

Three Sanctions: Cash, Influence and Force

“War is not merely an act of policy but a true political instrument, a continuation of political intercourse carried on with other means. What remains peculiar to war is simply the peculiar nature of its means.” Carl von Clausewitz, *On War*, 1832

“All diplomacy is a continuation of war by other means”. Zhou Enlai, *Saturday Evening Post* (27 March 1954)

The firm does not just interact with the outside world through cash denominated markets, but also has to deal with and through politics, and many also interact with other parties by employing force itself either as a matter of its own choice or in response to other party's resort to direct action. Although there may be hybrids and crossovers, the sanctions available to the firm fall into one of these three categories: commercial exchange, political influence and power, and physical force.

The quotations from Clausewitz and Zhou Enlai illustrate the recognition by soldiers and politicians that they may have something in common in their purposes, but employ different means. Ultimately both are seeking power or control over assets or people, on behalf of the institution (nation, party, faction, class, tribe) they serve. The widespread use of military metaphors by business leaders, and particularly management consultants and business academics, illustrates a degree of recognition of crossover between the commercial world and the political and military as the business seeks to secure control over assets, services and revenues. No wonder that Lawrence Freedman, in his comprehensive history of strategy¹ - from the Book of Genesis to the gospel according to Michael Porter - divides his subject into “Strategies of Force” (military), “Strategy from Below” (politics), and “Strategy from Above” (business).

The classical model of the firm assumes that all its business involves commercial exchange, with goods, services and investment rights exchanged for cash or entitlements to cash. But even at the time the classical model was evolving, it failed to describe the world as it existed. The men behind the chartered companies that exploited the new worlds for the British, Dutch and French in the eighteenth century understood that their business would employ all three sanctions, to the extent that the East India Company had its own standing army, whilst back at home its mandate to trade depended on a charter that in turn depended on political bargaining. The slave plantations of the West Indies that provided the investment for the Industrial Revolution depended on the labour of slaves who were bought for cash in West Africa and then worked under the overseers' lash until the trade in slaves was banned and eventually the institution of slavery itself as a consequence of the plantation owners losing the moral and political argument. There are plenty of examples in the twentieth and twenty first centuries where businesses employ, or have to respond to, political and physical force sanctions, even if only at the level of coping with the union picket line or employing security services to protect their assets, and lobbying politicians to secure favourable, or less unfavourable, legislation.

The three sanctions are distinct from one another in a number of ways, although the boundaries between them in their deployment depend in part on the other sanctions: weapons and allies may be bought with cash or political influence; the rules that govern commerce generally depend on

¹ Lawrence Freedman *Strategy: a history* (Oxford: Oxford University Press 2013)

political sanction that may in turn be backed up by force. They can be seen as a hierarchy, with the cash based, commercial sanction claiming superiority over the other two as the basis for the market solutions that allow individuals to make the vast number of choices about the goods and services they consume, how they deploy their own labour to generate income and create wealth, and invest in capital goods – whether roofs over their heads or equipment to make human labour more productive. But for the cash denominated marketplace to generate equitable and efficient outcomes and address externalities that diminish the aggregated wealth of a society, the state has to be summoned into existence, which requires deployment of the political sanction. Hobbes was right: without the state, life in the state of nature is nasty, brutish and short. Adam Smith may have betrayed a charming naivety when he asserted that *“When the trade or practice becomes thoroughly established and well known, the competition reduces them to the level of other trades”* and failed to recognise many of the conditions that frustrate the development of perfect competition, but he also acknowledged the very same self-interest that fuelled his economic model also contained the seeds of the cartel in his memorable observation that *“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices”*.

The legitimacy of the commercial exchange derives from the possession of currency whose value is recognised by the counterparty, of goods on which they place a value, or of the ability to provide services on which the counterparty places value. Through the medium of money, commercial marketplaces provide for highly granular exercise of choice by individuals and, despite all the limitations of market failure and moral questions about unequal distribution of income and wealth, have underpinned most of what is generally recognised as the progress of the human condition and liberation from decisions imposed on them by others.

The legitimacy of the political sanction is derived from potentially a variety of sources. It may be underpinned by the threat of force (of a ruler with backing from his tribe or his loyal palace guard, of a military class, or of popular uprising), or a widely accepted value system which generally finds its voice in a written constitution interpreted by courts but may have its roots in religion, cultural values, political theory, or reference to totemic elements in a nation’s heritage. In practical terms, the exercise of political sanction will be in reference either to values (for example, an appeal to principles embodied in a constitution), to potential levers within a constitutional framework (for example, the potential influence on how voters may cast their votes in a future election) or to direct influence, whether by strength of logical argument or emotional appeal, to those with political power. The limitation of political sanctions is that the political process is less granular and frequently binary: you may be able to exercise some influence over what goes into the manifestos of political parties, but when elections come around the voter is confronted by a choice between the platforms of the parties and unable to cherry pick the policies they like. But for all the shortcomings of political processes compared to commercial markets, they are all we have available to address the problems created by market failure and address the issues of equity surrounding the unequal endowments we receive at birth and the unequal outcomes for individuals from untrammelled exercise of the market².

² Thomas Pickety, Capital in the 21st Century

So what about the legitimacy of physical force? It is the sanction of the Hobbesian state of nature. If we accept the analysis of Thomas Pinker³, mankind has moved inexorably away from using violence. However, there are still people who have recourse to physical force when they cannot see any resolution of disputes through political means or they have concluded that the benefits of remaining within the laws created by the state and exercising whatever limited economic power they may have within the market moderated commercial system are outweighed by using physical force. This applies equally to London low life snatching a handbag on Oxford Street or a Mexican cartel member or Mafiosi assassinating the local police chief getting too close a drug deal. But it also applies to the Occupy Movement and to campaigners against fracking: when something is sufficiently important to you and you cannot achieve your goals through commercial means or the normal instruments of politics, it is entirely rational to resort to physical force, accepting that it is very crude, inefficient, and not without cost to all concerned. In the same way that we require political instruments to address failures in commercial markets, an individual, a movement, a social class, or an ethnic minority may conclude that the failure of the political process can only be addressed by resort to physical action. There is also a reciprocal implication: if you are using physical force to respond to physical force, you should recognise that you are engaged in a political process and addressing political problems, as Emile Simpson articulates in his account of operations in Afghanistan⁴

³ Thomas Pinker, *The Better Angels of Our Nature*

⁴ Emile Simpson, *War From the Ground Up*.