FEATURE REVIEW

The state in a changing world

_Leen Boer_¹

**World Development Report 1997**
The World Bank,
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The theme of the World Bank’s twentieth World Development Report (WDR) is the role and the effectiveness of the state: what the state should do, how it should do it, and how it can do it better in a rapidly changing world. The report is not a plea for a minimalist state, as one might have expected from such a World Bank report some years ago. To the contrary, this extreme view is said to be at odds with the evidence of the world’s development success stories, ‘be it the development of today’s industrial economies in the nineteenth century or the postwar growth ‘miracles’ of East Asia’ (p iii). History has shown that development requires an effective state. Stateless development as well as state-dominated development have failed. The state is central to economic and social development, not as a direct provider of growth but as a partner, catalyst, and facilitator. In a way the WDR 1997 is state-friendly as well as market-friendly.

Four recent developments have given the World Bank’s renewed interest in the state particular impetus: the collapse of the state-led economies in the former Soviet Union and Central and Eastern Europe, the fiscal crisis of the welfare state, the important role of the state in East Asia and the collapse of states and the explosion in humanitarian emergencies in several parts of the world.

The core of the message of the report is a two-part strategy. First, the state’s activities should be focused to match its capability. It should do no more than it can do. Many states often do more harm than good by trying to do too much with few resources and little capability. Getting governments better focused on the core public activities that are crucial to development will enhance their effectiveness. The second part of the strategy is to build additional capability by reinvigorating public institutions. As in some countries some public institutions will be rather new, the ‘re’ in reinvigorating might be a Freudian slip of the pen against the background of the World Bank’s less state-friendly policy advice of the eighties.

**Rediscovering the state**

States in industrial countries remained small by current standards until well into

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the twentieth century. The social and economic changes brought about by the Russian Revolution of 1917, the Great Depression of the 1930s and the breakup of the European empires led to a far more activist role for government. In the West this activist role was based on a three-pillared consensus: the need to provide welfare benefits to those suffering from transitory loss of income or other deprivation, the desirability of a mixed public-private economy with strategic industries in public control and the need for a coordinated macroeconomic policy. Governments in the industrial countries grew dramatically in the past four decades. So did governments in developing countries. Most developing countries came out of the colonial period with a strong belief in state-dominated economic development. They became involved in virtually every aspect of the economy. It didn’t work. In the eighties ‘government failure, including the failure of publicly owned firms, seemed everywhere glaringly evident’ (p 23). The pendulum swung from the state-dominated development model of the 1960s and 1970s to the minimalist state of the 1980s. Countries sometimes tended to overshoot the mark: in rebalancing government spending the good was as often cut as the bad, squeezing important programs in education, health, and infrastructure. The overzealous rejection of government has led to a fundamental crisis in state effectiveness and the current rethinking of the state’s role in development. The role of the International Monetary Fund and of the World Bank itself is miraculously missing in this historical account.

The functions of government are classified along a continuum, from activities that will not be undertaken at all without state intervention to activities in which the state plays an activist role in coordinating markets or redistributing assets. Two main categories of functions are addressing market failure and improving equity. In addressing market failure the state’s minimal function is to provide pure public goods: defence, law and order, property rights, macroeconomic management and public health. At the intermediate level the functions of the state are the management of externalities, such as pollution, the regulation of monopolies and overcoming imperfect information, for example by consumer protection. More activist functions pertain to the coordination of private activity, for example in promoting markets through active industrial and financial policy. In improving equity the minimal functions of government are considered to be disaster relief and anti-poverty programs. Providing social insurance is considered to be an intermediate function and asset redistribution an activist function. The suggestion is clearly that only states with strong capability can assume more-activist functions.

Not only what the state does but also how it does it is important. The quality of a country’s institutions, its institutional capability has a major impact on economic and social development. Especially important are providing a macro- and microeconomic environment that sets the right incentives, ensuring the provision of basic education, health care, and physical infrastructure and providing the institutional infrastructure, such as property rights, rules, peace, law and order. The benefits of ‘good policies’ are magnified where institutional capability is higher, where policies and programs are implemented more efficiently and where citizens and investors have greater certainty about government’s future
actions. The World Bank’s reform agenda becomes a ‘reform plus’ agenda: not only improving policies but also strengthening the institutional environment these policies have to work within.

**Matching role to capability**

Governments have to prioritise to match what they do and how they do it to their institutional capabilities. The fundamentals are a foundation of lawfulness, a benign and stable policy environment, basic social services, protection of the natural environment and some protection of the vulnerable. Institutionally weak states should focus on providing these pure public goods and services that markets cannot provide. All states should respect and take advantage of private initiative and competitive markets.

However, many countries presently lack even the most basic underpinnings of markets. In such economies the initial building blocks of lawfulness must be laid: protection of life and property from criminal acts, restraints on arbitrary action by government officials, and a judicial system that is fair and predictable. Without these markets cannot develop far. The world over, too few resources are still being devoted to vital basic services. There is misallocation in public spending across as well as within sectors.

‘Over the long term, rapid growth and investment in people will cut poverty dramatically’ (p. 54). Until now developing country governments have been wrestling with the fundamental function of protecting the vulnerable. They have experimented with a variety of social assistance measures for meeting the basic needs of the poorest, ranging from programmes that bundle cash assistance and insurance, to price subsidies and labour-intensive public works. In many countries, social insurance and assistance programs have failed to protect the vulnerable, instead resulting in transfers of resources to elite groups, sometimes with fiscally destabilising consequences. Apart from the recommendation to find ways of giving voice to the concerns of the poor, enabling them to become more effective advocates of their own interests, no really concrete advice is given on how the function of protecting the vulnerable could be taken care of by low income country governments with weak institutional capability.

The benign policy environment, reckoned to be among the fundamentals, refers to the familiar ‘good policies’ promoted by the World Bank: providing macroeconomic stability, avoiding price distortions and liberalising trade and investment. The reach of many countries with weak institutional capability is considered to be overextended. In the economy the state has to move back. Privatisation and market liberalisation is a key part of the policy agenda. In this respect there is a lot of continuity in World Bank thinking. Liberalisation does not necessarily mean deregulation, however. The reality of imperfect markets puts regulation onto the policy agenda. More activist forms of economic and industrial policy tend to require a state with stronger institutional capabilities, seems to be the message of the WDR 1997. Poverty reduction is completely out of focus as far as the state’s economic policy is concerned. There is no reference to the possibility of achieving a more ‘pro-poor pattern of growth’ by reallocating scarce public investment resources to, for example, rural infrastructure in
regions with labour-intensive agriculture. As has recently been pointed out in World Bank publications measures can be taken to maximise the benefits received by the poor from growth, by including the poor in growth.²

**Building additional capability**

Under the heading of ‘reinvigorating institutional capacity’ attention is paid to building the foundations of an effective public sector, to instituting formal checks and balances and controlling corruption, to bringing the state closer to the people, in particular by decentralisation, and to international cooperation in providing collective goods. Reinvigorating the state’s capability is only possible if the incentives under which states and state institutions operate are changed. Technical assistance experience has shown that incentives that determine behaviour are as important as training and resources. Most of this part of the WDR 1997 is dealing with rather ‘technical’ aspects of public management. The emphasis is on formal structures and procedures. The topics dealt with are not irrelevant. Few people will deny the importance of, for example, a strong governmental capacity for formulating and coordinating policy, motivated and capable staff, curtailing rent seeking and corruption, transparency of rules and ‘bringing government closer to the people’. Still the discussion is a bit out of touch with reality. The state and its institutions are part of society and as such interact with other political, social and economic forces. The political economy of the process of ‘reinvigorating institutional capacity’ appears to be left to the last part of the WDR 1997, under the heading ‘removing obstacles to change’.

The ways in which governments try to ensure a more effective global provision of international public goods are discussed in a separate chapter. Most of it is a review of the voluntary mechanisms already established. The strategic options in furthering the provision of international collective goods at the end of the chapter are essentially a list of desirables; guidelines for realising them (funding for example) are missing.

**Removing obstacles to change**

Few developing countries have managed to create effective state institutions. The main obstacles to reform are the distributional characteristics of reform (winners and losers), the political strength of key groups (the likely losers in particular) and the existing institutional structure of the state (especially the kind of political regime). The obstacles to building an effective state are not insurmountable, is the message. Change has a better chance of success when policymakers tactically design and sequence reforms, compensate losers, and build consensus. Such policy makers, however, have to be given the green light by ‘leaders with a clear vision of the future’ (p 151).

The concluding chapter of the WDR 1997 contains an overview of the challenges facing states in different regions. There is a crisis of statehood in much of Africa. Matching role to capability is the urgent priority there.
Governments are encouraged to create closer partnerships with the private sector and civil society to improve the delivery of public services. One is left to wonder whether the private sector and civil society are that strong in much of Africa. In East Asia steps to modernise public administration and achieve effective decentralisation are considered critical. In South Asia the main issues are overregulation, an overextended state and pervasive political interference. Low state capability is the problem in the former Soviet republics. It is often not clear what the state’s new role in these republics is. Many states in Latin America are decentralising power and spending, coupled with democratisation. In the Middle East and North Africa the size of government, inefficient delivery of public services and excessive state involvement in the economy are the main problems.

A missed opportunity

Poverty reduction is the officially declared overarching objective of the World Bank. You would not think so when reading the WDR 1997. It is true, poverty reduction is mentioned at times. However, it is far from being part and parcel of the analysis and prescription in the report. Insofar poverty reduction is being paid attention to it is with regard to basic social services and the protection of the vulnerable. Even then advice on what to do is not very concrete. Poverty reduction is not a topic in the chapter on economic management by the state. That is strange, because the first element of the two-part strategy to reduce poverty, as put forward in WDR 1990, was ‘to promote the productive use of the poor’s most abundant asset—labour’. It has become known as broad-based economic growth. There is no mention at all in this chapter of a more-activist role of government in ensuring a more pro-poor pattern of growth. Even in the context of very limited resources this issue should have been dealt with. Institutionally weak states too do have to make choices on where to invest their scarce resources for roads, for example, or for agricultural extension.

The approach in dealing with the state in the WDR 1997 is very economic and rather technocratic. There is not enough attention being paid to non-economic tasks of the state and to the political dimensions, the power and interest groups behind the state. Most of the latter is in a separate chapter at the end. This unbalance reduces the practical value of the report considerably. The World Bank’s mandate is often referred to as prohibiting political involvement of the Bank. Still, politics is at the core of development and of the state. So, an adequate analysis of the political context of the World Bank’s activities, be it investment or advice, is crucial for its development effectiveness.

Formally a WDR is not a World Bank policy paper. It is a thinkpiece. It is safe to assume, however, that the WDR 1997 reflects the beginning of a rediscovery of the state by the World Bank. That is a gain. However, the lack of attention to poverty reduction, especially regarding the state’s role in economic management, and its one-sided economic and technocratic focus make the WDR 1997 a missed opportunity.
Notes

1 This review reflects the author’s personal views, and not those of The Netherlands Ministry of Foreign Affairs.


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