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Globalisation and Power in Weak States

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ABSTRACT *Both academic literature and popular ideas focus on the ways in which globalisation might be leading to convergence in the ways in which societies are governed. This is misleading. There are marked differentiation processes. Patterns of governance are diverging. These divergences are concentrated in smaller, poorer countries outside the ranks of the* OECD *and* BRIC*/emerging economies category. This article focuses on the ways in which these divergences are driven by changes in sources of government and elite revenues ('political revenues'). As a result of late 20th century globalisation, fewer governments are funded by broad general taxation, and elites in poor countries face increased incentives to use their power for personal profit rather than the collective good. The emergence of 'failing' or 'weak' states is not an isolated or random phenomenon, but an aspect of a broader shift in the character of public authority. That understanding has direct implications for the policies employed to combat the problem.*

The material paradoxes of contemporary interventionist state-building exercises are becoming increasingly clear. A big United Nations peacekeeping presence in a poor, conflict-ridden country provides an abundance of potential new livelihoods and profits. Troops need to be provisioned, accommodated and entertained. Large quantities of supplies have to be trucked around. These new material resources might overwhelm the pre-existing local economy, and radically change economic incentives and relationships. Contemporary Afghanistan provides a wealth of examples. Former senior public servants and qualified engineers are reportedly making a much better living by working as interpreters or ferrying foreign visitors around Kabul in taxis. Members of the US armed forces have been convicted of using military resources to traffic drugs back to the US. More ominously official enquiries point to the vast sums of money being paid to transport contractors who move supplies in from Pakistan, and raise questions about where the money is going, and whether or not it creates vested interests in prolonging conflict. Military intervention may reshape, possibly in perverse

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ways, the society it is designed to protect. Worse, it may provide incentives to perpetuate conflict to ensure these new resources keep flowing.[1]

I argue in this article that there are analogous flaws embedded in the approach to 'state building' conventionally employed today by wealthier countries and international organisations. They are attempting to reconstruct weak and failing polities in the poorer parts of the world such that public authority is exercised dominantly through recognisably modern state apparatuses, overseen by civilian political leaders chosen through a democratic process, staffed by a distinct cadre of professional public servants, and buffered by a monolithic system of state law. The goal is laudable. But it is increasingly doubtful how far it is achievable because of the ways in which the political economy of these weak and failing polities has been reconstructed in recent decades as a result of late 20th century globalisation—and above all as a result of the ways in which globalisation has changed career and policy choices facing political elites in poor countries. They now have more opportunities and incentives to enrich themselves, and correspondingly fewer reasons to build effective public institutions. The grounds on which states might be constructed have been changed, not by any direct intervention on the part of wealthy countries and international organisations, but as an indirect result of the states' presence in a more globalised world. Just as the material impact of the large Western intervention in Afghanistan indirectly makes it harder to achieve mission goals, so the indirect effects of inequality between countries in a globalised world make it more difficult to build any kind of stable, effective public authority in those places where polities are fragile—and especially difficult to do so by constructing 'modern' state systems.

In the next section I introduce the fiscal sociology paradigm that largely animates this work, and explain my focus on sources of 'political revenues'. I review existing literature on the effects of globalisation on states in section three, arguing that it has been oddly biased, focusing mainly on the homogenising consequences, and largely ignoring the ways in which globalisation has stimulated differentiation and specialisation in patterns of public authority. In the fourth section I explain those aspects of late 20th century globalisation that are leading to a diversification of political revenues in (non-OECD) states. In the fifth section I outline the ways those changing sources of political revenues are differentiating (non-OECD) states. The policy implications for aspirant external state builders dealing with weak and fragile polities are discussed in the final section.

The fiscal sociology paradigm

The intellectual foundations of fiscal sociology go back to the work of Rudolf Goldscheid and Joseph Schumpeter a century ago. In recent years their ideas have been rediscovered, and typically are introduced with the quotation of a few purple passages from Goldscheid:

> ... the budget is the skeleton of the state stripped of all misleading ideologies. The fiscal history of a people is above all an essential part of its general history.

> Our people have become what they are under the fiscal pressure of the state.[2]

In this original form fiscal sociology constituted a set of broad assertions about the great political and historical significance of fiscal variables. It is best viewed as a meta-theory about grand patterns of societal evolution designed to compete with the ideas of Marx and Weber. The paradigm inspires and focuses attention on variables that have been almost entirely ignored by political scientists and political economists. The weakness of the original was that it lacked any explicit basis in behavioural theory. That is a remediable problem. There is a solid behavioural core to fiscal sociology to be found in organisation theory: the propositions that the structure of complex organisations and the behaviour and strategies of their managers are influenced by the location of their key resources and the means they employ to access those resources.[3] Those propositions can easily be extended to encompass the complexes of partially co-ordinated organisational networks that we call states. In recent years a body of more explicit and testable propositions has begun to emerge, mostly from research relating to developing countries. A substantial literature explores the implications of the fact that, unlike all OECD states for the past century and more, many states elsewhere in the world do not finance themselves mainly from general taxation, but depend on a range of other sources, most notably the rents from oil, gas and other natural resources, and from development aid.[4] A core proposition animating this literature is that governance tends to be better where the behaviour of political authorities is constrained by a need to negotiate and bargain for their key financial resources with the actors—mainly but not only taxpayers[5]—who will be most affected by the ways in which these resources are used. Conversely, political authorities which enjoy revenue that does not have to be 'earned' politically are more likely to abuse their power and govern badly.[6] I define the fiscal sociology paradigm as the proposition that the sources of revenue available to those who enjoy public authority, and the ways in which they organise themselves to relate to revenue providers, have a major influence over the ways in which they exercise that public authority.

I talk more of 'political authorities' than of states. States are not the only organisations that employ political power to resource themselves. I am especially interested in the behaviour of political elites, and in their relative incentives either to enrich themselves directly and privately or to achieve the good life by heading efforts to build public institutions. I use the term 'political revenues', and distinguish two main categories. The first are 'state revenues': the incomes of states or other legally constituted public authorities from taxes, non-tax revenues, and grants from other states or international organisations. The second are 'political elite revenues', which accrue to non-state entities through their exercise of formal or informal political authority. They include the incomes that political elites, 'warlords' and gang-leaders illegally obtain when they: co-operate in illicit drugs, arms or other trades; steal money from the public purse through the misuse of authority; or take effective control of parts of the economy, levying their own 'political profits'.[7] In practice, the boundaries between state revenues and political elite revenues are often unclear. It is especially difficult to understand politics and state formation in poorer countries unless we recognise the potential motive power of both state and elite political revenue and appreciate the ambiguous, shifting character of the border between them.

Before applying the fiscal sociology approach to understand the evolution of contemporary states, I look at how contemporary scholars have sought to explain how those states are affected by globalisation.

Globalisation and public authority

I use the term globalisation in its most general sense to refer to the increasing frequency and intensity of interactions across different parts of the globe.[8] I focus on the period of late 20th century globalisation, beginning around 1970. Some of its most visible manifestations are: the rapid expansion of international trade; the even faster growth of transnational capital movements; and the enormous improvements in long-range communications consequent on the marriage of telephony and digital technologies. Although there is a large and diverse literature on the impact of globalisation on states and on public authority, it is possible to provide a brief, useful summary without resorting to caricature. There is a common point of departure for this debate about the impact of late 20th century globalisation on states: an image of the typical OECD state whose defining characteristics include 1) the rooting of political and military institutions in individual countries; 2) the attribution of a distinct nationality to most economic enterprises, including those operating transnationally; 3) the continued orientation of states to inter-state military conflict and to the possibility of large-scale inter-state warfare; 4) major legitimating roles for mass membership parties in the political realm and, in the administrative realm, for distinctive, centrally controlled, accountable Weberian state civil and military apparatuses; and 5) the dedication of significant state resources to popular welfare (the 'welfare state'). This was taken as the typical state on which globalisation was to have an impact.

What was that impact? There seems to be less scholarly agreement now than earlier when Susan Strange was known and cited above all for the argument that globalisation was empowering international markets and international market actors at the expense of governments and political institutions generally.[9] That broad proposition remains popular, but has been challenged in two main ways. One set of scholars emphasises countertrends: the ways in which the increasing importance of transnational economic transactions might actually increase the size or power of the state.[10] The other challenge, the 'transnationalisation thesis'[11], is less direct. Its proponents emphasise what Weiss calls 'entwinement',[12] ie the ways in political institutions and processes hitherto rooted in individual national states increasingly engage with, influence and co-construct one another, to the extent sometimes of creating a space for genuinely global policy making and administration[13]—and in that sense help protect political power from drowning under rising market forces. I do not deal here with the extent to which these differing conceptions of the impact of globalisation on states might be accurate or useful. My concern is with the general framing of the arguments. For that purpose it is helpful to list a few other recent debates or propositions about contemporary evolutions of 'the state' which, while not centrally focused on the impact of globalisation, take it as a major part of the context.

One line of argument is that, as the threat of large-scale inter-state warfare has diminished and globalisation has intensified market competition, states have been focusing less on military competition with one another and more on economic competition. This new 'competition state' is forced to give priority to national economic competitiveness at the expense of welfare-ism.[14] However, neither the assumptions behind the concept nor its predictions seem to have stood up to scrutiny. Contemporary political scientists seem more engaged with a related, loosely defined and variously labelled set of ideas about changes in institutional configurations ('architecture'),[15] and in modes of rule that I will label 'network state' (or network polity') theory. The central proposition of network state theory is that the mode of exercising state authority is changing: away from one-way command-and-control type activities initiated from within the formal state apparatus ('Weberianism') and towards more two-way, informal, exchange relationships that cross formal organisational boundaries. The capacity of the benchmark 1950s OECD state was believed to have derived to a large extent from the financial and organisational resources that could be mobilised in command-and-control mode within the formal state apparatus. In the network state model state capacity derives much more from the strength of—and ability to mobilise—networks and connections within the state apparatus itself, across states and between state and non-state actors.[16]

A range of other scholars writing on the evolution of the contemporary state makes similar arguments which also focus on changes in the institutional architecture of the (OECD) state.[17] The concept of the 'regulatory state'—a state that engages more in rule making and less in taxing and spending[18]—is a little different from the concept of the network state, but is quite congruent, particularly in the emphasis on the relational capacity of the state to interact effectively with non-state actors.

I believe I have validated my claim that scholarship on the impact of globalisation on public authority has focused heavily on the richer and more powerful states. I turn now to the implications of globalisation for the poorer, weaker and more peripheral polities.

The contradictory consequences of globalisation

What would we expect to happen when any random external process brings into closer interaction a set of entities that have the potential both to compete among themselves for scarce resources and positions and to co-operate for collective benefits? Evolutionary biology and the social sciences, especially economics, suggest that we might expect contradictory consequences. On the one hand, these entities are likely in some respects to co-operate more with one another and, through processes that organisation theorists label isomorphism, come to emulate and to resemble one another more closely. The existing literature on the implications of globalisation for states and public authority refers mainly to these kinds of homogenising processes. The literature deals mainly with what is happening to 'the state'—which by default is equated to the OECD state. On the other hand, evolutionary biology also tells us to anticipate contradictory processes: increased interaction among a set of entities is likely to intensify pre-existing competition among them for resources and positions, and therefore to stimulate processes of niche-seeking, specialisation and differentiation.[19] Thus we should explore the extent to which globalisation might in some respects encourage the differentiation of states, as well as homogenisation.

The most generic features of late 20th century globalisation are the rapid growth of international trade; the even faster expansion of transnational capital movements; and the rapid increase in long-range communications consequent on the marriage of telephony and digital technologies. The more specific features of this globalisation process especially relevant to this article are as follows. First, historically unprecedented levels of income inequality between the richest and the poorest countries,[20] which generate large markets for commodities that, because they are either scarce (oil, gas, diamonds) or illegal (drugs), create high rents for those who control the sourcing in poor countries. Second, the growth since the 1960s of liberal and secretive international financial institutions in a wide range of jurisdictions, which offer combinations of low taxes and secrecy to people who control large amounts of money.[21] Third, the increase since the early 1970s in the volumes of natural resource rents accruing to the governments of poorer countries, partly because of the absolute increase in mining and extraction activities in sub-Saharan Africa in particular, but also because of higher international commodity prices.[22] Fourth, the growth of the new drug economy, involving a big increase in opportunities for illegal rent-taking by producing and trafficking drugs from poorer countries into rich countries where the consumer demand is high.[23] Fifth, the steady growth in the volume of international development aid and its increasing concentration on the poorest countries, which means that aid has become a major source of income for several dozen governments, especially in small sub-Saharan African countries. Finally, globalisation has resulted in the re-commercialisation of military capacity in three ways: 1) the growth of UN peacekeeping operations has provided income earning opportunities for those units of national armies that are low-cost, disciplined, and relatively unaffected by the HIV/AIDS epidemic; 2) the out-sourcing of a large proportion of military and military-support operations to private enterprises by militaries of the rich countries because of both the growing complexity of military logistics and the increasing importance of electronic military equipment that can be designed and operated by specialists whose skills otherwise have a range of non-military uses; and 3) partly a consequence of the two previous processes, the recent emergence of an unregulated international market for military personnel and services that provides opportunities for wealthy governments and elites to dispense with domestically recruited regular national military forces by hiring military force on global markets.[24]

This brief characterisation of late 20th century globalisation puts us in a position to sketch out the impacts on political revenues in different parts of the globe.

Globalisation and political revenues

In our benchmark situation, around 1960, most political revenues were state revenues, and, even more evidently, most state revenues came from broad general taxes—as opposed to grants, other non-tax revenues, or taxes derived from a very small number of resource extraction enterprises. This was the dominant pattern within the rich (OECD) states, and the inheritance of most states in Africa and Asia that became independent of colonial rule around that time. There were exceptions. In the communist-ruled sphere covering China, Eastern Europe and the USSR governments mainly financed themselves directly through their ownership and control of most productive enterprise under the central planning system. The other exception was small in scale in 1960: some Middle Eastern rulers were already living—some very well—from oil export revenues.

In many countries late 20th century globalisation has tended to maintain or reinforce the benchmark pattern, bolstering state revenues as much as, or more than, political elite revenues, and doing so through the channel of broad general taxation. This is the case with the OECD countries and a number of (larger) non- OECD countries that have made a significant impact on the global economy through increasing exports of manufactured products (China, South Korea, Taiwan), non-mineral commodities (Brazil), and relatively tangible services (India). However, my focus here is on smaller, poorer countries that belong neither to the OECD nor, in most cases, to the BRIC/emergent economies group. In response to late 20th century globalisation a range of new sources of political revenues has become more important. These challenge the dominance of the OECD norm of state dependence on broad general taxation, and might be seen as replacements for the previous 'alternative' to that norm—direct state control of productive enterprise—which has now largely disappeared. My classification of the new sources of political revenues is provisional: 1) illicit political elite revenues; 2) point natural resource revenues; 3) sovereign wealth revenues; 4) property development revenues; 5) pirate sovereign revenues; and 6) other sovereign revenues. These sources to some degree blend into one another, and map only very roughly onto political jurisdictions. Many national governments and elites obtain revenue from several of these sources simultaneously. Some sources tend to serve sub-national rather than national governments, or vice versa. Almost all of them to some degree provide both state revenue and political elite revenue simultaneously.

Illicit political elite revenues

Illicit elite political revenues accrue to people and groups who exercise some political power, and typically use it to ensure that the state agents help rather than hinder their activities, where 'helping' can extend from simply turning a blind eye (eg to drug smuggling, human trafficking) to active assistance (eg in providing false documentation to facilitate illegal trade in counterfeit medicines, arms or diamonds). Globalisation has increased the rewards from many illicit activities, mainly through the reduction in communications and transport costs, and the consequent increased incentives for people located in poorer countries to meet market demands in the rich countries. Established activities include people trafficking, the production and trading of counterfeit goods, the illegal felling of tropical hardwoods, and illegal fishing in the territorial waters of poor states. At the global level the two main sources of illicit elite revenues in recent decades have been diamonds and drugs. As recounted in detail by Smillie,[25] illicit diamond production and trading emerged as a direct cause of political breakdown, conflict and misery in West Africa and Angola in particular. Several factors interacted to increase the demand for diamonds, shift the diamond economy even further out of the purview of the state and the tax collector, and encourage international smuggling. They include: growing affluence in Western consumer markets and a wider range of uses for industrial diamonds; increasing air traffic, which eased international smuggling; and the fact that, before the full flowering of liberal and secretive international finance, diamonds were a very convenient means of expatriating wealth anonymously from poor countries and storing it in more secure jurisdictions. Greed and kleptocracy in Africa certainly helped exacerbate conflict around diamonds. So too did greed in Europe, and the lack of interest of national authorities there in regulating or even keeping useful records of the diamond trade.[26] However, without the changes in the global context listed above, the diamond wars that took place in and around Angola, Liberia and Sierra Leone from the 1970s until the end of the century might never have happened, and would certainly not have been as ferocious.

The expansion since the 1960s in the production, processing and shipping of drugs has turned diamonds into a relatively marginal source of elite political revenues in poor countries. The adverse consequences for governance and the quality of life, especially in Afghanistan, Central America, parts of the Andes and West Africa are too well documented now to require more comment here.

Point natural resource revenues

In quantitative term, rents from 'point' natural resources—ie minerals and energy—have grown in recent decades to become by far the biggest single source of political revenues.[27] Although the international energy and minerals economies tend to be unstable, demand and prices have tended to move upwards in recent decades, and extraction activities have spread further into poorer regions hitherto considered too difficult, politically or technically. Because the rents from mineral and energy extraction are so large, and because the extraction processes are so distinctive, concentrated and rooted in particular locations for long periods of time, we know more about the governance impact of political revenues from this source than from any of the others listed in this article. In particular, we know three big things—and I believe we are close to a consensus on a fourth.[28] The first is that the extraction of point natural resources in almost all cases greatly enriches the political elites who control the locations where the extraction takes place. The Al-Saud family has benefited more from oil than has Saudi Arabia. Even in more bureaucratically organised states with some elements of formal electoral democracy, state energy corporations, often described as 'a state within a state', are bastions of privilege and extra-constitutional power.[29] Second, the extraction of point natural resources tends to generate relatively exclusionary, monopolistic and militarised governance, and to entrench governments in power for long periods of time. Third, governments funded principally from point natural resource extraction tend to treat their citizens badly—in terms of civil and political rights, health and education services, and public infrastructure provision—because they have so little need of them. Natural resource wealth frees governments from their normal motivations to nurture at least some prosperous tax payers, affluent mass consumers, healthy and educated workers, appreciative voters or fit and skilled military recruits. Cash from oil and minerals obviates the need for a booming economy and tax revenues, and pays for the recruitment of (politically docile) immigrant workers and mercenaries to provide essential skills.

Finally, a recent research paper from the IMF, on the question of whether Ghana will be blessed or cursed by its new oil wealth,[30] articulates what I see as an emerging consensus: natural resources are not an inevitable curse but there is strong evidence that they become a curse when they are exploited on a large scale in poor countries; this malign effect is closely associated, both as cause and as effect, with poor governance. Although there is hope in the long term, for the foreseeable future the curse may prove very 'sticky'.

Sovereign wealth revenues

A sovereign wealth fund is 'a state-owned investment fund composed of financial assets such as stocks, bonds, real estate, or other financial instruments funded by foreign exchange assets.'[31] The contemporary political significance of sovereign wealth funds derives from a combination of three main factors. First, they are new. The first fund, the Kuwait Fund, was established in 1953, but the pace of creation was slow until the 1990s. Most sovereign wealth funds now in existence have been established since 2000, mainly on the basis of large surpluses generated by exports of oil and gas and, for China, manufactured products. Second, sovereign wealth funds are, in terms of numbers, asset sizes, or asset sizes relative to GNP or to government revenue, very important in the Middle East, significant in Africa, Russia and Central Asia, China, and other parts of Asia, but insignificant in the 'old' industrial regions of Western Europe and North America. Third, sovereign wealth funds are characterised by a lack of transparency. Excluding a few cases such as Norway, the people who control sovereign wealth funds typically release little information about them, and have considerable discretion over how the resources are deployed. Most of the public debate about sovereign wealth funds has taken place within OECD countries, and has focused on the potential threats to national security stemming from the purchase of strategic economic assets by agencies controlled by (non-democratic) foreign governments. The implications of large sovereign wealth funds for the governance of nations that possess them are at least as important. The assets and profits of sovereign wealth funds can easily be switched between overseas investments and the domestic economy and fiscal system. Sovereign wealth funds potentially liberate executive authorities from the need to negotiate with domestic taxpayers to obtain revenue, or to explain their expenditures to legislatures and voters.

Property development revenues

Sovereign wealth revenues derive from liquid, mobile financial assets largely held overseas. By contrast, property development revenues derive from the least liquid and least mobile form of domestic asset: land. The distinctive feature of the 'property-development polity' is that public authorities—and often political elites—derive much of their income from either reallocating rights in scarce land to other beneficiaries or actively participating in income-generating real estate development, including in public utilities like electricity

	Active property development by political authorities	More passive reallocation of land rights to non-state actors
(City) states	Hong Kong Singapore Dubai Qatar	Djibouti[a] Sri Lanka
Sub-national jurisdictions	Widespread	Much of contemporary China

FIGURE 1. A typology of property development polities.
Note: [a] See Brass's account of the effects on politics in Djibouti of the high rent that can be drawn from US and French military bases and control of trade from Ethiopia. JN Brass, 'Djibouti's unusual resource curse', *Journal of Modern African Studies*, 46(4), 2008, pp 523–545.

and water supply, and public infrastructure like ports and toll roads. Many political jurisdictions obtain a little income from these sources. The matrix in Figure 1 helps explain the notion of a distinct property development polity. The matrix has two dimensions: the extent to which political authorities are actively engaged in property development or simply reallocate land to non-state actors; and the extent to which these activities are conducted by national/central governments or by sub-national jurisdictions. For the present purposes the more significant property development polities are in the upper left quadrant, and it is on those that I concentrate here.

The preconditions for profitable, activist state-led property development are that land should be scarce and in demand. That in turn implies a major concentration of economic activities in a small territory. The first significant contemporary case of a property-development polity was Hong Kong under British colonial rule. That was followed by Singapore, especially after it became an independent state in 1965, then more recently by Dubai and a number of other small jurisdictions in the Gulf, including Qatar. In the absence of any systematic analysis of this phenomenon, I sketch out what appear to be the main features and causal processes. In all cases a sense of political vulnerability has provided much of the internal motivation. The functions that have been developed to add value to real estate are to some extent given by nature and to some extent a matter of strategic choice. They tend to be synergistic. No single function seems essential. The more foundational seem to be: transhipment and re-export of goods (most property-development polities began as ports serving a wider region); naval facilities for global powers; a haven of law, order and respect for property rights, especially in regions where these facilities otherwise are not easily available to enterprises owned by foreigners; and a cultural refuge for members of transnational expatriate networks (eg the British in Hong Kong, Westerners in Singapore) or a recreation centre for wealthy people facing lifestyle restrictions in adjacent countries (eg Arabs in various Gulf states).

On these foundations, property-development polities have been able to make themselves attractive to investors and visitors by offering a range of other services, including various degrees of 'income shelter' services (tax havens, money laundering); leisure locations for the wealthy; iconic cultural facilities; nuclei for international financial service activities dependent on time-zone location; and regional and trans-regional airline passenger travel hubs. To some extent this clustering of service activities reflects normal 'economies of agglomeration'. But the existence of property-development polities reflects something more than 'economies of agglomeration'. Their distinctive features derive from their roles as havens—for property owners seeking some security, for people wanting a predictable legal and organisational framework in which to conduct business, for foreign professionals working in alien cultural environments, and for wealthy people escaping lifestyle restrictions—in regions characterised by political instability, weak government support for private enterprise, or lax and unpredictable commercial law enforcement. The governance of property-development polities reflects their 'haven' characteristics. Rulers offer capital owners and professionals a better deal than they could expect in adjacent jurisdictions, in return for the acceptance of very limited civil or political rights. Property developer regimes tend to be stable, exclusionary and relatively authoritarian.[32] Their economies are very vulnerable to disruption caused by political instability. Their typical dependence on temporary immigrant workers, for both professional and manual skills, makes it easier to pre-empt both effective trades unions and mass political activism. The ability of states to fund themselves from property development reduces the need for significant binding consultation with taxpayers. Given cohesiveness among ruling elites and the loyalty of military and security services, property-development polities face few internal political challenges.

While the most distinctive property development polities have a long history as centres for entrepot activities, they have flourished in recent decades in consequence of the interaction of two sets of factors. The first is late 20th century globalisation, including in particular the containerisation of international trade in goods and the growing importance of transhipment hubs;[33] the expansion of air travel; the emergence of a large group of 'global professionals' with overseas job postings; and the growth of the international financial services sector. The second is various kinds of political instability and insecurity of property in the regions they serve. It is therefore difficult to predict how far existing property-development polities will expand or how far new ones will emerge. Their viability depends on the lack of strong competition from other political jurisdictions in their neighbourhood for the capital, personnel and economic activity that they need to attract. The more elaborated property-development polities are almost inevitably city states. Their potential numbers are limited. But the same processes that produce property-development city states are also evident within larger countries and at sub-national level. Sri Lanka is much larger than a city state, but has a dense population and, because of its prime location on world shipping lanes and its major tourist potential, is currently receiving considerable investment in port, airport and other transport facilities, nearly all on land made available by the government. The Rajapakse family, which now runs the country as an elected dictatorship, plays a major role in these and other property developments. The extent to which sub-national governments in China are funding themselves from land sales and property development—and therefore arguably perpetuating their autonomy from the people they are supposed to serve—is now a topic of significant comment and research.[34] Property development revenues are likely to continue to affect governance in parts of the world for the foreseeable future.

Pirate sovereign revenues

Dubai, Qatar and other Gulf states compete with one another mainly by investing in improved infrastructure and other facilities to attract businesses, investment, depositors, and visitors. While there may be some costs to these states and to the rest of the world from this competition, many people view it positively, as doing what competition promises to do in the economic textbooks: stimulating improvement. One major category of (mainly new) political revenues depends on a much more destructive kind of competition. Political jurisdictions compete to appropriate directly for themselves the revenues that would otherwise accrue to other jurisdictions.[35] They make themselves better off by making others worse off. A social scientist might label these 'zero-sum sovereign revenues'. I prefer the more graphic term 'pirate sovereign revenues'.

The oldest significant contemporary form of sovereign revenue piracy derives from the willingness of the governments of Liberia and Panama in particular to register merchant ships as being 'national' in return for lower registration fees and less stringent regulations relating to vessel safety, environmental safeguards and labour conditions than those imposed by the genuine home governments of the shipowners. These arrangements for 'flags of convenience' date back to Panama in the 1920s, but spread rapidly from the 1970s,[36] and now account for more than half the world's merchant shipping. The sums of money involved are, however, very small in comparison to those involved in the more recent and now more contentious form of revenue piracy: tax havens. Much has been written recently on the subject. The details are complex, and the question of what is and is not a tax haven remains contested.[37] But the essential points are clear. Tax havens are 'jurisdictions that deliberately create legislation to ease transactions taken by people who are not resident in their domains, with a view to avoiding taxation and/or regulations, which they facilitate by providing a legally backed veil of secrecy to make it hard to determine beneficiaries'.[38] More simply, tax havens allow a few privileged people to enjoy the benefits of great wealth free of any of the obligations that they might otherwise incur. They are characterised by high levels of secrecy and the ease with which companies and other legal entities, including trusts, can be established and registered. Tax havens are a defining feature of late 20th century globalisation. Some have their historical roots in the 19th century, but their explosive growth dates from the early 1970s.[39]

Shaxson argues that a defining feature of tax havens 'is that local politics is captured by financial services interests (and sometimes criminals and sometimes both), and meaningful opposition to the offshore business model has been eliminated'.[40] This proposition becomes more plausible if we accept a distinction made by Palan *et al*, which Shaxson himself does not make, between two types of tax havens.[41] The first are tax havens in the narrow sense. These are secrecy jurisdictions that 'remain mere "paper centers", providing a home for shell companies and trusts, proxy banking institutions, and captive insurance companies'.[42] There is little value added in these tax havens. They exist purely to facilitate the hiding of assets, money laundering and the evasion of tax. They employ very few people relative to the number of companies and other legal entities to which they are formally home. Their politics are indeed relatively exclusionary or authoritarian; where there is a clash, the interests of those who profit from tax havens tend to trump the interests of their indigenous populations. Drug traffickers and other international criminals often have a strong local voice.[43] The Cayman

Islands is but one of many small jurisdictions, especially in the Caribbean, that conform to the image of the basic tax haven. The second type of tax havens are offshore financial centres, which provide the same services as basic tax havens, but employ more people, undertake a wider range of financial services, and to some extent do add genuine economic value. Lists of what Palan *et al*, term offshore financial centres—and there is no single definitive list—are likely to include larger countries or jurisdictions with more diverse and prosperous economies, including Singapore, Switzerland, the UK and the US.

From a global perspective the most important political economy consequence of tax havens (of both kinds) is that they permit corporations and wealthy individuals to evade taxes. Tax burdens are shifted toward small companies, consumers and employees. The impact of tax havens on many developing countries is greater and more damaging: by enabling those who command what I have termed 'elite political revenues' to hide these incomes and/or launder them into what appear like someone's legitimate business profits, tax havens facilitate and stimulate corruption, drug trafficking, diamond wars, piracy, and the theft of natural resource revenues.

Attempting to become a tax haven was a sensible livelihood strategy for many micro-territories faced with the end of colonial rule and the lack of other obvious sources of income or export earnings. Tax havens compete intensively with one another. The more successful tend to specialise.[44] Many attempts to get into the business do not get off the ground. Especially since the recent financial crisis, tax havens have been subject to powerful international pressures to clean up their acts and co-operate more with the tax authorities of the more powerful states. These international pressures helped block recent attempts to establish tax haven facilities in Ghana. But the temptations will not go away. Botswana is in the business in a small way. Other African countries might follow. Even the success of current international campaigns radically to reduce the scope for international tax evasion would not drive tax havens out of business.

Other sovereign revenues

My final category comprises new globalisation-based political revenues that do not fit into the other grouping. They have in common the fact that they are almost entirely channelled through state agencies, with little going directly to political elites. Some of the items are trivial on a global scale but locally important: for example, the revenues that the government of Tuvalu gathers from commercialising the right to use its national web domain name—tv. On a somewhat larger scale the surge in UN peacekeeping operations that began around 1990 provides revenue-earning opportunities for governments of poorer countries that command disciplined, low-cost armed forces that are relatively free of HIV/AIDS.[45] The most significant new political revenue within this category is development aid. The aggregate volume of aid both increased considerably during late 20th century globalisation, and became more concentrated on the poorest countries.

Further, most of those countries were suffering low or negative rates of growth of their economies and therefore of tax revenues. In consequence, aid became a major source of income for several dozen governments, mainly in Africa and Central America. In 2006 it was the major single source for nearly 20 of them.[46] Again, one can see aid dependence as a sensible income-earning strategy for some governments—especially governments of small, poor countries with few prospects of exporting manufactured products or legitimate services whose exports were excluded from their 'natural' external markets for agricultural products by the protectionist policies of OECD countries.

The impact of high levels of aid on public authority in recipient states is disputed. Statistical analyses find little support for fears that high levels of aid have led to a slackening of the efforts by recipient governments to raise their own tax revenues.[47] There are, however, concerns that aid tends to weaken or fragment administrative and political institutions in recipient countries. These concerns focused initially on the effects of donors' insistence on establishing separate organisations to implement or oversee their own projects.[48] That practice is now less common. Attention has shifted to the adverse effects of the steady and rapid proliferation of the number of aid channels: more donors, more aid modalities, more projects and, critics suggest, more dispersal of the attentions, energies and resources of recipient governments.[49] The proliferation of the numbers of donors and projects relative to the volume of aid money has continued until today[50]—despite the Paris Declaration of 2005 and Accra Agenda for Action of 2008, whereby the main aid donors committed themselves to co-ordinating much more closely and to harmonising their operations to avoid unintentional institutional damage. Even if donors desist from establishing separate organisations to spend their money, and channel it through the recipient government, the intensity of their presence and activities in some countries still creates incentives for elites not to engage vigorously in building state institutions. Aid agencies, including international NGOs, provide many well paid jobs that result in a flow of administrative and technical talent from the public sector. Servicing the well paid expatriate economy creates similar perverse incentives, especially in the more fragile states where there is a large expatriate civil or military presence.

While aid revenues are mostly channelled through state agencies, the extent to which they motivate state building remains in dispute. There is no consensus on whether or not there are generic 'aid states', and what their characteristics might be. There is, however, good reason to suspect that high levels of aid have distinctive, non-trivial political and institutional consequences. Aid constitutes one aspect of the broader story that late 20th century globalisation has tended to diversify the non- OECD, non-BRIC peripheral polities.

Conclusion: elites and statebuilding

Simplistic notions of globalisation as an intrinsically homogenising phenomenon are misleading. In respect of patterns of public authority and state power—and especially when examined through the lens of fiscal sociology rather than in terms of organisational forms—globalisation is leading to differentiation. This is especially evident outside the ranks of the wealthy OECD countries, BRIC and most of the 'emerging economies' In large part because of the opportunities provided by late 20th century globalisation, power in weak states lies in the hands of elites who often have strong incentives and extensive opportunities to harvest elite political revenues, and lack motives to nurture or build the institutions that might promote sources of broad, general tax revenue by: ensuring peace and the rule of law (reliable and effective militaries, police, judiciaries and prison services); mobilising large numbers of people into politics (political parties); encouraging political bargaining between different interest groups (legislatures); actually collecting revenue for public purposes (tax agencies); making informed policy decisions and implementing them consistently (civil services); encouraging private investment (property rights systems and predictable policy-making processes); or providing the technical support needed to hold government to account for the use of public money (public audit offices). Effective institutions of these kinds become barriers to the pursuit of particularistic strategies of family and small group enrichment. Late 20th century globalisation has not only shifted the financing of peripheral states away from general tax revenues toward what Schumpeter might have termed 'domain revenues', but it has also created many opportunities and temptations for political elites to invest in the harvesting of illicit elite revenues—by engaging in or facilitating drug production and trafficking, money laundering, tax evasion, the sale of government contracts to the giver of the highest bribe—or even simply smoothing the way of aid donors and their projects through the public service in return for lucrative consultancy assignments.[51] Because of globalisation sources of such revenues are more abundant. Liberal international finance, most strikingly in the shape of tax havens, has made it easier and cheaper to hide illicit incomes, and thus has increased incentives to earn them. The growing transnationalisation of elite culture, including the practice of educating children in the US or some other rich country, also shifts the balance of elite incentives towards keeping illicit money offshore in the knowledge that, should the political basis for moneymaking at home disappear, a very good life will be available in some other part of the world. The re-commercialisation of military capacity has made it possible for exploitative, authoritarian elites to remain in power even if they enjoy little domestic legitimacy or support.

It is partly for these reasons that the phenomenon of weak-and-fragile states is becoming normalised, ie a characteristic and relatively permanent feature of the global geopolitical landscape. Historically the political uncertainty and instability that typically follows war or internal conflict elicited a drive towards political resolution. Different interests and parties competed actively for state power. Either one party emerged as dominant or public authority was re-established through compromise between the leading contenders. A distinctive feature of the situation in some parts of the contemporary world is that these processes of resolution and of re-establishment of relatively effective public authority are weak and slow. Failing governments have not been ousted militarily or supplanted by expanding neighbouring states. Weak governance and continuous internal conflict have become routine. For every case of apparently successful resolution, like Sierra Leone, there are several where success is not yet in sight. A major generic reason is that, if they can continue to act as rent-taking gatekeepers, elites lack strong incentives to put an end to weak governance or disorder, and may actively profit from it.[52] Control of rent-taking nodes becomes more rewarding than ruling territory and population through the contemporary state institutions with which we are most familiar.

The relevance to policy? The first step is to be aware that the phenomenon of weak and failed states is not just some random pathology rooted in the 'backwardness' and deep histories of some of the poorest parts of the world. It has a systemic aspect, and stems in part from changes in the extent and pattern of interactions between some very rich countries and some very poor ones since around 1970. It is one dimension of a series of reformulations of the exercise of public authority under globalisation. The second step is to recognise that 'systemic' does not imply 'inevitable'. Even if globalisation itself in some very general and abstract sense of the term is nearly inevitable, its more detailed characteristics are variables that can be changed through policy. Many of the underlying global causes of the weak and failed state phenomenon are amenable to constructive action at the international and global levels. And most such action is already on international policy agendas, even if only weakly so.[53] It includes further transparency about the revenues that governments receive from natural resource extraction; the wider adoption and enforcement of international anti-corruption protocols; better regulation of private military companies and arms trading; tighter regulation of tax havens; cheaper, quicker and more automatic arrangements for information exchange among national tax authorities to facilitate tracking down illicit money; strengthened mechanisms and laws to facilitate the recovery of stolen assets located overseas; increasing watchfulness in relation to the financial affairs of politically exposed persons; better monitoring of the sources and uses of tropical hardwoods; and changes in the current punitive but ineffective international drug control regime to reduce the very high current profit opportunities. The practical political challenge is to identify policy reforms that address these issues in ways that simultaneously reduce the incentives for bad governance in poorer countries and provide more financial, political and environmental security for the rest of the world. For only in that way can the powerful transnational financial interests that benefit so much from the existing order—the bankers, super-rich, commodity traders, accountants, auditors, lawyers, tax advisers, tax evaders, arms traders, private security companies—be prevented from blocking change to protect their narrow, short-term interests.

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Notes

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