10   Functional differentiation, globalization and the new transnational neopluralism

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1   Introduction: globalization and differentiation

The concept of differentiation is a complex and contested one. Functional differentiation, segmentary differentiation and straficatory differentiation – to take the three main types analysed in this book – are inextricably intertwined, and this is particularly the case with regard to globalization. This chapter argues not only that these forms of differentiation are interlocked in a dynamic process of change, but also that this very process is transforming the character of functional differentiation itself. On the one hand, all three types of differentiation increasingly cut across state borders, enmeshing both state and non-state structures and actors in 'third-level games' – political, economic and social – that transform the nature of the state itself, partly bypassing and undermining states as internally relatively self-sufficient systems and partly transforming what states do in response to global challenges. It is not a question of whether, for example, various 'powers' – the United States, Europe, the BRICs (Brazil, Russia, India and China) etc. – are 'rising' or 'declining'. It is rather how they are adapting to a more complex, multilayered, 'glocalized' world order.

On the other hand, functional differentiation is taking new forms. Differentiation processes involve new, complex and untried forms of sociality, economic interdependence and political action at global and/or transnational levels, which call into question the very nature of the 'sectors' at the core of the concept of functional differentiation. The relatively simple structural distinctions between politics, economics and society have been replaced by a wider range of differently interlocking sectors at micro, meso and macro levels – sectors that each have a distinct dynamic mix of political, economic and sociological dimensions. The 'organic, evolved entity' required for social cohesion (see the introduction to this volume) that has historically been represented by the state, is being – however unevenly and messily – crosscut, undermined and overlaid by complex, multilayered and multidimensional realities.

The consequence of these changes is that the international – or global – system is in uncharted waters, characterized by multiple equilibria that analysts and actors alike must navigate through without the benefit of the state-centric charts previously available. What new forms of functional differentiation might evolve at global/transnational levels: global governance (the transnational 'political sector')?; domination by a transnational capitalist class or global markets (the transnational 'economic sector')?; global civil society – or an amorphous 'neomedievalism' or 'durable disorder' (the transnational 'social sector')? The lessons of the recent global financial crisis are not reassuring. At the end of this chapter I elaborate on these stylized scenarios. However, as the proverb goes (variously attributed to at least two dozen people, from Niels Bohr and Yogi Berra to Woody Allen and Confucius): 'Prediction is difficult, especially about the future'.

2   The concept of functional differentiation in a globalizing world

Functional differentiation is a complex and contested concept, depending on the meaning of the term 'function'. In traditional sociological *structural functionalism*, functions were represented by the division of labour among different processes that comprised the overarching 'structure' or system. These functions were, by definition, 'functional' to the working of the whole. However, 'function' also has a broader, more descriptive meaning, derived from the etymological root of the word in Latin *fungi* (*fungor*) – to perform or execute a task. The American political scientist Frank Sorauf (1968) defined functions as 'tasks, roles, and activities' performed by actors and substructures within a wider system, whether 'functional' in the narrow sense or not – that is, they involve what people do in practice. Functional differentiation, then, is crucial not only for an understanding of system maintenance and evolution, but also for the emergence, decomposition and transformation of society (see the introduction to this volume). The significance of functional differentiation in an era of globalization is its conceptual capacity to help analyse and explain fundamental processes of change in the world system from a system rooted in distinct 'levels of analysis' (Hollis and Smith, 1990) – distinguishing between what goes on within the state from that which goes on between states (i.e. the system of state sovereignty ostensibly characteristic of the modern era) – to one that involves the increasing role of crosscutting or transnational tasks, roles and activities characteristic of the twenty-first century and the global era.

The structural basis of the 'modern' (nineteenth- and twentieth-century) states system was rooted in the *multifunctionality* of the state itself, not only welding domestic societies into single, unified political processes – Waltz's (1979) 'hierarchy' – but also creating the kind of unity that enabled states themselves to survive in an international system composed of other state 'unit actors'. Such a system, lacking a higher level of authoritative governance than the state, in principle enabled states to survive and, hopefully, to prosper through 'self-help' in a system where states themselves were the only truly independent variables and the only determining currency in their relations was power – Waltz's 'anarchy'. Endogenous and exogenous political processes alike were therefore ostensibly subject to the channelling of decision making and implementation through the state, giving state actors a privileged position in developing and putting into practice a holistic state-based approach to society construction, domestic public policy and international relations. Pluralism among horizontally stratified actors and socio-economic subsystems was supposed both pragmatically and normatively to be limited to the domestic sphere. Politics, as Senator Arthur Vandenberg said in the late 1940s, stopped at the water's edge. Durkheim stated that there was no such thing as an international division of labour; his analysis was explicitly limited to within the confines of the nation-state (Durkheim, 1933).

However, the state as hierarchical 'unit actor' was always a fragile political project rather than a fait accompli, as numerous histories attest. Today the globalization process has increasingly exposed the limits of state holism, undermining multifunctionality (Cerny, 1995). Not only are social, economic and political issue areas increasingly being defined in transnational terms, but the state itself is becoming disaggregated (Slaughter, 2004); political and policymaking processes are being integrated across borders; and interest groups and coalitions – both 'sectional' and 'value' groups (Key, 1953) – increasingly organize and coordinate their activities transnationally in order to be effective in such an environment. Rather than unitary state actors holding a dominant position in such complex political processes, simultaneously playing and coordinating both types of Putnam's (1988) 'two-level games', we can increasingly identify a broad range of both non-state and disaggregated state actors – material interest groups, social movements and their bureaucratic interlocutors at both domestic and transnational levels – that are being drawn into crosscutting and overlapping transnational webs of power and influence. These webs are increasingly organized around differentiated *issue areas* – differently structured economic sectors, crosscutting social policy issues, regulatory arbitrage, environmental challenges, ethnic conflict

and the like – rather than bordered territorial spaces. Such issue areas are at the core of today's functional differentiation, rooted in the distinct ways these issue areas (1) are internally structured and (2) interact at a systemic level with other issue areas. The emerging pattern of functional differentiation in the twenty-first century international system, then, is defined here as the growing tendency of social, political and economic action to coagulate and consolidate around *transnationally defined* issues, in other words, cutting across borders, giving rise to distinct – differentiated – crosscutting political processes. The form this pattern takes can be labelled *transnational neopluralism* (Cerny, 2010b).

As McFarland (2004) has pointed out with reference to American domestic politics, neopluralist political processes consist of the relations within distinct issue areas among three types of groups and actors: (1) material interest groups or what V.O. Key (1953) called 'sectional groups', today including multinational firms and players in transnational markets of various kinds; (2) social movements and what Key called 'value groups', again organizing across borders and including so-called non-governmental organizations (NGOs) and 'transnational advocacy coalitions' (Keck and Sikkink, 1998); and (3) the population of relevant public sector actors within and across states and international public institutions, including what have been called 'transgovernmental networks' (Keohane and Nye, 1977; Slaughter, 2004). This neopluralist process of conflict, competition and coalition-building among various constellations of actors (individuals and groups) with increasingly dense transnational linkages and networks, while still in the early stages of development, involves both the decomposition and restructuring of certain key forms of traditional domestic interest group and pluralist politics, and the emergence, at the same time, of new forms of functional differentiation characteristic of the global era. For example, global–local linkages – called 'glocalization' – are cutting across nation-state divisions and creating new divisions of their own. These restructured linkages are at the heart of the new functional differentiation.

Furthermore, new webs of social, political and economic relationships – usually combining all three of these strands together, rather than seeing them as separate 'functional' relationships – are thus partly competing with, partly overlaying, and partly replacing the 'modern' governmentality of *raison d'état* (Foucault, 2008) with a globalizing awareness and discourse I have called *raison du monde* (Cerny, 2010a; 2010b). In this sense, rather than 'function' being a function of structure, so to speak, as in traditional structural functionalism, 'structure' is a function of function. It evolves – decomposes and emerges – as things that people do, the tasks, roles and activities that characterize social life, transforming

the structure in the process. This is sometimes called 'structuration' (Giddens, 1979; Cerny, 2000c; 2010b:87–97). 'Vertical' borders separating distinct, hierarchically organized nation-states – sometimes referred to as 'containers' (see Brenner *et al.*, 2003) – are thus being undermined and overlaid with functionally differentiated 'horizontal' or crosscutting borderings. However, what kind of overarching structure or system is emerging is unclear. This process of change can be seen to lead to three possible alternative scenarios (see Cerny, 2010b: 302–6), which I will return to briefly at the end of this chapter: (1) a transnational or international system that is actually *unified* by an emerging but now transnationalized Durkheimian division of labour, creating new opportunities for pluralism and a 'decentralised, non-hierarchical, fluid organisation' of 'post-bureaucratic governance' (Eagleton-Pierce, 2011); (2) a newly institutionalized inequality, not between states but rather between groups and categories of people, based on the hegemony of transnational capitalism, whether through transnational class consolidation (van der Pijl, 1998; Sklair, 2000) or a more discursive 'new constitutionalism' (Gill, 2003); or (3) increased *decomposition* into a 'new Middle Ages' based on more complex, 'glocalized' inequalities (Cerny, 1998).

3   Vertical and horizontal borderings

Politics and society have been seen, ever since Plato's *Republic*, as involving two kinds of bordering and structural differentiation. The first or vertical dimension is one of geographical place – of situating and rooting political systems and communities in particular *physical* or *territorial* locations. Like other societies of this sort, nation-states are not merely characterized by 'segmentary differentiation' based on social linkages; these 'hard' geographical places provide the material conditions for the development of the necessary face-to-face contacts, knowledge-sharing networks, resource agglomerations, and organizational synergies necessary for effective collective action. The second or horizontal dimension is one of *social stratification* or *functional differentiation*, of evolving and rooting that collective life in a division of labour and function among different human tasks, roles and activities. Although often thought of as 'soft' or 'virtual' spaces, the latter define the boundaries of human life at least as much as, or more than, hard geographical spaces. At the same time they are complex and multidimensional, reflecting the myriad dimensions of politics, economy and society more closely than mere geography. Through most of human history, political actors have sought, for political, economic or socio-cultural reasons, to fuse these two distinct kinds of bordering within the same *multifunctional* social and

organizational unit – the *politeia* or political community, whether at village, regional, city-state, nation-state or imperial level. The multifunctionality of macro-social institutions, however constituted, has since the birth of human society been perceived as a necessary, if not sufficient, condition for political, ideological and administrative effectiveness. Nevertheless, deep tensions between these two distinct forms of differentiation (and cooperation) have always constituted a profound source of political instability, economic inefficiency, organizational disorder and social conflict.

Historically, those tensions have increased the larger the physical scale of the territorial unit involved, and the more complex the economic and political life meant to be contained within that unit. Multifunctionality and size together bring increased costs as well as benefits. Two sorts of limiting processes are always at work. On the one hand, looser, more diffuse and extended forms of political organization, such as traditional empires and feudal systems, suffer from both local and external centrifugal forces pulling them apart; on the other hand, more localized, city-state-type units cannot benefit from the military and economic economies of scale and scope potentially available to larger units. Thus the role of nation-states as building blocks has always been highly problematic. The modern nation-state has been a political project rather than a fait accompli. It has continually been manipulated, undermined and reshaped, politically, economically and culturally – both from above by formal and informal empires (Appleman Williams, 1972; Subrahmanyam, 2006) and Kotkin's (1992) global tribes and, of course, from below, by class, ethnic and political divisions. But today's challenge is not merely one of degree; it is one of kind. The particular form of organizational fusion that has constituted the modern state is increasingly being cut across and challenged *systematically* from both above and below by transnationalization and globalization, which bring pressures from both directions together across territorial borders. Out of globalization has come a new, *post-nation-state political project* of complex, flexible, multilevel fusion, a project in which multifunctionality is pushed increasingly into the background, and a project with its ideological foundations in the spread of neoliberalism, itself driven and shaped by transnational neopluralism (Cerny, 2008). That transnational neopluralism is in turn creating new transnational forms of functional differentiation.

4   Disembedding the nation-state and the states system: the seeds of change

In both traditional realist and neorealist thinking, politics, economics and society have been bifurcated between an 'inside' and an 'outside'.

The 'inside' is seen as relatively civilized (or civilizable), characterized by some as 'hierarchical' and by others as an arena for the pursuit of collective action and collective values such as liberty and social justice. The 'outside', in contrast, is seen as either an ungoverned semi-wilderness characterized as 'anarchical' and ruled entirely by power balances and imbalances among states mainly constructed through war, or as a quite different sort of society, a semi-governed but often fragile 'society of states' (Bull, 1977; Buzan, 2004). This conceptualization of world politics is only credible because the *actors* who have created, consolidated and built upon the nation-state have seen – and constructed – the nation-state itself as a crucial, Janus-like structural axis of this system. Political actors are compelled by the system's structural imperatives to be concerned *at one and the same time* with pursuing projects of political, social and economic improvement at home – what Foucault has called 'biopolitics' (2008) – while also paying attention, first and foremost, to constructing and defending the structural 'bottom line' of sovereignty – which means securing and defending the homeland from external threats and pursuing 'national interests' abroad.

Reconciling these two tasks is at the core of the concept of multifunctionality and *raison d'état*. The underlying pseudo-material foundation of this schizophrenic political balancing act is territoriality, or what Bob Jessop and Neil Brenner have called the 'spatio-temporal fix' (see Cerny, 2006). Eventually, with the decolonization of the European empires in the 1950s and 1960s, the whole globe was ostensibly carved up into discrete nation-states with supposedly clear, internationally recognized territorial boundaries – the last gasp of nation-state development before the current wave of globalization. Nevertheless, the project of establishing single, unidimensional boundaries for human societies was a deeply flawed project in the first place. It was always crosscut by transnational conflicts, cleavages and connections: whether by political empires, alliances and ideologies; by an increasing economic division of labour as capitalist modernization progressed; and by cross-border social bonds, patterns of communication, migration and social movements – indeed, by all three in complex feedback circuits.

That project could only be taken to its highest level – the 'high modern' nation-state of approximately 1850–1950 – because it coincided and fitted together with the other great organizational project of the modern world, the Second Industrial Revolution. This structural congruence of Weberian bureaucratic politics and Fordist economics – the coming of modern, large-scale hierarchical organizations in both politics and economics – squared the circle of territoriality. The surge of 'late industrialization' came at a time of huge technological change and the growth of economies of scale in such industries as the railways, steel,

chemicals, communications and later automobiles – the source of the term 'Fordism'. It was only when such large-scale industrial organization – what Chandler (1990) called the 'modern industrial enterprise', something that passed Britain by at the time (Kemp, 1969; Hobsbawm, 1968) – came into being that the fusion of Clausewitzian military-bureaucratic statism, economic-industrial statism, and welfare statism could take place. It also fostered two World Wars started by autarchic national empires and, eventually, the Cold War of the mid-twentieth century. At the same time, the United States, because of its special conditions – extensive domestic natural resources and available land; a rapidly growing internal market; huge investment flows from abroad (especially Britain); a large middle class and growing working class rooted in the flow of ambitious, hardworking immigrants; a strong educational system and technological infrastructure; and a liberal political tradition (Hartz, 1955) – was rapidly rising to economic as well as political pre-eminence. And the welfare state, from Bismarck to Lloyd George to Franklin Delano Roosevelt (not to mention its role in Fascism and Communism as well as in the democracies) created the crucial popular base for this modern state form by incorporating the working classes into both national consciousness and the growth of the national economy.

But the requirements for nation-state building were extremely rigorous. Boundaries had to enclose or 'contain' three basic types of variables – political, economic and socio-cultural. In the first place, it required the development of a state apparatus and a political process that could at least to some extent be effectively sovereign: not only an organized bureaucracy, especially a military and police bureaucracy that could impose order (Weber's 'monopoly of legitimate violence') and the rule of law; but also a policy-making process that sought to shape and ostensibly improve the lives of the people enclosed within those boundaries (Foucault's 'biopolitics'). Perhaps even more important was the capacity to get different interests, factions, groups, classes, ethnicities etc., to accept a set of common rules of the game in order to transform their potential for conflict into relatively peaceful competition. The development of political institutions, political systems and, in particular, widely accepted legal systems required a holistic, centripetal form of organization that benefited particularly from territoriality.

Second, the boundary-setting process required the establishment of *national economies* – production and market systems to a significant extent rooted and 'contained' within national borders. It was only when the economic bureaucracies of large-scale capitalism developed and when industrialization and economic growth became the main objectives of government policy with the Second Industrial Revolution, that state and

industrial bureaucracies partly fused (Lenin and Hilferding's 'finance capital': Lenin, 1917) and partly mimicked each other (Galbraith's 'new industrial state': Galbraith, 2007) that a range of key economic activities – not all of them, of course – could be enclosed behind national borders and integrated with the political processes discussed above. At the same time, this growth process created sufficiently large economic surpluses that governments could skim off enough in taxes (Schumpeter, 1991) to build the foundations of industrial welfare states, further integrating a range of 'domestic' groups and interests into the political process and giving them stakes in the bordered nation-state (Gallarotti, 2000).

Third, of course, was the challenge of creating socio-cultural enclosure. Popular nationalism was a key bulwark against internationalist liberalism and socialism as well as subnational and local particularism. The *Kulturkampf* (the government-led 'cultural struggle' to inculcate a nationalist spirit) in 1870s Germany was not merely a Bismarckian invention, but an inherent part of a much longer-term process everywhere, although it took quite different forms (Curtius, 1962). With regard to religion, the original 1648 Peace of Westphalia was an essential agreement and symbol of the subordination of religious institutions to the authority of the national state, with other aspects of sovereignty an afterthought. Linguistic integration has been a running battle too. Industrialized warfare crucially brought together bureaucratic political, economic and cultural organization into one cataclysmic experience for ordinary people, fusing them into a technologically advanced fighting force and centralized support system, and forging them into seeing themselves as a 'people' united in deadly conflict while their other experiences were still much more fragmented (Pursell, 1994). Finally, democracy ostensibly fused political institutions and processes with both economic processes (economic growth, capitalist firms, the welfare state) and a sense of belonging or ownership of the nation-state from the bottom up.

It would seem understandable, then, to conclude that the whole nation-state project was riddled with exceptions and structural weaknesses. The domestic political development of various countries was often more centrifugal than centripetal in its underlying dynamics, as conflicting groups sought to suppress each other, to exclude their opponents and to demand their complete defeat and often elimination, rather than to include them, as in the Iraqi notion of *sahel* (Wong, 2007). Fear of defeat on the part of particular groups, whether hegemonic or subaltern, led to vicious spirals or negative-sum games where no-one was willing to compromise. All factions were fearful of defeat and ruthless in victory. In many cases, in fact, it was only severe authoritarian measures that enabled the enclosure process to move ahead. Democratization often proved dysfunctional

rather than functional – leading not to internal compromise on political processes but to intensified conflict between entrenched and excluded groups – until some proto-states reached a later stage when national integration had *already* developed by other, generally top-down, means, or indeed they had had it forced upon them through defeat in war to already democratized powers (Cerny, 2009a).

However, as historians like Kennedy (1987) and Spruyt (1994) have pointed out, what really drove the political enclosure process – its core paradox – was its reciprocal, *mutually interactive* character among states internationally, where states either imitated, or were forced to imitate, each other in order to survive. The kind of unidimensional national boundaries characteristic of the later nineteenth and twentieth centuries were ultimately, and ironically, the by-product of the clash of failed imperial projects within Europe itself. As Spruyt (1994) has argued, certain quasi-empires – Bourbon France being the prototype – succeeded by doing two things at the same time: simultaneously creating strong domestic organizational structures ('arenas of collective action') *and* defending themselves effectively against external predators (allowing them to make 'credible commitments' with regard to other states). In this hostile environment, however, the most successful nation-building projects within Europe were precisely those where state actors effectively *diverted the imperial project outwards* to the rest of the world. The imperative of continually keeping up with the Bourbons ultimately required the conquest of overseas empires in order to generate economic surpluses, involving the increasing power and impact of 'empire-states' in particular (Subrahmanyam, 2003). To this was added the ever denser and more profound internationalization of the once European nation-state system, not only through European empires but eventually by Europe's position at the interface of the competing American and Soviet empires (Deporte, 1979) and the process of European integration.

This confrontation of capitalism and communism ironically replaced the political and social values maintained through enclosed nation-state borders with those of *universal values* – transnational images of freedom, equality and social justice. At the same time, the entropy characteristic of many of the new postcolonial nation-states of the Third World demonstrated that imitation does not bring success if the political, economic and social preconditions of border-setting are not in place. The development of the nation-state and the states system was therefore a schizophrenic affair, its very success implanted from the start with seeds of decay. On the one hand, the convergence of political, economic and social boundaries led to an embeddedness of territoriality at the nation-state level, a sense that the locality of human activities had shifted to a higher scale and that

village, local region or city-state institutions and the sense of belonging
that had characterized family and kinship based societies – what sociolo-
gists call *Gemeinschaft* (Tönnies, 2003) – had effectively been transferred
upwards to the level of the nation-state. On the other hand, however, at
the same time the development of a capitalist world economy, the ide-
ologization of politics around universal values, and concepts like social
'modernization', 'individualization', 'functional differentiation' and the
like – not to mention extended notions of 'freedom' and 'social justice' –
created a wider framework of action for individuals and groups, beginning
the process of disembedding the nation-state and creating a discursive
underpinning for the extension of neopluralist politics to the global stage
and embedding new forms of functional differentiation.

5   Deconstructing the nation-state paradigm

The boundary-setting process was always contingent, and therefore con-
tained the seeds of its own decay, as with all Kuhnian paradigms. Of
course, that process of decay has not yet smashed the nation-state as
such. Rather, it has *enmeshed* the nation-state and the states system
in cross-cutting webs of governance and of transnationally embedded
social, political and economic processes, creating complex *non-territorial –
functional – boundaries*. In the first place, a trial-and-error process of devel-
oping international institutions and regimes has been in place since the
late nineteenth century in a range of issue areas and policy domains,
starting with communications (the International Telegraph Union), tak-
ing a major if problematic leap with collective security (the League of
Nations), and, after the Second World War, being extended to a whole
gamut of issues. By the end of the twentieth century a new term, 'global
governance', was being applied to such regimes taken together. Although
for the most part such institutions remained 'intergovernmental', that is,
subordinated to negotiations among their member governments, they
increasingly achieved a certain autonomous legitimacy and authority,
given that governments found it more and more difficult to act indepen-
dently and were in turn subjected to the imperative of seeking cooperative
outcomes (Ruggie, 1993).

At the same time, issues of public policy increasingly came to reflect
a range of often asymmetric complex interdependencies across borders.
Macroeconomic policy, partially shielded from international pressures
during the post-war period of embedded liberalism and the expansion of
the welfare state, became progressively subjected to 'embedded financial
orthodoxy' (Cerny, 1994a) and priority was given to anti-inflationary
policy, deregulation and privatization. Trade policy was of course a

particular focus, linking the politics of domestic interest groups, both elite and mass, with the process of reducing trade barriers. The collapse of the Bretton Woods exchange rate regime in the early 1970s accelerated the internationalization of financial markets and a process of regulatory arbitrage and competition among governments to retain and attract investment, leading further to discussions of the concept of an 'international financial architecture' (Germain, 2010). And the crisis of the welfare state in the 1970s inaugurated a painful process of restructuring social policy around market and business-type organizational principles (Clayton and Pontusson, 1998; Evans and Cerny, 2003). Direct outcome-oriented state intervention in the economy was progressively replaced by process-oriented, 'arm's-length' regulatory policies, public–private partnerships, and the pro-market approach of the competition state. Transgovernmental networks among policymakers and bureaucrats expanded, cutting across state hierarchies, and processes of policy transfer deepened (Evans, 2005). Of course, although these trends began within and across the more developed states, they also spread rapidly to 'transition' (i.e. post-Communist) and developing economies both through the demonstration effect and through pressure not only from the core states of the Group of 7 but also from international economic institutions such as the World Bank, the International Monetary Fund, and the Organization for Economic Cooperation and Development.

The political dynamics of mass politics and interest group politics have also been transformed. Business interests are increasingly dominated not simply by the interests of multinational corporations, but also by those of small and medium-sized enterprises whose upstream and downstream operations require foreign markets, external sources not only of raw materials but also of component parts and basic consumer items, overseas labour resources and footloose sources of investment capital. People are more and more aware of the constraints of international economic conditions on interest rates, consumer prices, changing labour markets and the like, leading to new patterns of demands and voting. Political debate and party competition are increasingly dominated by the issue of how to deal with so-called 'global realities'. At the end of the twentieth century it was possible to see domestic political systems themselves as increasingly becoming a terrain of conflict, competition and coalition-building between those groups, factions and parties that favoured more globalization and neoliberalization and those that opposed it, being more in favour of the traditional 'modern' national-level politics of protection and redistribution. Today, however, that competition has come to be characterized by an *embedded neoliberal consensus*, where protection and redistribution are relegated to the periphery and mainstream discourse focuses, on the

one hand, on the need to 'capture the benefits of globalization' for purposes of rebuilding and rearticulating coalitions and, on the other, on the promise to move towards a more 'social neoliberalism' or 'globalization with a human face' (Cerny, 2008).

Along the second dimension discussed earlier, the economic dimension, the blurring and enmeshing of boundaries is even more obvious. There is no need here to expand at length about the roles of international financial markets, trade growth and interdependence, international production chains, multinational corporations and the like in deconstructing the economic borders so painfully erected in the process of nation-state building in the nineteenth and twentieth centuries. National markets and economic sovereignty are increasingly a fiction. Economic effectiveness, whether on the part of the private sector or of governments, today means the capacity to manipulate international economic conditions in order to improve the profitability, productivity and competitiveness of domestic firms and economic activities *vis-à-vis* foreign and/or transnational competitors and to obtain benefits from market interdependencies for domestic consumers (Cerny, 2010a). Where economies of agglomeration (or location) do occur, as they do in a number of key sectors, those locational advantages have less and less to do with nation-states as places/spaces *per se* (big factories, immediate access to raw material supplies, nationally integrated consumer markets, etc.). In contrast, they increasingly involve craft industry synergies, knowledge clusters and the like – spaces and places that, like 'world cities' and regions like Silicon Valley, possess locational advantages that derive not from where they are physically located within a *national* territory, but how they are plugged into the *global* economy. Post-Fordism and the flexibilization of a range of industrial processes, along with marketing and the rapid expansion of service sectors, imply synergies of 'glocalization' across geographically disconnected spaces. Of course, the political clout of ideas such as protectionism and domestic populist redistributionism is still powerful among certain voters and pressure groups, and is seen as a danger – and a possibility – in a world characterized by 'the rise of the rest' (cf. Morris, 2010; Moyo, 2011). Nevertheless, the discursive power of an emerging *raison du monde* – a general crosscutting 'world-level rationality' as distinct from the 'society of states' at the core of Watson's *raison du système* (Watson, 1992) – must increasingly be called upon to legitimate collective action, both domestically and internationally.

Along the third dimension, the socio-cultural, the embeddedness of the nation-state and the states system is perhaps more robust. We are all brought up in a world of identity and belonging that privileges national-level social bonds, perceptions and discourses. People in

developed nation-states do indeed see themselves primordially as American, English (but perhaps not British . . .), French, Japanese etc. Nevertheless, other bonds, perceptions and discourses are increasingly overshadowing the national in ways that are growing in salience and intensity. This social transformation is even reflected in the rapid disillusionment with foreign military adventures that has been characteristic of recent decades. As with the 'Vietnam Syndrome', the Soviet adventure in Afghanistan, and the American war in Iraq, empires and potential hegemons are being undermined just as much by opposition at home as by military defeat in the field – the 'body bag syndrome'. Furthermore, immigrants, diasporas and other mobile individuals and groups are no longer cut off from their networks of origin. The Internet, for example, creates virtual spaces for transnationally connected people to maintain their identities in ways that represent *neither* the national space of their origins (where they may well have been minorities) *nor* that of their destination country as such, but instead more complex spaces where both are inextricably intertwined. These are exemplified by remittances, which constitute an ever more significant source of development funding. The nation-state alone is too confining and counterproductive a source for identity formation, although no clear and dominant alternative focus has yet emerged. In this context, transnational multiculturalism underpins the trend towards new forms of functional differentiation.

Socio-cultural boundaries are less and less between fixed physical territories but cut right across individual identity too, like a more complex version of those who were once derided as 'hyphenated Americans'. *Multiple hyphenation* of identities along different virtual or 'soft' borders (locational, ethnic, religious, gendered, occupational, orientation to 'liberal' or 'monistic' politics etc.: Mostov, 2008) is the norm today. At the local end of the spectrum, some circumscribed but highly self-conscious communities like the Zapatistas of Chiapas in Mexico do not merely make claims on behalf of their own unique political, economic and social autonomy (although many ethnic groups and tribes do). Rather they increasingly claim a *universal* right for such communities to demand autonomy from what they see as the oppressive centralization of state-building elites and the onslaught of multinational corporations. At the global end of the spectrum, geographically dispersed groups – Kotkin's 'global tribes', not to mention major religious groupings and transnational 'epistemic communities' of experts and professionals – play a crucial role across the world in spreading transnational and global knowledge and organizational forms. Of course, much of the present day analysis of the phenomenon of terrorism, along with the virtual elimination of inter-state wars and the ubiquity of below-the-border, cross-border and

civil wars, takes both its novelty and its significance from examining the organizational flexibility that derives from terrorism's transnational, non-state character (Cerny, 2005). The 'new security dilemma' (Cerny, 2000a) is rooted in the failure of the states system to cope with these non-state security challenges. Finally, groups that might previously have been kept in subjection and ignorance of international and transnational movements have been empowered to demand more far-reaching changes, as with the 'Jasmine Revolution' in Tunisia and the subsequent and, at the time of writing still unsettled, 'Arab Spring'.

6   Decomposition and emergence, deconstruction and reconstruction, fusion and coalition-building

Boundaries[1] are therefore less and less about distinctions between territorial units and constituencies and more and more about those among:

- different *economic sectors* with different asset structures (see below);
- cross-cutting *socio-cultural networks and interest groups* that span the local and the transnational;
- *state agencies* (and public–private organizations) with competing clienteles and cross-cutting, cross-border (transgovernmental) connections; and
- new groups of social and economic *'winners' and 'losers'*.

What is emerging therefore is a range of attempts to *politicize* – that is, to (re)claim for the theoretical and normative as well as the practical realm of politics (and Political Science) – what has been seen up to now as a fundamentally economic image of globalization. This involves a reinvention of the social dimension of politics through new policy and coalition 'spaces' populated by a wide range of *both new and old* political actors in both the developed and developing worlds. Although technological and economic structures can alter the parameters and payoff matrix of the playing field of politics and public policy, in the last analysis outcomes of the interaction of politics and economics in a transnational political context are primarily determined by political action and not merely by economic-structural variables. These new political processes are differentiated more by sector and issue area than by physical, geographical and territorial space. They therefore involve the construction of *new boundaries between issue areas* – a 'horizontal' restructuring of functional differentiation – that are just as 'real' for the actors bounded by them as national borders. In many cases, they are even *more* 'real', impacting on people's core interests in fundamental, behaviour-determining ways:

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[1] This section of the chapter builds on Cerny (2009b).

through the distribution of economic opportunities, costs and benefits; through the construction and reconstruction of social bonds, ideologies, cultures and identities; and through changing patterns of politicking, policy making and pressure group activity – indeed in the most crucial aspects of everyday life. Three kinds of bordering dimensions, taken together, differentiate these issue areas and distinguish the forms of governance most likely to develop in each – what are sometimes referred to as 'policy domains' (Arts *et al.*, 2009).

The first is a mainly economic-structural dimension, developed primarily in the field of institutional Economics – that of *asset structure* (Williamson, 1975; 1985). Williamson's key hypothesis is as follows. Where a particular economic activity or process is characterized by assets that cannot easily be disconnected or disentangled from other assets – in other words where assets are only 'fit' for a specific purpose and lose value if redeployed for other purposes ('specific assets') and it is difficult or impossible to determine their prices through a standard, market-based price-setting mechanism – then they are usually more effectively organized and governed through hierarchical structures and processes, in other words, by decision making or governance processes that determine the uses for those assets by authoritative pronouncement or *fiat* or 'long-term contracting'. However, where an activity or process is characterized by assets that *can* be separated out and/or divided up without losing value, especially where there are other uses to which they can be easily redeployed – where they can be bought and sold freely and where there is an efficient price-setting mechanism at work ('non-specific assets') – then they are likely to be more efficiently organized through *markets* or 'recurrent contracting'.

In purely *economic* terms, this means that firms with extensive specific assets are more efficiently organized through quasi-monopolistic, hierarchical governance structures. In *public policy* terms, this means, on the one hand, that where a particular industry or activity is characterized predominantly by specific assets – for example, a large integrated 'Fordist' production process with non-divisible technological assets like big factories, long production lines, low marginal costs and high economies of scale based on economies of agglomeration (traditional cold-rolled steel production, for example) – then direct government intervention, whether through public ownership, direct control, subsidization, traditional 'hands-on' forms of regulation and/or close regulation of private monopolies or oligopolies ('utilities'), is more likely to lead to relatively efficient outcomes than privatization or marketization, which would lead to private monopolistic or opportunistic behaviour. On the other hand, where an industry or activity is characterized predominantly by

non-specific assets – say a flexible, post-Fordist steel mini-mill or an internet firm – then not only will it be more efficiently organized through private markets, but also in public policy terms, arm's-length regulation concerned with setting general, process-oriented rules for market trans-actions, ensuring price transparency and preventing fraud in an otherwise privately organized market setting, will be more efficient. This distinction becomes crucial when placed in the context of globalization, especially when applied to intermediate forms such as networks (see Thompson *et al.*, 1991).

If globalization does indeed involve increasing flexibilization and post-Fordist production and distribution processes, and if a larger (global) market means that more assets can be traded on liquid transnational markets, this implies in economic terms that the specific-asset-dominated Second Industrial Revolution model of domestically based monopolies discussed earlier is increasingly likely to be replaced by a marketized, non-specific-asset-dominated Third Industrial Revolution model of industrial organization and governance more generally. Public policy in turn is likely to shift its general orientation away from outcome-oriented, direct inter-vention of the traditional type associated with the Industrial Welfare State towards process- or design-oriented regulation and reregulation. How-ever, it also implies that public policy itself needs to become more flex-ibilized and marketized, moving away from what has been called a 'one size fits all' hierarchical bureaucratic form of intervention towards *pro-market* regulation, privatization, contractualization and the like (Osborne and Gaebler, 1992), if it is to be effective in such a transnational set-ting. In this sense, globalization, flexibilization and neoliberalism actually open up more *spaces* for transnational political actors to conflict, com-pete, cooperate and build coalitions. The traditional interventionist state becomes not only a 'regulatory state' (Moran, 2002), but also a competi-tion state seeking to maximize returns from globalization (Cerny, 1997; 2000b; 2010a). In turn, the reconfigured boundaries among economic sectors and issue areas in a globalizing world open up a wide range of complex spaces – some new, some reconfigured 'old' spaces as political behaviour adjusts to the more complex global playing field – for transna-tionally linked political actors, especially interest groups that define those interests in their global context.

The second dimension therefore concerns the *configuration of interests* characteristic of the industry or activity concerned. For example, where people involved in a particular industry are concentrated in a discrete geographical area and where the impact of competition (whether domes-tic or foreign) affects the whole interest group and not merely some subgroups, then there will be direct pressure, whether through lobbying

or electoral behaviour, for governments to promote or protect that industry through traditional outcome-oriented means. However, where those people affected by the fate of an industry are geographically dispersed – indeed, this refers mainly to producer groups, as consumer groups are usually geographically dispersed anyhow – then political actors will have a wider set of policy options to deploy (Frieden and Rogowski, 1996). What appear to be the geographical boundaries of the firm or sector become transformed into boundaries between concentrated losers from market competition on the one hand, and both dispersed losers and winners on the other. Political coalitions between the two latter categories can often resist demands for protection from even the most concentrated losers (Milner, 1988). Patterns of cross-border *sectional or economic-utilitarian politics* of, say, specific agricultural sectors will be very different from those of a rapidly changing steel industry, varied high-tech sectors, textiles and other consumer goods, or the commercial aircraft industry, based mainly on their asset structures (specific or non-specific) and on their cross-border geographical integration and interdependence. And at another level, new forms of *value politics* on a range of globalizing non-economic issue areas like AIDS prevention, poverty reduction, criminal law and the like, have been growing, where transnational pressure groups, advocacy coalitions, and non-governmental organizations (NGOs) seek new ways to compete and cooperate in the quest for political influence, economic clout and social relevance (Lipschutz and Rowe, 2005).

The third dimension concerns the relative *sensitivity and vulnerability* of the industry or activity to international or transnational economic trends, in particular export potential, import vulnerability, position in an international production chain, exposure to internationally mobile capital and the like. When an industry or activity is insulated from such factors, then lobbying pressure and 'iron triangles' in that sector are likely to favour traditional protective/redistributive policy measures. However, where firms and sectors are highly integrated or linked into such structures and processes, especially where there is a 'world market price' for a good or asset that determines local prices, then lobbying pressure from firms in that sector and from industry organizations is likely to be organized through 'flexible pentangles' – coalitions that include transnational actors from outside the national 'container' and which operate at transnational level to influence 'global governance' processes (Cerny, 2001). However, what is perhaps most important in portraying these processes of change is that certain key sectors, sectors that constitute structurally significant nodes of economic activity and thereby impact upon a wide range of other sectors, 'go transnational' first, creating a domino effect on others even

where they are characterized by more non-specific assets, geographical concentration of interests, and low sensitivity/vulnerability. Finance is a particularly crucial sector, linking together and acting as a 'crossroads' issue area and policy domain where most of the others meet (Cerny, 1994b; 2011). This is the case in developed countries and in developing countries too, where it forms the core of both the so-called Washington Consensus, and in a more complex manifestation, the post-Washington Consensus, with its increasingly regulatory focus (Guha, 2007).

These dimensions might potentially be applied to assess the likelihood and shape of neoliberal policy innovation and coalitionbuilding across a range of contrasting, differently structured issue areas and policy domains, and the actors that populate them, including:

- financial systems and regulation,
- international monetary policy and exchange rate management,
- macroeconomic – fiscal and monetary – policy,
- microeconomic and strategic industrial policy,
- public and social services,
- trade policy,
- corporate governance,
- labour markets,
- welfare states, and
- the most informal, diffuse and unorganized – but nonetheless increasingly marketized – issue area of all, consumption.

This reconstruction of space implies that there exists a wide range of options for social and political action and policy innovation in different issue areas and policy domains even *within* the parameters of an embedded neoliberal consensus. In some cases, traditional policies of subsidization and redistribution will be appropriate too, especially in times of crisis. However, it is ultimately the *mix* of policy measures that is at the core of the new transnational political process and neoliberal coalition-building. And it is, furthermore, crucial to examine the process of interaction among these and other issue areas and policy domains. As pointed out earlier, the politics of certain key issue areas like financial regulation can play a distinct catalytic role in reshaping global economics and politics *as a whole*, imposing their particular market and policy structures on other sectors and issue areas too. This is particularly clear in the wake of the recent global financial crisis. Finally, the emergence and construction of such horizontal borders is, I argue, *overdetermined*. The actors and institutions that make up the galaxy of multi-level governance and multi-nodal politics in the twenty-first century can all be seen as pushing more or less in the same direction, towards more transnationally interconnected political processes and market structures. Political, social and economic

actors in both domestic and international/transnational settings are all
playing key – and broadly complementary roles – in reshaping patterns
of functional differentiation today.

7   The new spatiality, or from containers to strainers

The oversimplified view of modern space and territoriality as requiring
exclusive, multidimensional territorial borders needs to be replaced with
a paradigm of complex linkages across space and time, along with the
reordering of governance and politics along multi-level and multi-nodal
lines. Such a process of restructuring – including, but going beyond,
the notion of 'networks' to a more complex range of institutional forms,
economic structures, social processes and patterns of politicking – is
already increasingly organized by, and structured through, processes of
transnational functional differentiation. States are no longer 'containers'
of politics, economics and society, but 'strainers' through which each
issue area is sifted into the complex politics of a globalizing world. The
result is an emerging process of functional differentiation in the form of
transnational neopluralism. This new world politics requires not domi-
nation and rule but what Preston has called 'orchestration' and 'political
choreography' (Preston, 2000) – a ratcheting upwards of Foucault's 'art'
of governmentality to complex translocal, transnational, international
and global levels. Political and institutional entrepreneurs must learn
new skills, especially the skills involved in operating on several asymmet-
ric playing fields at one and the same time – playing fields that can be
within, cutting across, above and below old-fashioned national borders.
This will require an increasing focus on new institutional strategies and
institutional entrepreneurs as well as new policy strategies and policy
entrepreneurs.

World politics seems to be approaching a new tipping point – one which
will deconstruct those boundaries, reconstruct them and construct new
ones, connecting issue areas and policy domains across borders, pro-
ducing a proliferation of innovative roles for actors in transnational neo-
pluralist political processes, and embedding new patterns of functional
differentiation among competing issue areas. Indeed, nation-state 'strain-
ers' are not mere 'constrainers' but can provide structural opportunities
for actors to shape the change process, as explicitly involved in the notions
of the competition state, the regulatory state and transgovernmental net-
works, where the state itself is increasingly transnationalized from within
as well as from without. This emerging transnational political process
could conceivably lead in/to three contrasting directions or scenarios. Of
course, given the comments above about complexity and evolution, these

scenarios are not zero-sum or mutually exclusive in nature. They are all in play simultaneously, and the particular permutation that emerges will depend not so much on a particular form of path dependency, but on the capacity of actors and, especially, transnational coalitions to shape the ongoing process of structuration – what I have called transnational neopluralism. Therefore, any outcome is likely to be a contingent combination of the three.

A *first scenario* suggests the emergence of a more pluralistic world based on the relatively peaceful competition of interest groups, whether material or sectional, and/or value groups and social movements, and political forces both within and cutting across states. Two linked hypotheses can be raised again here: on the one hand, the development of a 'global civil society', based on common transnational norms and values; on the other, the emergence of a self-regulating, cross-cutting quasi-institutional pluralism, with a growing consensus on international 'rules of the game' and cosmopolitan legal-constitutional practices. Both of these changes imply a rather quicker shift to a *raison du monde* mindset and would support a more far-reaching transformation. Held (1995), for example, has suggested that some mixture of analogous developments might well lead, especially through the spread of transnational legal norms, to the emergence of a kind of 'cosmopolitan democracy', along with 'good governance' (Eagleton-Pierce, 2010). However, this remains a 'rosy scenario', an idealized state of affairs it might be unwise to expect. Nevertheless, this scenario is compatible with a Durkheimian vision of functional differentiation leading not to conflict and instability (i.e. decomposition), but to the emergence of a stabilizing and dynamic 'complex division of labour' across borders (Durkheim, 1933).

Nevertheless, the dominant image of transnationalization and globalization today, as suggested earlier, is still that of economic and business globalization. Economic actors, through the transnational expansion of both markets and hierarchical (firm) structures and institutions, increasingly shape a range of key outcomes in terms of the allocation of both resources and values. In this *second scenario*, the governance structures of the twenty-first century world will be likely to reflect in a more direct and instrumental way the priorities of global capital. Without a world government or set of effective inter-national (cooperative/inter-state) governance mechanisms, private economic regimes such as internationalized financial markets and associations of transnationally active firms, large and small, are likely to shape the international system through their ability to channel investment flows and set cross-border prices for both capital and physical assets as well. The shape of the governance structures of such a system would essentially mimic the structures of

capital itself, rather than leading to what David Lake has called a 'privatization of governance' (Lake, 1999) reflecting an unequal distribution of power or representation, for example among different economic sectors, whether multinational corporations or financial markets and, as noted earlier, through transnational class consolidation (van der Pijl, 1998; Sklair, 2000) or a more discursive 'new constitutionalism' (Gill, 2003). In such a scenario, functional differentiation would be far less 'functional' in the narrow, structural functionalist sense. It would potentially sow the seeds of transnational class and group conflict along with new forms of repressive transnational class hegemony characterized by growing cross-cutting inequalities.

A *final scenario* is, of course, that exogenous pressures on the nation-state/states system, interacting with and exacerbating the tensions within that system, will cause that system to erode and weaken in key ways, but *without providing enough in the way of structural resources to any particular category of actors (or combination of categories) to effectively shape the transnational structuration process*. In other words, no group or group of groups will be at the steering wheel of change in the international system, and competition between different groups will in turn undermine the capacity of any one of them to exercise such control. This is the outcome that has been called 'neomedievalism': a fluid, multilayered structure of overlapping and competing institutions, cultural flux, multiple and shifting identities and loyalties, with different 'niches' at different levels for groups to focus their energies on. Inequalities would be themselves complex and differentiated, not homogeneous across borders. The medieval world was not a world of chaos; it was a world of 'durable disorder' (Minc, 1993; Cerny, 1998). Functional differentiation would lead to further decomposition of the world system at worst, or to a kind of muddling through at best – unless a new sort of global institutional order were to emerge based on networks, cooperation, multi-level governance and perhaps a measure of decentralized deliberative democracy (Macdonald and Macdonald, 2010).

Which scenario plays out in the long run will depend on how the actors shaping and populating the emerging complex processes of differentiation – functional, stratificatory and segmentary – interact with each other and across a more geographically, economically, socially and politically complex world. The transformation of the world in the twenty-first century therefore revolves around the contingent interaction and interdependence of actor constellations, old and new, whether individuals or groups, *who can simultaneously coordinate their actions* across a globalizing world – proactively developing transnational issue areas and creating new forms of functional differentiation. They must be able to interpret and

take on board fundamental structural changes, growing transnational inequalities, alternative pathways and emerging opportunities creatively; change and refine their strategies; negotiate, bargain, build coalitions and mobilize their power resources in ongoing interactions with other actors; and – both in winning and losing – affect and shape medium-term and long-term outcomes in a globalizing world.