

**The Balance of Global Public and Private Power: A Tale of Two Worlds**  
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**John Gerard Ruggie**  
**Harvard Kennedy School of Government**

I am delighted to be back here at SIPA, where I taught and served as Dean. I'm particularly honored to give this year's lecture dedicated to the intellectual legacy of Kenneth N. Waltz.

Ken Waltz and I arrived as faculty members at Berkeley in the same year; he in an endowed chair and me as an Acting Assistant Professor. My wife Mary and I got to know Ken and his wife Huddie well, spending many evenings in one another's homes discussing the state of the world, and how to theorize about it. Ken was a tenacious debater, but every once in a while he let me prevail on the tennis court.

Waltz was one of the most influential theorists of international politics of the past half century. His work established an approach to that subject that became known as neorealism, essentially a rigorous and sparse version of power politics.

My way of honoring him today is to briefly summarize his theoretical framework, and then assess how well it helps us understand shifts in global balances of power today.

In *Man, the State, and War*, Waltz argued, elegantly, that the recurrence of war in human history is not due to flaws in human nature, or to the existence of bad states, but to the very system within which all states operate. He described that system as being anarchic. Anarchy does not mean chaos, but the absence of central rule.

In *Theory of International Politics*, he formalized and elaborated this systemic view. As he put it: “The relations that prevail internationally seldom shift rapidly in type or in quality. They are marked instead by dismaying persistence, a persistence that one must expect so long as none of the competing units is able to convert the anarchic international realm into a hierarchical one.” The persistence he had in mind lies in the behavior of states that produces power balancing, which sometimes works and produces stability, and sometimes fails, producing war.

## **The Model**

The basic model is straightforward. The condition of anarchy imposes the logic of self-help on the units. None is entitled to rule; none is obligated to obey. Since no one can be counted on to take care of anyone else, it seems reasonable to stipulate that everyone will try to put themselves in a position to be able to take care of themselves.

In *Man, the State and War*, Waltz used the stag and hare parable as an illustration. In the stag hunt, five hungry individuals agree to cooperate in order to trap a stag, but when a hare comes into view one of the them snags it, satisfying his own hunger while leaving the other four with nothing but food for thought.

Waltz noted that anarchy does not rule out collaboration. Collaboration is one means by which states can pursue their interests. What it does mean is that collaboration is itself conditioned by the competitive environment in which all exist – as we just saw in the stag hunt. That can make relative gains calculations by individual units more important than overall gains by the collectivity. Collaboration remains instrumental.

In this way, the international system is like a market: individualistic in origin and more or less spontaneously generated as a byproduct of the actions of its self-regarding units. Like a market, the international system constrains the range of possibilities for individual states. And just as we identify the structure of markets by counting firms – monopoly, duopoly, oligopoly, and so on – according to Waltz we identify the structure of the

international system, and thereby the likelihood of stability or conflict, by counting the number of powerful states.

So, what does this model imply for the three international orders Waltz analyzes: the security order, the economic order, and what he called the management of global problems?

### *Security Order*

In the security sphere, states have two means of self-help at their disposal: internal means, such as increasing their economic and military capabilities, or developing clever strategies; and external, such as moves to strengthen their own alliances or weaken opposing alliances.

As one or more states undertake successful measures, others will emulate them or fall by the wayside. As others emulate successful measures, power-balancing ensues. Thus, the international security order inevitably is governed by balance-of-power politics. Those that lack the capacity to balance will try to bandwagon—join up with a more powerful actor. This dynamic prevails, Waltz states, “whenever two, and only two, requirements are met: that the order be anarchic and that it be populated by units wishing to survive.”

Short of universal empire, Waltz concludes that the most stable international security order is bipolarity—or duopoly.

### *Economic Order*

On Waltz’s account, the principle of self-help also fundamentally shapes the international economic order. Domestically, economic specialization and competition are embedded in a common political and legal framework. This permits an elaborate division of labor, which benefits not only the individual units but the collectivity as a whole. Detroit can focus on making cars and Kansas on growing wheat. Neither feels vulnerable to the other by doing so. And all benefit from the specialization.

Economic collaboration also takes place at the international level, but there it is embedded in a competitive political framework. Therefore, the international division of labor is slight in comparison to the domestic.

Indeed, Waltz contends that international economic interdependence “is always a marginal affair.” It is even more so when the international system is dominated by a few states with large domestic economies.

### *Managing “Global Problems”*

By this Waltz refers to what he called the four p’s: pollution, poverty, population, and proliferation. Today, I suspect, he would fold pollution into climate change. Here is the point: domestic society is capable of acting in its own behalf. Lacking central rule, the international system is not. Problems abound at the global level, but decisions regarding whether and how to respond to them remain with the self-regarding national units. Thus, the management of global problems is governed by what Waltz calls the tyranny of small decisions. To quote him: “A strong sense of peril and doom may lead to a clear definition of the ends that must be achieved. Their achievement is not thereby made possible. Necessities do not create opportunities.”

As a result, global public goods inevitably are under-supplied even when all concerned may agree that more are necessary. The only way to break out of this tyranny of small decisions, in Waltz’s model, is to find a surrogate for government. And the only way that can happen within an anarchic system is when the number of great powers is smallest. And so he concludes: “Small is beautiful – and smaller is more beautiful than small.”

### **Understanding Global Transformations**

Let’s step back now and ask how well Waltz’s *Theory* helps us to understand the multi-layered and high velocity changes at the global level today, beginning with the international security order.

#### *Security Order*

*Theory of International Politics* was published in 1979. At that time, Waltz believed bipolarity to be “robust.” Indeed, a decade later it turned into a unipolar moment. What would he make of things today?

Knowing Ken, I suspect that he might agree with Janan Ganesh, a columnist for the *Financial Times*, who argues that when you strip away the

unique peculiarities of President Trump, his foreign policy amounts to “the restoration of the US as a selfish state among selfish states, not an over-worked governess with the entire free world as her mewling wards.” Ganesh is highly critical of how President Trump is going about this, but not about the imputed aim, and I suspect that Waltz might have agreed on both counts.

For example, Waltz opposed the wars the US has fought in recent decades, beginning with Vietnam, believing they were unnecessary and fearing they would weaken, not strengthen, the United States.

In the long run a shift in the global balance of interstate power was inevitable, for reasons that *Theory of International Politics* captures. At the end of World War II, the American economy was booming while everyone else’s was shattered. The US possessed two-thirds of the world’s monetary gold and accounted for one-third of world output. Its military capabilities exceeded others by orders of magnitude.

Even bipolarity came to exist largely because of Soviet nuclear capabilities, ensuring mutually assured destruction (or MAD). Of course, Soviet nuclear capabilities still existed when its empire fragmented and the Soviet Union itself collapsed. But Waltz was not alone in grappling unsuccessfully with that conundrum. Perhaps Bismarck’s acerbic comment put it best: you can do many things with a bayonet, but you can’t sit on it.

I suspect that Waltz would have been surprised by the rapid rise of China, but not so much by China then seeking to expand its sphere of influence in the region and beyond – its naval power in the South China Sea, into the Indian Ocean, around the coast of Africa, and ultimately well into the Pacific. And its land-based tentacles not only into Central Asia but also into the heart of Europe.

But I think Waltz would have been shocked by how much help the West provided China for its rise, whether through admission to the WTO on relatively favorable terms, or the vast inflow of Western foreign direct investment – ostensibly on the assumption that economic liberalization would be followed by greater democratization, but of course also dazzled

by the size of the prospective market, and by the cheap labor from which to source all manner of products at low cost.

So, bottom line? Waltz is right about what he described as “the dismaying persistence” of the overall pattern in international politics, although he missed critical zigs and zags. In stressing the limits of theory of any kind, Waltz wrote that the universal law of gravitation cannot explain the wayward path of a falling leaf. Many things that are happening today might well fit that falling leaf characterization, including the 2016 US presidential election.

But some of his misses are foundational to the theory. Here is the most monumental: had Nazi Germany won World War II and become the hegemonic power instead of the US, I doubt very much that the world would ever have seen a so-called rules-based liberal international order, whose decline we lament today. As I’ve said elsewhere, the determinative factor in creating and sustaining that order was not *American hegemony*, but *American* hegemony.

This includes such factors as national identity, norms, beliefs, and political culture. They shaped the actual *content* of the postwar order – its social purpose, rules, and rulemaking. But for Waltz, such things had no place in systemic theory. His focus was limited to statist bipolarity, which provided the form and some of the dynamics of the postwar security order. Today, internal political polarization in many Western countries may be as much of a threat to the postwar order as shifts in international polarities.

### *The Economic Order*

I’ve already noted that Waltz considered international economic interdependence to be a marginal affair, especially when the system is dominated by great powers with large domestic economies. He measured interdependence by the relative size of external vs. internal national economic activity. For example, in a book chapter entitled “The Myth of International Interdependence,” he showed that international trade and investment as a proportion of GDP did not reach late 19<sup>th</sup> century levels again until well into the 1960s and 1970s. So what’s new, he asked?

Well, that was exactly the moment when the most significant economic transformation in post-war history began. It would be unfair to criticize Waltz for not foreseeing it. But it is fair to say that there is nothing in his theoretical framework that would help explain it even after the fact, other than that the US was one of the major player in getting it started, and that its enabling conditions involved deliberate policy choices by states.

The ultimate result of this transformation was the emergence of a global institutional form that is not derivative of sovereignty, like the UN or the WTO. Nor is it like transnational civil society, which functions by the grace of governments. This new global institutional form rests on the foundation of universally recognized property rights and the private law of contracts. It operates as a global system of financial transactions and industrial organization, and at its center is the multinational corporation.

Now, Waltz considered the significance of non-state actors and their spheres of influence strictly in terms of their institutional substitutability for the state. If they posed no prospect of supplanting the state, they were of no interest in the context of his theory. He considered them strictly as process and, as he put it, “not at all productive” of systemic outcomes.

International financial transactions and companies that operate across countries have existed literally for ages. But something different began to emerge in the 1970s and got deeply rooted by the 1990s. Digitalization and financial engineering amplified that sphere manifold, and has real-time effects at volumes and velocity never before experienced, including in the frequency of international financial crises.

Equally foundational shifts have taken place at the nexus of production and trade. As a result of vast and complex global supply chains, roughly 80% of global trade today (in terms of gross exports) is linked to the production networks of multinational corporations, with trade in intermediate products greater than all other non-oil traded goods combined. Trade in intermediate products is not “free trade” or “international” trade as conventionally understood; it is trade among related parties that crosses borders, parties related through equity ties or contracts.

Looking at some well-known brands, Starbucks sources from thousands of traders, agents and contract farmers across the developing world; it manufactures coffee in more than 30 countries; it sells the stuff in 17,000 retail outlets in over 50 countries. My iPhone was produced by 785 suppliers in 31 countries. The consumer products company Unilever has some 70,000 *first-tier* suppliers, and through layers of complex contractual ties it procures from 1.5 million small holder farmers around the globe.

As a result, one out of seven jobs in the world is estimated to be global supply-chain related (one out of five within the G-20), not counting “informal” and “non-standard” forms of work. In many cases, the labor rights of those workers are more directly affected by their multinational supply chain than by their own government. The same is true for the ability of many individual countries to move up in the global value chain.

Multinationals book deals in offshore tax havens, of which there are roughly 50 in the world today, as opposed to a handful a generation or two ago. The rapid increase is due to what one author describes as “the commercialization of sovereignty” by states that see this as their comparative advantage. Tax havens facilitate corporate tax avoidance and transfer pricing. Former US Treasury Secretary, Lawrence Summers, once a vigorous advocate of financial globalization, more recently noted: “This is a significant problem for the revenue capacity of states and an immense problem for their capacity to maintain progressive taxation.” It has particularly deleterious effects on developing countries with limited capacity to track multinationals’ tax avoidance and pricing schemes.

The supply chain system of multinationals has not only delocalized commercial transactions. It has also delocalized related lawmaking and dispute settlement through a new *lex mercatoria* and essentially private international arbitration that is legally enforceable against states. Yet with rare and limited exception, no body of law covers the entirety of the multinational itself thanks to the universally recognized doctrines of separate legal personality of a parent company and its affiliates coupled with the limited liability of each entity.



Political scientists have speculated whether such developments imply the demise of the state. Spoiler alert: they don't. What it does mean is that the state system now shares the stage with another global institutional system, which has created international economic interdependence of a sort previously unknown.

To illustrate, Disney built a Magic Kingdom in Shanghai. As you can imagine, there was a lot of back-and-forth negotiation. Disney had to give the government a stake in the resort and in the management company that runs it. In return, the Chinese government committed to providing Disney special legal protections from intellectual property piracy, which remains common in China, as well as other concessions. In the end, Disney's CEO Robert Iger described the arrangement as "authentically Disney and distinctly Chinese."

The Disney example illustrates the obvious point that states possess authority in their dealings with multinationals. But it also illustrates a second point: the interplay between two different foundations of global authority. One is rooted in sovereignty, the other in property rights and the private law of contracts. Neither supplants the other. They co-exist: "authentically Disney and distinctly Chinese." The power of each in some measure is constrained by the authority of the other.

Of course China lacks the domestic liberal political culture in which private property rights and freedom of contract first emerged. Yet it adheres to this transnational authority structure so as to participate in and benefit from the global economic order. In fact, China, now the third largest *home* base of multinationals, after the US and EU, actively defends this institution. Just last week, Ecuador-led negotiations took place in Geneva on a draft treaty to regulate multinationals under international human rights law. Most OECD countries boycotted the session. It was left to China to raise countless substantive and procedural objections to the proposal.

This is a revolution indeed, though not one that Mao – or Waltz – would have expected.

## *Managing Global Problems*

Providing global public goods clearly is constrained by the tyranny of small decisions, just as Waltz argued. In 1970, OECD members promised to commit 0.7 percent of their GDP to foreign aid; only six countries have ever reached that target. As you would expect, they include the Scandinavians, the Dutch and, episodically, the UK.

The core budgets of the UN and its agencies have been flat-lined, in real terms, for years. No UN peacekeeping mission in decades has had adequate capacity in personnel or materiel. The Gates Foundation spends more money per annum on global public health than the World Health Organization.

Perhaps no instance of the tyranny of small decisions today is as consequential as the lack of an effective global response to climate change. Kyoto left out emerging emitters. The subsequent Paris Agreement rests on national pledges, which are not legally binding, coupled with a periodic review process, which relies on national self-reporting. Moreover, even if every country delivered on what it promised, under the agreement we still would exceed the target temperature rise of 2° C.

Private initiatives are no substitute for effective public policy, but they are assuming a larger role in this space as the institutions of public governance have become more dysfunctional.

When President Trump withdrew the US from the Paris Agreement two major domestic coalitions sprang to life: “We’re Still In,” and “America’s Pledge.” They comprise governors, mayors and county officials, investors, business leaders, environmental groups, universities, and faith-based organizations. Their mission is to advocate for and report on sub-national emissions reductions consistent with Paris goals, and the organizations involved claim to represent a constituency of more than half of all Americans.

For their part, major individual companies have adopted emission reduction targets for themselves, and some impose an internal carbon tax on their business units.

There may be even greater potential in a money gusher that is going into ESG mutual funds and exchange-traded funds – that is, investment funds that incorporate environmental, social, and governance criteria. Globally, they now account for more than one quarter of all assets under management – some \$26 trillion (the US GDP is just shy of \$20 trillion).

These funds first took off like a hockey stick graph after the 2008 financial crisis, and the stick got much longer after the election of Donald Trump. The trend was led by institutional investors like pension funds that have a longer time horizon than the average investor, and who have recognized that business as usual, whether in financial markets or government, cannot be counted on to ensure sustainable returns unless sustainability itself is ensured. It now includes garden variety mutual funds and fund managers, and has also moved into private equity.

## **Conclusion**

Ken Waltz's *Theory of International Politics* has nearly 19,000 Google Scholar citations. That reflects its impact on the field and is well deserved. At the end of the day, however, it is a sparse theory about a subset of interstate relations – an important one, to be sure. That laser-like focus made it a powerful theoretical tool. But it also drew the boundaries of its own scope in ways that limit its capacity to fully account for global power shifts today.

In the security realm, Waltz's *Theory* got the essence of bipolarity right, as well as what he called "the dismaying persistence" of balance of power politics generally. But the theory encompassed only the statist form and dynamics of the post-World War II order, not its liberal, rules-based content.

In the economic realm, there is little in Waltz's formulation of economic interdependence that would help us grasp the transformation of global markets and firms – which is somewhat ironic because Waltz drew heavily on microeconomics for his model of interstate politics. He might point to President Trump's attempted trade wars as evidence for his argument. But if we look closely we see that the system of global supply

chains is quite difficult to disentangle, and just trying to do so imposes significant costs on America's own businesses and consumers. The reason? A new global institutional order exists side by side with the system of states: "authentically Disney and distinctly Chinese."

Finally, what Waltz described as the tyranny of small decisions on the part of states clearly has a seriously deleterious effect on the production of global public goods. The most significant is our existential encounter with climate change. But while the private sphere no doubt has caused or contributed to our global problems, in the face of states not doing enough (or heading in the wrong direction), the private power system is assuming a greater role in the attempt to protect its own long-term sustainability.

So, what's my take-away? If we view today's international politics solely through the lens of interstate relations, then Waltz takes us quite a ways. But if we view it through the lens of what we might call the broader world power system, he doesn't take us as far.

Waltz's world is inhabited by states with hard shells whose authority is rooted in sovereignty. But the broader world power system, as we have seen, includes at least two other dimensions.

First, it has always been shaped by the domestic social purposes for which state power is deployed. And agreement or dissension about those purposes within or across major states is itself a source of systemic stability or instability.

Second, the world power system today includes an institutionalized sphere of private authority that is rooted in property rights and the private law of contracts. Enabled by earlier state policy choices, private authority has generated an international order of its own – and it has been able to do so precisely because the state-based power system is anarchic, lacking a central regulator that could have prevented the global institutionalization of private power, or that could fully govern it now. It balances the power of the state system, just as states engage in balance-of-power politics vis-à-vis one another. The world power system has become a tale of two worlds.