How and why institutions congeal remains a mystery in the literature, and especially problematic in explaining the robustness of domestic structures.

The distribution of political authority within and between state and society — itself an institution — is largely self-enforcing because of the vested interests that accumulate in society. Institutions are not stable because they are institutions, rather they become stable because social forces that benefit from the policies they produce develop interests in those institutions and their privileged position within them. We can see the

effect of vested interests most easily, perhaps, in the contrast between liberal market economies (LMEs) and organized market economies (OMEs).<sup>16</sup> LMEs have large private spheres of authority, rely more on market-based allocation systems, and offer fewer social protections. In turn, both firms and workers develop flexible economic strategies that discourage investments in specific processes or skills, creating a large pool of “generic” capital and labor that flows (relatively) easily across sectors. Having invested in flexible production and skills, however, society has little motivation to press government for policies that encourage long-term holding of assets, apprenticeship programs tailored to long-term employment contracts, and other features common in OMEs. Adapted for flexibility, changing policies are of less import and the political arena is characterized by institutions that amplify political swings, such as single-member electoral districts and majority party rule. The economy and its political actors are vested in a particular, self-reinforcing mode of production. Liberal markets beget more liberal markets.

OMEs, by contrast, have larger public spheres, rely less on market forces, and have more counter-cyclical social protection programs. Both firms and workers expect to be engaged in long-term relationships, so both have incentives to invest in specific skill and asset acquisition. Having invested in high skill-oriented production, in turn, both firms and workers have incentives to press government for a steady flow of equally well-trained workers and counter-cyclical social programs that will tide them through market downturns and sustain investment in these specific assets. Since policy instability threatens to undermine these incentives, the political system is structured for centrism,

either through proportional representation electoral systems or coalition governments in which centrist parties are pivotal. Organized markets beget organized markets.

Having adapted to life within either an LME or OME model, few in each type of society have an interest in disrupting those relationships. Flexible workers in LME systems have an interest in ensuring that business remains flexible, while highly skilled and firm-specific workers in OME systems have a vested interest in maintaining relations of long-term employment. The same goes for firms. Unless one model or the other is clearly superior – and this appears not to be the case, since both gain from specialization and trade<sup>17</sup> – there is little pressure to change once actors are vested into their respective systems.

Vested interests are found throughout politics. Social Security is the “third rail” of American politics, for instance, because so many individuals have premised their lifetime consumption and savings patterns on its future. Farm subsidies everywhere are hard to reform because any reduction would not only affect the current income of farmers but also the value of their land, often their single biggest asset. Vested interests are, of course, the bane of political reformers everywhere. Yet we often do not appreciate the positive role that vested societal interests play in producing political stability and institutionalization. Institutions themselves do not breed stability. Rather, it is their effects and the interests that accumulate around those institutions that create order out of the potential chaos of constantly shifting policies and institutions. This vesting of interests does lead to stasis and makes political reform difficult, even when necessary and likely Pareto-improving. As the vested interests accumulate over time, change becomes

harder and harder.<sup>18</sup> It is these same vested interests, however, that make domestic structures enduring and stable despite the winds of change that blow around them.

### ***Domestic Structures Reversed***

Although vested interests make domestic structure hard to change, such structures are continually renegotiated and evolving. In the United States, for example, the imperial presidency saw authority shift from Congress to the executive, changing the centralization of the state. Evolving society, and especially the decline of large-scale manufacturing and labor unions, may have led to a further decentralization of society (although we lack systematic measures). Much of contemporary politics is actually a struggle over the division between the public and private spheres, including whether the state should regulate business, on the one hand, and social practices such as reproductive freedom and marriage, on the other. Who has authority over what is always contested and, at least at the margin, always in flux.

There are at least two sources of change in domestic structures, both of which affect the value of assets and thus the interests of the various groups within society. Technology is largely exogenous and affects politics by changing the demand for certain factors of production and, over time, factor endowments. Technological innovations typically make labor more productive, thereby freeing labor from previous uses and lowering rates of return for unskilled labor. This has always been the motive behind “Luddite” policies aimed to slow the rate of technological change in large organizations and protect the least-skilled workers in an economy. Conversely, to operate the new technologies often requires more skilled workers, increasing the demand and real rates of return for human capital and, thus, encouraging the creation of more human capital over

time. As technology “progresses,” different factors of production are privileged and harmed, and the balance between factors will evolve.

More important in the short term is globalization, which is at least partly endogenous. Globalization is, in major part, the product of past policy choices, especially the progressive lowering of barriers to trade, investment, and information flows across national borders begun after World War II. Through these policies, and the resulting rules constructed at the international level for economic liberalization, the largest and most powerful countries have slowly generalized their particular domestic structures in the American imperium. Having adapted to a highly market-oriented political economy at home, it is only “natural” for hegemons to seek isomorphic institutions abroad.<sup>19</sup>

Unsurprisingly, the most liberal and powerful states of the last two hundred years have also led the most liberal international economies during the Pax Britannica and Pax Americana.<sup>20</sup> In turn, what is a choice for hegemons becomes a common environmental constraint for other states that shapes their domestic structures. This was true for all the AIS after World War II, but it is found in most acute form in the former Axis powers. As defeated countries, Germany and Japan were highly malleable after 1945. The war itself destroyed enormous economic assets, “divesting” domestic interests of much of their prior wealth and political interests. The old regimes were also strongly delegitimated. The United States, in turn, dangled significant rewards before them if they would join the American-led international hierarchy. This favored the rise of politically moderate, capitalist, and Western-oriented elites surrounding Konrad Adenauer in Germany and Shigeru Yoshida in Japan. Spreading the rewards of the American imperium broadly across the populations of these countries also brought the masses onboard and allowed

for international subordination and democracy to coexist.<sup>21</sup> In the end, it was an American empire, but it was an “empire by invitation.”<sup>22</sup> Although structural differences remained, both Germany and Japan became willing members of the American imperium.

Over time, states and more important societies within the American imperium became vested in that international hierarchy. As within countries, groups develop interests in sustaining the political order to which they have adapted and prospered. In this way, the international order becomes self-enforcing. Imagine the political outcry from industries around the world that have adapted their production and sales to a global market if the WTO were, say, to come under threat from more protectionist forces. Previous collapses notwithstanding, globalization appears to have created sufficiently vested interests that it is now a one-way bet: it does not require homogenization of economies and polities, but does reward winners and punish losers, tilting the political playing field increasingly in favor of the winners. Export interests and others that benefit from an open world economy gain, prosper, and expand their political influence, while import-competing sectors and others that lose steadily shrink in size and influence. Exporters become ever more dependent on world markets and the national economy becomes increasingly specialized. These “internationalist” interests, in turn, develop stronger interests in maintaining market openness, both at home and abroad. International liberalism becomes self-sustaining and perhaps even expands. Thus, the American imperium has slowly but inexorably reshaped the domestic political economies of its members, an effect that is deeper and more dramatic the higher the level of integration.

As globalization expands, the balance of political power shifts within countries. Globalization is a process of specialization, not homogenization. Small initial differences

accumulate as the division of labor deepens.<sup>23</sup> The winners grow faster and invest some portion of their gains in lobbying for more favorable policies, while the losers shrink and, though highly motivated, steadily lose resources with which to invest in politics. Textiles and shoes, though politically important in the 1970s, are no longer a force in American trade policy.<sup>24</sup> As relative prices shift over time, the interests of groups change and coalitions that were once aligned come under pressure. If the changes become large enough, the coalitions eventually fracture in political “crises,” often associated with critical realignments in politics.<sup>25</sup> Shifting relative prices are like the tectonic plates of the earth, in which small movements build pressure that eventually ruptures in an earthquake — or, in politics, in a crisis. Out of these crises, by means we do not yet understand well, a new political coalition emerges that renegotiates the distribution of political authority to lock in its conception of the interests of its constituent groups, starting the cycle anew.<sup>26</sup>

### **The Future of the American Imperium**

The question today is how robust is the American imperium? Has it become sufficiently vested that it is self-perpetuating? Or will it be reconfigured through some new international crisis? There are, at least, two significant threats to the American imperium as we know it. Both are the product of that imperium’s success. Whether these crises will lead to revolutionary change is an open question.

### ***The Triumph of Neoliberalism***

The first threat is the political triumph of the winners from globalization, manifested in the end of embedded liberalism and the new fiscal crisis of the state.<sup>27</sup> The threat is more to the substance of the American imperium than to the position of the

United States itself, but it is nonetheless significant. As discussed, globalization has slowly but inexorably reshaped the domestic structures of constituent states by creating winners who invest their gains in political institutions favorable to their interests and losers who are slowly winnowed out. Globalization is a self-perpetuating system that destroys the political compromise that was its original foundation.

Globalization rests on a cross-class coalition of comparatively advantaged sectors or factors who, in exchange for policies of freer trade, agree to insulate comparatively disadvantaged sectors or factors from the full effects of economic change. This compromise does not halt the process of economic realignment, but it slows the pace through which comparatively disadvantaged producers depreciate their existing assets. Ruggie called this cross-class compromise “embedded liberalism.”<sup>28</sup> In the AIS, capital is the big winner from economic openness, and it has shared its gains with labor, the big loser, through enhanced social welfare programs and a modicum of income redistribution. This implies high and progressive taxes, at least by historical standards, and social programs directed to the middle class (subsidies for higher education, in one form or another, unemployment insurance, etc.) and the poor (income subsidies). Rodrik and Garrett showed that more open AIS did, indeed, possess larger social welfare states.<sup>29</sup> This bargain was relatively stable through the mid-1980s.

As the winners win, however, over time they expand their political clout, become more vested in favorable institutions, and ultimately need the losers less to support their economic program. In the United States, labor and labor-intensive industries have shrunk over time. With new workers upgrading their skills and entering more capital-intensive occupations or securing less well-paying jobs in the non-tradables sector (largely



services), the number of “protectionist” voters has steadily declined. With downward pressure on wages, more intense competition for jobs, and greater political influence for capital, unions have slowly declined and “right to work” policies have spread, further weakening and fracturing an already-decentralized labor movement. As their numbers and political strength contract, in turn, the comparatively disadvantaged become politically less important and less necessary to the former political coalition.

Technological change, of course, continues “churning” at the bottom of the division of labor as some previously “high-skilled” industries now become “low skilled.” But with each new industry thrown into the maelstrom of change, fewer workers are displaced relative to capital (which remains relatively more mobile) and fewer “anti-globalization” voters are created than in the past. Through globalization, the political equipoise eventually tips towards the winners and erodes the political foundations of the cross-class compromise necessary to earlier policies of globalization. Liberalism eventually undercuts the “embedded” part of the original compromise, creating neoliberalism.

This political shift was first manifested in the Thatcher and Reagan revolutions of the 1980s in Britain and United States, respectively. Taxes were lowered and rendered less progressive, industries were de-regulated, social welfare policies were reformed, and labor unions were assaulted. Hall describes this as the end of the “Fordist regime.”<sup>30</sup> The economic and social consequences of the shift were papered over, for a time, by capital market openness beginning in the mid-1980s which allowed for new borrowing by the AIS. Accumulating substantial foreign reserves in trying to keep their exchange rates artificially low, the export-led growth economies in Asia have been only too willing to lend to the AIS, with the risk of default being a small price to pay for continued exports.

Importantly, this international borrowing permitted the AIS to run substantial fiscal deficits, thus enabling them to lower taxes while sustaining some—albeit reduced—social spending. Where in the previously closed economies savings had to equal investment plus fiscal deficits, almost by definition, with open capital markets public sector borrowing did not crowd out private investment, allowing continued private sector growth despite the increase in government deficits. And although real wages have been stagnant since the 1970s for most of the workforce in the AIS, consumer borrowing also increased and allowed standards of living, on average, to continue their upward growth through the new millennium. Borrowing thus held the cross-class compromise of embedded liberalism together for another two decades. As Vice President Dick Cheney famously said of the Bush-era tax cuts, “Reagan proved that deficits don’t matter,” at least politically.<sup>31</sup>

This strategy of papering over the cracks in the political foundations of embedded liberalism by increased borrowing shattered in the financial crisis of 2008 and the ensuing Great Recession. The prior fiscal deficits in the United States and several key European economies led to inevitable current account deficits and, predictably, asset bubbles, especially in the non-tradables sector and, even more specifically, in real estate.<sup>32</sup> When the asset bubbles burst, capital markets dried up. Unable to borrow or even pay the debts on their now-depreciated assets, consumers cut back spending and tried, where possible, to rebuild their savings and credit. As consumer demand fell, and industry itself found it more difficult to borrow, new private investment fell dramatically and production and employment plummeted. As more workers were laid off, consumer demand fell further. Although fiscal stabilizers (i.e., unemployment insurance) kicked in

and central banks moved quickly to stave off another Great Depression, and international institutions inhibited a return to the beggar-thy-neighbor policies of the 1930s, the net result was the Great Recession and continuing expectations of a prolonged period of economic stagnation.<sup>33</sup>

With accumulated fiscal debts now approaching unsustainable levels in southern Europe and the United States, the ability to prop up embedded liberalism through continued borrowing has finally ended. This brings the politics of winners and losers from globalization into sharp relief. In the United States, the Republican Party, under pressure from its Tea Party wing, refuses to countenance new taxes to close the budget deficit, forcing President Barak Obama to settle for trifling increases in taxes on the most wealthy Americans. The Democratic Party is on the defensive, seeking only to slow the rate of contraction in social welfare and so-called entitlement programs. Focusing attention on the dramatic increase in economic inequality in recent decades, the Occupy Movement has subsumed some of the anti-globalization forces that first appeared in 1999 in the “Battle for Seattle,” though it has not yet turned explicitly into an anti-globalization movement. In Europe, the fiscal crisis has hit the Mediterranean countries especially hard. The European Union, led by Germany, has imposed devastating austerity on them in return for small amounts of stabilization funding. With draconian cuts in fiscal spending, the resulting tensions have shattered the myth of an emerging European identity and threaten the very foundations of the union.

How this crisis will play out is still unclear.<sup>34</sup> I am less sanguine about the situation in Europe than are Abdelal and Krotz in their chapter in this book, but we are obviously in the midst of a potentially significant change. The most likely outcome is that

neoliberalism will indeed triumph, leading to a corresponding shift in the domestic structures of the AIS and, especially, further contracting the role of the state in the economy. This will open the way for major private centers of power in large corporations to exercise even more authority over their workers and, in turn, the economy as a whole. In this case, the pain will fall primarily on the upper working- and lower-middle classes through a combination of higher unemployment/lower wages and reduced government services/higher taxes. These class segments are among the most decentralized in the United States and the most politically disenfranchised. On this path, the winners from globalization continue to win and they will become even more vested in the neoliberal state. This would simply exacerbate a trend that has already been underway for decades.

Alternatively, a different line of political cleavage could emerge. As Gourevitch famously recognized, crises render politics more “plastic.”<sup>35</sup> Under high uncertainty, as at present, political coalitions may be put together in new and presently unforeseen ways by political entrepreneurs carrying different ideas and agendas. What these new ideas may be remains to be seen. Left parties in the AIS appear largely on the defensive. The winners from globalization may already be too vested in neoliberalism to permit a wider range of alternatives from being seriously considered. But precisely because crises exert a profound effect on politics it is too early to rule out an alternate future.

### ***The New Chinese Imperium?***

The second and more direct threat to the American imperium is the rise of China. The American imperium rests on the dominant position of the United States in the world economy. By promoting policies it favors, especially economic liberalism, the United States has realigned the domestic structures of constituent states and built interests vested

in its continued imperium. These vested interests suggest, on the one hand, that the American imperium will not be easily dislodged. Even if the United States is challenged, groups within other states will continue to support its favored policies and will press their own governments to support liberalism as well. Nonetheless, as China becomes more powerful in the decades ahead, it is widely expected to challenge the United States either because it can (which is the traditional realist view), or because it favors a different package of policies and international economic rules, although the content of this package is typically left unspecified. Examining China's domestic structure, however, can give us some broad hints about its likely policy preferences and, thus, its potential challenge to the United States.

China is a highly centralized state dominated by a single political party that fuses state and society.<sup>36</sup> Local governors may appear to have substantial authority, but it is clearly delegated from the center and monitored to ensure local actions are consistent with central policy and needs.<sup>37</sup> In turn, the party retains a parallel structure to the state and its cadre system permeates all levels of society, both channeling issues upwards to the center for resolution and ensuring that directives from the center are appropriately implemented at the local level. Factions within the party compete, though programmatic differences appear limited and personal relationships among party elites are more important.<sup>38</sup> Critically, the party and state stand above the law, not subject to it, and personal connections and influence apparently figure large in political decisions. In an oft-repeated phrase, China is characterized by rule by law but not *the* rule of law. Finally, after decades of near-totalitarian rule and single-party dominance, private authorities able to restrain the state have either been fractured, coopted, or purged from the political

system.<sup>39</sup> Although new social forces are arising in China and penetrating politics, they remain highly fragmented.<sup>40</sup> This highly decentralized society leaves a relatively open playing field for the state and its new private-sector allies.

Though significantly liberalized from the past, the state and party retain significant control over the economy through continued government planning and price setting, state-owned enterprises in key sectors, control over access to scarce finance, access to factors of production, industry siting and the development of new enterprises, and a variety of other economic levers.<sup>41</sup> The fusion of public and private authority in China ensures reciprocal influence between business and the state and relatively harmonious interests between government and private elites.<sup>42</sup> Promoting export-led growth since the economic reforms of 1978, China's economy has grown rapidly. Business has profited handsomely, and the state has enjoyed increased legitimacy by its ability to deliver higher standards of living to the average citizen.<sup>43</sup> More directly, and reflecting the importance of personal ties in a state-dominated economy, family members of high-ranking party officials have amassed large fortunes either as favored entrepreneurs or as intermediaries between business and the state.<sup>44</sup>

The mutual dependence of public and private elites on export-led growth suggests, at one level, that China will continue to support international economic liberalism. Like Europe and the rest of Northeast Asia, China has been integrated into the American imperium. For those in the West who see China as more a partner than a competitor in world politics, the expectation is that the vesting of its export industries in the state, and vice versa, will lock China into the liberal international economy.

At another level, however, China's personalist regime and political control of the economy will fit poorly with free and open competition and the rules embedded in the institutions of the American imperium. China's ideal international economy might look a lot like its domestic economy with markets functioning widely but in the interests of its political leaders. A Chinese-led international regime would likely not operate under the impersonal rules of the American imperium but under personal ties and to the advantage of individual political leaders. In this view, the United States and China might not clash over whether the international economy should be liberal, but would differ significantly on whether markets would be governed by the rule of law. This is less of an ideological distance, perhaps, than that which separated the liberal United States and communist Soviet Union at the height of the Cold War, but it is still a substantial distance in preferred rules for the international economy.

Whether or not China chooses to accommodate or challenge the American imperium will depend in large measure on the gains for its leaders from a liberal, market-based international economy versus a liberal, politically based international economy. The challenge, if it occurs, will be rooted in the differing domestic structures of the two twenty-first-century superpowers. Given the vesting of business in the state, and vice versa, the most likely prospect is for at least a degree of challenge. Personalist rule conflicts with an international rule of law and, like the United States before it, China will seek to promote its domestic system abroad.

The brightest future for the American imperium is for China's growing middle class to demand a rule of law within China. This is, in part, what the United States and the West more generally hope to achieve in pressing China on human rights and other

“internal” political practices. Such reforms would restrain the state and its high-ranking officials and reduce their rent-seeking abilities. The United States and others, in turn, are limited in the pressure they can bring to bear on the regime for fear that it will provoke a backlash and the very challenge they hope to avoid. The international balance hangs on the domestic balance between the forces of resistance in China currently vested in the state and popular forces of reform calling for greater rule of law. Without significant private authorities able to help the masses overcome their collective action problems, the vested interests are likely to prevail and the challenge to the American imperium is likely to be a serious one.

## **Conclusion**

Domestic structures vary in their centralization of public and private authority and in the differentiation between the two. These structures are quite stable, otherwise they would be of little analytic interest. Their stability is created by interests vested in their particular patterns of authority and the policies they produce, and in turn is reproduced by the actions of those same vested interests. Yet despite their stability, domestic structures are continually pressed by technological change and, today, globalization in ways that may lead to fissures and ultimately crises that can produce dramatic political change.

Under the American imperium, globalization has realigned the domestic structures of countries around the world, creating interests vested in that imperium. The beneficiaries of globalization, however, threaten the political bargain of embedded liberalism that underlies globalization. Though unlikely, those excluded from the gains of economic interdependence and increasingly marginalized politically may rise up in a new coalition to challenge the dominance of neoliberalism. Likewise, although it too has been



reshaped by the American imperium and globalization, China's domestic structure remains well outside the range of the other AIS. As it rises in international power defined in terms of control, as Katzenstein distinguishes later in this volume, it will likely seek to alter the rules of the international economy to its advantage. Although the United States and China agree on far more than commonly feared, including the need for a fundamentally liberal international economy, the real question for the years ahead is whether China's domestic structure is reshaped quickly enough to co-exist with the American-sponsored rule of law embodied in the World Trade Organization and other international institutions or whether the interests vested in the personalist regime will pursue a new set of rules better suited to their domestic political economy. For both threats, understanding how domestic structures persist and change remains a major and important topic.

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<sup>1</sup> On domestic structures, see Katzenstein 1978; on the American imperium, see Katzenstein 2005.

<sup>2</sup> Gilpin 1977.

<sup>3</sup> Katzenstein 1978.

<sup>4</sup> Flathman 1980.

<sup>5</sup> See Waltz 1967.

<sup>6</sup> See Lake 2010.

<sup>7</sup> Katzenstein 1978.

<sup>8</sup> See Ikenberry 1988.

<sup>9</sup> Friedrich and Brzezinski 1965.

<sup>10</sup> Herbst 2000 and Boone 2003.

<sup>11</sup> King, Keohane, and Verba 1994.

<sup>12</sup> Haggard and Noland 2009.

<sup>13</sup> Katzenstein 1985.

<sup>14</sup> Katzenstein 2005.

<sup>15</sup> McKelvey 1979; Shepsle 1979; and Riker 1980.

<sup>16</sup> Hall and Soskice 2001; see also Gourevitch and Shinn 2005.

<sup>17</sup> Rogowski 2003; Gourevitch 2003.

<sup>18</sup> Olson 1982.

<sup>19</sup> Lake 1999.

<sup>20</sup> Gilpin 1977.

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- <sup>21</sup> See Lake 2013.
- <sup>22</sup> Lundestad 1990.
- <sup>23</sup> Rogowski 2003.
- <sup>24</sup> Hathaway 1998.
- <sup>25</sup> Frieden, Lake, Nicholson, and Ranganath 2011.
- <sup>26</sup> See Katzenstein and Nelson 2013 and Gourevitch 1999.
- <sup>27</sup> On the “first” fiscal crisis of the state, see Block 1981.
- <sup>28</sup> Ruggie 1983.
- <sup>29</sup> Rodrik 1997; Garrett 1998.
- <sup>30</sup> Hall 2013.
- <sup>31</sup> Suskind 2004, 291.
- <sup>32</sup> Chinn and Frieden 2011.
- <sup>33</sup> Kahler 2013.
- <sup>34</sup> See Kahler and Lake 2013.
- <sup>35</sup> Gourevitch 1986. He also argues, however, that with each successive crisis, institutions play a greater role in structuring interests and coalitions, narrowing the range of choice.
- <sup>36</sup> See Guo 2003.
- <sup>37</sup> Landry 2008.
- <sup>38</sup> The factions are sometimes described as the elitist faction, of officials rising through the party from the more prosperous provinces, and the populist faction, of officials from the rural interior. See Li 2009; also Zhiyue 2007.
- <sup>39</sup> See Yu and Guo 2012.
- <sup>40</sup> Mertha 2009; Saich 2000; and Yang 2006.
- <sup>41</sup> On China’s “bamboo economy,” see “Entrepreneurship in China: Let a Million Flowers Bloom,” *The Economist*, 10 March 2011, <http://www.economist.com/node/18330120> (accessed 18 January 2013).
- <sup>42</sup> Shirk 1993; Chen and Dickson 2010.
- <sup>43</sup> Businesses associated with party members do better on average than others. See Li et al. 2008. On growth as the foundation for legitimacy in contemporary China, see Guo 2010 and Laliberte and Lanteigne 2008.
- <sup>44</sup> See Manion 2004 and Sun 2004.