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THE CHANGING ROLE OF THE STATE IN DEVELOPMENT

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Several questions underlie the issue of the role of the state: what is the state? what does it do? how does it do it? The history of the first three quarters of the twentieth century can be seen as one where states held clear authority within their borders, acquired growing functions and tended to perform them on their own. The latter part of the twentieth century and early twenty-first century see a more porous view of the nation state, fewer directly performed functions and more partnership with other actors.

Definition of the state

Max Weber's definition of the state is still widely referred to. To paraphrase: the state is a political community that monopolizes sovereignty over a territory and the legitimate use of force within its boundaries, and claims authority over all the people in it (Weber 1947). For Weber, what distinguishes the *modern* state is that the exercise of authority, administration and force are subject to the rule of law. The terms 'state', 'government', 'public administration' and 'public sector' are often used interchangeably, but this definition makes it clear that the state is a broader concept. It operates through government, the administrative machinery, the military and police, and, in the modern state, through the legislature and the judiciary which make and interpret the legal rules. The definition also includes the 'governed' as part of the state. However, there are aspects of social organization (family, interest groups, religious organizations, firms) which do not owe their existence to the state - the term 'civil society' is now commonly used to describe this non-state public sphere.

By the middle of the twentieth century, most areas of the world were subject to states which claimed sovereignty, though often by colonization or conquest. It was only in the second half of the twentieth century that almost all areas came under nation states which could, at least constitutionally, claim to be modern states in the Weberian sense. With European de-colonization and with the eventual fragmentation of the Soviet bloc, the number of nations grew from 50 in 1945 to 185 in 1996 (World Bank 1997: 21). However, in many of these, the characteristics of modern statehood are not established: jurisdiction over territories is often uncertain, the legitimacy of power disputed, the administrative capacity to assert authority weak, and the rule of law dubious.

Perspectives on the role of the state

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The definition tells us nothing about the purposes or roles adopted by particular nation states and governments. Apart from the exercise of legitimate authority, what is this apparatus for? European and American history laid a basis of expectations which have affected the development of other nation states through colonization, subordination and example; and developments in the West continue to be a powerful influence in decisions about the appropriate role of the state elsewhere.

The long struggle against absolutist monarchy, expressed ultimately in the American and French Revolutions at the end of the eighteenth century, established the role and rights of citizens as the source of the legitimacy of state authority. The idea that there was a 'contract' between citizens and the state apparatus turned the old order upside down. Sovereignty and authority were seen to emanate from below rather than from God through kings; citizens should be free to organize, and administration should be accountable through the rule of law (Tilly 1992).

However, within these common principles, different balances could be struck. Divergent western traditions were expressed in constitutions and legal codes (Lane and Ersson 2000). On the one hand, the Napoleonic codes (civil, criminal and educational) established a comprehensive administrative apparatus which expressed the responsibility of citizens to the state, and the responsibility of the state for the education and discipline of citizens. Here the state is seen as having a leading role in society. On the other hand, the American constitution sought to restrict government to the roles necessary to guarantee the liberty of the individual. In this anglo-american liberal view the state is always at issue, a focus of distrust: its over-extension can only be at the cost of civil society. The economic expression of this view was Adam Smith's *The Wealth of Nations* (1776) which argued that the market was the best means of creating wealth and welfare; the state should limit itself to duties which the market cannot perform.

The extension of the state in the West

The Napoleonic administrative model was imposed or copied throughout continental Europe and Latin America in the nineteenth century. Even Britain's relatively light state was forced, by war and the struggle for empire, to catch up with the administrative order and competence of its continental rivals (Cain and Hopkins 1993). Wars, the defence of trade and colonies, the struggle for empire and its administration required the apparatus of a modern state - professional armed forces, a meritocratic civil service, a rational system of taxation, administrative law. A sort of leap-frogging by example led to the development of western states with similar characteristics, even if their underlying ethic was different. While Britain's state development was led by its *external* functions, the later industrializing nations of Northern Europe, Japan and even the USA were driven by competition with Britain to develop states oriented also to *internal* economic growth. These first 'developmental states' of the late nineteenth century adopted policies for trade protection, industrial promotion, infrastructural development, technological development and training, creating mutually supporting links between state, finance and industry (Anderson 1987, Landes 1999, Morris and Adelman 1989).

The centralized, bureaucratic and expert state, described by Weber at the beginning of the twentieth century, had already assumed roles going well beyond those envisaged by the anglo-american liberals. But states remained small by present day standards until after the first world war (1914-1918). Thereafter, in all independent states there was a rapid expansion of the roles of social redistribution, economic planning and management. The strongest impetus to the extension of the state's role was the economic depression of the 1920s and 30s. There had been other depressions. What was new about this one was that it occurred in a situation of mass political and economic participation, and in the presence of an alternative, and then successful, model of industrial society - Soviet socialism. There was a clear political need to find solutions to what was perceived as widespread 'market failure'.

Accelerated by the demands of social and economic reconstruction after the second world war (1939-1945), the Western welfare states assumed responsibility for protecting the relatively poor (social security), equalizing opportunities (health and education services), creating state owned enterprises to provide social and economic infrastructure, and managing macro-economic cycles so as to avoid slumps. Among the rich nations of the Organization for Economic Cooperation and Development, public expenditure as a proportion of GDP increased on average from 27% in 1960 to about 47% in 1985 (Lane 1995, p.92). At an international level, the International Monetary Fund and the International Bank for Reconstruction and Development (the World Bank) were created in 1944 to manage monetary relations and trade imbalances between nations.

State expansion was subject to different coalitions of ruling forces in different advanced countries (Anderson 1987). However, without wishing to present an over-idealized version, it can be argued that it was responsive to local circumstances, inclusive of the majority of people and built on well-established legal and administrative practices. This was not generally true of state expansion elsewhere.

'Modernization' and the extension of the state in developing countries

The point of reference for the countries which became independent after the second world war (1939-1945) was of an extensive state, whether in the form of the socialist or of the advanced capitalist nations. The statist model was adopted or aimed for by all developing countries in the 1950s and 1960s.

This was partly a matter of policy transfer from the more developed capitalist and socialist countries in their race to fill the post-colonial 'vacuum'. Aid programmes and academic advisers propagated the idea of the state bureaucracy as the lead agent for the transition to what was then known as 'modernization' (Stone 1965, Siffin 1976). The advice of aid agencies and loans from multilateral institutions favoured large-scale projects of industrial and agricultural development which required the guarantee of government involvement (Esman 1988). On the side of the new political élites, the idea of state-led development was attractive. It apparently offered a way of satisfying popular expectations and demonstrating a concern with social justice and development.

The case for state-led development was not only imitative. It was also sometimes built on a response to local circumstances. Firstly, where market institutions and indigenous entrepreneurs were weak, often only state enterprises were capable of investing or taking over foreign-owned plant. Indeed, in most of the post-colonial countries of Africa and Asia, the administrative and military apparatus of the state was the only significant institution with a national coverage or presence (Alavi 1972). Secondly, in the case of developing countries already strongly linked with the international economy through primary good exports, the case was made for state-led 'import substitution industrialization'. The idea was that primary goods were fated to fall in value against manufactured goods and that government had to take the lead in re-structuring the economy towards 'inward directed' industrial development by protectionism and state-managed investment (Prebisch 1950, Todaro 1994).

Until the mid-1980s, the role of the state and employment in the public sector generally expanded faster in the advanced countries than they did among developing countries, except in the case of the oil-rich nations of the Middle East, Venezuela, Mexico and Nigeria. By the end of that period, the proportion of GDP spent by central government in the rich OECD countries was on average 35%, compared with less than 25% in all developing countries outside the Middle East (World Bank 1997, p.22). On average, public sector employment (in government and public enterprises) occupied a higher proportion of the total population of affluent (6.4%) than poorer (2.6%) countries. However, while in the rich countries more public sector workers were involved in the delivery of services through local government, in developing countries there was a far higher proportion in public enterprises (Rowat 1990).

Criticisms of state intervention in developing countries

The 'statist' model was quickly subject to criticism. Until the full force of the neo-liberal perspective arose in the 1980s, this was not a matter of ideological opposition to the extension of the state as such. It was rather a question whether the states and public administrations of developing countries were structurally (not just technically) capable of acting as the agent of development. This raised issues of the nature of bureaucracy and the social composition of the state.

An extensive critical literature will here be reduced to three themes. They overlap but derive from different theoretical positions and emerged from different regional contexts. The first came from the experience of operating aid programmes across a wide geographical spectrum but particularly in Africa, South and South-East Asia. Critics challenged the view that public administration could act as an agent of development. Bureaucratic processes and culture were biased to stability or, at the best, only incremental change (Schaffer 1969); they were anti-developmental (Dwivedi and Nef 1982) and to suppress entrepreneurial interests (Riggs 1963, 1964). Moreover, public sector agencies, which on the surface looked like rational bureaucracies, in practice adjusted to local cultures; they were often penetrated by an 'economy of affection' serving particular interests rather than development goals (Hyden 1983, Riggs 1964).

The second theme has been applied particularly, but not only, in Sub-Saharan Africa. It refers to the 'softness' (Myrdal 1968 on Asia) or 'weakness' (Azarya 1988, Chazan 1988, Migdal 1988) of the state, in which the state apparatus maintains only a tenuous hold over society, lacking legitimacy and therefore the capacity to enforce policy or assert control over citizens' behaviour. This is often associated with personal, patrimonial rule by rulers, exercising their own interests through the official apparatus and patron-client networks, or paradoxically resorting to control through 'hard' militaristic régimes (Sandbrook 1985, Healey and Robinson 1994).

The third theme, which emerged from neo-marxism and dependency theory, saw the apparatus of the state (the bureaucracy and military) as being subordinated to non-national interests, particularly international capital. This approach was used to explain the rise of various forms of authoritarian rule in the 1970s - bureaucratic authoritarianism in Latin America (O'Donnell 1979, Cardoso 1979, Collier 1979), and the post-colonial ‘over-developed’ state in South Asia (Alavi 1982) and, possibly, East Africa (Leys 1976). Far from being an agent of development the state was now seen as an agent of underdevelopment or distorted development.

By the end of the 1970s, with international recession, growing national debt in Latin America and Africa and widespread military régimes, there was deep pessimism about the scope for development and scepticism about the state's role. Two ways forward became evident in the 1980s - the example of the newly industrializing countries of East Asia and the neo-liberal model developed originally in Britain and the United States.

The developmental states of East Asia

The countries to which we are referring are Korea, Taiwan, Singapore, Hong Kong, followed by Thailand and Malaysia. These East Asian 'newly industrializing countries' (NICs) demonstrated, contrary to Left radical thinking of the 1970s, that it was possible for poor nations to develop in a sustained and inclusive way whilst engaging with the international economy. Contrary to Right liberal thinking of the 1980s, they also showed that governments could play a positive role in achieving development.

The NICs showed that it was possible to break with import substitution industrialization, and shift to export-oriented industrialization. The limitations of the import substitution model can be seen from the Indian (Bardhan 1984, Toye 1987) and Brazilian or Argentinian cases (O'Donnell 1979, Cardoso 1979). Both were associated with state planning, protection of certain industries from competition, rationing of foreign exchange, licensing, bureaucratic controls. Once this model was established it was difficult to escape its hold: in different ways, special relationships grew up between the state and vested interests. In the Indian democratic case, the protectionism included restriction of foreign investment, and widespread subsidy or patronage to groups with political voice; the result was slow economic growth. The Latin American cases sought to overcome slow growth by encouraging foreign direct investment (by multi-national corporations), and by

borrowing for public sector investment in infrastructure; escalating debt and political suppression followed.

The NICs pursued different policies, ranging from the more state-managed approaches of Korea and Malaysia to the liberal economic policies of Hong Kong and Thailand (Lane and Ersson 2000 p.268). However, there was a core in common: they avoided the 'heavy state' traps of India and Latin America. State administrations had authority and organizational capacity to give direction to market development, respond flexibly to private sector needs, develop technology and human resources, while controlling labour organization. They avoided commitments to the protection of vested interests and, from the 1960s, began to shift their economies towards competition in industrial export markets. Wade (1990) describes this approach as one of a 'governed market' rather than either a free market or a command economy.

There have been numerous studies of the conditions of the NICs' success and its replicability in other countries. Among conditions which seem to be rather specific are the external trade conditions at the time of their industrialization, the availability of Japanese investment and American defence, the early dissolution of anti-developmental interests through radical land reform, ethnic homogeneity, and cultures valuing both material success and mutual obligation (e.g. Cline 1982, Hamilton 1987, Jenkins 1991, Nolan 1990, Ranis 1989, Stein 1994, World Bank 1993).

There are other conditions relating to the nature of state administration which seem to be more generalizable though difficult to achieve and maintain. Most studies (e.g. Campos and Root 1996, Wade 1990) emphasize the Weberian nature of the NICs' bureaucracy: meritocratic, performance-oriented, hierarchic and free from political interference. Evans (1995) describes the 'embedded autonomy' of the best functioning developmental states: they keep strong contacts with social groups crucial to development, while having sufficient authority and unity to retain a distance from social pressures. But, in the case of the East Asian NICs, this delicate balance rested more on public-private networks and understandings (Flynn 1999) than on transparent systems of democratic accountability and regulation. It has been argued that, while these arrangements were adequate for the management of relatively closed economies, they could not cope with rapid financial and capital market liberalization in the 1990s. Destabilizing capital flows overwhelmed established institutions and contributed to the East Asian financial crisis of 1998 (Watkins 1998, Stiglitz 1998).

Neo-liberalism and adjustment

Earlier criticisms of the state's role in development questioned whether the conditions existed for 'third world' states to operate effectively. In the absence of these conditions, the tendency was for state agents to become self-serving, patrimonial and dominated by powerful, often foreign, interests. The new (neo) liberal view held a deeper scepticism about the capacity of state administration to play a developmental role under *any* circumstances (Friedman 1962). Until the late 1990s, this school of thought hardly considered the positive experience of the NICs

except to try to show that it conformed to the general pattern: apparently, the NICs would have been even more successful if governments had been less interventionist (World Bank 1993).

Neo-liberalism in the 1980s and 1990s drew on the anglo-american tradition of minimizing the state and maximizing individual freedom (Helm 1989). It shook thinking about the roles of the state, market and civil society as fundamentally as (and much more abruptly than) had the incremental extension of the state in the first half of the twentieth century. After the collapse of the socialist model at the end of the 1980s, it was applied across the globe with a unity and rapidity unequalled by any previous ideology. The bias was now against state expansion and for the market: the motto was "public provision, the exception not the rule" (World Bank 1996).

The immediate roots of the neo-liberal revival lay in the financial crises which followed the massive rise in oil prices in the early 1970s. The UK and USA, with histories of low investment and high trade deficits, were particularly badly affected by economic recession. The traditional counter-cyclical responses of increased expenditure on public works, welfare benefits and state intervention to save bankrupt industries were called into question when government revenue did not match government expenditure commitments. The United Kingdom, in effect, experienced the first 'structural adjustment' programme when, in 1976, it negotiated a loan from the International Monetary Fund. In return it had had to accept public expenditure cuts, divestiture of public enterprises, a floating exchange rate, restraints on money supply, and a focus of expenditure on private investment not public spending (Healey 1990). These became the principal elements of the 'structural adjustment programmes' which were later applied globally.

The East Asian NICs largely avoided heavy borrowing and instead adjusted public expenditure to reduced government revenue. However, many countries, particularly in Latin America but also central Europe and Africa, were slower to adjust and instead sought to avoid change by borrowing from western commercial banks which were flush with the surpluses of oil exporters. They got themselves into deep difficulties of debt and inflation and eventually had to resort to the International Monetary Fund and World Bank for loans. These two international financial institutions (IFIs) became the main propagators of the 'Washington consensus', a panoply of precepts to do with the liberalization, privatization and stabilization of economies (Mosley, Harrigan and Toye 1995, Williamson 1997, Stiglitz 1998).

Some broad critical points can be made about the experience of adjusting the role of the state in developing countries. First, the question of 'ownership'. The withdrawal of governments from intervention, control and public ownership can be seen as a necessary adjustment to changing external facts: oil prices, fiscal crisis, the end of the socialist bloc, technological development and the globalization of production (Ohmae 1996, Walsh 1995, Lipietz 1987). However, advanced countries were able to mould the pace and nature of their responses and did so with the compliance of their electorates. Developing and post-socialist transitional countries, on the other hand, have usually made their adjustment under strong external pressure ('conditionality') from the IFIs. Their governments have usually not been the chief

architects of programmes, understood their implications or gained an electoral mandate, as the ex-vice president of the World Bank has himself argued (Stiglitz 1998).

Second, there is the question of uniformity of application. The main tenets of state withdrawal and adjustment were applied to countries with very different circumstances whose only common features were debt and poor economic management: post-socialist central and east European states, post-authoritarian Latin American states, weak states in Africa and bureaucratic states in South Asia. A World Bank evaluation has criticized its own 'blueprint' approach to civil service reform a repetitive sequence of – "downsizing-capacity building-institutional reform-downsizing" (World Bank 1999, p.19). Variations in programmes have resulted less from design and more from failures to honour loan conditions.

Following from this, the third point is that adjustment has often been implemented in an unbalanced way, leading to deeper crisis and poverty at least in the short term. Quick economic policy changes affecting consumption and the distribution of income - floating exchange rates, freeing trade, cutting public expenditure and subsidies - have often been made. Structural changes affecting production - reforming state administration, privatizing, reforming the financial sector, building agricultural and industrial markets, providing basic services and infrastructure - have often stalled or taken longer (Mosley, Harrigan and Toye 1995, Turner and Hulme 1997).

Where are we now?

In reviewing the last 50 or 60 years, it is clear that certain themes recur, with some circularity. One continuous feature is that developing and transitional countries have been subjected to heavy doses of external advice backed by resources. By contrast, western states have been much more autonomous in making decisions about their development paths. Policy transfer (Dolowitz and Marsh 1996, Common 1996) to the southern and eastern countries has tended to go in bouts. With each new major shift in thinking and practice in the west, there is first a period of attempted straightforward policy transfer, followed by concern about the failures of implementation, followed by attempts to reform the government and institutions of developing countries. We can see this in the case of state-led development and modernization in the 1950s to 1970s and in the case of liberalization since the 1980s.

History is, of course, not really that simple; there have also been counter-models. Until the 1980s the socialist model was a convincing alternative, and during the 1980s and 1990s the East Asian developmental states challenged the hegemony of the neo-liberal model.

The 1990s and first decade of the twenty-first century have seen a shift from simple commitment to market liberalization. Free markets and liberal economic policies are seen now to be important but not enough on their own - markets depend on effective states (World Bank 1997). Failures in structural adjustment have contributed to a renewed concern with the capacity of states and their support of the

institutional conditions within which markets and citizens can flourish. These conditions include: clear property rights, the rule of law, financial systems, an active civil society, 'good government' and effective public administration (Burki and Perry 1998). This wide perspective is reminiscent of the modernization era of the 1960s when total institutional change (then seen as westernization) was called for. Stiglitz (1998) refers to a transformation of society to "more 'modern' ways".

"Only after a decade of experimentation with reducing government did economic reformers become explicit about the importance of strengthening government" (Grindle 1997, p.4). This does not constitute a simple return to previous conceptions of the state's role as the lead agent in development and the provision of services. Government and public administration will perform their own direct functions but they will also interact with and support private and community actors. The term 'governance' now tends to be used to describe this broader view of the way that government functions (Kooiman 1999, UNDP 1997, World Bank 1992). The term 'public management' is used to differentiate a new more entrepreneurial style from the old rule-based public administration (Minogue 1998, Dunleavy and Hood 1994).

Government and public administration are not left behind but have their place in regard to particular functions. There is now wide recognition of the importance of a professional rule-based bureaucracy (Nunberg 1995, World Bank, 1997, chapter 5) to provide the basic services and the conditions of predictability and honest-dealing within which businesses and citizens can flourish. How far particular states have the capacity to move beyond this to the more managerial roles of partnering, promoting and regulating other actors is still in question (World Bank 1997, Larbi 1999, Batley and Larbi 2004).

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