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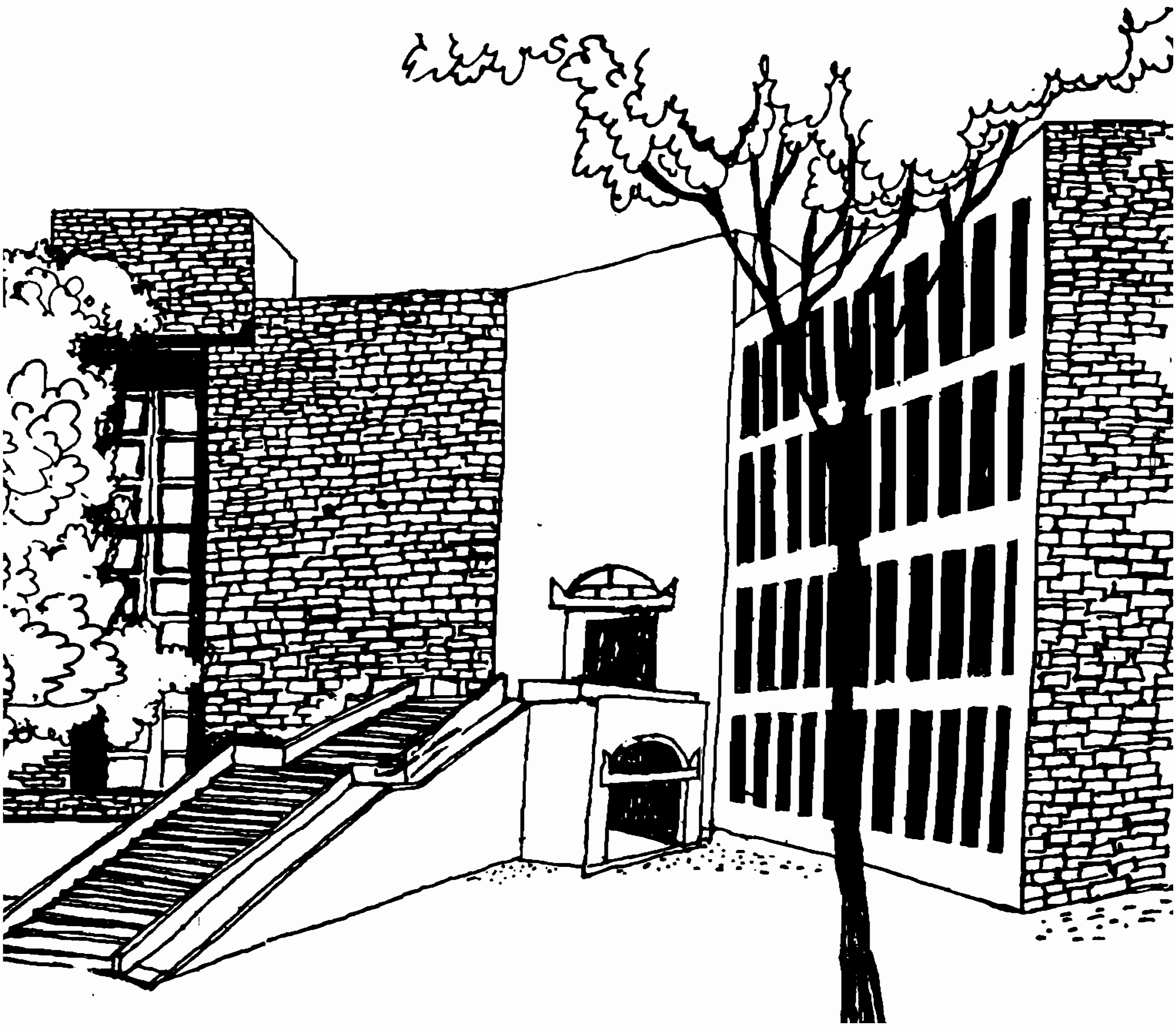

REVITALIZING THE STATE: 1. MODELS OF THE MODERN STATE

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REVITALIZING THE STATE:

1. MODELS OF THE MODERN STATE

Pradip N. Khandwalla

Abstract

In this paper the complexity of the modern state is examined with reference to the pressures under which it operates, and the mechanisms it employs of differentiation and integration. The reasons for the very large increase in the size of the state in this century, both in the developed countries and in the developing countries, are examined, as also some differences in the patterns of growth of the state in these two sets of countries. The major forces shaping the state in the 20th century are briefly discussed, resulting in the evolution of four models of the state. These are: the democratic interventionist-welfare state, commonplace in many Western societies; the developmental state that evolved in the Soviet system, and spread with some modifications to many developing countries; the liberal, market-friendly state espoused by the World Bank which has found a footing in most developing countries that have taken structural adjustment loans from the World Bank and IMF; and the businesslike, managerial state promoted by Margaret Thatcher, Ronald Reagan and others. It is contended that innovations in any kind of state can, with suitable modifications, be adapted in any other kind of state, and that innovations in governance systems and adaptive borrowings are powerful keys to state excellence.

The state is a remarkable invention of the human race. Other species have modes of regulation, usually by instinct, less commonly by pecking orders based on strength and aggressiveness. The state is much more than a system of dominance and coercion, although the philosopher Hobbes did think it was that primarily, and called it the Leviathan. A state consists of the various organs of governance, such as the executive, judicial, and legislative branches, the central regional, and local governments, various departmental undertakings and agencies, the armed forces and the security apparatus, such extensions of the government as enterprises and institutions funded by the state, and so forth. The nature of the state-democratic, dictatorial, theocratic, totalitarian, monarchic--defines the relationship between citizens and the instruments of governance, and it is also shaped by rules, enforceable laws, the machinery of enforcement, and norms. Several philosophers, notably Locke in the 17th century, and Rousseau in the 18th, thought that the state arose by virtue of a social contract between the governance system and the people, in which "free" people agreed to restrict their freedom of action in exchange for collective security and collective good. It is doubtful whether any such epochal compact ever took place in any society or that humans were ever that "free". But the modern democratic state has evolved something similar--the notion of accoutability of the governance system to the people who, through their representatives direct the state to do and not do certain actions, engage in or not engage in certain activities, and in return agree to abide by the laws of the land and give the right to the state to take punitive action in case of infringement of laws.

The state is subject to various pressures. The modern state operates in a world of competing (and also cooperating) states. The actions of other states--friends, enemies, neighbours, members of a regional grouping--as well as of organizations of states, such as the UN, NATO, ASEAN, etc.--often profoundly influence its behaviour. Within the borders of the state various groups of people exert often contrary pressures on the state to satisfy their urges. These include interest groups. The have-nots pressure the state to improve their living standards, which in the short-run may require transfer of resources from the haves, something the haves usually resist. The haves in turn exert pressure to expand their affluence through various concessions and incentives. There are also regional pressures, with urban areas often seeing rural areas as rivals and vice versa, as indeed there are pressures form culturally differentiated groups like castes and religions. And then there are pressures from ideologically differentiated groups like political parties. Not to be underestimated are pressures from those the state employs. They demand better emoluments and perks, more amenities, more opportunities for growth. If they find their needs thwarted, they learn how to exert pressure through unionization, negotiations, strikes, go slows and the like. These diverse pressures persist year after year, decade after decade, although the specifics keep on changing. As a consequence, the state is pulled in myriad different directions. A responsive state gets enormously complicated because of these pulls and pressures to the point where to some it may seen ungovernable. Loss of effectiveness is a frequent outcome.

Partly because of the diversity of its pressures, the modern state is incredibly complex. It is differentiated by such functions as the executive, the legislature, and the judiciary. Within each of these functions there is further differentiation. For example the executive consists of a large number of departments like treasury and finance, "home," foreign relations, defence, social services like health and education, and so forth. There is also very considerable vertical stratification, with, generally, a political executive authority at the top and a civil service or bureaucracy at lower levels, with hierarchies within hierarchies. And of course there are complex institutional aspects of the state, the ways it makes decisions, enacts laws, allocates resources, responds to internal and external pressures, deals with the citizens, recruits and socializes its personnel, as well as the contents of the various laws and rules and proceedings and norms that guide its operations.

The state often consists of not just one government but many. There is the central government. If the country is even moderately large there may be provincial and district or county governments. Then there are cities, towns, and villages, each with their local governments. It has been estimated that the US has some 83000 governments, the federal government being just one of these[1]. India may have even more governments, thanks to her having over half-a-million villages, many of them having a village government called panchayat.

Differentiated as the state is functionally, vertically, institutionally, and regionally, the state also tries to remain an organic whole. This it does by employing various integrative mechanisms, such as a constitution that sets out the fundamental character of the state. An overarching ideology like socialism or capitalism, is another integrative mechanism, as are overriding missions like poverty alleviation and keeping the nation free. Many states also develop a framework for setting goals and targets, such as a planning authority, that increases the coherence in the state's allocation of resources. Information and control systems, elite civil services that are the backbone of administration, incentives, socialization and indoctrination processes that weld the actions of government employees more firmly to the state's purposes and activities, and so forth are other integrative mechanisms. Indeed, the more differentiated the state, the more it must utilize integrative mechanisms to remain effective[2].

The Modern State in Spate

The various pressures to which the state is subject not only makes it complicated but *also large.* This century particularly has seen most states become bigger and bigger. The modern state is vast[3]. In all its branches and levels, the US has around 18 million government employees, of which only about 4 million are employed by the federal government. India, too, has about that many government employees, with about 5 million employed by the federal government. The UK has around 5 million government employees, of which a tenth are considered "civil servants"[4]. Even small countries have relatively large states--in the mid-eighties Hong Kong had 180000 public sector employees plus around 120000 employed in the quasi-public sector[5].

A study of 57 states around 1980 by Donald Rowat, of which 21 were states of highly industrialized, affluent, "developed" societies and 36 were states of relatively much poorer, "developing" societies provided some interesting data[6]. Total public sector employment (in central, state, and local governments plus employment in the state-owned non-financial enterprises) in the states of developed countries ranged from 4.4% of the total population of the country in Japan to 16.3% in Sweden, and in the states of developing countries from less than 1% for Burundi to 8.2% for Mauritius. Larger countries tended to have relatively smaller states. For instance, among the developed countries the US had 8.1% of its population employed by the state (versus 16.3% for Sweden) and India had 2.4% of its population employed by the state versus 8.2% for Mauritius. Interestingly, the states of developed countries tended to be relatively much larger. They averaged around 10% of the population for the developed countries and around 4.5% of the population for the developing countries. However the central government employment (as percentage of population) in both sets of countries did not differ significantly--it averaged around 3% for both sets, and the range was 1.0% to 6.9% for the developed states and 0.4% to 6.2% for the developing states.

A striking difference was in the employment in state and local government. For the states of developed countries the average was around 6% of the population, with a range of 1% to 12%, while for those of the developing countries the average was only about 1.5%, with a range of 0 to 2.6%. It would therefore appear that as economies develop the state gets more and more regionally decentralized.

There were some other interesting differences as well. Relatively speaking, relatively more public employees were involved in the developed societies in providing education, health and postal services than in developing societies. On the other hand, relatively more employees were involved in the developing countries for work related to police, defence, and administration. The percentage of total public employment providing services related to education, health, and postal services was 66 for developed countries versus 44 for developing countries, while the percentage of total public employment providing services related to administration, defence, and internal security was 44 for developing countries versus 27 for developed countries. The data suggest that the priorities of the state tend to shift with economic development towards creating greater human capital (education, health) and away from law and order and survival of the nation. This is understandable to some extent because in this century the governments of most of the poorer countries became independent states after the second world war and by 1980 were still precarious for a variety of reasons. Survival and state maintenance were therefore high priorities compared to the developed countries, most of which were in existence as independent states for decades, if not centuries. But such an allocation of manpower is also unfortunate because investment in human capital, especially education, is a prime instrumentability of sustained economic growth and improvement in the living standards of the poor of a society[7].

Another difference is also interesting. Although the developed countries had, relative to their populations, far larger states than the developing countries, the percentage of state employment in total non-agricultural population tended to be much higher for the developing countries. For example, it was about 20% for the US versus 72% for India. Thus, in the poorer countries the state was a prime provider of employment for those not involved in traditional agricultural occupations. This is an important point for several reasons. First of all, a lot more people (in relative terms) are dependent on state employment in poor countries than in rich, in part because employment opportunities in the underdeveloped private sector are so scarce in the poorer countries. Secondly, proposals to cut down the "bloated" bureaucracy of the states of poor countries as an efficiency measure are unlikely to elicit much social support in poor countries as compared to the wealthy countries. A sensible strategy in most poor societies may be to redirect some employment from security, law, and order to human capital and infrastructure related activities, embark on a high economic growth strategy, and create increasing opportunities for employment in the industrial sector.

A final point of interest is the relative growth rates of public employment of the states of developed and developing societies. During the late seventies, the growth of public employment averaged about 2% per annum in the developed countries, ranging from -1% for Canada to +5% for Sweden. Much of this growth was because of the increase in welfare programmes. In the developing countries the average was much higher--around 6% per year--and the range also was much higher--from 0% for Argentine to 15% for Zaire. Among the larger developed countries, the growth rates of public employment in the US, Japan and the UK were respectively 1.4%, 1.1% and 0%, while the larger developing countries, such as India, Egypt and Mexico had annual growth rates of 3.3%, 7.7% and 13% respectively. Such high growth rates in developing countries may in part be because of the social and political pressure for secure employment, but also mainly because of the developmental activities of the state.

Forces Shaping the State in the 20th Century

Globally, the state has been growing fairly rapidly, absorbing an increasing percentage of the gross world product[8]. The wealthy OECD countries spent about 10% of their gross domestic product on maintaining both the central and local governments at the beginning of the 20th century; in 1995 that percentage was close to 50%. The increase between 1960 and 1980 was spectacular--from less than 20% of GDP to about 45%. Since GDP in these countries had grown between 5 and 10 times in the century, the real increase was 25 to 50 times the 1900 level. Central government spending in the developing countries in 1960 was about 15% of their GDPs; this percentage grew to around 30% in 1990. Such huge increases generally imply greater taxation or government borrowing or both, and inevitably, therefore, pressure for containing or reducing government spending and/or demand for the people getting better value for the money spent by the government, pressures that can lead to innovative ways of cutting costs or increasing productivity or meeting social needs more effectively.

There have been some special reasons for the growth of state spending in the wealthy countries in this century. The wealthy Western nations underwent a shift in philosophy after the Great Depression of 1929. Incomes and employment declined so much and so rapidly that there was fear of mass starvation even in such affluent countries as the US and the UK. The prevailing governmental philosophy changed from laissez-faire to state interventionism, in which government resorted to pump priming to bolster aggregate demand during recessions, promotion of economic activity including investment in infrastructure, various market-correcting interventions and regulations, resort in some cases to price and wage controls, and welfare measures. In the West, the idea of the welfare state took root after the second world war, initially in the Scandinavian countries and the UK, and after 1960 in the US and several other Western nations. People wanted to be insured against the financial hardships of unemployment, illness, and old age, and politicians found it expedient therefore to adopt one welfare measure after another. The United States federal government provides an interesting example of how these pressures have shaped the government.

State Intervention in the US

For many neo-classical economists, state intervention in a market economy is an anathema because it "distorts" resource allocation. However, James McKie has pointed out that even a democratic society like the US, with a strong commitment to a market economy and to "free enterprise" and hostility to "Big Government" has allowed the state to intervene in the economy widely and in many different ways[9].

The US government expenditure as a percentage of GNP in the seventies was about 20%, and roughly 40% of this was incurred by the federal government, the rest being accounted for by state and local governments. Governments at all levels employed nearly 20 million persons. McKie identified several types of government interventions in the US, broadly, corrective interventions aimed at improving the functioning of markets, and interventions to support, promote, or operate industries:

Corrective interventions:

1. Intervention to promote competition and curb monopoly power, especially through such anti-trust laws as the Sherman Anti-trust Act, the Clayton Anti-trust Act, the Federal Trade Commission Act, and the Robinson-Patman Act.

2. Regulation of public utilities that are "natural monopolies," such as suppliers of power, natural gas pipelines, local and switched systems of electronic communications, local distributors of gas and water, etc. The government regulated the price charged and the rate of return earned by the utilities.

3. Licensing, of such services as taxis, beauty parlours, physicians, real estate brokers, and electrical contractors, usually to protect public health and safety, or to avoid broadcasting interference as in telecom broadcasting.

4. Control of negative exernalities of commercial activities, such as environmental pollution.

5. Compliance of fair employment laws, such as prohibition of discrimination based on race or sex.

6. Regulation of health and safety conditions in establishments.

7. Protection of consumers by ensuring that consumers were adequately informed and by ensuring that harmful substances such as proven carcinogens were not used in products. The Food and Drug Administration was the primary agency set up for this purpose for food and drug products, while the Consumer Product Safety Commission provided protection with respect to other products.

8. Regulation of the financial and securities markets, primarily through the Securities Exchange Commission.

Various regulatory mechanisms operated by the US federal government cost about $ 4 billion in 1977, out of a budget of $ 145 billion.

Government as supporter, promoter, and operator of industry:

1. Guarantor of obligations of private financial institutions to the public, such as by insuring bank deposits and savings institutions.

2. Supplier of credit for specific sectors, such as the secondary home mortgages market and agricultural credit through the Federal Land Banks.

3. Promotion of such risky industries as nuclear power through government-funded research, development, and production of fission fuel. Through NASA the government supported satellite communication.

4. Promotion of infrastructure by constructing national highways, canals, ports, airways communications and air traffic control, etc.

5. Various support and promotional programmes for agriculture to increase farmers' incomes, such as by price supports and incentives to restrict output. In 1977 the federal government alone spent $ 2 billions for agricultural output control and support.

6. Setting up of an organisation to take over and operate the properties of defunct corporations, such as the setting up of the United States Railway Association to operate the properties of bankrupt companies like Penn Central through a corporate entity, and of Amtrak to take over most of US railway passenger services.

7. Provision of such "public" services as those provided by the post office and the national parks, housing for the poor, water works, public transportation, gas utilities, electric utilities, etc. In the late seventies, about 25% of the country's electric power was produced by the federal, state, and local governments. The Tennessee Valley Authority was an example.

8. Production of weapons either directly, or in the case of sophisticated weapons systems, by government working closely with, and funding, contractors.

9. To ensure self-sufficiency in a crucial sector like energy, the government launched Project Independence after dependence on OPEC oil became expensive in 1973. The government administered oil prices to provide incentives to domestic producers to expand output.

Besides the above, the US government intervened in other ways also, for example, to improve the economic environment in poor or depressed areas. This it did through such policies as location of military facilities in depressed areas, price supports for local products, industrial development subsidies, public works, etc. Besides, the US state also operated many public welfare programmes such as Medicaid, Medicare, Food Stamps, student loans, social security for the aged, the infirm, and the unemployed, veterans programmes, etc. Between 1950 and 1980 the expenditure on these programmes increased from 8.2% to 18.7% of GNP[10]. All these interventions were over and above the monetary and fiscal interventions for maintaining levels of inflation and unemployment at or below the politically acceptable level, and those for maintaining security and law and order.

Whether government intervention impedes or facilitates economic growth remains a moot question. But if government intervention in the economy is so extensive in a highly developed democracy in which public opinion has generally been hostile to government intervention, then the possibility must be entertained that modern societies need a wide variety of government interventions for stability, growth, equity, and quality of life. Indeed, John Kenneth Galbraith has maintained that the higher the per capita consumption of "private" goods and services, the higher must the expenditure be on "public" goods by the state to maintain the quality of life[11]. If at all, the need for government intervention in the developing countries would be even greater than in the developed countries because in developing countries enterprise is often in short supply, public services are grossly deficient, and millions subsist on the fringes of starvation.

The Developmental State

A massive force in this century making for a bigger state in the poor countries was the rise of doctrinaire socialism in Russia, which later spread to many other countries in Europe and Asia. This form of socialism involved central and comprehensive economic planning, the state ownership of the means of production, and heavy state investments in industrialization. Many of the poor countries that became independent in the forties and fifties thought that these ideas provided a better means of escape from poverty, inequality and inferiority vis-a-vis the West than laissez-faire capitalism, and adapted these ideas to their circumstances even if they did not fully embrace doctrinaire socialism. Thus India, the largest of them, began economic planning in 1951 and rapidly scaled up public sector investments, so that the annual public sector investment in the nineties was 15 to 20 times more in real terms than in the early fifties. Economic growth to raise living standards from abysmal poverty was a goal with wide appeal in these countries, and since the private sector was not perceived to be strong enough, or trusted enough, the state became the main engine of economic growth. Thus emerged the developmental state in the Third World. South Korea provides an interesting example of such a developmental state.

South Korea: A Case of a Developmental State[12]

South Korea during the sixties and seventies offers an interesting case study of a highly successful developmental state. During these years it had an authoritarian regime (which in the eighties and nineties has become increasingly democratic). It resorted to central planning for rapid industrialisation, an import substitution and exports-led growth strategy, tight economic controls and incentivees, the starting of public enterprises and nurturance of big business houses called chaebols to force the pace of industrialisation, and a fairly tight leash on unions and political activity. Some of these features are worth elaborating.

1. Central planning: Under the control of the Economic Planning Board, a number of comprehensive five year plans were launched from 1962 onwards. This Board exercised considerable control over budgetary allocations. Although South Korea did not avail of much foreign expertise in formulating the first five year plan, the second plan was formulated in close cooperation with the USAID, an American government foreign developmental assistance agency. Subsequently this dependence on foreign assistance waned.

2. Commitment to growth: General Park, South Korea's military dictator from 1961 to the mid-seventies, was infused with a strong determination to speed up the growth of South Korean's economy and effectively transferred his enthusiasm to his ministries and the bureaucracy. He personally reviewed annual plans and performance with each ministry, and chaired the monthly meetings of the Economic Planning Board. Indeed, he often summarily terminated the services of officials who had failed to deliver results.

   The country's growth strategy was woven around the promotion of certain priority non-traditional industries. The annual growth rate for basic and heavy manufactures (chemicals, coal, petroleum, metal and metal products, and transport equipment) was 24% versus 19% for light, less basic manufactures. There was also substantial investment in education, particularly primary, secondary and technical education. R&D was tailored to the priorities relating to industrial growth and exports, and was primarily adaptive rather than pathbreaking in nature.

3. Import substitution and export promotion: Devastated in the early fifties by the Korean war, South Korea in the fifties was a breadbasket case. Its exports covered only 11% of its imports in 1955, 22% in 1960, and South Korea depended on US aid of around $ 400 million a year for survival. Thus, righting its balance of trade was an overriding priority which General Park's administration pursued with vigour[13]. Initially it prohibited the import of nearly 120 items but gradually reduced this number to less than half. On the other hand the number of items of restricted import, just over 400 in 1967, was raised by 50% by 1975. Also, the number of items of automatic approval for import declined from around 800 in 1967 to around 600 in 1978. Thus, there was a fairly tight but selective import control. This was buttressed by control of foreign direct investment. Competition of foreign companies with domestic firms was seldom permitted. MNCs wishing to invest in South Korea were frequently pressured to enter into joint ventures with domestic firms, and the government frequently reviewed joint venture contracts. Infant and traditional industries were particularly protected. The effective rates of customs duties in 1968 were 33% for agricultural products, 36% for consumer durables, 26% for machinery, and 182% for South Korea's infant transport equipment industry (mostly ship building). Even in 1978 substantial tariff protection was provided to agricultural products (61%), consumer durable goods (93%), and transport equipment (109%).

There was a strong encouragement of non-traditional, manufactured exports. Exporters had automatic and immediate access to imported intermediate inputs and to export financing. There were several export subsidies and allowances that were provided on a discretionary basis, such as wastage allowance, reduced rates for utilities, tariff exemptions on imports of capital goods, permission to import linked to exports, assitance for targetting exports, long term domestic and foreign loans at subsidised rates. The Government subsidised priority exports of many products. For example, in 1968 the export subsidy rates were 27% for foods, 41% for beverages and tobacco, 23% for construction materials, and as high as 73% for some intermediate products. (Indeed, in 1968 there were 23 industries out of 150 whose export subsidy rates exceeded 100%). Export subsidy rates continued to be high for several products in 1978: they were 61% for processed foods, 34% for construction materials, and 62% for certain intermediate products.

4. Controls: South Korea was a centralised state during the sixties and much of the seventies. Banks were nationalised in 1961, and the control over monetary policy was shifted from the central bank to the administration. Credit was rationed in lthe sixties by sectors, industries, and even individual firms and projects. High debt-equity rates were permitted and even encouraged to stimulate large, long gestation investments. Price controls were frequently used as short term measures in the sixties and seventies to control inflation, monopoly power and excess profits. However, on the whole government policies were spelt out in general terms, leaving detailed application to the discretion of administrators.

5. Public enterprises: Between 1960 and 1972, South Korea increased its public enterprises from 36 to 108. These were set up in a variety of mostly non-traditional industries. Their share in GDP rose from 7% to 9% between 1963 and 1972, and their share of investment in the gross domestic investment was 30%.

6. Promotion of big business: Unlike many other developing countries, the South Korean regime encouraged big business. When General Park took over the Govenrment he first imprisoned several business leaders, and confiscated their assets, but released them on condition that they work for South Korea's economic growth. Starting in 1964 they were provided official guarantees for foreign borrowings, and various incentives and supports for launching big projects and penetrating foreign markets. For this purpose even cartels were encouraged. Unions were kept under tight leash but the government did encourage business to share its prosperity with labour, so that wages rapidly increased[14].

7. Decision making: Government decision making was centralised rather than democratic. Important policy decisions tended to be made by small numbers of bureaucrats and high government officials without much public debate or the participation of civilian experts[15]. Decision making was rapid but seldom based on public support. However, business leaders and representatives of financial organizations participated in the monthly meetings of the Economic Planning Board chaired by the president[16].

The consequence of South Korea's developmental state was a sharp rise in GDP growth rate from 4.5% during the mid and late fifties to 9.5% during 1963-72. The hectic growth rate continued in the seventies--it was 9.1% per annum during 1970-81. Overall manufacturing grew during this period at 16% per annum, exports at 20% per annum, and investment at 12% per annum, compared to the growth rates of 7.4%, 6.6%, and 7.5% for middle income countries in these three areas. In 1981 industry accounted for 42% of GDP, and savings and investment rates were respectively 20% and 27%. Although South Korea continued to have adverse balance of trade in most years of the sixties and the seventies, exports growth, particularly in manufactured goods, was strong, and contributed an estimated 35% to the strong GDP growth versus 11% contributed by import substitution.

In more recent years, South Korea has turned democratic. It has increasingly deregulated its economy, moved away from comprehensive planning to indicative planning, started to privatise public enterprises, and begun to open up its economy more and more to imports (by lowering tariffs and by doing away with import restrictions) and to foreign private investment. But the South Korean economy has continued to boom. The strong industrial foundations laid, the nurturance of Korean entrepreneurship, the protection to infant industries, the investment in education, especially technical education, and the emphasis on exports during the 1960s and 1970s that made its industry achieve global levels of efficiency and quality, seem to be major factors explaining South Korea's continuing strong growth.

The period 1950 to 1980 was the peak period of the developmental state. Throughout the developing world economic growth rates rose sharply compared to the past[17]. For example, Sub-Saharan Africa recorded a 3% per capita growth rate during 1965-1973, East Asia and Eastern Europe 5%, Latin America 4% and Middle East, North Africa, and middle income Southern Europe 5.5%; only South Asia lagged behind at 1%[18]. But troubles were brewing for the developmental state.

Troubles of the Developmental State

In the eighties several states, some among the developed countries, many more among the developing countries, encountered such macroeconomic problems as unsustainable balance of payments difficulties, high inflation, budget deficits, and debt trap. During 1970--1985, the external debts of developing countries jumped from below $ 70 billion to over $ 700 billion, and the interest payments exceeded the new loans they received[19]. Over-regulation, statism, and insufficient administering capacity were blamed for the malaise[20]. Growth rates fell drammatically. Sub-Saharan Africa's annual per capita GDP growth rate stagnated declined from during 1973-80, and worsened to -2% during 1980-89. Eastern Europe's growth rate declined below 1% during 1980-89, that of Latin America became negative, and that of Middle East, North Africa, and some parts of Southern Europe fell below 1%[21]. Only in East Asia and South Asia was the growth rate healthy, respectively close to 7% and 3%. Fiscal and monetary conservatism came into fashion, as well as a scaling down of statism. This movement was reinforced when the Communist system in the Soviet Block collapsed. Many developing countries had to resort to international borrowing, especially from the International Monetary Fund and the World Bank. Both these bodies had been preaching fiscal and monetary conservatism, an open, deregulated economy, importance of a private sector driven market economy, free flow of private foreign investment, and restricted state intervention in the economy. They got a chance to bend Third World states in trouble to their beliefs. The model of the market friendly state that they have evolved is worth examining because in the eighties and nineties it has powerfully influenced the design and functioning of the state in most developing countries.

The World Bank Model of the Market Friendly State

The World Bank and the International Monetary Fund are not just two premier international financial institutions. They are the principal external state-shapers of recent times. Since 1980, when scores of developing countries with large balance of payments difficulties turned to them for a bail-out, they have been advancing "structural adjustment" loans to governments and imposing conditionalities on them[22]. These conditionalities are based on several presumptions such as that private ownership is inherently more efficient than public ownership, and competition is a most effective means of promoting efficiency, so that a major preoccupation of the state should be to create an incentive structure and an institutional structure in which a competitive private sector economy can flourish. Its structural adjustment loan conditionalities commonly stress deregulation of markets, reduction of fiscal deficit to control inflation, lowering of taxes and tax "reform" to reduce tax evasion, devaluation to make exports competitive, lowering of tariff barriers to increase competition, incentives for foreign private investment, privatization of public enterprises, greater investment in infrastructure and human resource development, land reforms, safety net, etc.

The 1997 World Development Report outlines the latest World Bank vision of the good state in fair detail, and buttresses it with much anecdotal and some research material[23]. The major premises and prescriptions of the World Bank articulated in this report are the following:

1. "An effective state is vital for the provision of the goods and services -- and the rules and institutions -- that allow markets to flourish and people to lead healthier, happier lives. Without it, sustainable development, both economic and social, is impossible ...... the state is central to economic and social development, not as a direct provider of growth but as a partner, catalyst, and facilitator[24]". This rules out centralised and comprehensive direction of economic activity characteristic of statist economies.

2. There should be a two-part strategy for increasing the effectiveness of states. Part one involves narrowing "the growing gap between the demands on states and their capabilities to meet those demands" through greater selectivity in the state's priorities and offloading of the rest; and "involving citizens and communities in the delivery of core collective goods"[25]. Part two involves increase in the capability of the state to manage collective actions efficiently by "reinvigorating public institutions"[26].

3. Matching the state's role to its capability implies the following:

(a) Redefining of priorities for state action: "Five fundamental tasks lie at the core of every government's mission, without which sustainable, shared, poverty-reducing development is impossible"[27]. These fundamentals are (1) establishing a foundation of law and prevention of lawlessness; (2) macroeconomic stability (low inflation, containment of adverse balance of payments, etc.) and a "nondistortionary" policy environment; (3) investment in basic social services like health and education and infrastructure (energy, transportation, communications, posts, etc.); (4) protection of the vulnerable segments of society such as women and ethnic minorities, and (5) protection of the environment by harnessing public opinion, flexible regulation, strengthening of self-regulation mechanisms, and creating incentives for not polluting.

(b) Creation of alternative providers of infrastructure, social services, etc. For instance, instead of the state assuming the entire burden of providing health insurance or unemployment benefits, business, labour, and community groups can be coopted in sharing the burden. Regulation can be devised to increase competition and innovation rather than merely prohibit undesirable conducts, or be eliminated to release creative market forces. Privatization offers important possibilities for reducing the burden on the state. However, the way privatization is managed is as important as its content, and this means "transparency" of the privatization process, winning the acquiescence of the staff, broad-basing ownership in the privatized activity, and instituting an appropriate regulatory structure for the privatized activity.

(c) In countries with weak institutions that are unable to check arbitrary actions of the state or its masters, self restricting rules that precisely specify the ambit of a policy, and make it irreversible or costly to reverse, can be harnessed. Another way of checking arbitrary state action is for the state to work with the corporate sector and other organized forces for pursuing, say, an industrial policy, so that the latter is a product of consensus rather than administrative fiat.

4. "The second key task of state reform is to reinvigorate the state's institutional capability, by providing incentives for public officials to perform better while keeping arbitrary action in check"[28]. One way of doing this is through the separation of the powers of the legislature, the executive, and the judiciary, and a system of mutual checks and balances. An independent judiciary is vitally important so that laws are enforced and unconstitutional laws are struck down. Corruption eats into the vitals of whatever institutions that have been established. Therefore, another line of action is reduction of opportunities for corruption by reducing the discretionary authority of officials, deregulation, and removal of artificial barriers to entry in industry. Competitive remuneration to public officials can also reduce inefficiency and corruption. Stringent punishment for wrong doing and an independent agency for detecting it can be quite helpful.

5. Another way of strengthening the state's ability to deliver needed services is by subjecting the state's services to increased competition from agencies both within and outside the state. For example, public goods and services such as electricity and telecommunications services can be competitively provided rather than exclusively by monopoly agencies of the state. Also, there can be meritocracy in the recruitment and promotion of public officials. Focused, performance-based public agencies with autonomy and greater managerial accountability can be set up.

6. Giving the people voice in the affairs and activities of the state, by the ballot box route as well as by coopting them on various advisory councils, also is a powerful way of strengthening the state's ability to deliver. Involving the beneficiaries of

government programmes in the planning and implementation of these programmes has been found to enhance their effectiveness.

7. Devolution of authority from the central government to regional and local governments can be yet another effective route, provided mechanisms are evolved to monitor devolution, prevent the capture of these governments by vested interests, and check profligacy by these governments.

8. The state should ensure broad-based public discussion of key policies and priorities. This implies much greater access of the public to information with the state and the use of various consultative forums by the state.

In evolving its conception of the effective state the World Bank has drawn on the experiences of the Western world as well as the failures in Africa and Latin America and the successes in East Asia. The result is the outline of a humane, participatory, market friendly state that promotes economic growth with human welfare. But there are also interesting omissions: ways of building a strong democracy; the role of ideology in rousing for socio-economic transformation relatively inert, traditional masses; national planning for faster economic development (as in most East Asian "miracle" economies if not in the Soviet system); creating a strong sense of nationhood in pluralistic developing societies; policies of positive discrimination in favour of the disadvantaged; progressive taxation; state protection and nurturance of infant industries; the state coordinating the private sector for economic growth via growing non-traditional exports (as by MITI in Japan) or for other national priorities; creation of a development-oriented bureaucracy, etc. Nor does the World Bank have many credible alternatives to offer in situations where the state has been captured by a corrupt and ruthless clique, and a "predatory" state has emerged, as in many African countries. In such cases one solution it does offer is to make international assistance conditional upon the state pursuing the "right" policies: "A high priority for aid agencies is to systematically channel resources to poor countries with good policies and a strong commitment to institutional reinvigoration"[29].

The World Bank has been promoting its model of the market friendly state in countries with which it has a clout, namely states that have turned to it for assistance during a tight corner. How good are the results? For a sample of about 30 transitional economies, most of which had availed of World Bank structural adjustment loans before the mid-eighties, just over a half increased their growth rates during 1989-93 compared to the period 1978-82, while the other half decreased theirs[30]. The World Bank's own assessment of the kind of structural adjustment it has been promoting has indicated frequent improvement in balance of payments but nothing conclusive about improvement in growth rate or control of inflation[31]. Several other studies have noted a number of unfavourable effects in some of the poorer countries, such as further impoverishment of the poor, lowered rate of investment, sharp increase in debt, reduction in the real exchange rate of the currency, loss of purchasing power, and in most ex-socialist countries, negative growth rate[32].

In view of this mixed record, questions arise: Is the World Bank pushing too hard Western conceptions of the good state? What long term interests is it promoting? The following quote from a World Bank report is instructive:[33]

> "It is the particular responsibility of the industrial countries and the finance agencies to
>
> * Defend and extend the liberal order of international trade established after 1945
> * Ease the flow of capital across borders
> * Pursue domestic policies that promote global saving and steady, non-inflationary growth.
> * Support the transfer of technology
> * Protect the environment and conserve energy."

Accordingly, the World Bank's advice to the governments of developing countries is: "The right strategy for the developing countries, whether external conditions are supportive or not, is to

* Invest in people, including education, health, and population control.
* Help domestic markets to work well by fostering competition and investing in infrastructure.
* Liberalize trade and foreign investment.
* Avoid excessive fiscal deficits and high inflation"[34].

Fostering of competition and liberalization of trade and foreign investment may make good sense once a developing country, such as South Korea, has become industrially mature after a prolonged spell of growth. But it is this spell of growth that needs first to be triggered. In Japan, South Korea, or Taiwan, this spell of growth was triggered by a state that was highly interventionist, committed to exports-led, planned growth, rapid industrialization through the protection of infant industries, the growth of new industries through the setting up of public enterprises, protected domestic markets, some cartellization, and limited and carefully monitored foreign private investment[35]. Would these economies have grown so fast between, say, 1960 and 1980, had they instead fostered competition and liberalized trade and foreign investment?

State Spending and the Managerial State

The rapid rise in state spending may be sustainable in high growth economies; but not so in economies growing at barely 3% a year, as many economies, including Western economies, have been growing during the past 20 years. Inevitably therefore there has been a reaction against state spending. The welfare state has come under attack in the West; statism, in the developing countries. But it is not easy to scale down government spending--it means large loss of employment in the public sector, and where welfare spending is proposed to be cut, political action against it by those who are poor, disadvantaged, and insecure that are the prime beneficiaries of the welfare state.

In the meanwhile, however, a relatively new option has come to the fore: making the government businesslike so as to eliminate waste, cut costs, increase efficiency, and give the customer-and the citizen-better value for money. Given the vast resources expended by the state and perceptions of its low productivity, making the state's operations businesslike may have potential for enhancing productivity as well as accountability and service quality. The idea of a businesslike state has been a bit slow in coming, but its hour has come. Beginning in the sixties, bringing corporate management into government, "reinventing" the government, and the "entrepreneurial state" have become the rallying cries of many in the West.

The Businesslike State

Corporate management is held in high esteem in the US and other Western countries, and often held up to the "inefficient" public sector as a model of efficiency and innovation. It is no surprise, therefore, that from time to time efforts are made to adapt good business practices for managing government. Robert McNamara, former president of the Ford Motor Company, and the defence secretary of the US in President Kennedy's administration in the sixties, made heroic efforts to transplant several good management practices into the defence department, many of which later spread to other departments of the US government[36]. These included identification of key missions (such as the nuclear retaliation mission), and coordinated pursuit of these that cut across various branches of the armed forces organization (planning by missions). They also included the development of "running" five year budgets for each strategic programme that were periodically updated. Each strategic programme was preceded by a battery of questions, such as why it was necessary, why it could not be pursued in a more effective way, what was so sacred about the jurisdictional boundaries of the programme. A formalised cost-benefit system was institutionalised for assessing new investments or expenditures, and these cost-benefit analyses were independently performed by a group of experts in the secretary's office. McNamara also brought in PERT to improve operational planning and implementation. He emphasised optimal allocation of resources using operations research and systems research models of management science. Besides these, the use of network planning and control, value engineering, and the planning programming budgeting system was made mandatory in the defense department.

In the US, the idea of rolling back the state, particularly the federal government, picked up steam during the Reagan presidency. Reagan embarked on a management reform of the govenrment in the early eighties[37]. Budget cuts in various programmes were mandated from the top. The President's Council on Integrity and Efficiency was appointed in 1981. Its mission was to start wide-ranging projects, such as increase economy and effectiveness of various programmes, greater vigilance against fraud in government purchasing, contracting, etc., streamline financial management systems, and improve data processing; increase professional expertise; and disseminate the use of management tools and techniques in the government. A consequence of the work of its sub-committees was that recovery or restitution procedures for nearly $ 5 billion were initiated in 1989; over 5600 successful prosecutions were launched; over $ 700 million were recoved; about 2850 debarment or suspension actions were taken against people doing business with the government; and an estimated $ 57 billion worth of assets were claimed to be used more efficiently. Reagan appointed the Grace Commission to reveal how wasteful and mismanaged the federal administraiton was. The Commission involved some 2000 business executives in its deliberations and its report contained over 2500 specific recommendations for eliminating programmes, divestiture of assets, removal of waste and redtape, etc., which it claimed could save $ 424 billion in 3 years. Reagan also started issuing, starting in 1985, the annual Management of the United States Government Report. He ordered all government agencies to establish productivity and quality priorities, and reward achievement as in the private sector. His goal was 20% increase in productivity in the federal govenrment by 1992. The total quality management approach was also pushed. A Chief Financial Officer of the United States was appointed in 1987 to ensure adherence to sound financial management practices throughout the government. In 1988 the Office of Privatization was established, and the Organizational Excellence Project was initiated to identify, document, and disseminate examples of excellent management in the federal govenrment. The Government of the Future Project was also initiated to develop scenarios of the form of the federal govenrment in the year 2000. All these initiatives, however, failed to prevent the US federal government from running up huge fiscal deficits, and may have demoralized rather than strengthened the federal bureaucracy through politicization and persistent castigation for inefficiency and sleaze.

The effort at making government more businesslike and effective has been labelled "reinventing government." The basic idea, as enunciated by David Osborne and Ted Gaebler, authors of Reinventing Government, is to create an entrepreneurial, businesslike state[38]. They enunciated the following "principles":

1. The government should concentrate on catalysing various social and economic activities. It should steer, that is, give broad support and direction, rather than get involved in rowing, that is, in actual operations.

2. The government should empower communities to serve themselves rather than itself get involved in community service activities. The services in which community control can be especially beneficial may be health, schooling, and welfare related services.

3. The government should set out to create competition in public service delivery so that customers get the best value for money. For example, monolithic public sector organisations can be broken up into numerous units to foster competition; public services can be contracted out to the best bidder, and bidders can include public as well as private sector agencies; and an option can be given to government agencies to buy from inside the public sector or outside it. Privatisation of a government activity or service can be done in such a way as to promote competition, for example, by handing it over to several parties rather than a single party.

4. The government should be transformed from being rules driven to being mission driven, that is, driven by a vision of excellence and a sense of mission.

5. The government should be results-oriented, and fund outcomes rather than inputs. The tendency in democratic governments is to worry about whether the budgeted expenditure is incurred or not, and whether government rules have been followed or not in incurring it. Instead, the stress should be on getting results, even if it means liberalising the budgeting rules and reguations, such as by permitting agencies to reallocate money from one head to another freely, or

to carry forward the unspent balance next year without prior government approval, etc.

6. The government should be customer-driven, meeting the needs of the citizen-customer rather than mainly the needs and requirements of the bureaucracy. This can be done through customer surveys and follow up assessments of changes introduced as a result of such surveys, compulsory minimum contact of each staff member with the customers of the government agency or department, setting up of customer councils for feedback, of focus groups for dialogue on a new service or service modification, creating electronic facilities for customers to communicate directly with an agency, customer service training for agency staff, test marketing of new services, giving of quality guarantees to customers, use of undercover inspectors to monitor public services, the setting up of efficient complaint registering and complaint tracking systems, etc.

7. The government should become more business-like, and try and earn what it spends on its various activities. Thus, its agencies should price their services rather than give them gratis, and price them to generate a surplus. Having to support activities on their own would make these agencies value efficiency much more.

8. The government should concentrate on prevention rather than cure, and learn to anticipate problems. Often governments undertake activities without thinking through their wider implications for pollution, environmental degradation, effects on disadvantaged groups, etc. Anticipation of these consequences can lead to more effective plans.

9. The government should decentralise its operations and learn to get its work done through participative management and team work rather than hierarchically through the orders of bosses. For example, the bulk of authority over schools can be transferred from the local government to teams of principals, teachers, and parents; a field laboratory to test creative policing ideas

can be participatively set up; staff meetings can be held to brainstorm on how to rehabilitate a moribund sanitation department, etc.

10. The government should harness incentives and markets rather than controls and regulations to bring about desired changes, such as by offering guarantees for educational loans by banks to students, by creating a secondary market for building loans, or by taxing pollution at punitive rates rather than banning it, or by providing tax credits or vouchers to low income families to get child care from the market.

Doubtless one or more of these "principles" can be feasibly employed in many situations. But whether they can be employed on a wholesale basis to transform the US--or indeed, any government--remains to be seen. There can be potential conflicts between principles of public accountability and professionalism on one side and some of the above "principles" of a businesslike state[39]. For example, when a legislature enacts legislation or votes public funds for a particular objective or activity, who is accountable to the legislature if the relevant activity is contracted out to a private party? In the pursuit of results, how much latitude would an agency have to flout well-established government procedures that have evolved over the years to minimise fraud, etc? Above all, there is the public interest to be protected, especially the interests of the disadvantaged. Would recourse to the market, extensive contracting out and privatisation, and "customer' orientation erode or bolster social justice and the aims of public policy?

Concluding Comments

The state has evolved in interesting ways both in the developed countries and in the developing countries. In this chapter four models of the state that evolved in this century have been briefly sketched, namely the democratic interventionist-welfare state commonplace in the West; the development, economic growth and social change oriented state that flourished in the socialist world and the Third World for 30 or 40 years in the second half of the 20th century but ran into serious problems in the eighties; the World Bank's market-friendly, humane, liberal conception of the state that has been influencing the states of many developing countries that got into trouble because of an alleged excess of statism; and the "reinvented," businesslike state that seeks to bring in many aspects of effective entrepreneurial corporate management into the functioning of the state.

These forms are not of course, impervious to change, or indeed, to each others influences. The developmental state is likely to be influenced by the World Bank's liberal concerns, and the resulting state, if it generates affluence, may shade into the interventionist-welfare state which is currently shading into the businesslike state. Who knows? The businesslike state in the West may adopt some form of planning and central economic direction to meet the economic challenge of the developing countries or to balance better the public interest with private interests.

Indeed, the history of the state is rife with adaptive borrowings from disparate social systems[40]. Monarchical, feudal, and Christian Britain borrowed, in medieval times, the idea of democracy from ancient Greece and Rome, but adapted it to its own needs. The United States and France, after their revolutions in the late 18th century, adaptively borrowed the republican form of Rome. In the 19th century, the British civil service was modelled partly on the civil service that had evolved in India, Britain's colony. The Mandarin civil service in China was adapted by several nations on China's periphery, notably Japan and Korea. In the 20th century, India adaptively borrowed Britain's Westminster-style democracy; America's written constitution, separation of the powers of the legislature, judiciary, and executive, and the separation of religion and state (secularism); and the Soviet central planning system. Most Latin American countries have adaptively borrowed the American presidential system. Several East Asian states adaptively borrowed Japan's corporate state, especially close coordination with the private sector through various consultative deliberation councils to further the aims of the state such as rapid industrialization and exports-led growth[41]. There is no reason to think that innovations that arise in any of the four types of state discussed in this paper are wholly unsuitable for the other types. Innovations in governance systems, and adaptive borrowings of these innovations, are powerful keys to state excellence.

Each of these four states is an innovative response to its times, to social and historical forces. Indeed, within each of the four types there are many variations, each a response to unique local conditions. The Korean developmental state, for instance, worked closely with big business; the Indian developmental state had, until the eighties, an adversarial relationship with big business. France and Japan among the innovationist-welfare states adopted indicative planning; the US abjured it. The form of the state is powerfully influenced by the social ecology within which the state is embedded, and since this century has seen huge social and political changes all over the globe, this century has been extraordinarily fecund in creating new forms of the state. But the relationship between society and state is not a simple unidirectional one. Just as social forces affect the state, the state also profoundly influences the social and economic behaviour of the people. The welfare state may affect attitudes towards work; the developmental state may change the lifestyles of those at the bottom of the heap.

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