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Bringing legitimacy back in to neo-Weberian
state theory and international relations

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Abstract

Within international relations one seldom finds discussion of how legitimacy affects 'state capacity'—a state's capacity to enact and adapt to domestic and international change. This is especially surprising for neo-Weberian approaches that have viewed state capacity as a major concern for over two decades. And although legitimacy was a key ingredient to Max Weber's approach to the state, the concept is eschewed or ignored in the three discernible neo-Weberian approaches to state capacity. The first two of these approaches, 'isolated autonomy' and 'embedded autonomy', produce functionalist view of a state which responds to an anarchical international system. The third, 'social embeddedness', conceives of the state–society complex as a contested rather than functional space but does not produce a substantive conception of legitimacy. I argue that a reinvigorated conception of legitimacy provides us with a substantive neo-Weberian 'historicist' approach that provides a deeper understanding of how both norms and material interests shape the state. This approach is applied to a brief case study of financial reform in the United States and Japan to illustrate that bringing legitimacy back in provides a better means of understanding state capacity.

Keywords: state capacity, legitimacy, neo-Weberian, historicist, state theory, embedded autonomy, consent, acquiescence, financial reform, Japan, United States.

Bringing legitimacy back in to neo-Weberian state theory and international relations

LEONARD SEABROOKE¹

This paper provides a sympathetic critique of neo-Weberian works on ‘state capacity’ and advances a revised ‘neo-Weberian historicist approach’ through a reinvigorated emphasis on legitimacy. Why then is there a need to reintroduce legitimacy into conceptualising state capacity? There are four reasons for doing so. First, within Weberian ‘state theory’, prominent neo-Weberians like Michael Mann and Theda Skocpol ironically exclude or downplay the very concept that was a hallmark of Max Weber’s approach to the state—legitimacy.² Second, and most importantly, by ‘bringing legitimacy back in’ we can produce a more refined approach to the state: one that emphasises ‘contestation’ between the state and society. By contestation, I am referring to the point that society has *an input* into the formation of state policy. In the process, my prime objective here is to reintroduce a bottom-up approach to the state–society complex and to understanding state capacity. This, I believe, has been one of the principal lacunae within Weberian state theory, which has been excessively concerned with a top-down approach. Indeed this has, rightly in my view, been one of the principal critiques of the approach in

¹ Departmental Visitor, Department of International Relations, Research School of Pacific and Asian Studies, Australian National University. My thanks to those who provided comments on earlier drafts, particularly Mlada Bukovansky, Richard DeAngelis, Sophie Hague, John Hobson, Ian Marsh and David Scott Mathieson.

² David Beetham, *Max Weber and the theory of modern politics* (Cambridge: Polity, 1985), p. 253; Theda Skocpol, *States and social revolutions: A comparative analysis of France, Russia, and China* (Cambridge: Cambridge University Press, 1979), p. 31; Michael Mann, *The sources of social power*, Vol. I (Cambridge: Cambridge University Press, 1986) and compared to Michael Mann, *The sources of social power*, Vol. II (Cambridge: Cambridge University Press, 1993). As argued by John Hobson, there is a clear difference in the approach to power between the first and second volumes of Mann’s masterwork. I place the second volume within the third approach to state capacity discussed below. See John Hobson, *The state and international relations* (Cambridge: Cambridge University Press, 2000), chapter 6.

general.³ A top-down approach inevitably leads to a functionalist explanation.

Functionalist explanations measure state capacity only in terms of economic outcomes (that is, economic success implies high state capacity). Moreover, functionalism views society as an instrument to the enhancement of state capacity, which in turn means that it becomes impossible to conceptualise the state–society relationship as fully reciprocal. In other words, states use society to gratify or enhance their capacity. There is no notion that society can autonomously prescribe the parameters within which state policies are formulated, nor can society contest the policies that states autonomously formulate. Moreover, moving away from functionalism realigns us with Weber’s preference that ‘[s]ociologically, the state cannot be defined in terms of its ends’ and brings to the fore issues of how we understand society within the state; chiefly whether people are understood as acquiescent to the state’s functional needs, or whether their consent is required to legitimate state actions.⁴ Thus my central claim is that we need to bring society back in if we are to produce an adequate theory of state capacity within a neo-Weberian framework. And in turn we can best achieve this by bringing social legitimacy back in.

Third, functionalist explanations are necessarily weak in explaining or even conceptualising change. Thus for example, Skocpol’s discussion of social revolutions is arguably ahistorical. A social revolution will happen regardless of time and place, so long as the state is defeated in war (which in turn is a function of the state’s weak capacity). Thus I seek to develop a neo-Weberian historicist approach, which is made possible by focusing on social norms. And because social norms change over time, so the social sources of state capacity will necessarily change over time. I argue that an historicist approach which avoids the application of an evolutionary or

³ Bob Jessop, *State theory: Putting the capitalist state in its place* (Cambridge: Polity, 1990), pp. 278–88; and Paul Cammack ‘Bringing the state back in: A polemic?’, *British Journal of Political Science* 19(3) 1989, pp. 261–90.

⁴ Max Weber, ‘Politics as a vocation’, in Hans H. Gerth and C. Wright Mills, eds, *From Max Weber: Essays in sociology*, translated by Hans H. Gerth and C. Wright Mills (London: Routledge & Kegan Paul, 1948), p. 77. See also Max Weber, *Political writings* (Cambridge: Cambridge University Press, 1994), p. 24.

ahistorical logic provides a better understanding of domestic and international change.⁵

Fourth, and following on from the previous point is that my approach offers a way beyond the neorealist aspect of neo-Weberian state theory. Most versions, though not all, implicitly or explicitly invoke neorealism, in the sense that states are situated within an anarchic state system.⁶ The crucial point is that responding to anarchy displaces the need for states to respond to social needs emanating from within society.

To summarise, there are four reasons for bringing legitimacy back in:

- Legitimacy is the hallmark of Max Weber's approach to the state–society complex but is ignored in neo-Weberian scholarship.
- Legitimacy permits the view of the state–society complex as a contested rather than functional space, which requires an appreciation of both social norms and material factors in their historical context.
- Legitimacy assists the development of a historicist approach which does not apply an ahistorical or evolutionary logic to change.
- Legitimacy allows us to view state action as more than a functional response to constraints imposed by an international anarchical system.

Realising these objectives will be done by augmenting the social embeddedness into a 'neo-Weberian historicist approach' which has a substantive conception of legitimacy in the state–society complex.⁷

⁵ In particular see Reinhard Bendix, *Force, fate and freedom: On historical sociology* (London: University of California Press, 1984).

⁶ Hobson, *The state and international relations*, chapter 6.

⁷ I refer to an approach rather than theory because different research questions require different methodological tools and there is no overarching general theory. Thus, rather than a theory, I outline an approach, consistent with methodology of Max Weber and neo-Weberian historicists, which emphasises studying material conditions and norms involved in the legitimation of a constellation of power within a historically specific period.

Some readers may be surprised that there are three discernible neo-Weberian approaches to state capacity, since *the* neo-Weberian approach is commonly equated by international relations (IR) audiences with early formulations advocated by Skocpol.⁸ In analysing the ‘isolated autonomy’, ‘embedded autonomy’, and ‘social embeddedness’ approaches I analyse their views of the domestic arena, the international arena, and how the approach handles the concept of legitimacy. Part one of this paper analyses the isolated autonomy approach—commonly equated with the ‘bringing the state back in’ school. This approach was of course most famously advocated by Skocpol, who in turn explicitly eschews analysis of a state’s legitimacy.⁹ Moreover, it equates state autonomy with a situation in which the state must ‘isolate’ itself from domestic forces in order to push through its policies. Part two discusses the embedded autonomy approach. I argue that it goes beyond the first position by insisting that states enhance their effectiveness to pursue goals (for example, economic development) by becoming embedded in society while retaining a formal degree of ‘institutional autonomy’.¹⁰ However, while embedded autonomy does not explicitly address the issue of legitimacy, it is implicit that states can only enhance their interests when conferred legitimacy from *dominant* economic groupings (the capitalist class). Even so, both isolated autonomy and embedded autonomy retain a functionalist approach to state capacity. The approaches are very much top-down and society is viewed as fundamentally acquiescent to the state’s functional needs.

Part three analyses the social embeddedness approach, in which it is argued that states can enhance their interests only when they become *deeply embedded within the whole* of society. In this approach state–society relations are viewed as contested rather than merely functional and the approach raises questions of state legitimacy and autonomy. In doing

⁸ Skocpol, *States and social revolutions*.

⁹ Skocpol, *States and social revolutions*, pp. 31–2.

¹⁰ As developed in Peter Evans, *Embedded autonomy: States and industrial transformation* (Princeton: Princeton University Press, 1995); Linda Weiss and John M. Hobson, *States and economic development: A comparative historical analysis* (Cambridge: Polity Press, 1995); and Linda Weiss, *The myth of the powerless state: Governing the economy in a global era* (Oxford: Polity Press, 1998).

so, it also raises the question of whether we should view people in society as 'acquiescent' or whether their 'active consent' is required to legitimate state actions. While this approach is full of promise, it uses the concept of *social embeddedness as an inadequate proxy for legitimacy* and needs to be conceptually advanced. The last two sections of the paper seek to conceptually advance the social embeddedness approach and transform it into a 'neo-Weberian historicist approach'. Part four provides a reinvigorated conception of legitimacy which stresses the importance of consent and social norms, while part five applies this to a brief case study of financial reform in the United States and Japan.

ISOLATED STATE AUTONOMY

Obviously the approaches discussed here derive their view of the state from Max Weber.¹¹ The primary impetus for this scholarship has been that rather than viewing the state as a passive receptor of social wants or as determined by the interests of the dominant class, the state has institutional differentiation and autonomy from society. Indeed, reasserting state autonomy in contrast to liberal and Marxist theories within political science and sociology was the starting point for writers in the isolated autonomy approach, and an ongoing concern for neo-Weberians in the other approaches discussed here. During the 1960s and 1970s a range of 'societal' approaches in political science, particularly Marxism, liberalism and pluralism, challenged the 'state' as a conceptual variable. In response, J.P. Nettl argued that concepts of 'stateness' are important in differentiating societies, and provided the following cue that was later taken up by neo-Weberians:

But if [the state] can be made into an operating variable that points up significant differences and discontinuities between societies, making

¹¹ Skocpol, *States and social revolutions*, p. 304, note 4; Dietrich Rueschemeyer and Peter B. Evans, 'The state and economic transformation: Toward an analysis of the conditions underlying effective intervention', in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol, eds, *Bringing the state back in* (Cambridge: Cambridge University Press, 1985), pp. 46–7; Evans, *Embedded autonomy*, p. 5; and John M. Hobson, *The wealth of states: A comparative sociology of international economic and political change* (Cambridge: Cambridge University Press, 1997), pp. 2–3.

possible systematically qualitative or even quantitative distinctions, there may be a case for bringing it back in.¹²

The isolated autonomy approach was endorsed by writers reacting to Marxist and liberal approaches and the perceived ‘creeping socio-logization’ of state theory and international relations.¹³ From a Weberian premise, these writers sought to retain the integrity of the state as an analytical construct and to reassert its autonomy.¹⁴ The basic tenet of the approach reflected this attitude; that the ‘central characteristic ... [of state capacity is] the ability of the state to overcome domestic resistance is its strength in relation to its own society’.¹⁵ Undoubtedly the most important work in answering Nettl’s appeal for ‘bringing the state back in’ was Skocpol’s 1979 book, *States and social revolutions*. Skocpol linked ‘state autonomy’ with a state’s capacity to conduct and formulate policy free of societal constraint, differentiating her conception of state autonomy from the neo-Marxist literature and its concern for the state’s ‘relative autonomy’.¹⁶

Skocpol argued that liberal and Marxist approaches diverge over whether the state is *an arena* of action embodying ‘fundamentally consensually based legitimate authority, or fundamental coercive

¹² J.P. Nettl, ‘The state as a conceptual variable’, *World Politics* 20(4) 1968, pp. 559–92, at p. 562.

¹³ Richard Leaver, ‘International political economy and the changing world order: Evolution or involution’, in Richard Stubbs and Geoffrey R.D. Underhill, eds, *Political economy and the changing global order* (London: Macmillan, 1994), p. 132.

¹⁴ Robert Gilpin, *The political economy of international relations* (Princeton: Princeton University Press, 1987), p. 11, note 2; Stephen D. Krasner, ‘State power and the structure of international trade’, *World Politics* 28(3) 1976, pp. 317–47, at p. 317; Stephen D. Krasner, *Structural conflict: The Third World against global liberalism* (Berkeley: University of California Press, 1985), p. 17; and Alfred Stepan, *The state and society: Peru in comparative perspective* (Princeton: Princeton University Press, 1978), pp. 3–46.

¹⁵ Lewis W. Snider, ‘Identifying the elements of state power: Where do we begin?’, *Comparative Political Studies* 20(3) 1987, pp. 314–56, at p. 319; Stephen D. Krasner, *Defending the national interest: Raw materials investments and US foreign policy* (Princeton: Princeton University Press, 1978), p. 55; and Bruno Trezzini, ‘Embedded state autonomy and legitimacy: Piecing together the Malaysian development puzzle’, *Economy and Society* 30(3) 2001, pp. 324–53, at p. 334.

¹⁶ Nicos Poulantzas, *Political power and social classes* (London: New Left Books, 1973); Ralph Miliband, *Class power and state power* (London: Verso, 1983); Fred Block, ‘The ruling class does not rule; Notes on the Marxist theory of the state’, *Socialist Revolution* 7, 1977, pp. 6–28; and Jessop, *State theory*.

domination'.¹⁷ In contrast, for Skocpol the state is more than an arena. Rather, it is a 'set of administrative, policing, and military organizations headed, and more or less well coordinated by, an executive authority'.¹⁸ A loss of legitimacy does not necessarily lead to a loss of organisational capacities and therefore the heuristic value of studying processes of legitimation is limited.¹⁹

To stress her view that the state should be taken seriously as a macro-structure and to differentiate it from liberal and Marxist approaches, Skocpol 'brings the state back in' by 'kicking society out'.²⁰ Not surprisingly, she is extremely hostile to the notion that states have (or fail to have) legitimacy. Indeed, she adamantly insists that it is important to dispel a focus on state legitimacy when trying to explain the causes of social revolution, and advocates a focus on 'structural' factors.²¹ The approach is therefore very much top-down, wherein society provides a functional contribution determined by the state's organisational capacity. This leads Skocpol to focus only on the institutional aspects of state autonomy found in Weber, leading her to a 'mistaken assumption that the state apparatus is entirely self-contained, and can be immunised from the attitudes and actions of the surrounding population'.²² Unlike Weber's work, Skocpol and other scholars in the isolated autonomy approach do not emphasise the state embedding itself in society.

This, I believe, is a serious betrayal of Max Weber, made all the more grievous by the fact that Skocpol's work has been widely received as *the* neo-Weberian approach to the state. This betrayal can clearly be identified

¹⁷ Skocpol, *States and social revolutions*, p. 25.

¹⁸ Skocpol, *States and social revolutions*, p. 29. Compare Michael Mann, *States, war and capitalism: Studies in political sociology* (Oxford: Basil Blackwell, 1988), p. 3, where Mann argues that the state is merely an arena, which is more in line with Weber's thoughts on the state-society complex. See Max Weber, 'The meaning of ethical neutrality', in E.A. Shils and H.A. Finch, eds, *Sociology and economics in the methodology of the social sciences* (Illinois: Free Press, 1949), p. 47.

¹⁹ Skocpol, *States and social revolutions*, pp. 31-2.

²⁰ Hobson, *The state and international relations*, pp. 175-6.

²¹ Skocpol, *States and social revolutions*, pp. 14-18.

²² David Beetham, *The legitimation of power* (London: Macmillan, 1991), p. 118.

in her view that ‘insofar as Weber was willing to theorize about societal sociopolitical structures as whole, he tended to use categories that referred to political forms alone, *in isolation from socioeconomic structures*’.²³ As suggested by Gordon C. Wells and Peter Baehr, this ‘at best, represents a very partial and particular reading of *Economy and Society*’.²⁴ A wider reading of Weber’s work demonstrates his study of the state’s need to be broadly embedded in socioeconomic structures to attain legitimacy, rather than the mechanics of modern bureaucracy or naked power politics.²⁵ In his work on Russia, in particular, Weber demonstrated that liberalism failed in that society due to a lack of social and institutional support for its ideas. His analysis of the implosion of Tsarist Russia included organisations *and* norms which contributed to the lack of legitimacy, which crippled the Russian state–society complex.²⁶ But Skocpol’s analysis of Tsarist Russia dismisses the relevance of legitimacy and her approach argues that ‘consensual and voluntaristic conceptions of societal order and disruption are quite naïve’.²⁷ Although Skocpol discusses the formation of solidarities within agrarian communities that push for revolution, the fundamental view of society is that people are *acquiescent*, including all the implications of the abandonment of rights associated with acquiescence.²⁸ The focus shifts to how the Russian state was able (or not as the case may be) to organise in response to geopolitical pressures.

The importance of geopolitics to Skocpol’s work cannot be overstated. She describes the state as Janus-faced—that the state must have sufficient domestic autonomy to implement change to maintain its autonomy from aggressors in the anarchical international system. For Skocpol, like Charles Tilly, inadequate centralisation as a result of insufficient state

²³ Skocpol, *States and social revolutions*, p. 304, note 4, emphasis added.

²⁴ From their introduction in Max Weber, *The Russian revolutions* (Cambridge: Polity, 1995), p. 22.

²⁵ John M. Hobson and Leonard Seabrooke, ‘Reimagining Weber: Constructing international society and the social balance of power’, *European Journal of International Relations* 7(2) 2001, pp. 239–74.

²⁶ Weber, *The Russian revolutions*. Compare Leonard Seabrooke, *US power in international finance* (London: Palgrave, 2001), pp. 38–43.

²⁷ Skocpol, *States and social revolutions*, p. 298, note 41.

²⁸ Skocpol, *States and social revolutions*, chapter 3.

autonomy cripples a state's capacity to compete internationally.²⁹ Her conclusion is that states that have successfully rationalised and centralised are 'more potent within society and more powerful and autonomous over and against competitors within the international states system'.³⁰ As Skocpol acknowledges, her view of the international system is 'realist'. And like neorealist writers, and despite her argument about the Janus-faced state, Skocpol ultimately 'black boxes' the state because only the centralisation of power *against* societal constraint is of concern.³¹ The state is effectively a faceless rational actor within an anarchic international system where military might determines winners and losers.³² On this same point, Skocpol claims that the international economy is as important as an inter-state system, although in her work it is only important to the degree that it supports military capacity.³³ It is the anarchic international system that determines state behaviour, not a state's relationship with its society, leading Skocpol to unwittingly 'kick the state back out'.³⁴ Unsurprisingly, some international relations scholars have not unreasonably seen the isolated autonomy approach to understanding state capacity as 'reheated neorealism'.

It is not surprising that the functionalism of the isolated autonomy approach found favour with writers studying developing states facing geopolitical and international economic constraints. Indeed, strong elements of the approach to state autonomy are reflected in writers discussing successful strategies for highly autonomous developmental states to guide industrialisation and investment.³⁵ However, it is also within the context of

²⁹ Charles Tilly, *Coercion, capital and European states, AD 990–1990* (Oxford: Basil Blackwell, 1990), pp. 137–51, 160, 186.

³⁰ Skocpol, *States and social revolutions*, pp. 161–2.

³¹ Skocpol, *States and social revolutions*, pp. 31–2.

³² Kenneth N. Waltz, *Theory of international politics* (Reading: Addison-Wesley, 1979).

³³ Compare with Tilly, *Coercion, capital and European states*, pp. 83–4.

³⁴ Hobson, *The state and international relations*, pp. 180–4. For an excellent critique of Skocpol's work, see Stephen Hobden, *International relations and historical sociology: Breaking down boundaries* (London: Routledge, 1998).

³⁵ Alice H. Amsden, *Asia's next giant: South Korea and late industrialization* (New York: Oxford University Press, 1989); Robert Wade, *Governing the market: Economic theory and the role of*

this literature that we find a shift during the 1990s to a different conception of state capacity (and therein state autonomy and embeddedness).

In contrast to the notion that state autonomy implies an ability to override societal interests, the embedded autonomy approach argued that while autonomous from society, ideally the state should be embedded in society; that is, institutional autonomy should be anchored within the dominant social networks of civil society. This was in large part a reaction or response to the various critics of the isolated autonomy approach—denounced as so much ‘statism’, which had merely replaced Marxist economic reductionism with an equally lop-sided ‘Weberian’ political reductionism.³⁶ Peter Gourevitch, for example, argued that by focusing on organisational structure that is isolated from society, so the state capacity literature removed ‘politics’ from the analysis. Indeed, he asserted that understanding how policies were socially legitimated was by far the weakest aspect of state-centred arguments.³⁷ While the concept of legitimacy was not seriously addressed, many neo-Weberian scholars responded to criticism by working on developing embeddedness as a conceptual variable. This was clearly an advance from the isolated position and took a step closer to an integrated understanding of the state–society complex.

EMBEDDED AUTONOMY

While the concept of embeddedness can be traced to followers of Karl Polanyi’s work and a number of economic anthropologists, its popular incarnation has also come from neo-Weberian scholars.³⁸ Most important

government in East Asian industrialization (Princeton: Princeton University Press, 1990). As a matter of interest compare Chalmers Johnson, *MITI and the Japanese miracle: The growth of industrial policy, 1925–1975* (Tokyo: Charles E. Tuttle Co., 1982) with his earlier work *Revolutionary change* (Boston: Little Brown, 1966), which Skocpol criticises for its focus on social legitimacy. See Skocpol, *States and social revolutions*, pp. 9, 11–12.

³⁶ Jessop, *State theory*, pp. 275–83.

³⁷ Peter Gourevitch, ‘The second image reversed: The international sources of domestic politics’, *International Organization* 32(4) 1978, pp. 881–911, at pp. 901–3, 907.

³⁸ Karl Polanyi, *The great transformation* (Boston: Beacon Press, 1944), and, more recently, Michael S. Billig, ‘Institutions and culture: Neo-Weberian economic anthropology’, *Journal of Economic Issues* 34(4) 2000, pp. 771–88. The application of Michael Mann’s discussion of authoritative, diffused, intensive, extensive, and infrastructural types of state activity has been particularly

among these is Peter Evans' work on embedded autonomy. Evans suggests that embedded autonomy is:

... precisely the mirror image of the incoherent despotism of the predatory state, [it] is the key to the developmental state's effectiveness. 'Embedded autonomy' combines the Weberian bureaucratic insulation with intense connection to the surrounding social structure ... Given a sufficiently coherent, cohesive state apparatus, isolation is not necessary to preserve state capacity. Connectedness means increased competence instead of capture.³⁹

Thus the embedded autonomy approach reflects a focus upon a state being institutionally autonomous but simultaneously embedded in dominant organised economic groups. State capacity is then the ability to adapt to change through the coordination of domestic linkages, particularly through harnessing domestic private capital to support the government's economic policy.⁴⁰ In this way, the second approach couples embeddedness with Mann's concept of infrastructural power—the capacity of the state to actually penetrate civil society—but with a functionalist condition in which state capacity reflects an ability 'to penetrate and extract resources from society and allocate them to desired ends'.⁴¹ For this reason these scholars focus on states where there is 'an "elective affinity" of autonomy and embeddedness' which assists successfully economic development, particularly industrialisation.⁴²

Thus the second approach advocates a situation in which a state has 'implied dense links not with society but specifically with industrial capital' (although Evans does argue that ideally there are implications for

important in the development of embeddedness as a concept in neo-Weberian work. See Mann, *The sources of social power*, Vol. I and Vol. II.

³⁹ Evans, *Embedded autonomy*, p. 50.

⁴⁰ Weiss, *The myth of the powerless state*, p. 34. Compare Richard F. Doner, 'Limits of state strength: Toward an institutionalist view of economic development', *World Politics* 44(3) 1992, pp. 398–431.

⁴¹ Mann, *States, war and capitalism*, p. 5; and Weiss and Hobson, *States and economic development*, p. 4.

⁴² Ming-Chang Tsai, 'State power, state embeddedness, and national development in less developed countries: A cross-national analysis', *Studies in Comparative International Development* 33(4) 1999, pp. 66–88, at p. 67.

broader society).⁴³ Economic bureaucracies must attract private entrepreneurs so they are ‘willing to bet their capital in ways that will make expected policy outcomes a reality’.⁴⁴ At the same time, only an autonomous state can prevent the emergence of cartel-like or rent-seeking behaviour if the state is ‘over-embedded’ in the dominant economic class.⁴⁵ Given these difficulties in maintaining equilibrium between over and under-embeddedness, Evans puts forward a ‘grave-digger’ thesis; that in the end states with embedded autonomy will be subordinate to the interests of private capital.⁴⁶

It is at this point that a difference within the embedded autonomy literature opens up. Linda Weiss, for example, criticises Evans’ approach on the basis that:

On the one hand, there is a clear sense in which it is being contrasted with statism (i.e. top down, insulated, non-connected decision-making). On the other hand, ‘embeddedness’ appears to be ‘negotiation’-neutral. For the thrust of Evans’ account suggests that when a state has embedded autonomy it can use business networks with relative ease to implement its own policies.⁴⁷

Unlike Evans, Weiss does not agree with the ‘grave-digger’ thesis. Rather, Weiss focuses upon links between state embeddedness in social groups, which can be re-negotiated to avoid grave-digging.⁴⁸ Instead of embedded autonomy, Weiss terms the reciprocal yet governed relationship between the state and the private sector ‘governed interdependence’, which enables a ‘robust organizational infrastructure [that] has been nurtured by state policies’.⁴⁹ However, the key point here—and one which produces a clear common ground between Weiss and Evans—is the

⁴³ Evans, *Embedded autonomy*, p. 17.

⁴⁴ Peter Evans, ‘Transferable lessons? Re-examining the institutional prerequisites of East Asian economic policies’, *Journal of Development Studies* 34(6) 1998, pp. 66–86, at p. 68.

⁴⁵ Evans, *Embedded autonomy*, p. 57.

⁴⁶ Evans, ‘Transferable lessons?’, p. 82.

⁴⁷ Weiss, *The myth of the powerless state*, p. 36.

⁴⁸ Weiss, *The myth of the powerless state*, p. 19.

⁴⁹ Weiss, *The myth of the powerless state*, pp. 37–9.

notion that embeddedness must occur between the state and the dominant economic class, specifically, the capitalist class.⁵⁰

Though it is sometimes claimed that this view of embedded autonomy manages to 'bring state–society relations back in', this is nonetheless a highly problematic claim for two basic reasons. First, it is unequivocal that for Evans that '[e]mbeddedness implies a concrete set of connections that link the state intimately and aggressively to *particular social groups* with whom the state shares a joint project of transformation'.⁵¹ In other words, for the state to produce effective economic outcomes, it must be embedded within the dominant economic class, not necessarily the wider social groups within society. The same is true for Weiss. Second, gearing the state towards economic growth undoubtedly comes first over the *social* legitimation of the state–society complex which permits its sustainable reproduction. Thus while embedded autonomy is an advance on isolated state autonomy, it is a functionalist approach that emphasises maximising state efficiency through the integration and guidance of private entrepreneurs in order to compete in the international system. In this way, dominant economic groupings are functional to the gearing of successful state economic policy.

As stated above, the isolated autonomy approach has been viewed as a 'reheated' form of neorealism. Like its predecessor, the embedded autonomy approach has no serious qualms with the neorealist conception of the international system. In all cases, the international is viewed as a system, which is defined by constant inter-state competition. Moreover, Evans draws from Gilpin's view of the state as, 'first and foremost a war-making machine that is the product of group survival in the condition of international anarchy'.⁵² The international arena imposes itself on the domestic, to force the domestic arena to provide a competitive response. And it is the same for Weiss, who understands a state's 'transformative

⁵⁰ Weiss and Hobson, *The state and international relations*, p. 54. Compare Evans, *Embedded autonomy*, p. 248.

⁵¹ Evans, *Embedded autonomy*, p. 59, emphasis added.

⁵² Evans, *Embedded autonomy*, p. 5; and Robert Gilpin, *War and change in world politics* (Cambridge: Cambridge University Press, 1981).

capacity' as, 'a state's ability to adapt to *external shocks and pressures* by generating ever-new means of governing the process of industrial change'.⁵³

Like the isolated autonomy approach, the embedded autonomy approach argues that states which are successfully centralised and embedded are able to survive or adapt under international anarchy. This is most effectively done through the centralisation of institutions and embeddedness in organised economic groups. In contrast, the decentralisation of decision making produces 'antinomies of civil society that tend to reproduce themselves within the state, undermining the state's capacity for coherent corporate action'.⁵⁴ Accordingly, the embedded autonomy approach has difficulties in analysing states where state institutions and, in particular, pilot economic agencies do not play dominant roles, or where centralisation may in fact be harmful for embeddedness.⁵⁵

Weiss, for example, argues that the provision of pilot economic agencies is a key resource. When it is lacking, as in the example of the United States, so international (hegemonic) power 'provide[s] a (temporary) substitute for domestic capacity'.⁵⁶ The successful polities are found in Northeast Asia, particularly Taiwan and Japan, insofar as they invoke a 'governed interdependence' model (that is, pilot economic agencies embedded within the capitalist class).⁵⁷ But this takes us to the heart of the

⁵³ Weiss, *The myth of the powerless state*, p. 4, emphasis added. Kenneth Waltz confirms this view of Weiss's work in Kenneth N. Waltz, 'Globalization and governance', *Political Science and Politics* 32(4) 1999, pp. 693–700, p. 696. Embedded autonomy has also been expressed as 'bounded autonomy' to describe 'states with some independence from domestic social forces yet firmly oriented to participation in the international market economy'. See Ding Xin Zhao and John A. Hall, 'State power and patterns of late development: Resolving the crisis of the sociology of development', *Sociology* 28(1) 1994, pp. 211–29, at p. 211.

⁵⁴ Rueschemeyer and Evans, 'The state and economic transformation', p. 60.

⁵⁵ Linda Weiss, 'State power and the Asian crisis', *New Political Economy* 4(3) 1999, pp. 317–42, at pp. 321–6; Rueschemeyer and Evans, 'The state and economic transformation', pp. 55–6. Compare G. John Ikenberry, 'The irony of state strength: Comparative responses to the oil shocks in the 1970s', *International Organization* 40(1) 1986, pp. 105–37, at pp. 134–5; and Seabrooke, *US power in international finance*, chapter 7.

⁵⁶ Weiss, 'State power and the Asian crisis', pp. 328–9, 331.

⁵⁷ Weiss, 'State power and the Asian crisis', pp. 321–4; and Evans, 'Transferable lessons?', pp. 70–3. On the comparison of the administrative efficiency of Japan compared with the US see also Stephen

functionalist aspect of the approach. Put simply, state strength is found where it exists and states without it are criticised for its absence.⁵⁸ Given these constraints, the embedded autonomy approach has severe problems in explaining change in the domestic realm (pre-determined evolution of agencies) and the international realm (characterised by timeless anarchy). Most important for the purposes of this piece is the fact that the embedded autonomy approach has great difficulty conceptualising legitimacy, although implicitly it relies on it. For example, Evans argues that:

The principal problem with inequality (beyond its negative welfare implications) is that it has corrosive institutional effect. Concentrated wealth and income generate concentrated private power, which in turn increases the likelihood that public institutions will be captured by private elites. *At the same time entrenched inequality undercuts the legitimacy of state autonomy.*⁵⁹

Evans provides an argument that state autonomy requires a broad social legitimacy for its effective functioning, and that this legitimacy relies on the state maintaining institutional autonomy from the dominant economic classes. And although Evans also asserts that the state must build 'social capital' and trust that 'spans the public-private divide', legitimacy is ultimately rejected because society is viewed as fundamentally 'acquiescent'.⁶⁰ From this top-down view, legitimacy is merely a resource

D. Krasner, 'The accomplishments of international political economy', in Steve Smith, Ken Booth and Marysia Zalewski, eds, *International theory: Positivism and beyond* (Cambridge: Polity Press, 1996), p. 121.

⁵⁸ Tendencies bordering on tautological can be found in this literature, where although some states may not need 'the elaborate underpinnings of state capacity in order to engage in regulatory control' and others may, 'the outcome appears to be shaped by the pre-existing constellation of ideas and institutions regarding the state-market relationship'. See Weiss, 'State power and the Asian crisis', pp. 324–5. Compare, on method, Geoffrey Ingham, 'Some recent changes in the relationship between economics and sociology', *Cambridge Journal of Economics* 20(2) 1996, pp. 243–75, at p. 251.

⁵⁹ Evans, 'Transferable lessons?', p. 82, emphasis added.

⁶⁰ Peter Evans, 'Government action, social capital, and development: Reviewing the evidence of synergy', in Peter Evans, ed., *State-society synergy: Government and social capital in development* (Berkeley: International and Area Studies, University of California, 1997), p. 201. Compare Lucas, 'The tension between despotic and infrastructural power: The military and the political class in Nigeria, 1985–1993', *Studies in Comparative International Development* 33(3) 1998, pp. 90–113.

or instrument which states manipulate so as to successfully compete in the international system and thereby secure economic development.⁶¹ For example, Evans argues that in Third World states ‘one of the prime advantages of [the state] mobilizing ordinary citizens is that mobilization helps balance the inevitable ties with elites and thereby protects the integrity of the state as an institution’.⁶² Without studying legitimacy the embedded autonomy approach faces difficulty in overcoming ‘the tendency to focus exclusively on the evolving relations between state and capital while neglecting or underrating the relations between state and civil society’.⁶³ And as argued by Reinhard Bendix, one can focus on the ‘functional equivalents’ that allow a state to modernise and compete in the international system, but the implementation of ‘functional equivalents’ presupposes that the state has legitimacy.⁶⁴ In sum, the embedded autonomy approach to state capacity does not provide a substantive conception of the state–society complex. The next neo-Weberian approach to state autonomy and embeddedness seeks to overcome some of these problems outlined above by placing greater emphasis on *social embeddedness*.

SOCIAL EMBEDDEDNESS

The social embeddedness approach to state capacity emphasises that the state must not only be embedded in the dominant economic class, but also throughout broader society, in order to provide itself with a more flexible means of reconstituting itself.⁶⁵ This brings us even closer to a substantive view of the state–society complex because *the state’s relationship to society is viewed as a contested one rather than a functional one*. This idea of *contestation* is critical for the social embeddedness approach, as it underpins the idea that while the state pushes and shapes the norms and

⁶¹ Ted Robert Gurr, ‘War, revolution, and the growth of the coercive state’, in James A. Caporaso, ed., *The elusive state* (Newbury Park: Sage, 1989), p. 50.

⁶² Evans, ‘Government action, social capital, and development’, p. 201.

⁶³ Trezzini, ‘Embedded state autonomy and legitimacy’, p. 336.

⁶⁴ Reinhard Bendix, *Nation-building and citizenship: Studies of our changing social order*, second edition (London: University of California Press, 1977), p. 416.

⁶⁵ Ikenberry, ‘The irony of state strength’, p. 136.

material conditions of society, the reverse is also true. Accordingly, involved in this contested relationship are issues of 'trust' and 'quasi-voluntary compliance' between state and society, which cannot simply be reduced to measures of confidence or economic outcomes.⁶⁶ In this conception the state is an arena in which contests take place between groups and in which the government seeks to attain a broad legitimation of its power from its people to implement its policies. Rather than isolated autonomy or embedded autonomy, the emphasis is on the socially regenerative aspects, which allow the state to engage with other states in the international arena.⁶⁷ In contrast to the top-down view of the state in the first two neo-Weberian approaches presented here, the social embeddedness approach is more bottom-up. The difference comes down to different functional and contested views of the state and the associated view of whether society's consent is necessary (as it is in the contested approach) or whether society is fundamentally acquiescent. Contestation and consent are integral to the social embeddedness approach and, for this reason, it is far less functionalist than either the isolated autonomy or embedded autonomy approaches.

John M. Hobson's work clearly aims to present a neo-Weberian approach on state capacity through the concept of social embeddedness.⁶⁸ Like some scholars in the embedded autonomy approach, his approach takes up many cues from Mann's work on the 'sources of social power' to develop the 'social sources of state power'.⁶⁹ For Hobson's analysis of state capacity, the embedded component of embedded autonomy refers not just to the state being embedded in the dominant classes but, above all, the lower classes. This can be found in his analysis of the interplay

⁶⁶ Margaret Levi, *Of rule and revenue* (London: University of California Press, 1988), pp. 52–4. Compare Ingham, 'Some recent changes', p. 250.

⁶⁷ Joel S. Migdal, *Strong societies and weak states: State–society relations and state capabilities in the Third World* (Princeton: Princeton University Press, 1988); Thomas M. Callaghy, *The state–society struggle: Zaire in comparative perspective* (New York: Columbia University Press, 1984); Levi, *Of rule and revenue*; and Margaret Levi, *Consent, dissent, and patriotism* (Cambridge: Cambridge University Press, 1997).

⁶⁸ Hobson, *The state and international relations*, p. 204.

⁶⁹ Mann, *The sources of social power*, Vol. II, chapters 3 and 13.

between taxation and tariff protectionism before the Great War. Hobson argues that a state that has achieved social embeddedness is able (in the case of late-Victorian/Edwardian Britain) to ‘play off the dominant classes with the lower-middle and working classes’ in order to increase its extractive capacities (direct taxation) and hence state (fiscal) capacity.⁷⁰ Direct appeal to all classes is crucial in that it confers a higher degree of legitimacy for the state, thereby enabling it to enhance its tax extraction.⁷¹ Upon reception of the British middle and working classes’ consent for the People’s Budget of 1909, with progressive income tax rates levied on the richer classes, the British state pursued *legitimate* increased tax extraction and enhanced state capacity.⁷² Increased state capacity was a consequence of the state’s social embeddedness, not its ability to embed itself in the dominant economic classes.⁷³

Conversely, following Weber, Tsarist Russia was too autonomous from society and the state’s lack of social embeddedness made income tax extraction impossible (income tax extraction requires consent from the dominant groupings). As a consequence Tsarist Russia relied on regressive indirect taxes (tariffs and excises), which proved to yield a far lower fiscal take than in Britain and punished the lower classes. These later took their revenge in 1917 when of course, they revolted against the Russian state.⁷⁴ The crucial point here is that scholars in the social embeddedness approach (as do those in the embedded autonomy approach) invert Skocpol’s thesis: namely that too much autonomy undermines the effectiveness of the state. But these scholars reject the functionalism of the embedded autonomy approach by arguing that the multiple sources of state capacity come from a state’s contested or ‘interactively embedded’ relationship with its society.⁷⁵ The emphasis is therefore not only on the

⁷⁰ Hobson, *The wealth of states*, p. 236.

⁷¹ Compare Carmenza Gallo, ‘The autonomy of weak states: States and classes in primary export economies’, *Sociological Perspectives* 40(4) 1997, in which Gallo produces a model of internal class conflict and class versus bureaucracy conflict over tax extraction.

⁷² Hobson, *The wealth of states*, pp. 122, 138–41.

⁷³ Hobson, *The wealth of states*, pp. 142–4. Compare Geoffrey Ingham, *Capitalism divided?: The city and industry in British social development* (Basingstoke: Macmillan, 1984).

⁷⁴ Hobson, *The wealth of states*, chapters 3 and 4.

⁷⁵ Hobson, *The wealth of states*, p. 240. Compare Seabrooke, *US power in international finance*.

development of linkages between government and the dominant economic class, but simultaneously a broad social embeddedness throughout society, which produces the *legitimate social reproduction of the state*.⁷⁶ Thus broad social embeddedness permits a state to enact and adapt to change in the domestic and international realms.

The focus upon the socially regenerative properties of the state–society complex also differentiates the social embeddedness approach’s view of the international realm from the approaches discussed above. As argued earlier, both the isolated autonomy and embedded autonomy approaches ‘reheat neorealism’ by arguing that states must adapt to international dictates from the anarchical structure. The emphasis on external pressures permits the functionalist view of state–society relations and the view that society is fundamentally acquiescent. The social embeddedness approach departs from this view by arguing that while the international system does indeed ‘constrain’ states, it is also a ‘*partial resource pool*’ into which states dip to enhance their power and interests.⁷⁷ The crucial point is that states are not merely passive victims of the dictates of international structural constraints (that is, anarchy), but they can actively shape the international order.⁷⁸ Thus socially embedded states are more able to shape the international order on the basis of their domestic relations.⁷⁹ Moreover, sovereignty is downgraded in the social embeddedness approach because it treats states as ‘unlike units’, and refuses to abolish ‘their domestic relations with society as conceptual variables in international politics’.⁸⁰

The ultimate problem from the social embeddedness approach is its failure to develop the concept of legitimacy. In Hobson’s analysis the state

⁷⁶ Hobson, *The wealth of states*, p. 237.

⁷⁷ Hobson, *The state and international relations*, pp. 210–13, emphasis in original.

⁷⁸ Hobson, *The state and international relations*, pp. 192–3, 210, 229–30.

⁷⁹ Hobson, *The state and international relations*, pp. 192–3, 230.

⁸⁰ John M. Hobson, ‘The historical sociology of the state and the state of historical sociology in international relations’, *Review of International Political Economy* 5(2) 1998, pp. 285–320, at p. 295; Hobson, *The wealth of states*, p. 252; and Hobson and Seabrooke, ‘Reimagining Weber’, pp. 265–6. Compare Ian Hurd, ‘Legitimacy and authority in international politics’, *International Organization* 53(2) 1999, pp. 379–405.

requires a broad social legitimation of its power to implement its policies *and* to secure its autonomy to enforce law against the interests of dominant political and economic groups. Such an analysis does not merely imply but relies directly on the legitimation of power. However, *social embeddedness is an inadequate proxy for legitimacy*. Rather than situating people's decision to consent to state taxation policy in recognition of changing social norms, Hobson explains support through strategic calculations. The British state resorted to income taxation to court the working class vote in the 1910 election, but kept the dominant classes on side by maintaining free trade (income taxation was the flipside of free trade because the alternative would have been protectionist tariffs to gain the revenues for the welfare reforms).⁸¹ Though the state is responding to the needs of the working classes as well as the dominant groupings, it is still done to enhance the state's fiscal capacity on the one hand (income taxes were more lucrative than indirect taxes) and maintain the Liberal government in office. In short there are three major problems here: first, it is not a sufficiently bottom-up approach. Second, it retains some clear elements of functionalist analysis, which similarly tarnishes the first two approaches. And third, social norms very much play a backseat to strategic explanations of change.

This general problem within neo-Weberian approaches is a consequence of the denigrated position of legitimacy and the underdevelopment of the role of norms, despite Max Weber's heavy emphasis on their importance (which I discuss below). In short, a bottom-up rather than simply top-down approach is impossible without a full conception of legitimacy which includes societal norms. And while consent rather than acquiescence is required from society for those in the social embeddedness approach, many treat legitimacy as the state's propagation of a 'noble lie' to attain 'people's approval of the state's desired social order through their acceptance of the state's myths'.⁸² Norms are viewed as

⁸¹ Hobson, *The wealth of states*, p. 248.

⁸² Muthiah Alagappa, 'Introduction', in Muthiah Alagappa (ed.), *Political legitimacy in Southeast Asia: The quest for moral authority* (Stanford: Stanford University Press, 1995), p. 4; and Migdal, *Strong societies and weak states*, p. 33. Compare with Adrian Leftwich, 'Bringing politics back in: Towards a model of the developmental state', *Journal of Development Studies* 31(3) 1995, pp. 400–27, at pp. 419–20.

vague and ignored for a preference on strategic rationality for material gain.

Margaret Levi's work on 'bringing people back into the state' is particularly instructive on this point. Although Levi derives her view of the state from Weber, she 'eschews the word *legitimate*, at least until the term acquires a consensual meaning'.⁸³ Levi's key concept in understanding why people consent to a state policy, 'quasi-voluntary compliance', retains the 'strategic calculations and gains' element of legitimacy and focuses upon the 'perception of the bargain *rather than ideas about what a good or fair contract is*'.⁸⁴ At the same time, however, she admits that 'in most cases citizens are willing to go along with a policy *they do not prefer* as long as it is made according to *a process they deem legitimate*'.⁸⁵ Levi's analysis promotes the rationalist view that people understand their choices objectively, which severely limits her argument because evaluations of wants are not isolated from their social surroundings and, therefore, are better understood by more interpretive approaches. The next section thus seeks to bring a reinvigorated concept of legitimacy back in.

BRINGING LEGITIMACY BACK IN: REALISING THE WEBERIAN LEGACY

The substantive neo-Weberian approach to state capacity can only be advanced by 'bringing legitimacy back in' and removing the proxy of social *embeddedness*. As stated above legitimacy is commonly viewed as a poor indicator of changes within states and the study of organisational capacities is much preferred. This is primarily due to the idea that

⁸³ Levi, *Of rule and revenue*, p. 1, note 1, emphasis added.

⁸⁴ Levi, *Of rule and revenue*, p. 54, my emphasis.

⁸⁵ Levi, *Consent, dissent, and patriotism*, p. 23, emphasis added. Compare Levi, *Of rule and revenue*, pp. 5–7. Levi's work also reflects the tension between a concentration on the use of historical specificities and the heuristic value and limitations of generalisation common to other neo-Weberian scholars. Undoubtedly, many scholars would place Levi in the second (embedded autonomy) approach to state capacity rather than the third (social embeddedness) due to her focus on cost-effective means of extracting revenue (taxation) or, in her later work, military service. I disagree on the grounds that Levi's work does, as she asserts, focus on organisational differences from power struggles within the state rather than maximising economic or military outcomes.

legitimacy represents a vague concept related to a relationship between ‘a monolithic bloc of rulers and an unidentified mass of subjects’.⁸⁶ That is, it is ‘a matter of sentiment’ which provides ‘a reservoir of loyalty ... giving [leaders] the discretionary authority they require to govern effectively’.⁸⁷ The key protest against the use of legitimacy is that it is too hard to specify through objective criteria and, therefore, must be excluded from any serious social science research.⁸⁸ However, while many neo-Weberians have removed legitimacy from their analyses, others have attempted to define how legitimacy can be useful in understanding state–society complexes.⁸⁹

David Beetham’s work on the legitimation of power provides a particularly fruitful way forward. Beetham begins his work by criticising the Weberian premise that power relations are legitimate when people *believe* them to be so. Such an approach he argues has been an ‘almost unqualified disaster’.⁹⁰ Studies that understand legitimacy as only belief or public opinion effectively divorce people’s beliefs from their grounds and reasons for holding them in the first place.⁹¹ Rather, and as also argued by Bendix, the legitimation of power comes from ‘cumulative, individual *acts* of compliance or confidence’;⁹² actions expressed not ‘because people believe in its legitimacy, but because it can be *justified in terms* of their beliefs’.⁹³ In all state–society complexes other than the most abhorrent and despotic, the power-elite’s efficacy is constrained by the

⁸⁶ Rodney Barker, ‘Legitimacy: The identity of the accused’, *Political Studies* 42(1) 1994, pp. 101–2, at p. 102.

⁸⁷ John H. Schaar, *Legitimacy in the modern state* (New Brunswick: Transaction, 1989), p. 22; and Tom R. Tyler, *Why people obey the law* (New Haven: Yale University Press, 1990), p. 26.

⁸⁸ Levi, *Of rule and revenue*, p. 17, an opinion also expressed in Beetham, *The legitimation of power*, p. 8.

⁸⁹ Barker, *Legitimizing identities*, pp. 12–13.

⁹⁰ Beetham, *The legitimation of power*, p. 8. Compare Max Weber, *Theory of social and economic organization*, edited by Talcott Parsons (New York: Free Press, 1964), pp. 325–7, with Max Weber, *Economy and society*, Vols. 1 and 2 (Berkeley: University of California Press, 1978), pp. 213–15.

⁹¹ Beetham, *The legitimation of power*, pp. 8–10, 219; and Muthiah Alagappa, ‘The anatomy of legitimacy’, in Alagappa, ed., *Political legitimacy in Southeast Asia*, p. 12.

⁹² Bendix, *Nation-building and citizenship*, p. 24, emphasis added.

⁹³ Beetham, *The legitimation of power*, pp. 11, 26, emphasis in original.

consented acts of those subordinate within the state.⁹⁴ Following Beetham, a state's legitimacy does not hold on belief alone, but rather when:

- the state conforms to its own established rules;
- state laws and policies can be justified by reference to norms shared by dominant and subordinate groups within the state; and
- evidence of consent for state action is expressed by subordinates through action not only belief.⁹⁵

These criteria recognise that legitimacy involves the contestation of power between state and society rather than a resource upon which the state can claim authority to implement its wishes (the latter being the leitmotif of the functionalist approaches discussed above).⁹⁶ The crucial point is that if legitimacy involves actions expressive of consent, then both norms and material factors are brought into play and 'ideas about what a good or fair contract is' have specific policy relevance.⁹⁷

I would argue that the first two criteria are uncontroversial within the neo-Weberian approaches outlined above, and certainly are required in the social embeddedness approach. It is obvious that the limits of state action are set out in law and that the state should not arbitrarily break them.⁹⁸ These rules provide the basis for the state's institutional autonomy, which

⁹⁴ An internalisation of a belief in authority is not sufficient to demonstrate that a power relationship has legitimacy and Beetham cites the story of *The good soldier Schweik* to accentuate this point. Throughout the story the soldier Schweik professes his belief in the Emperor's legitimacy, yet his passive non-cooperation with all forms of state organisation reflects the state's low degree of legitimacy. The result is, despite the sufficient organisational resources and clear rule of law, diminished Austro-Hungarian state capacity in the First World War. See Jaroslav Hasek, *The good soldier Schweik* (Harmondsworth: Penguin, 1939).

⁹⁵ Beetham, *The legitimation of power*, pp. 15–16.

⁹⁶ Contrast Alagappa, 'Introduction', p. 2.

⁹⁷ Levi, *Of rule and revenue*, p. 54; and Barker, *Legitimizing identities*, pp. 11, 19.

⁹⁸ Max Weber, *Staatssoziologie* (Berlin: Duncker und Humboldt, 1956), p. 31; Michael Walzer, *Obligations: Essays on disobedience, war, and citizenship* (Cambridge, Mass: Harvard University Press, 1970), p. 18; Beetham, *The legitimation of power*, p. 16; and Mann, *The sources of social power*, Vol. II, p. 59.

is a running theme throughout neo-Weberian work, and which I also agree with, though on the proviso that rules can be justified by social norms. It stands to reason that the structure of power must be seen to recognise a general societal interest rather than simply that of the powerful, since such rule is often unsustainable. But in contrast to functionalist approaches, it is vital to emphasise that the justification of state policy according to social norms is more important than economic policy performance failure. Such failure does *not necessarily* suggest the illegitimacy of a political system since *fair procedure not policy outcomes* are the most important factor affecting the legitimacy of a power relationship.⁹⁹ This is not to say that policy outcomes are unimportant, since chronic policy failures will lead to social discontent, but that economic outcomes alone do not provide a sustainable basis for the legitimation of power.¹⁰⁰

The third criterion, consent, is controversial and really does take us to the heart of the matter and provides the means to address Levi's concern about eschewing legitimacy as a concept until it acquires a 'consensual meaning'. Indeed, consent is the key issue in bringing legitimacy back in because it treats people as moral agents rather than acquiescent ruled subjects. Consent demonstrated by action indicates that people, even if out of self-interest, provide moral commitments to projects over time when they are in a general societal interest.¹⁰¹ And of course consent can be withdrawn through action. Rodney Barker's study of the illegitimacy of the poll tax in Scotland, which involved 'passive resistance by nearly a quarter of the population' in withholding taxes, provides an excellent example.¹⁰² It also demonstrates the importance of social norms to the realisation of state capacity, despite efficient administrative organisation.

⁹⁹ Beetham, *The legitimation of power*, pp. 17, 69; Bendix, *Nation-building and citizenship*, p. 20; and Christian Reus-Smit, *The moral purpose of the state: Culture, social identity, and institutional rationality in international relations* (Princeton: Princeton University Press, 1999), pp. 28–30.

¹⁰⁰ As Max Weber argues in *The theory of social and economic organization*, translated by A.M. Henderson and Talcott Parsons (New York: Oxford University Press, 1947), p. 325.

¹⁰¹ Beetham, *The legitimation of power*, pp. 18, 59, 95; and Walzer, *Obligations*, pp. xii–xv, 19.

¹⁰² Rodney Barker, 'Legitimacy in the United Kingdom: Scotland and the poll tax', *British Journal of Political Science* 22(4) 1992, pp. 521–33. Barker argues that, encouraged by Scottish social norms, non-payment of poll tax cut across socioeconomic boundaries and involved 'passive resistance by

A criticism of this line of argument could be that separating consent from acquiescence is simply too difficult. All states have dominant and subordinate groups, and within all states the rules of power encourage voluntary acceptance of one's subordination.¹⁰³ The difference is far from superficial. To argue that the relationship between state and society is more characterised by acquiescence than consent eventually leads us back on the track to functionalist and economic determinist explanations of state capacity (as in the neo-Weberian approaches presented earlier, or in neoclassical or Marxist-inspired theories). Moreover, consent focuses attention on contestation between state and society simply because consent can be given or withdrawn. Acquiescence, by contrast, implies a continuity that masks power relations. By stressing the need for consent by subordinates, the state immediately becomes *more than either captured or enabled by the interests of the dominant political and economic classes*.¹⁰⁴ Demonstrating consent through actions provides a definitive break with a functionalist view of legitimacy. It also provides the break with approaches that focus on dysfunctions of capitalism and view legitimacy as a resource employed by the state and an 'elite transnational class on its own terms and then forced or imposed on subaltern classes' to instil a false consciousness.¹⁰⁵ Instead, a focus on legitimacy requires a qualitative judgement to differentiate consent from acquiescence. And only through analysing consent, as if society *does matter*, can a bottom-up

nearly a quarter of the population'. This resistance harmed the state's extractive capacity and therefore its state capacity more generally.

¹⁰³ Beetham, *The legitimation of power*, p. 51.

¹⁰⁴ Hobson, *The wealth of states*, pp. 244–6; and Seabrooke, *US power in international finance*, p. 40.

¹⁰⁵ A criticism made by neo-Gramscians against other 'Italian school' Gramscians in Randall D. Germain and Michael Kenny, 'Engaging Gramsci: International relations theory and the new Gramscians', *Review of International Studies* 24(1) 1998, pp. 3–21, at pp. 18–19. As Germain and Kenny point out many aspects of Gramscian scholarship focuses on forms of material and ideological struggle from subaltern classes. Indeed, there are complementarities between the Gramscian historicism of Germain and others and neo-Weberian historicism. The sharp distinction often drawn between Weberian and Marxist approaches has been exaggerated, as Wolfgang Schluchter points out in his introduction to Bendix's *Force, fate and freedom*, p. xiii. It should also be recognised that Weber's academic attacks were as much against evolutionary determinism as they were against Marxism. Certainly Talcott Parsons exaggerated the virulence of Weber's anti-Marxism. See Peter Ghosh, 'Some problems with Talcott Parsons' version of the "protestant ethic"', *Archives Européennes De Sociologie* XXXV(1) 1994, pp. 104–23, at p. 117.

analysis be produced. Once this is recognised it is impossible to fall-back into a top-down functionalist approach whereby ‘effective performance can be deployed to generate moral authority’ or where ‘[c]onsent is given to the formal source of commands, not to their content’.¹⁰⁶ As stated, legitimacy rests on fair procedure related to policy content with regard to social norms, and not merely economic policy outcomes.

By emphasising the consent expressed through action not belief the Weberian concept of legitimacy is given a conceptual ‘Heimlich manoeuvre’, providing an augmented social embeddedness neo-Weberian approach to state capacity through the introduction of social norms. In this way, it replaces the inadequate proxy of social embeddedness. Furthermore, it allows us to address the betrayal of the Weberian legacy found, particularly, in the isolated autonomy and embedded autonomy approaches, and reunites us with Weber’s key questions such as: ‘why do men obey?’; and what is the ‘*meaning* of human action’ and permits us to de-emphasise the state as merely the holder of the monopoly of *legitimate* violence.¹⁰⁷ After all, Weber suggests that the ‘validity’ of a system of domination must be through a system of rational rules that can be justified by social norms, and it is this justification that ‘constitutes the basis of real differences in the empirical structure of domination’.¹⁰⁸

¹⁰⁶ Alagappa, ‘The anatomy of legitimacy’, pp. 22, 24.

¹⁰⁷ R.I. Frank’s introduction in Max Weber, *The agrarian sociology of ancient civilizations* (London: Verso, 1998), p. 25; Max Weber, *Political writings* (Cambridge: Cambridge University Press, 1994), p. 354; and Christian Reus-Smit, ‘The idea of history and history with ideas’, in Stephen Hobden and John M. Hobson, eds, *Historical sociology of international relations* (Cambridge: Cambridge University Press, 2002), pp. 123–9. On the monopoly of violence, even the most preliminary of investigations into the monopolies of violence a state must hold reveals that Weber is referring to social policy such as policing and corporal punishment. See Weber, *Economy and society*, pp. 54–6; and Weber, *Staatssoziologie*, p. 31.

¹⁰⁸ Weber, *Economy and society*, pp. 953–4. Compare Reus-Smit, *The moral purpose of the state*, pp. 93–4. See also Richard Swedberg, *Max Weber and the idea of economic sociology* (Princeton: Princeton University Press, 1998), pp. 167–71. For Swedberg the implications of Weber’s view of rationality leads to an *economic ethic* centred on questions of ‘well-being’ which require value judgements from the scholar. Swedberg argues that Weber’s view of rationality is distinct from the contemporary association of rationality with calculated self-interest in that rationality is affected by social norms and is therefore varied across societies and historically contingent.

In Weber's view it is the 'complex of human relations, norms and norm-determined relations which we call "state"'.¹⁰⁹ The state itself has 'no intrinsic value', it is 'purely a technical instrument for the realization of other values ... only as long as it does not seek to transcend this merely auxiliary status'.¹¹⁰ The key characteristic of the modern state compared with absolutism or despotism is that its power rests on a broad social legitimacy which includes the 'disposal of an earlier separate justice (*Eigenrecht*) that was dispossessed and seated in the highest point of place' and requires the state to reflect social norms.¹¹¹

Ironically Weber's most famous work, *The protestant ethic and the spirit of capitalism*, exemplifies the importance he places on both norms and material factors in the development of the legitimation of different systems of political and economic relations.¹¹² Indeed, Weber was critical of the idea that legitimacy could be studied as belief isolated from material conditions.¹¹³ Despite the common image of Weber as the 'Godfather' of statist-realism in international relations theory,¹¹⁴ it is the legitimation of power in the domestic realm, and its relationship with the legitimating actions by Great Powers in the international realm that interests Weber.¹¹⁵ It is precisely this that forms the core of the augmented

¹⁰⁹ Max Weber, *Gesammelte politische Schriften* (Tübingen: J.C.B. Mohr (Paul Siebeck), 1988), p. 162.

¹¹⁰ Weber, 'The meaning of ethical neutrality', p. 47; and Weber, *Political writings*, p. 354. Compare David Beetham, 'In defence of legitimacy', *Political Studies* 41(3) 1993, pp. 488–91, at p. 490.

¹¹¹ Weber, *Staatssoziologie*, p. 31, my translation.

¹¹² Max Weber, *The protestant ethic and the spirit of capitalism* (London: George Allen and Unwin, 1976); Randall Collins, 'Weber's last theory of capitalism', in Mark Granovetter and Richard Swedberg, eds, *The sociology of economic life* (Boulder: Westview Press, 1992), p. 99; and Bendix, *Nation-building and citizenship*, p. 33.

¹¹³ Weber, *Economy and society*, pp. 32–3.

¹¹⁴ This view conflicts with Hans-Karl Pichler, 'The godfathers of "truth": Max Weber and Carl Schmitt in Morgenthau's theory of power politics', *Review of International Studies* 24(2) 1998, pp. 185–200. Weber's 'non-realist' view of the state is 'fleshed out' in Hobson and Seabrooke, 'Reimagining Weber'; and Seabrooke, *US power in international finance*, pp. 44, 208.

¹¹⁵ This is what Weber meant when discussing Germany's role to protect the Swiss, the Danes, the Poles and others from the 'Russian knout' (despotism) and 'boring British conventionalism' (cultural homogenisation). See Weber, *Gesammelte politische Schriften*, pp. 143, 175–7.

social embeddedness approach that I seek to develop here into a neo-Weberian historicist approach.

By emphasising the importance of consent and justification in understanding legitimacy, some criticisms directed at neo-Weberian scholarship from other schools of thought can be addressed. For starters, the view that neo-Weberians always substitute the ‘elite for mass politics, [and] political conflict for social struggle’, can be rejected.¹¹⁶ But more important are attacks from Marxist-inspired scholars, who argue that, ‘some of the [neo-Weberian] literature runs the risk of tautology to the extent that strength is defined purely in terms of outcomes’;¹¹⁷ or, more aggressively, that neo-Weberians endorse regimes for reasons of economic growth without assessing the harm created by authoritarian regimes.¹¹⁸ Clearly these appropriate criticisms are aimed at neo-Weberian scholarship which has taken the functionalist route. As stated, the first criticism is correct and can only be corrected by a non-functionalist approach. By bringing legitimacy back in to a neo-Weberian approach, which analyses and differentiates state–society complexes by the ‘solidarities they achieve’ rather than the efficiencies they realise, the second criticism can be addressed.¹¹⁹ An approach to state capacity which focuses on the regenerative properties of a state–society complex would not advocate the politics of growth over the politics of distribution, and would view states with weak legitimacy but high economic growth as having fragile state capacity.¹²⁰

A retort here could be that any focus on state capacity is necessarily functionalist, since it always assesses a functional contribution to a state’s

¹¹⁶ Linda Gordon, ‘The welfare-state: Towards a socialist-feminist perspective’, *Socialist Register* 1990, pp. 171–200, at p. 181.

¹¹⁷ Bob Jessop, ‘Bringing the state back in (yet again): Reviews, revisions, rejections, and redirections’, *International Review of Sociology* 11(2) 2001, pp. 149–73, at p. 164. Compare Peter Burnham, ‘Open Marxism and vulgar international political economy’, *Review of International Political Economy* 1(2) 1994, pp. 221–31, at p. 222.

¹¹⁸ See Leonard Binder, ‘The natural history of development theory’, *Comparative Studies in Society and History* 28(1) 1988, pp. 3–33; and Leftwich, ‘Bringing politics back in’.

¹¹⁹ Bendix, *Nation-building and citizenship*, p. 399.

¹²⁰ Compare Weiss, *The myth of the powerless state*, p. 203.

ability to enact and adapt to change in the domestic and international realms. But in the view provided here, legitimacy is not treated as a resource solely to be manipulated for pure reasons of state. A state's capacity relates to its degree of legitimacy (assessed by the scholar's judgement), which is a consequence of the constellation of social power. Highly legitimate policies produce socially beneficial outcomes, and measuring *these* outcomes is necessary in understanding the context in which further reforms take place as both norms and material factors are important. The emphasis, however, is *not* on competitive adaptation to an anarchical international system where success is measured only economically or militarily, both inadequate measures of a state's capacity to reproduce itself. Rather, this approach treats people within states as complex moral agents who can give and withdraw their consent rather than treating them as acquiescent.¹²¹

THE LEGITIMACY OF FINANCIAL REFORM IN THE US AND JAPAN

I apply the approach outlined above to the following case study, to demonstrate that the US has been able to enhance its state capacity by *selectively exporting* domestic social norms regarding finance to the international financial order. This is, to a great degree, due to the domestic legitimacy of financial reforms in the US. In the US domestic financial reforms have been highly contested and, as a consequence, have been justified according to American social norms and received the consent of subordinate groups. In contrast, Japan has been less able to internationalise its domestic social norms regarding finance and its financial reforms have gone relatively uncontested, resulting in weak legitimacy and a withdrawal of consent from the Japanese public. Here I analyse financial reforms in both states during the 1985–2000 period.

As I have argued elsewhere, understanding US 'structural power' in international finance requires more than an assessment of regulatory structure and capital flows.¹²² Once credit is viewed as a 'promise to pay'

¹²¹ Reus-Smit, 'The idea of history and history with ideas', p. 124.

¹²² Susan Strange, *States and markets* (London: Pinter, 1988), p. 18; and Seabrooke, *US power in international finance*.

against a state–society complex rather than simply deferred payment of capital, financial power rests on legitimacy—that ‘promises to pay’ will be honoured.¹²³ The US’s construction of its capacity to *honour* its promises to pay has provided it with enormous international financial power.

The US’s ‘structural power’, which greatly influences the formal legitimacy of international financial practice, is assisted by the selective exportation of American social norms regarding finance to the international financial order. However, such internationalisation does not mean the internationalisation of American domestic financial regulatory structures. Rather, the high degree of domestic legitimacy regarding financial reform sustains a system of ‘national regulatory activism’ coupled with ‘international regulatory passivity’.¹²⁴ Thus while domestic regulation is provided to legitimate the financial system and its capacity to serve a broad societal interest according to norms of fairness and social mobility, American norms related to entrepreneurship and individual choice over investment with minimal *intergovernmental* interference are selectively exported internationally. American social norms thus include a mix of actual financial practices and commonly-held assumptions about appropriate financial behaviour. One need only glance at the history of the US’s involvement with the Euromarkets during the 1960s to trace a pattern of ‘national activism with international passivity’.¹²⁵

Despite frequent criticisms concerning its ‘international passivity’, the US government’s ‘national activism’ on financial reform has a high degree of domestic legitimacy, primarily due to government and public initiatives to guide financial reform to meet social wants. Certainly reforms to increase homeownership and guards against banks ‘redlining’ credit provision to poor communities provide good examples of reforms which have received consent from subordinate groups and have been

¹²³ Geoffrey Ingham, ‘On the underdevelopment of the “sociology of money”’, *Acta Sociologica* 41(1) 1998, pp. 3–18; Weber, *Economy and society*, p. 108; and Seabrooke, *US power in international finance*, pp. 23–31.

¹²⁴ Seabrooke, *US power in international finance*, chapter 1.

¹²⁵ I provide a potted history of America’s ‘national regulatory activism and international passivity’ during the 1960s in Seabrooke, *US power in international finance*, chapter 3.

justified according to American social norms concerning fairness and social mobility. This does *not* suggest that American financial reforms are uncontested, but rather the opposite. Public contestation of a policy is a crucial component in gaining the active consent for a policy from subordinate groups. *Because* American finance is actively *contested* by lobby groups and community organisations, financial reforms are *more likely to be in a broad societal interest and receive the consent, expressed through changed financial practices, of lower and middle classes*. Thus, in contrast to suggestions that American financial reform represents 'gridlock' or that protracted financial reforms have furthered American decline, highly contested financial reform leads to greater legitimacy and enhanced state capacity.¹²⁶

American financial reform differs greatly from Japan's financial restructuring, which has reflected a lack of consent and legitimacy. Japan provides an interesting case because it is often assumed that there is a social consensus on Japanese finance, typically asserted by the ongoing popularity of the postal savings system which has been vital to Japanese economic development.¹²⁷ Furthermore, within the Japanese context it is assumed that a social consensus on policy produces superior policy outcomes than when policy direction is publicly contested.¹²⁸ I have found that contests over financial reform are *not* about maximising efficiencies and international competitiveness, but changing material power relationships and challenges to established social norms concerning financial activity. Changes to domestic financial systems must be made in a broad societal interest and gain the consent of subordinate groups to be sustained and if they are to be internationalised. The consent of subordinate groups is also important because it is often these groups that provide a basis upon

¹²⁶ As opposed to the view put forward in Philip G. Cerny, 'Gridlock and decline: Financial internationalization, banking politics, and the American political process', in Stubbs and Underhill, eds, *Political economy and the changing global order*, p. 426.

¹²⁷ For example, Costas Lapavistas, 'Transition and crisis in the Japanese financial system: An overview', Working Paper 58 (London: Department of Economics, School of Oriental and African Studies, University of London, 1996), p. 5.

¹²⁸ As argued in Peter J. Katzenstein, *Cultural norms and national security: Police and military in postwar Japan* (Ithaca: Cornell University Press, 1996).

which financial institutions can expand their access to credit domestically and internationally.¹²⁹ In short, contests over the legitimacy of domestic financial reform have implications for legitimating and structuring preferences in the international financial order.

To isolate an important factor in the legitimation of our current international financial order we need only look at the American response to the debt crisis of the early 1980s.¹³⁰ American public opposition to the idea of ‘bailing out’ American commercial banks led to the development of the International Lending Supervisory Act (ILSA) which imposed restrictions on the rating of American banks’ international loan operations. Banks considered to have low capital adequacy levels (reserves should default occur) were punished through the placement of premiums on their interbank lending activities.¹³¹ As a consequence banks rushed out of lending to developing states to increase their capital adequacy and moved to providing credit through securities markets.¹³² The consequent pressure on US banks to increase capital adequacy levels led to intense lobbying from the American Bankers’ Association for the US government to develop, with Britain, the Basle Accord. The Basle Accord of 1988 greatly hobbled the competitiveness of Japanese banks and led to their massive purchasing of US government debt (to shore up their capital adequacy) to continue to be *legitimate agents* in the international financial order.¹³³ Furthermore, to meet the requirements of the Basle Accord, Japanese

¹²⁹ Below I discuss the increase in homeownership in the US which has been aided and, in turn, assists the development of mortgage securitisation. Also the use of household credit instruments has expanded rapidly in the last decade, nearly three times the rate of gross fixed capital formation in the mid-1990s. See OECD, *OECD economic surveys, 1995–1996, United States* (Japan and Paris: OECD, 1996), p. 23.

¹³⁰ Seabrooke, *US power in international finance*, pp. 119–24.

¹³¹ Thomas D. Simpson, ‘Developments in the US financial system since the mid-1970s’, *Federal Reserve Bulletin* January 1998, pp. 1–13, at p. 8.

¹³² Eric Helleiner, *States and the reemergence of global finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994), p. 183.

¹³³ Seabrooke, *US power in international finance*, pp. 135–40, 174–6, 178, 188; and David Woo, ‘In search of the “capital crunch”: Supply factors behind the credit slowdown in Japan’, International Monetary Fund Working Paper 99/3 (Washington, DC: Monetary and Exchange Affairs Department, IMF, 1999), p. 4.

banks purchased over US\$50 billion in US government debt, creating a windfall for US government spending.¹³⁴

The importance of the ILSA, and its international effects, is highlighted by the high degree of domestic legitimacy. As J. Lawrence Broz has pointed out in his recent examination of congressional voting behaviour and international financial crises, support for not 'bailing out' American financial institutions of their international obligations comes overwhelmingly from the political representation of lower and middle class electorates.¹³⁵ Compounded by the savings and loans crisis of the mid-1980s, 'ordinary' Americans consented to financial reforms which would place greater restrictions on American banks and encourage American financial institutions to fulfil domestic social wants.¹³⁶ One can point to the tightening up of the American financial system to prevent bank failures, but the clearest demonstration of highly legitimate reforms can be found in financial reforms that enable Americans to purchase their own homes.¹³⁷ Indeed, policies towards 'mortgage securitisation' and credit provision to lower class areas provide examples of financial reforms tailored to fulfilling specific American social norms.

In 1984 the passing of the Secondary Mortgage Market Enhancement Act brought in a secondary market for mortgage-backed securities and assisted the securitisation of one-third of all mortgages in the US between 1984 and 1988.¹³⁸ Furthermore, assisted by three Congressional-chartered competing quasi-government mortgage agencies, Fannie Mae (Federal National Mortgage Association), Freddie Mac (Federal National Mortgage Loan Corporation), and Ginnie Mae (Government National Mortgage

¹³⁴ Andrew C. Sobel, *Domestic choices, international markets: Dismantling national barriers and liberalizing securities markets* (Ann Arbor: The University of Michigan Press, 1994), p. 115.

¹³⁵ J. Lawrence Broz, 'The political economy of international bailouts: Congressional voting on bailout legislation in the 1990s', paper presented at the 2001 Annual Meeting of the American Political Science Association, San Francisco, 30 August–2 September 2001.

¹³⁶ Seabrooke, *US power in international finance*, pp. 134–6, 143, 168, 189.

¹³⁷ George G. Kaufman, 'Preventing banking crises in the future: Lessons from past mistakes', *Independent Review* (2)1 1997, pp. 55–77, at pp. 70–1.

¹³⁸ Thomas H. Hammond and Jack H. Knott, 'The deregulatory snowball: Explaining deregulation in financial industry', *Journal of Politics* 50(1) 1988, pp. 3–30, at p. 21.

Association), loans to low income groups increased dramatically. In 1990, eighteen per cent of the mortgage market went to low-income borrowers and with financial reforms to encourage increased access to mortgages this income group represented 29 per cent of the market by 1998.¹³⁹ Capital from these financial reforms has been enormous and constitutes a source of international financial power. For example, capital investment flowing into 'Wall Street' from mortgage-backed securitisation has consistently been bigger than the US defence budget in recent years (in 1998 it was US\$259.7 billion or 3.2 per cent of GDP).¹⁴⁰

Also involved in this process is the Federal Home Loan Banks (FHLBanks), which have greater assets and liabilities than Citicorp and issues more overnight debt than the US treasury. The FHLBanks are important because their social and political importance extended beyond any short-term economic rationale.¹⁴¹ Following financial reforms in the late 1980s and early 1990s, the FHLBanks provided an Affordable Housing Program and Community Investment Program to assist low to middle income earners with credit for housing and business. These community-driven financial reforms emerged during a period of ongoing commercial bank centralisation and subsequent concerns over mortgages being borrowed from non-local financial institutions.¹⁴²

Such concerns were also reflected in the defence of the Community Reinvestment Act of 1977 (CRA) when faced with opposition from Republican and bank lobby groups during debates over the provisions of the Financial Services Modernization Act of 2000, that permitted the centralisation of financial and regulatory actors. The CRA, which monitors banks' lending to lower income communities in the hope of

¹³⁹ National Community Reinvestment Coalition, 'NCRC reiterates support for presidential veto of banking bill', *US Newswire* 4 November 1999.

¹⁴⁰ OECD, *OECD economic surveys, 1998–1999, United States* (Paris: OECD, 1999), p. 52.

¹⁴¹ Susan Hoffmann and Mark Cassell, 'What are the federal home loan banks up to? Emerging views of purpose among institutional leadership', paper presented at the 2000 Annual Meeting of the American Political Science Association, Marriot Wardman Park, 30 August–3 September 2000, pp. 3–5.

¹⁴² Robert B. Avery, Raphael W. Bostic, Paul S. Calem and Glenn B. Canner, 'Trends in home purchasing lending: Consolidation and the Community Reinvestment Act', *Federal Reserve Bulletin* February 1999, pp. 75–84, at pp. 81, 84.

preventing 'redlining' (where communities are not provided with credit) and 'sub-prime' lending to low income groups, was actively defended by government sponsored community organisations like the National Community Reinvestment Coalition (NCRC). The NCRC's successful defence was based on the CRA's social legitimacy, arguing that weakening the act would be 'like rolling back the GI Bill or Social Security because too many veterans had received higher education or too many senior citizens had escaped poverty'.¹⁴³

In sum, the US system of 'national activism' is highly legitimate according to American social norms with regard to fairness, social mobility, and entrepreneurship. Such power relies on the domestic legitimacy of highly contested financial reforms such as supporting mortgage provision to lower and middle income groups. And as reflected in the ILSA it is these same groups which support a 'no bail out' policy on American banks' international activities and, through it, international passivity. Contests over financial reform in the US have resulted in highly legitimate domestic policy changes which reflect norms of fairness, social mobility, and entrepreneurship. However, fairness is not extended to the international financial order. The domestic legitimacy of American finance creates a greater capacity for the US to *selectively export* American social norms regarding finance, particularly the entrepreneurial, investor-freedom aspects including ideas of limited intergovernmental intervention. This system contributes greatly to the US's structural power in international finance and the maintenance of domestic standards of living and access to credit. It also creates an international financial order that may only have a formal international legitimacy, but which alters other states' capacities. For example, during 1997–98 more than 30 Japanese banks withdrew from international operations to avoid the Basle Accords' eight per cent capital adequacy requirement in favour of the Japanese government's four per cent.¹⁴⁴

¹⁴³ John Taylor from the National Community Reinvestment Coalition, cited in 'NCRC reiterates support'.

¹⁴⁴ Woo, 'In search of the "capital crunch"', p. 4.

Indeed, Japan provides a clear case of a state that has worked within an international financial order that reflects selective American domestic norms and which compounds the weak domestic legitimacy of Japanese financial reform. The trouble Japan has encountered in implementing domestic financial reform can be traced to an institutional incapacity to push through reforms demanded internationally and domestically. In contrast to the perception of Japan as a strong state because of its ability to coordinate and efficiently implement top-down reforms, ‘capacity of the [Japanese] state to direct and control, not just to intervene and participate ... [is] a function of its ability to persuade, bargain, or cajole in order to induce consent’.¹⁴⁵

Again we can go back to governmental responses to the debt crisis to understand Japan’s position in the contemporary international financial order. In contrast to the development of the ILSA in the US, the ‘Japanese government had purchased for Japanese banks a clear path for retreat’ by arranging for Japanese factoring companies to purchase bad loans and then wipe off losses as tax deductions.¹⁴⁶ Public opposition to the ‘bail out’ of Japanese banks’ bad investments to developing states went unheard and the Japanese Ministry of Finance (MoF) continued a centrally coordinated ‘convoy’ approach to financial reform, in which the pace of reform was tied to the slowest financial institution. This close relationship with financial institutions was reflected in the development of the *jusen* real estate investment, which in many ways draws close parallels with the savings and loans scandal in the US but with less legitimate domestic policy outcomes.

In the mid-to-late 1980s the MoF encouraged Japanese banks to invest in real estate with the assistance of capital from *Norinchukin*, the central

¹⁴⁵ John O. Haley, ‘Consensual governance: A study of law, culture, and the political economy of postwar Japan’, in Shumpei Kumon and Henry Rosovsky, eds, *The political economy of Japan: Volume 3, Cultural and social dynamics* (Stanford: Stanford University Press, 1992), p. 33. On Japan as a strong state compared to the US because of supposed administrative efficiency see Krasner, ‘The accomplishments of international political economy’, p. 121.

¹⁴⁶ Frances Rosenbluth, ‘Japanese banks in Mexico: The role of government in private decisions’, *International Journal* 46, 1991, pp. 668–86, at p. 684; and Louis W. Pauly, ‘Institutionalizing a stalemate: National financial policies and the international debt crisis’, *Journal of Public Policy* 10(1) 1990, pp. 23–43, at p. 33.

agricultural credit cooperative, who formed *jusen* or housing companies as key mortgage providers.¹⁴⁷ Banks were required to use *jusen* to purchase real estate and by 1991 the *jusen* had captured twelve per cent of the market for housing loans, up from 3.7 per cent in 1976.¹⁴⁸ The investments were grossly overvalued and with the bursting of the Japanese financial bubble in 1990–91 the *jusen* problem became serious. Between 1990 and 1995 real estate and stock price losses amounted to over US\$6 trillion or approximately, at the time, two years national output.¹⁴⁹ This is not to suggest that the economic crash was a cause of a loss of legitimacy. Rather, it is the *failure to justify* financial reforms according to Japanese social norms concerning the responsible, responsive, role of government that led to a loss of legitimacy.

Immediate financial reforms did follow the bursting of the Japanese financial bubble with the Financial System Reform Act of 1992 and the coordination of 162 banks to create a Cooperative Credit Purchasing Company to buy up Japanese banks' mass of non-performing loans.¹⁵⁰ However, the management of Japan's financial woes did not conform to social norms and the MoF's prospect of a taxpayer sponsored bail out of *jusen* 'brought long-simmering public unease over the ministry's vast powers to a rolling boil'.¹⁵¹ Certainly the 1993 defeat of the Liberal Democratic Party (LDP), which lost power for the first time since 1955, was assisted by a withdrawal of public consent over financial reform and support for the conservative yet 'idealistic reformers' of the Japan New Party who were 'genuinely disturbed by the deep-seated corruption' and sought 'a more responsible party politics, a more deregulated economy,

¹⁴⁷ T.J. Pempel, *Regime shift: Comparative dynamics of the Japanese political economy* (Ithaca: Cornell University Press, 1998), p. 143.

¹⁴⁸ Ulrike Schaede, 'The 1995 financial crisis in Japan', Berkeley Roundtable on International Economics Working Paper 85 (Berkeley: University of California, 1996), p. 13.

¹⁴⁹ See Peter Hartcher, 'Can Japan come back?', *The National Interest* 54(Winter) 1998, pp. 32–9.

¹⁵⁰ Thomas Cargill, Michael Hutchison and Takatoshi Ito, 'Japan's "big bang" financial deregulation: Implications for regulatory and supervisory policy', Working Paper (Washington, DC: Japan Information Access Project, June 1997), p. 6; OECD, *OECD economic surveys, 1995–1996, Japan*, p. 51.

¹⁵¹ Jon Choy, 'New financial watchdog faces uphill battle', *JEI Report* 25, 3 July 1998.

and a more internationalized Japan'.¹⁵² And although the LDP didn't stay out of office for long, within the Japanese social context the political change represented a significant withdrawal of public consent that was compounded by the process of financial reform. The withdrawal of consent for the Japanese system was also a consequence of the close links between the *jusen*, *Norinchukin*, the MoF and the LDP, in which 'many if not most agricultural cooperatives were headed by local political bosses, with direct patron-client ties to LDP Diet Members'. A public withdrawal of consent over the *jusen* issue continued. For example, in a poll taken by the newspaper *Asahi Shimbun*, 90 per cent of the respondents objected to the idea that Japanese taxpayers' monies should be used to soak up bad loans from *jusen*.¹⁵³

Public withdrawal of consent for financial policy direction was also due to the lack of opportunities to contest its procedure and aims. One measure to prevent the public from openly contesting financial policy was the concept of *gaiatsu* (foreign pressure), in which the government was 'unavoidably' compelled to respond to external pressures over which it had no input. But in the mid-1990s international scandals demonstrated that external pressure was not concomitant with internal unfair practices. For example, the case of Daiwa's non-delivery of US\$1.1 billion to American banks from currency speculation raised Japanese public scorn when it was revealed that the MoF had two months prior knowledge of Daiwa's currency trading problems and did not inform US Federal Reserve regulators.¹⁵⁴ The incident, along with the 1997 collapse of Japanese financial giant the Hokkaido Takushoku Bank (also known as Takugin) affirmed that MoF support was 'no longer a sufficient guarantee of success'.¹⁵⁵ Takugin's fall also led to the forced resignations of both Administrative Vice Finance Minister Takeshi Komura and the chief of

¹⁵² Pempel, *Regime shift*, p. 203.

¹⁵³ Frances Rosenbluth and Michael F. Thies, 'The electoral foundations of Japan's financial politics: The case of Jusen', paper presented at UCLA Conference on the Political Economy of the Japanese Financial Crisis, Los Angeles, February 1999, p. 14.

¹⁵⁴ David L. Asher, 'What became of the Japanese "miracle"', *Orbis* 40(2) 1996, pp. 215–34, at p. 217.

¹⁵⁵ Jennifer Amyx, 'The informal ties that bind: Institutional linkage and system change in Japanese financial regulation', paper presented at the Annual Meeting of the American Political Science Association, Atlanta, 2–5 September 1999, p. 16; and Woo, 'In search of the "capital crunch"', p. 15.

the MoF Secretariat, Toshiro Muto.¹⁵⁶ Problems over fair procedure in financial practice intensified public calls for financial reform and led to the establishment, in October 1998, of a Financial Revitalization Commission (FRC). This commission went on to remove MoF powers to allocate funds to banks with problems and to create a new post, a Minister for Financial Reconstruction.¹⁵⁷ It also created a new 'super-regulator', the FSA (Financial Supervisory Agency, renamed the Financial Services Agency from July 2000), which was staffed by ex-MoF bureaucrats in an attempt to create an agency to oversee the overseers.¹⁵⁸

With some success the FSA has been able to put in place financial reforms within Japan but ongoing public concerns concerning its 'arbitrarily changing standards without public discussion or oversight' raised concerns about the lack of consent sought from the Japanese public for financial reform.¹⁵⁹ This could also be seen in the MoF's response to calls for eased restrictions on foreign investment for declaration in the late 1990s, whereby they declared that financial reforms would be a staggered process because 'the concept of investor self-responsibility is not yet established'.¹⁶⁰ Following a partial removal of foreign exchange controls on 1 April 1998, investment out of Japan amounted to a record ¥7.8 trillion or US\$56 billion.¹⁶¹ In contrast to the stress often placed on the postal savings system, this push was public driven and reflects a change in Japanese social norms which has not been reflected in Japanese financial reform due to the lack of contested policy.¹⁶² On this point I can only

¹⁵⁶ Barbara Wanner, 'Financial scandals renew focus on bureaucratic power', *JEI Report* 9, 6 March 1998.

¹⁵⁷ Amyx, 'The informal ties that bind', p. 17.

¹⁵⁸ See Jennifer A. Amyx, 'Comparative perspective on institutional change in Japanese financial regulation after the East Asian financial crisis', paper presented at International Political Science Association World Congress, Quebec, August 2000, pp. 3–5.

¹⁵⁹ Jon Choy, 'FSA cracks down on financial industry wrongdoing', *JEI Report* 30, 6 August 1999.

¹⁶⁰ Peter Hartcher, *The ministry: How Japan's most powerful institution endangers world markets* (Sydney: Harper Business, 1997), p. 167.

¹⁶¹ Hartcher, 'Can Japan come back?', pp. 32–9.

¹⁶² Masaru Tamamoto, 'The privilege of choosing: The fallout of Japan's economic crisis', *World Policy Journal* 15(3) 1998, pp. 25–31, at pp. 27–8; and Sobel, *Domestic choices, international markets*, p. 97.

agree with Jennifer Amyx's assertion that the key factor in Japan's case is whether 'a state is *empowered* by its embeddedness with other actors [but also whether it] ... is *constrained* by its embeddedness'.¹⁶³ The case of Japanese financial reform demonstrates that despite embeddedness between the government and the dominant economic actors (particularly financial institutions), weak domestic legitimacy reduces state capacity.

CONCLUSION

My analysis suspects that a focus on the legitimacy of state–society relations can explain the form of a state's international financial policy. The first two neo-Weberian approaches (isolated state autonomy and embedded autonomy) would argue that the US can structure international finance because it is the foremost economic and military power in the world. But this is an insufficient explanation, not least because it returns us to functionalist explanations and provides a poor understanding of historical change.

The specific form of the US's international financial power is an expression of domestic social norms and subsequent legitimacy of financial policy, factors which the neo-Weberian approaches critiqued above omit. Indeed, in all areas of great social significance, such as security, trade and finance, it is difficult to conceive of a situation in which the public's consent is considered unimportant or irrelevant and therefore an analysis which eschews legitimacy involves an inadequate view of the state–*society* complex.

The historicist 'pay off' with regard to the US and Japanese case studies is that we isolate a change with norms and material interests during a period without letting contemporary perceptions of what a 'natural' American or Japanese financial system might look like. One might be surprised at the extent of 'national activism' in the US system although, during the period studied, the state clearly relies on financial regulation domestically to legitimate American finance according to social norms of fairness, social mobility and entrepreneurship, while *selectively*

¹⁶³ Jennifer A. Amyx, 'Political impediments to far-reaching banking reforms in Japan: Implications for Asia', in Gregory Noble and John Ravenhill, eds, *The Asian financial crisis and the architecture of global finance* (Cambridge: Cambridge University Press, 2000), p. 164.

exporting norms about the individual (investor) choice and minimal state intervention to the international financial order. In the Japanese case assumptions about a 'natural' predilection for postal savings and tolerance over allowing government to *fairly* manage the financial system must both be addressed. Japanese social norms with regard to domestic finance during the 1985–2000 period were under transition. The difficulty for the Japanese state was legitimating its actions while operating within the constraints of the US-dominated international financial order.

Understanding the specific social forms of a state's power and capacities can only be understood through an historicist approach. By 'bringing legitimacy back in' to a neo-Weberian historicist approach we are able to specify what we are looking for when we wish to assess the state–*society* complex and state capacity. The approach provided here seeks to live up to the Weberian legacy of studying the role of norms and material factors that make up constellations of power. It reintroduces legitimacy because the concept opens a number of doors with which we can understand the state not only as a competitor in an anarchical international system, but also as a moral community. Once legitimacy has been brought back in, assessments of state capacity become judgements about the regenerative properties of a state. The focus rightly shifts from the maximising economic or military performance to the meaning of human action.

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