

## Intelligence and the “Market State”

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The most powerful driver of both the international system and of intelligence's role is not new, and its effects will play out only gradually. But its direction is a momentous change. It is the transition from the world of the “territorial state” to that of the “market state.” The nation-state as we have known it is not about to go away. But its role will change dramatically from decider and doer to prodder, facilitator, and coalition-builder. (As my RAND colleague, Robert Klitgaard, puts it, previous students of policy learned about the choice for state action among “make, buy or regulate,” but the choice for their future counterparts will be “carrots, sticks or sermons.”) The change in the role of the private sectors—from nongovernmental organizations (NGOs), which, notice, are still defined and labeled by what they aren't, to corporations that are more and more non-national—will be even more dramatic. For intelligence, the change runs to how it does it work and, ultimately, for whom it works.

### **The Rise of the “Market State”<sup>1</sup>**

The first wave of reaction to the end of the Cold War was characterized by triumphalism about America's values but pessimism about its politics—and its economics. Yet competition among nation-states is not shifting from politics to economics. Rather, power is dispersing around and through the nation-state, and the role of nation-state governments is changing.<sup>2</sup>

The broad shape of the international system beyond 2010 may reflect the interactions of the major nation-states, but by then it will be apparent that the drivers of that system are elsewhere. What lies behind both old threats and new, and the uneasy interplay of the two, is a transformation of international politics. To overstate only slightly, the primary drivers of international politics are economic, yet our habits of thought and our institutions remain powerfully conditioned by the Cold War's focus on interstate relations and the balance of power. The era of the “territorial state” is passing away, and probably has been for a century. The change was obscured, though, by this century's preoccupation with particular, and particularly aggressive, territorial states—Germany, Japan, and the Soviet Union.

The change in the role of the state is inseparable from the economic transformation. The territorial state was born in the period of agrarian economics, but it was the industrial revolution that gave it the iron and steel. It was only then that state power began to be measured by economic output, not sheer size or that of the sovereign's purse. The post-industrial economy, by contrast, cuts across territorial states, devaluing the icons of their power.<sup>3</sup> Lord Keynes was right in 1919 in his foreboding about the Treaty of Versailles:

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*Political considerations cut disastrously across economic. In a regime of Free Trade and free economic intercourse it would be of little consequence that iron lay on one side of a political frontier, and labor, coal, and blast furnaces on the other. But as it is, men have devised ways to impoverish themselves and one another, and proffer collective animosities to individual happiness.<sup>4</sup>*

It did then matter where the factories were located. In the era of the market state, it matters much less.

Armies, territory, and sovereignty: none is irrelevant, but all are slowly being drained of meaning. The process is uneven across the globe; the 18th century conflicts in Bosnia and Kosovo underway at the dawn of the 21st century testify to that. Still, what will drive global politics is how people within states engage the fast-moving international economy, not how nation-states engage each other. The implications are far-reaching, though that reach will be perceptible only gradually.

That transformation is often mentioned, but its implications are momentous. To be sure, traditional issues among states remain, but they too are conditioned by the economic context.<sup>5</sup> Witness the Russian debate over NATO's enlargement eastward: that debate was intense but almost entirely among specialists and politicians inside the Russian "ring road," Moscow's equivalent of Washington's beltway. For most Russians, polls showed, the real issues were much closer to home, in their economic situations and how Russia's inser-

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tion into the global economy bore on them.

Yet our existing armory—both conceptual and policy—is rooted in the traditional image of international politics. There is thus a mismatch between what drives international issues and how we address them. Take immigration as an example. War aside (a large aside), what drives immigration is almost entirely economic; people seek better lives elsewhere. Yet policy approaches to it derive from the older vision of international politics, one dominated by notions of border controls, citizenship, and sovereignty. Their mismatch is almost a complete one. Beginning to rectify it would imply recognizing that the market state requires people to move freely across borders to work but not necessarily to acquire the benefits of citizenship where they live, perhaps temporarily. “Sojourner rights” would be based on that split, permitting people to work where they needed but not acquire health care, social security, or other specific benefits of citizenship.<sup>6</sup>

The globe's major governments probably are still the most important actors in international politics, though that statement already has a looseness to it that would not have been the case in 1945. The power of those states is being challenged

from both above and below. As the traditional politics of interstate rivalries cedes place to the global market, governments lose unique attributes of their power. Armies and territory count for less.

The world has not seen the end of armed conflict; on the contrary, warring seems built into the human species. But for the market state, any threat to go to war is, like nuclear threats made by the rival superpowers during the Cold War, a threat to cut off the nose to spite the face. It may be credible to make but not to carry out, for the cost surely exceeds the benefit.<sup>7</sup> If the threat is not credible to carry out, then making it credible before the fact depends on visibly leaving something to chance—or to passion. The logic of war is not the logic of the market state.

From above, international commerce is eroding what used to be thought of as aspects of national sovereignty: states are hard-pressed, for instance, to sustain controls on their currency. Of large states, only China has continued to do so with some success, but it is still poor. States that strive to be prosperous face sharp constraints on their monetary and fiscal policies: witness France under François Mitterrand in the early 1980s, which sought to run an expansionary fiscal policy but found it could not. The French franc depreciated dramatically, and France was forced back to a more orthodox “German” policy of tight money and modest fiscal stimulus. What was graphic for France is only a little less true for other countries. Major Latin American states peg their cur-

rencies to the dollar; the aim is monetary stability, but the price is interest rates high enough to keep their currencies from devaluing.

Critical “levers,” many of which used to be in the hands of government, are passing to the private sector. The ten largest companies in the world each has an annual turnover larger than the GNP of 150 of the 185 members of the UN, including countries such as Portugal, Israel, and Malaysia.<sup>8</sup> More subjectively, at least 50 NGOs have more legitimacy than 50 UN member nations. In 1996, the Tupac Amaru guerrillas in Peru set up their own homepage on the Web, *Rebel Voice*. A loose network of sympathizers, including one site at the University of California, San Diego, grew up and began to channel propaganda back into Peru. Peru’s government could not stop the inflow without cutting off the country’s communications with the outside world.<sup>9</sup>

Official government aid to developing countries, for instance, now is trivial by comparison to private capital flows. Governments and their institutions, like the World Bank and the International Monetary Fund (IMF), may have some clout because of their official status, but the change in flows is dramatic. From 1983 to 1988, the ratio of public to private flows of capital to the poorer countries averaged just under 2:1; from 1989 to 1995, the ratio switched to almost 5:1 in favor of *private* flows.<sup>10</sup> Later, just before the Asian economic debacle of 1997-98, it approached 10-1.

The market respects neither the borders nor the icons of the traditional Westphalian state. It does not care whether the worker is Filipino or American, Chinese or German, man or woman, homosexual or military veteran. If the person can do the job, he or she is rewarded, and if not, not. “Made in America” is not a label of interest to the market. Nor are national cultural symbols of interest except as marketing devices: ask any American who has traveled and seen sweatshirts with “random English” on the front, or, more striking still, ventured to ask a foreigner wearing a Harvard t-shirt which class she was in and received only a blank stare in return.

If bankers and international finance are eating away at states from above, terrorists and drug traffickers challenge state power from beneath.<sup>11</sup> They make use of technology and of international networks to act around and through states, pursuing their objectives by trying to compel states to acquiesce or by eluding the control of states. Challenged from above and below, national leaders get blamed for what they cannot control. In the United States, the ambivalence about the market state is manifested in complaints that the government has not done its part in educating citizens or preparing them for global competition. And so presidents and their challengers behave not as president but as mayor of the United States, speaking of education and law enforcement, worthy subjects over which they have almost no authority.

These challenges to the state, particularly in poor countries, gave rise to the notion of “failed states.” Public commentary links Rwanda, Zaire, Haiti, Somalia, and Bosnia as “failed states,” where governance has all but collapsed under the weight of poverty, population, corruption, crime, and disease.<sup>12</sup> It is advisable, however, to be careful about cause and effect. On closer inspection, only Somalia and Zaire, and, more provisionally, Haiti fit that description of failed states. In Bosnia, the problem was not weak “states” but surprisingly strong ones—Muslim, Serbian, and Croatian—which occupy the same geography. And Rwanda seemed an old, and old-fashioned, civil war between tribal factions, either of which might have made a state.

Rather, state failure is best conceived along a continuum. At one end lie the industrial democracies. Hardly any of them, however, exercises all the attributes of state power everywhere—witness the lawlessness of America’s inner cities. Somalia at its worst was perhaps at the other end of the continuum. In between, the most obvious partial failures are territorial—for instance, Peru ceding control of much of its territory to Sendero Luminoso insurgents in the 1980s. But more arresting partial failures are probably those in capacity to satisfy societal expectations—for instance, the periodic near-riots by French students and others when governments, pressed by global economics to restructure the economy, are perceived to be upsetting the existing social compact by, say, limiting subsidized jobs for graduates.

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**“Public” and “Private” in the Market State**

The transition will reshape public and private roles; indeed the terms themselves will be drained of their traditional meanings.

*The role of government will be transformed.* The government of the territorial state was a doer; “make, buy, or regulate.” For tomorrow’s public managers, the choice will be “cajole, incentivize, or facilitate”—“carrots, sticks, and sermons.” What the government, and particularly the American federal government, will have is infrastructure and, more questionably, legitimacy. It exists, with taxpayers providing buildings and secretaries and travel budgets. It may also have the legitimacy conferred by its custodianship of the public interest. It may be that private organizations will talk to it, or through it to other private organizations, in ways those organizations could not or would not talk to each other.

In my own time at the National Intelligence Council (NIC), we began doing yearly Estimates of projected humanitarian needs, and thus of possible relief operations. The primary customer was the US Air Force Transportation Command (TRANSCOM), which would be providing the airlift and so, wisely, thought it might try to plan ahead. In preparation for the Estimate, the NIC invited representatives of the dozen largest humanitarian NGOs, such as CARE, to prepare short papers and attend a conference. They all agreed, most of them eagerly. For them, the taint of

“intelligence” was an obstacle but not an overriding one. Taint aside, they welcomed that some part of the US Government was paying attention. And perhaps in convening them, the NIC did them a favor: they may have found it easier to respond to the invitation from a neutral, official institution that they would have to be convened by any one of their number.

More and more, the role of government will be to convene groups of the willing. Operation Desert Storm against Iraq in 1991 was an early example. In the future, those groups will bring together public institutions and private entities; like Desert Storm’s partners, they will come from more than one nation. What the government will provide is its power to convene, its infrastructure, its legitimacy, perhaps, and its information—or intelligence.

*The market state implies dramatic changes in “private” responsibilities.* This is the other side of the previous implication. Traditionally, private actors were objects, not subjects of international politics. States, or groups of states acting through international institutions, might try to regulate their behavior, but the private groups had little responsibility for setting norms. To that extent, they were free riders on the international order. Of course,

private efforts to influence state policies are a familiar feature of democratic politics, and those efforts run also to the international policies of states. Such efforts have been apparent in the US debate over according most-favored-nation (MFN) trade status to China; major US companies with stakes in China trade became more and more vocal advocates of MFN. Occasionally, private companies would act more creatively, for instance in DuPont’s role in rallying chemical companies to support, not oppose, the 1976 Montreal Protocol’s ban on damaging fluorocarbons. But those instances were rare.

The transition to the market state implies a vast increase in the responsibility of private actors, from companies and individuals to so-called NGOs. They are becoming, in ways hardly realized let alone charted, not the objects of the international order but its subjects, its architects. They are becoming the setters of international norms, not free riders on rules set by states. The IMF was discredited during Asia’s crises as an after-the-fact fire brigade at best, at worst as a brigade whose presence might have tempted governments to be careless with fire before the fact. In the event, private international banks negotiated with and through local governments, helping to begin the process of establishing norms of more transparency in Asian finance.

*The market state devalues international organization.* At a minimum, international institutions are orthogonal to the market because those institutions are creatures of states, rooted in notions of state sover-

eignty. This observation has as much force for NATO as it does for the UN. It leaves international economic institutions, like the World Bank or the World Trade Organization, in a tenuous middle ground. On the one hand, they may be less devalued by the market state than are international political or security institutions, for they have value as rule-setters for international commerce. Yet, on the other hand, not only are most of them swamped by private international transactions—what the IMF or Bank do is more and more overshadowed by private capital flows—but also the status of those institutions is itself ambiguous, for they too are creatures of governments, not of the forces that drive international politics.

*To some extent, law itself is also devalued by the market state.* After all, law is rooted in the traditional state. And so, at a minimum, the legitimacy of law is more and more questioned. Charles V of Spain could simply order a criminal's head chopped off. American presidents can hardly come close. President Clinton could sign and the Senate could ratify a treaty banning chemical weapons which contains provision for challenge inspections of suspected private production facilities, but neither he nor the Senate could promise to deliver on that promise. They could only promise to try; whether the Constitution would permit such a government reach into the private sector is unclear. As the market state erodes distinctions between citizens and noncitizens, older notions of civil liberties or of law enforcement, which accorded the

sovereign's subjects greater protection than mere foreigners, pass away.

In these circumstances, the status of international law is buffeted by crosscurrents. From one direction, it is more relevant. Traditional international law always sat uneasily with US traditions, for it too was based on Westphalian notions of state sovereignty and nonintervention in the affairs of sovereigns—just those attributes the Founding Fathers had sought to escape. States, not people, were the concerns of traditional international law.<sup>13</sup> Now, though, international law is moving in a very “American” direction: people are coming to matter, and what happens inside national borders is more and more regarded as a legitimate concern of the international community. To the extent that sovereignty, borders, and all the trappings of the Westphalian state are becoming less important in international law, that law should be more relevant.

Yet from the other direction, the planet is still far from having any real alternative to states and state action, particularly when it comes to enforcement. It took a coalition of willing *states*, however covered by the legitimacy of international law and UN resolutions, to impose peace on Saddam Hussein, decency on the Bosnian Serbs, and minimal orderliness to Zaire's succession. There is still a mismatch between the forces that are driving international politics and the forces of international law.

### **Intelligence in the Market State**

Of the implications of the market state for intelligence, two stand out. The first is the draining of meaning from “foreign” and “domestic.” Market forces do not respect national sovereignty, and, while nations, including the United States, may still try to separate home from abroad, the attempt will be more and more feckless. On the analytic side, for the short run at least, the vanishing divide between foreign and domestic will push intelligence where it ought to be going in any case—to pay more attention to the “American” side of foreign policy issues.

Understanding the Mexican economy, for instance, is impossible without knowing about what “domestic” American investors are up to. To push the example, major financial panics, like the Mexican devaluation of 1994-95 or the Southeast Asian crisis of 1997-98, might be to next century what the great political-military crises of the Cold War were to the last. “National security,” broadly defined, might seem to hang in the balance. Anticipating those crises would require knowing what millions of investors will know next week: which government's reserves are lower than it has admitted? Which respected finance minister is about to resign? Which government doesn't have the stomach for raising interest rates to defend its currency? Secrets are relevant to answering these questions, many of them puzzles. They are good targets for intelligence.

More dramatically, the National Security Agency's vast capacity to monitor signals is as close as the world has to a capacity to monitor the movements of money across borders. It might do so not just in the interest of the American state but for the sake of global transparency in capital movements. However, that task would upend every distinction on which US intelligence is based—the movers of money have, in general, not committed a crime, nor do they pose a specific "national security" threat to the United States, many of them would be Americans, and NSA would be hard-pressed to share its take without revealing its capacity. Its international purposes would conflict directly with its national ones.<sup>14</sup>

Collection, however, will put more pressure on the foreign-domestic divide. Terrorism and law enforcement do so already. Intelligence has improved at working with law enforcement agencies while staying out of the chain of evidence. Over time, however, if international law enforcement continues to rise on the agenda of the market state, the price of purity is likely to be that traditional intelligence seems less and less useful. So far, terrorism has not pushed intelligence toward the domestic divide as much as might have been expected; that has been the case both because international terrorists are seldom Americans and because criminal prosecution or other law enforcement is only one among a number of US policy responses. Intelligence that is not good enough to bring a case in a court of law, in the unlikely event

that the perpetrator could be captured, may still be good enough for a policy decision to apply what that counterterrorism specialist called "TLAM therapy"—cruise missile attacks on suspected terrorist bases.

In pursuing cases designed to level the playing field of international commerce, intelligence will confront an increasingly tangled web of foreigners and Americans. In one case in the mid-1990s, for instance, an American company complained that it was being unfairly competed against for the acquisition of a Slovak arms manufacturer, part of the legacy of the Soviet Union's decision to site arms industry in the then-Czechoslovakia. In the first analysis, the US company's complaint seemed on the mark: European competitors were seeking unfair advantage. On second analysis, though, it turned out that the would-be American acquirer also had dirty hands, for it sought the Slovak company at least in part to evade US restrictions on arms sales to Iran.

The other dramatic change engendered by the market state is the widening of intelligence's consumers. Economic officials now look to intelligence for staff work if not for analytic insights. Peace and other contingency operations have made foreign governments into consumers of US intelligence, and if US intelligence agencies have been reluctant in principle to share their wares, they have been creative in fact. Intelligence has been used throughout the Cold War to make America's case in the court of world public opinion, but the use was mostly tactical, not strategic. Given

secrecy, it did not come naturally to intelligence to ask how it might get its analyses into the heads of foreigners and so build support for US perspectives on world events.

That strategic use is beginning, impelled in part by the plain fact that other nations and their information sources can be valuable. During my time on the NIC, the Swedes were the most enlightened of all the foreign counterpart services. They take the craft of intelligence seriously, and their approach to Sweden's security was intriguingly open-minded. On one visit, they left behind a "nonpaper" listing security challenges or possible conflicts for Sweden circa 1995. The threats ranged from a nuclear power accident in Lithuania, to fishing wars in the Baltics, to escalating conflict between Russia and the Baltic states leading to Russian intervention. Getting our perspective into their analyses was challenging and valuable. So was getting theirs into ours!

The harder frontier for intelligence sharing will be private actors. After a visit to Bosnia in 1994, I stopped in Geneva to visit UN and international relief agencies. What struck me about the Red Cross and other would-be relievers, and struck them too in our conversations, was that we were in the same business! I sat behind walls of security in the CIA building, and they, careful about their private status, were often edgy about too-close cooperation with governments, but the shape of our tasks was the same. For both of us, achieving warning of impending crises was not so hard; for them especially, famines, even those

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driven by politics, are pretty predictable. What was harder for us both was getting attention to the warning from relevant political actors—the US Government in my case, the UN and the international donor community in theirs.

For both of us, inducing the targets of our warning to act required them to make preparations based on “iffy” arguments; it was a bother, perhaps an unnecessary one. My problem was overloading an American government that, for all its capacity, seems hard-pressed to deal with more than one crisis at a time. The would-be relievers' counterpart problem was “donor fatigue.” Afghanistan might still be on the verge of a humanitarian disaster, but it was no longer in the headlines; it had been “solved” by the Soviet withdrawal and had returned to obscurity.

Intelligence's next steps will be sharing its wares with NGOs, and then with private individuals and companies. Now, the sharing of information with firms is episodic, mostly driven by particular abuses in international commerce or by specific threats from foreign intelligence services. The CIA debriefs business people who have had travel or contacts of interest, but that process is pretty haphazard. Intelligence analysts sometimes share notes with Wall Street counterparts, but, again, doing so is unusual. Indeed, intelligence agencies ask private think-tanks like RAND to do projects on international economic topics precisely because RAND analysts have easier entrée to the World Bank and IMF, let alone private bankers.

In the long-run world of the market state, the US Government's comparative advantage will be less its ability to compel than its opportunity to convene. The government exists, with taxpayers funding lights and secretaries. It is a logical convener, and it may be that private institutions would cooperate with or through it in ways they would not directly with competitors. Shell and Exxon might share information with or through the US Government, at least for some purposes, that both would be reluctant to share directly with each other. The NGOs that helped us frame the estimate on humanitarian emergencies overcame their skepticism about intelligence mostly because they welcomed that someone, anyone, was paying attention to their issue. But it also may have been easier to attend a meeting called by a neutral convener than by one of their number. (The limits to this sharing are also present. Shell apparently uses US intelligence as a test of its own corporate security; the operative question is: can NSA break into this Shell communications system?)

Information will be crucial to the government's coalition building for issues of concern to the market state, just as it has been for peace operations in the early years of the post-Cold War world. The coalition building will require, though, both

new ways of sharing intelligence products with private actors and, probably, new institutional arrangements to do the sharing. And, unlike today, it will be sharing, not providing, for the private actors will have much of the information of interest. The NGOs the NIC invited to shape the NIE on humanitarian emergencies had more experience on the ground in the most likely crisis locales than did the US Government.

#### Notes

1. This discussion owes much to my conversations with Philip Bobbitt, and the term “market state” is his. See his *The Shield of Achilles*, forthcoming. Richard Rosecrance speaks of the “virtual state,” and Jessica Mathews also writes of technology breaking government monopolies on collecting and managing information. See Richard Rosecrance “The Rise of the Virtual State,” *Foreign Affairs*, (July/August 1996), pp. 45-61, and Jessica T. Mathews, “Power Shift,” *Foreign Affairs*, 76, 1 (January/February 1997), pp. 50-66.
2. For early discussions of other actors on the world stage, see Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (Boston: Little Brown, 1973); and Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).
3. For instance, Alvin and Heidi Toffler, *The Third Wave* (New York: William Morrow and Co., 1980).
4. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920), p. 99.

5. For a provocative argument that the nation-state, and national interest, are alive and well, even in Western Europe where they seemed most superseded, see John Mearsheimer, "Why We Will Soon Miss the Cold War," *Atlantic Monthly*, August 1990.
6. See James C. Bennett, *Network Commonwealth: The Future of Nations in the Internet Era*, forthcoming.
7. This point is made compellingly by John Mueller, *Retreat from Doomsday: The Obsolescence of Major War* (New York: Basic Books, 1989).
8. I am grateful to Nicholas Butler for this statistic.
9. See *The Wall Street Journal*, 6 January 1997, p. A8.
10. IMF, *World Economic Outlook*, 1997, p. 29.
11. See Mathews, cited above.
12. Robert D. Kaplan's evocative article contributed to the attention to failed states—and perhaps also to the misunderstanding of them by seeming to lump different causes. See "The Coming Anarchy," *The Atlantic*, February 1994.
13. These changes in international norms about intervention are richly debated in volumes of *Ethics and International Affairs*. In particular, see Thomas G. Weiss, "Principles, Politics, and Humanitarian Action," Vol. 13, 1999; Michael J. Smith, "Humanitarian Intervention: An Overview of the Ethical Issues," Oliver Ramsbotham, "Islam, Christianity, and Forcible Humanitarian Intervention," and Nancy Sherman, "Empathy, Respect, and Humanitarian Intervention," Vol. 12, 1998; Amir Pasic and Thomas G. Weiss, "The Politics of Rescue: Yugoslavia's Wars and the Humanitarian Impulse," Vol. 11, 1997; and Jeff McMahan, "Intervention and Collective Self-Determination," Vol. 10, 1996.
14. As Michael Herman puts it: "There is no complete escape from the paradox that intelligence knowledge tends to contribute to international security, while some of its collection is liable to detract from it." See his *Intelligence Power in Peace and War* (Cambridge: Cambridge University Press, 1996), p. 375.