

# The Future of the State



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# **The Future of the State**



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# Executive Summary

**T**he state is one of the most important institutions and actors. Its influence manifests itself through a variety of policies and programs, and also by reflecting demands from society. In the area of the welfare state, recent trends show a rapid expansion of state activity in some parts of the emerging world, at the same time that social programs in education, healthcare, unemployment benefits and old-age pensions have stagnated or even retrenched in the advanced industrial democracies. Meanwhile, the recent global financial crisis has triggered an increasing presence of the state as an actor and as a regulator, and state-owned enterprises and sovereign wealth funds from the emerging economies are playing an increasingly important role on a global scale.

The state operates in a context shaped by politics. Processes of political participation and accountability shape both the policies adopted and their implementation. In many parts of the world, including both developed and developing countries, state agencies have come under an increasing degree of capture from special interest groups. In others, state fragility and failure pose new challenges to the local population and to the international system of states as a whole.

We offer several avenues for research, policymaking, and activism concerning the state, including the recognition of states as complex, diverse and heterogeneous in terms of both their internal characteristics and the ways in which they relate to the society, to the economy, and to one another. We also emphasize the importance of avoiding functionalist, triumphalist, and universalistic conceptions and explanations of the state, making room for politics, ideology, and moral dimensions. We propose a view of state activity as driven and enabled by the political process, with the resulting need for participation, inclusion, and avoidance of instances of state capture by special interest groups. We suggest alternative modes of organizing for political mobilization, action and participation, including dues-based organizations that may help citizens gain a voice of their own. We also bring attention to the problems associated with economic, financial, political, and knowledge elites as fundamental actors making use of state structures to accomplish their goals. We see effectiveness and legitimacy as mutually reinforcing dynamics of state action. We warn against the ceremonial adoption of state structures and of democratic trappings which may not be conducive to an actual improvement in people's living conditions and in the quality of democratic life. We explore new ways of bridging the gap between a rapidly globalizing economy and the local character of political dynamics.

# The State at a Crossroads

**T**he state is both an institution and an actor of utmost importance, and it is the subject of much debate and criticism as well as praise. The fiscal crisis in many parts of the world has forced politicians, policymakers and voters to revisit some long-held assumptions about the role of the state in the economy, the society, and the culture. In large swaths of the developing world the state has expanded, including welfare programs, while in others state fragility and outright failure has undermined the rule of law, the extension of basic services like security, education and healthcare to citizens, and economic growth. New models of governance have been proposed to recalibrate and even to reinvent the relationship between state and society. It is relatively uncontroversial to observe that the state is in flux around the world.

In the so-called advanced industrial democracies, the 20th century inherited the idea of the modern nation-state and its bureaucratic apparatus from the 19th century. Extensive welfare states developed hand in hand at a time of economic optimism. At the turn of the 21st century the state finds itself under ideological attack and fiscal pressures have been mounting in Europe and the United States. While the welfare state has not shrunk significantly in Western Europe, it has lost some of its legitimacy and political support.

In many emerging economies the state is also undergoing retrenchment in the wake of privatization policies, but in others a new model of state capitalism is gaining ground, and social and welfare programs have been expanded. What are the implications of these large-scale trends for the state's capacity to create the conditions for citizens to enjoy better living conditions now and into the future? What are the implications for economic growth and for inequality? What is the proper role of the state in the economy? Will state capitalism

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be the dominant economic arrangement in the 21st century? These are some of the vexing questions that scholars of the state have been tackling for the last few years.

The debate over the role of the state in the society and the economy has come a long way since the controversies over Keynesianism, central planning, Hayek's *Road to Serfdom*, and the Thatcher-Reagan so-called 'revolution'. To be sure, the political debate continues, often in polarized ways. In some academic circles, much of the discussion is about how to make the role of the state more effective and efficient, although there is a diversity of views concerning the appropriate size and scope of state regulation and activity. Still, it is undeniable that in the advanced industrial democracies the state is suffering from a legitimacy crisis, one that has been exploited by its political enemies. Rising levels of sovereign debt have led to economic recessions and financial difficulties. In this part of the world, state indebtedness rose during the 1970s and 80s to levels not seen since the end of World War II. By the turn of the 21st century, sovereign debt reached 70 percent of GDP in the advanced industrial democracies, and by 2012, as a result of the crisis, it approached 100 percent. In the emerging and developing world, the debt ratio has actually declined to less than 40 percent after having surpassed 50 percent in the early years of the 21st century.

Meanwhile, the state has become bigger and more active in the emerging world, although starting from a much lower base than in the advanced democracies. Whereas in 2012 public spending, as measured by general government consumption, stood at nearly 19 percent of GDP in the high-income regions of the world (22 percent in the Eurozone and 16 percent in the U.S.), the average for the low and middle-income countries was about 14 percent, according to World Bank statistics. China's government spends about 18 percent, excluding investment. The trend is unmistakable: in the low and middle-income countries general government consumption grew from nearly 9 percent of GDP in 1960 to 14 percent nowadays, while in the higher-income countries it only grew from about 15 to just below 19 percent. While in continental Europe levels of state spending have remained very stable since the 1980s, they have declined markedly in the U.S. and the UK.

Taxation is another way of measuring the presence of the state. Europe stands out as the region of the world with the highest ratio of taxation as a percentage of GDP. In the Eurozone it is about 16 percent, compared to just below 10 percent for the U.S., about 11 percent for China, and a 13-percent average for the low and middle-income countries.

Military spending, which throughout history has led to the buildup of state structures, also exhibits pronounced differences around the world. By far the biggest spender is the U.S., which allocates upwards of 4 percent of its GDP to the military, or nearly 40 percent of the world's total spending. The average for the high-income countries is nearly 3 percent of GDP, and for the low and middle-income countries just under 2 percent. China's is the only rapidly-expanding military budget in the world. The country presently spends about 2 percent of GDP. Overall, there is a marked downward trend in global military spending since the end of the Cold War.

We begin our journey around the world by examining one of the most important manifestations of state activity in the contemporary world, namely, the welfare state, which became a central social, political, and economic institution in the industrial democracies during the post-World War II period, and is now growing fast in the emerging world. We will then debate state activity in the economy and the phenomenon of 'state capitalism', focusing attention on state-owned enterprises and sovereign wealth funds. Lastly, we will address the topic of state capacity and the problem of state failure in some of the poorest parts of the world, noting that political aspects involving participation and engagement are central to gaining an understanding of state legitimacy, effectiveness, and impact. ■

# The Welfare State

**W**hat we know today as the welfare state first developed in several European countries and in the United States as relatively modest schemes to protect specific groups in society such as soldiers, mothers, children, or blue-collar workers. In its origins, the welfare state was the result of a complex set of developments, including the desire to protect certain vulnerable groups, the attempt to ‘domesticate’ the working class in order to avert social turmoil, and the rising political power of the middle class. The post-WWII era witnessed a rapid expansion of the modern welfare state in the industrial democracies of Western Europe, Japan, and the United States, at a time when the Keynesian consensus made fiscal policy and social spending a cornerstone of counter-cyclical macroeconomic management. Nowadays, after several decades of development, the welfare state is a global phenomenon, although the extent to which the government subsidizes and/or provides for education, healthcare, unemployment insurance, and old-age pensions varies considerably across countries. The welfare state has come under intense scrutiny and attack due to the rise of neo-liberal and anti-state ideologies, the worsening of the fiscal outlook, and the trend towards population aging.

According to Evelyne Huber, Professor of Political Science at the University of North Carolina, one

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“The debate about the nature of the nation-state has changed significantly as a result of the globalization of the economy during the past thirty years.”

– Dennis Davis

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Mauro Guillén with panelist Evelyne Huber, Patrick Le Gales, Mitchell Orenstein, Jonas Pontusson, John Stephens and Edward Mansfield

must look at the emerging economies of East Asia and Latin America for clues about the future of the welfare state. The crises of the 1980s and 90s were a turning point in the development of the welfare state in those two regions. “In South Korea and Taiwan the welfare state was relatively small, and thus could not be blamed for the crisis,” as Huber notes. These two countries have stepped up spending on pensions and health care, and created more comprehensive unemployment insurance schemes. Although neo-liberal ideology presented the state and its high levels of debt as a cause of the “lost decade” of the 1980s in Latin America, subsequent political and economic developments have made it possible for the largest countries in the region to expand the number and scale of social programs. “While in East Asia these changes have been driven by the influence of civil-society organizations, in Latin America leftist and labor-based parties have taken the lead,” according to Huber.

Nowadays, we are witnessing a rethinking of the welfare state in both regions away from programs targeting specific groups to more “universal” and comprehensive schemes aimed at providing a set of guaranteed social services. One important program





Patrick Le Gales, Mitchell Orenstein and Jonas Pontusson

is Brazil’s Bolsa Família, which provides subsidies for poor families to maintain access to education and healthcare, especially for children.

In Western Europe the welfare state has weathered multiple crises relatively unscathed, with overall levels of spending remaining relatively stable. One interesting development is the effect of the rise of far-right political parties. According to Patrick Le Gales, CNRS Research Professor at Sciences Po Paris, there is an attempt to redefine a crucial aspect of the welfare state, namely, who is entitled to benefit from its programs. On the one hand, “xenophobic parties are agitating for the exclusion of certain social and ethnic groups, especially immigrants,” while on the other they are attempting to “use the welfare state to bolster nationalistic goals, including population growth.” Mitchell Orenstein, a Professor of Political Science at Northeastern University, concurs, adding that this phenomenon is also taking root in Eastern Europe. Miguel Centeno, Professor of Sociology at Princeton, adds that during the ‘golden era’ the welfare state was based on an ideal of national community that is presently being undermined by immigration and cultural differentiation. Thus, much change is not about the state, but about what constitutes a nation, argues Le Gales.

Precisely because of the variability of welfare arrangements, it is necessary to examine the

evolution of welfare states across time and space. This is not to deny that some models and practices have spread globally, and that transnational forces and pressures continue to shape the evolution of welfare states around the world. For instance, Orenstein notes that “many concepts borrowed from the business world have become widely discussed, and in some cases implemented. For instance, there is an emphasis on performance standards, auditing, outsourcing, and other types of rationalization processes.” These practices are fundamentally reshaping the state in general, and the welfare state in particular, around the world. Dennis Davis, High

Court Judge in Cape Town, South Africa, takes this point one step further by arguing that “the debate about the nature of the nation-state has changed significantly as a result of the globalization of the economy during the past thirty years.” The implication is that “policy changes set into motion by the state are fashioned, to a considerable extent, by economic and political forces which lie beyond the control of the state,” he observes.

Orenstein offers a second example regarding the privatization of pension systems, starting with the pioneering Chilean reforms of 1981, which later spread throughout Latin America. A similar diffusion of private pension schemes, promoted by USAID and the OECD, took place in Eastern



Evelyne Huber and Patrick Le Gales

Europe. An interesting question, Orenstein notes, is why after 2005, i.e. three years before the crisis, the tide turned towards, a recalibration of private pension schemes. One example was the reforms by President Michelle Bachelet in Chile, which introduced public non-contributory pensions to complement the privatized system and compensate for its shortcomings. In the wake of the financial crisis, many countries faced budgetary difficulties and households saw the value of their private pension funds plummet. Meanwhile, multilateral agencies such as the IMF did not recommend further privatization, although some countries decided to pursue it. Another interesting aspect, Orenstein observes, is that the Great Recession has delegitimized the notion that periods of crisis are ideal for introducing market-oriented reforms and deregulation.

For Jonas Pontusson, Professor of Political Science at the University of Geneva, “one would have expected welfare states in Western Europe to expand given the growth in unemployment, inequality, and other social problems since the crisis.” Anti-state ideologies, global economic constraints, and the emphasis on austerity policies to tackle the crisis, however, continue to stand in the way. He also argues that welfare states seem to play less of a role today than in the 1980s and 90s when it comes to creating the foundations for sustainable export-oriented growth, especially in



small, open economies. In the past, spending in education and healthcare made it possible to pursue a strategy of high-end production and export. But nowadays, Pontusson notes, domestic costs have become much more important for export

competitiveness because of the race to the bottom brought about by globalization, and the increasing sophistication of emerging economies when it comes to manufacturing a wide array of goods.

Another important change in the effects of the welfare state has to do with redistribution.

Since the turn of the 21st century and especially since the crisis, European states have been less effective at reducing poverty, and inequality more broadly, through redistributive policies. Pontusson argues that “spending cuts and tax reforms have partially reshaped the role of the welfare state in redistribution.” The reasons have to do with spending, which has been cut, and with tax reforms, which have reduced progressivity, especially when it comes to capital gains. Changing rules regarding who qualifies for state benefits and for how long are also relevant. For instance, in many countries unemployment benefits are now conditional on undergoing job training and actively looking for a job. Pontusson also highlights as important the shift of the burden away from the state and towards companies, especially in Continental Europe, while in the liberal market economies of the UK and the U.S. the private sector continues to extricate itself from providing certain employee benefits. More broadly, Pontusson argues that the recent evolution of welfare states in Western Europe indicates “a decline in national standardization and in national solidarity.”

Taking a more general, less Europe-focused perspective, Peter Evans, Professor of Sociology Emeritus at Berkeley, sees the situation more optimistically. He notes that the need for the state has never been greater. “There is a hunger for





Evelyne Huber and Theda Skocpol

‘capacity-enhancing public goods’ which must be provided mostly by the state.” In his view, “the returns for investing in state capacity are high, and getting higher. Long-run productivity can be increased through investments in infrastructure, human quality, and civil society.” He adds the caveat in that the finance-dominated logic that has become so widespread tends to discourage these types of investments, but notes at the same time that states that have embraced capacity-enhancing policies, like the Nordic states among the rich countries and emerging countries like Brazil, Taiwan and Korea in the South, have done well in the global economy.

According to John Stephens, Professor of Sociology at the University of North Carolina, the overall picture is not one of welfare state retrenchment, but of reconfiguration. “The welfare state is not shrinking, it is being restructured, at least in the Nordic countries, to become a ‘social investment state,’ not abandoning efforts at social protection but focusing more effort on investment in human capital. Stephens observes that welfare state programs that contribute to employment and growth account for a higher percentage of the total in the Nordic countries. “The state is on the retreat only in macroeconomic terms,” notes Stephens, The best examples have to do with currency

devaluations, cross-border and domestic capital controls, trade restrictions, and other similar devices that governments traditionally used to improve competitiveness and manage the business cycle. Neoliberal reforms, multilateral agreements, and the expansion and deepening of trade blocs have drastically reduced the latitude of governments when it comes to independent macroeconomic management.

The different manifestations of the welfare state have also become part of the debate over economic growth and competitiveness with spending in certain areas like education considered as investment rather than consumption. Lars Pernice, who teaches at the National Autonomous University of Mexico, notes that the distinction is tricky. Theda Skocpol, Professor of Government and Sociology at Harvard, notes that spending on education and family health care is especially likely to generate social and economic returns. Huber, however, notes that spending on primary and secondary education in Latin America is not just an investment that increases productivity but has also had a role in reducing inequality by diminishing the “education premium” that had expanded income inequality among wage earners.

In sum, it is important to debunk the myth of welfare state retrenchment on a global scale, or even within specific regions, and to highlight its continuing transformation under rapidly changing circumstances. The funding and provision of social services by the state have been expanded, reduced, and restructured around the world following complex patterns, the result of equally intricate domestic and global forces. Welfare states continue to be institutional arenas in which social movements and politics play out. At the same time, much of the recent transformation of welfare states over the last two decades has been due to ideological and political realignments, and by societal demands. ■

# State Capitalism

**A**nother area of intense debate regarding the state has to do with its presence in the economy above and beyond the welfare state, specifically in the areas of production and finance. While the global economy is increasingly governed by a set of liberal economic principles emphasizing the free unfolding of market forces, some non-conventional actors and ways of participating in global economic activity have gained in stature during recent years, including the global expansion of state-owned enterprises and the growth of sovereign wealth funds. The rise of the emerging economies as net foreign investors has brought about a revival of old and new forms of state intervention in the economy. State-owned enterprises from countries as disparate as Brazil, China, India, Russia and Venezuela, to name but a few, have become major international investors in energy, construction, and infrastructure. These companies enjoy commanding market shares in their respective home countries, and access to privileged funding from the state, including national development banks. Large current account surpluses or increases in commodity and energy prices have led countries to transfer part of their foreign reserves from the central bank to newly created sovereign wealth funds. These funds initially invested in fixed-income securities, but have most recently shifted their strategy to include equities, a trend that has proved controversial in some cases.

Cumulative foreign direct investment by state-owned enterprises from the emerging economies has reached 1.5 trillion dollars as of the end of 2012, while the assets under management at sovereign wealth funds now top 2.5 trillion dollars. These figures are large enough to make a difference in the global economy, and will likely become larger over the next few years. Taken together, “the



Richard Deeg and Aldo Musacchio

global significance of state-owned enterprises and sovereign wealth funds is on the rise,” notes Aldo Musacchio, an Associate Professor at Harvard Business School. “The influence of the state throughout the productive economy is on the increase in many parts of the emerging world,” he adds.

Tulia Falleti, Professor of Political Science at the University of Pennsylvania, asks if state-owned enterprises are merely consuming resources and exploiting their privileged position, or also making positive contributions. Musacchio argues that there is considerable debate regarding this issue. In countries like Norway regulation is effective when it comes to making Statoil, the national oil company, accountable. But this is not always the case. “New models of governance and management of state-owned enterprises borrowed from the private sector, however, have made them more effective at contributing to economic and employment growth,” he notes. Evans rightly asks the important question of whether state-owned enterprises do anything differently than the private sector. “There is considerable evidence indicating that state-owned firms,” according to Musacchio,



Fred Block, Dennis Davis, Regina Abrami, Richard Deeg and Aldo Musacchio

“the state is capable of designing and implementing economic, financial and industrial policy using a variety of tools, but only some countries meet the conditions for the state to play that role successfully.” In particular, Deeg argues that “states need to be capable and not subject to corruption.” The presence of the state in the economy, further notes Skocpol, is

“adopt longer time horizons when it comes to investing.”

The idea of ‘state capitalism’ needs to be put in historical perspective, argues Fred Block, Professor of Sociology at the University of California, Davis. He invokes Karl Polanyi to note that markets have always developed thanks to the institutions put in place by centralized governments. Centeno and Evans agree. “Finding evidence of state involvement in the economy does not prove that state capitalism is at work,” observes Evans. There is a great deal of variation in terms of the involvement of the state in the economy. Dennis Davis notes that the terms ‘neoliberal’ and ‘state capitalism’ are used too loosely. “Having said that, is the state fading? Not really,” he argues, because states all over the world are devising new ways to raise taxes and to shape the economy. Tax reform, privatization, and the degree of state involvement in the economy are all deeply political and ideological issues as well as technical ones. The confluence of those forces produces a wide variety of configurations of state-economy and state-society outcomes. According to Richard Deeg, Professor of Political Science at Temple University,

complex, constantly shifting, and diverse in its effects. Clearly, the term ‘state capitalism’ should be defined more narrowly to include only specific vehicles such as state-owned enterprises and sovereign wealth funds, as Musacchio argues.

Block observes that one of the best examples to illustrate the pivotal role of the state in the economy has to do with technological innovation. “The Federal government has been instrumental in funding and shaping new technologies, providing a key nexus between the research lab and the commercial sphere.” While he believes that the U.S. system of innovation works relatively well, one of its key weaknesses is providing finance for new technology firms. He argues for a greater role for nonprofit or public finance both at the national level and at the global level. Multilateral institutions should follow the World Bank model and should issue bonds and then disburse loans to public and private entities around the world that need resources for economic and social development. In his view, “this solution overcomes the most important constraint in many parts of the world, namely, the difficulty of raising revenue through taxation.”

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“Contrary to the conventional wisdom, China is not really state capitalism in the sense of the state playing the most important role mobilizing resources for development.”

– Regina Abrami

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Regina Abrami, Director of the Global Program at the Lauder Institute, adds a note of caution regarding the role of the state in some emerging economies. “Contrary to the conventional wisdom,” she notes, “China is not really state capitalism in the sense of the state playing the most important role mobilizing resources for development.” She observes that in China most employment and output is to be found in the private sector, in services, and in small firms. China is as hybrid a model as one can imagine, difficult to classify, and certainly path-breaking in its own way.

This diversity of institutional arrangements and state-market configurations seems to continue to grow unabated. The crisis has actually increased diversity, according to Deeg. Initially, the effect of the Great Recession was to raise questions about the proper role for the state to play in the economy and in the financial sector, including governance, regulation, intervention, and ownership. Policy innovation led to the outcome that non-market, institution-mediated coordination has been given a chance to contribute to the solution to the crisis. For him the result has been an ironic combination of “state-neoliberalism.” ■

# State Capacity

Central to any debate regarding the welfare state and state capitalism is the idea of state capacity. In her landmark 1985 essay on the state, Skocpol referred to state capacity in the plural as “capacities” related to the state’s “territorial integrity, financial means, and staffing.” For his part, Michael Mann defined state capacity as the infrastructural power to implement policy, a concept separate from policy priorities. Invoking the work of Charles Tilly, Centeno and Skocpol argue that taxation is directly related to state capacity because raising revenue is not only a critical function of the state but also an indicator of its power over territory and populations, a sign of its ability to shape the landscape and to secure resources for its programs and activities.

Randall Collins, Professor of Sociology at the University of Pennsylvania, proposes to use as the point of departure the traditional Weberian definition, which includes the key ingredients of the monopoly over the legitimate use of force, the power of taxation, and the bureaucratic ability to get things done. According to Skocpol, this concept of the state is grounded in a specific geopolitical and historical context, which is different from today’s circumstances. Still, she argues that different combinations and configurations of sovereignty, force, and taxation must be necessarily at play in order for the state to adapt to local social and political circumstances, and to be effective.

The stakes surrounding the issue of state capacity are very high, argues Simon Johnson, Professor at



Fred Block, Diane Davis, Evelyne Huber and Theda Skocpol

the Massachusetts Institute of Technology and former IMF Chief Economist. “The U.S. is a classic example of state capture in that special interests have managed to gain control over the regulatory agenda,” he says. “It is ironic that a few years after a most serious crisis, the banking sector is now even more concentrated, and financial reforms have stalled or are ineffective.” At the present time few government officials subscribe to the deregulation agenda once proposed by a Republican-controlled Congress, the Democratic administration during Clinton’s second term, and the Fed’s Alan Greenspan. “There is a new concern with systemic risks,” Johnson observes. Still, “the ‘influence industry’ has become a pivotal piece of the policymaking landscape, including lobbyists, think tanks, and other organizations.” State capture represents a big threat to state capacity, not just because it check-mates regulations necessary to lower the risk of future crises but also because it shifts political power toward groups with little interest in the “social investment state” to say nothing of traditional welfare expenditures. ■

# Bringing Politics Back In

According to Skocpol, the debate about state capacity and state capture needs to be cast against the larger background of the political process. One should not take the state for granted, in the sense that state formation is not an irreversible process. “The ability of the state to act in pursuit of the public good is certainly supported by bureaucratic capacity and the power to tax, but most importantly by the way in which the state is embedded in the political process,” she observes. She recommends a methodological approach focused on systematically analyzing cases of policy success and cases of policy failure to discover the underlying political roots of state capacity. “For instance, the main reason why in the United States carbon-capping initiatives failed while there has been a partial success in the case of healthcare reform has to do with public pressure on Congress.” Clearly, state capacity is not enough to bring about outcomes. The political process provides the impetus and the direction, or it stifles and derails initiatives. “Both enactment and implementation are driven by politics,” she asserts. As a counterweight to a financial logic, Evans and Skocpol argue for the importance of scholars as well as other citizens to become more engaged in revitalizing a culture of democratic accountability grounded in the idea of a shared commonweal in which all members of society have a stake.

Tamara Kay, Associate Professor of Sociology at Harvard, provides another example of the importance of politics. The process leading to the signing of the North American Free Trade Agreement demonstrates that “pressure and guidance from below” can lead to better outcomes. Although environmentalists and labor groups were opposed to the trade deal throughout the process, “they managed to add

environmental and labor provisions to the agreement, setting an important precedent.”

When it comes to extending this type of analysis to other countries, Jack Goldstone, Professor of Public Policy at George Mason University, warns that “participatory politics are not perceived everywhere as a universal model.” Moreover, research has indicated that the sequence of democratic institution building is problematic, as exemplified by the many failed attempts at making democracy work in certain parts of the world. According to Goldstone, “only one billion people live in countries with both a capable state and a democratic process in place.” Louise Arbour, President and CEO of the International Crisis Group, concurs in that democratization is a difficult task in many parts of the world. “Elections are very dangerous when they challenge very entrenched interests in the short term,” she notes, “and they are very dangerous if they don’t do precisely that in the long term.” In many parts of the world political elites react negatively against what they perceive as a conception of the state and of state action enshrined in Western values, including certain categories of human rights. “Russia, for instance, presents itself as bulwark



Louise Arbour, Peter Evans, Simon Johnson and Theda Skocpol



against that conception, as epitomized by its ideology and policies concerning gay rights,” she argues, adding that such a view “has enormous resonance around the world.”

A related, and politically important, debate emerges out of the fact that the provision of capacity-enhancing public goods and services can never be undertaken by the state operating on its own. Evans reiterated Elinor Ostrom’s basic insight that services like health and education can never be effectively delivered unless they are not simultaneously “co-produced” by the active engagement of the people who use and benefit from them. Yet, at the same time, Kay worries about the expanding phenomenon of social entrepreneurship at the grassroots level as an alternative to state-orchestrated action to overcome social problems because it tends to short-circuit the political process and is very difficult to scale up. For Falleti, social entrepreneurship circumvents civil society as well as the state. Another hotly debated alternative to state provision of public services is philanthropy, often seen as undermining the democratic process because of its elitist character. Arbour argues that states feel relatively more comfortable with philanthropic approaches to the provision of certain education and healthcare services than when it comes to dealing with issues of international peace and human rights. In fact, many states resist the presence of foreign non-governmental organizations, invoking their sovereignty. At the core of the discussion, Arbour argues, is the idea that “the state has a responsibility to protect people against all sorts of harms, from genocide to famine,” adding that

“sovereignty is a bundle of obligations on the part of the state towards its citizens.”

Pontusson reminds us about an important issue regarding the influence of politics and civil society on state action. In his view, rising working-class support for populism in Europe is in part a reaction to neo-liberalism, but it is also “a stark reminder that civil society dynamics do not always lead to good outcomes.” The failure of leftist parties and progressive intellectuals to articulate a program that appeals to large segments of the working class threatened by globalization lies at the root of the problem, argues Pontusson. Diane Davis, Professor of Urbanism and Development at Harvard, adds that this phenomenon can be conceptualized as a risk issue, while Huber notes that part of it is generational in nature, including the younger generation’s gloomy job prospects, and the older generation of displaced workers.

Huber concludes that the study of politics must occupy a central place in the analysis of the state and of its effectiveness as an actor. “The distribution of power in civil society, and its linkages to the state are very relevant.” She adds that “state capacity is endogenous, it can expand or contract as a result of the relationship among civil society, political society, and the state.” For her part, Diane Davis notes that “the normative relationship between citizens and the state should occupy a central place in any analysis of the state,” and that we need new theoretical constructs to unpack it. She proposes the concept of risk and the role that the state plays in mitigating it as a potential line of inquiry into how the state designs and justifies new policies and programs. ■

# Failed and Fragile States

Perhaps one of the most significant challenges to the global geopolitical system as a whole involves the problem of failed states, or the breakdown of state authority and capacity. According to the Polity IV project housed at the Center for Systemic Peace, a failed state is one in which central authority is weak or nonexistent, that is, the government has lost control over law and order in part or all of the country's territory, cannot provide for minimal public services, and cannot interact with other states as part of the international community. While according to this metric the number of failed states in the world has declined from nearly 80 in 1995 to just over 50 in 2012, this phenomenon affects parts of the world affected by serious problems. The so-called long arc of instability in terms of state failure starts in Latin America at relatively mild levels, worsening considerably throughout Africa, the Middle East, and South Asia, and begins improving again as it reaches the Pacific Ocean. These regions are characterized by rapid population growth, poverty, corruption, and vast reserves of minerals, oil, and other sources of energy. It is also important to note that nearly half of the land not currently used for food production is located in Sub-Saharan Africa. Some of the most egregious examples of state failure include Chad, Somalia and Afghanistan.

These, however, are just the most publicized cases. The problem is widespread and daunting, although the downward trend is encouraging, as is the end of the many civil wars that wreaked havoc on state structures during the 1970s and 80s, especially in Sub Saharan Africa.

In addition to failed states, the world is also confronting another crisis regarding the future of the state from the rise of anocracies. According to the Polity IV project, an anocracy is an incoherent political system with an odd combination of democratic and autocratic authority patterns. The number of anocracies has grown from fewer than 30 during the 1970s and 80s to more than 50 at the present time. Anocracies are to be found all over the world, though especially in Eastern Europe, Asia and Africa: Russia, Armenia, Bhutan, Sri Lanka, Cambodia, Algeria, Morocco, Mauritania, Angola, Chad, Guinea, Zimbabwe and Madagascar, among others. Venezuela is also classified as an anocracy.

According to Goldstone, the unravelling of the state is a serious problem. Some fragile states present one face to the international community, which tends to focus on positive developments like elections or economic achievements, but internally



Rob Blecher, Miguel Centeno, Diane Davis, Jack Goldstone and Tamara Kay

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“Recent outbreaks of civil unrest in Egypt, Thailand, Brazil and elsewhere suggest that states are being challenged, revealing a lack of both effectiveness and legitimacy.”

– Jack Goldstone

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they behave very differently and often in ways that are not conducive to socioeconomic development. States need both effectiveness and legitimacy, but most research and rankings focus on the former. “Recent outbreaks of civil unrest in Egypt, Thailand, Brazil and elsewhere suggest that states are being challenged, revealing a lack of both effectiveness and legitimacy,” Goldstone argues. In his view, “population growth, even with declining fertility, in Sub Saharan Africa, the Middle East, and parts of South Asia exposes state fragility in new ways, with poverty in outgrown cities spinning out of control and young people not being able to find stable jobs.” Goldstone calculates that “within two or three decades half of the world’s population will live in countries with fragile states,” warning that “the numerically dominant generation of young people 30 years from now will feel frustrated, in large measure due to the lack of state capacity in the countries in which they live.”

Rob Blecher, who works at the International Crisis Group, argued that while state fragility remains a crucial problem to solve, “today in the Middle East, it is also a political strategy. States have shown themselves willing to target their own capacities in order to deny their opponents political power”. Centeno notes that it is difficult to assess and categorize state failure because the state is not monolithic to begin with. “The state is heterogeneous in its reach, in terms of the extent to which it interacts with the society and the economy,” he adds. “Some spheres, areas, and social strata within countries are more permeated by state activity than others.” Therefore, a more

nuanced analysis of state fragility and failure is needed. “When the state fails,” he asks, “for whom does the state fail and exactly in what sense?” In many parts of the world large proportions of the population are not reached by the state, operating as they do in the informal economy. Centeno also wonders if the goal should be to maximize the presence of the state or if it is better to ensure that citizens enjoy a baseline level of protection and empowerment. In his view, “the worst-case scenario is not a failed state but a frustrated state, one that wants to get something done in response to societal demands but cannot deliver it.”

Diane Davis concurs in that state failure in Latin America is felt very intensely in certain urban areas affected by violence, and also in some rural areas. Kay also agrees that states are not of one piece, and excel in certain areas but fail in others. “States are heterogeneous in their ability to provide certain public goods and services.” From a methodological point of view, she proposes to examine cases of states in the middle of the distribution and not just the extremes of the very rich or the very poor countries.

For Diane Davis the issue of state failure is best analyzed on a case by case basis. Mexico, for instance, is a case of dual transition towards a more globally integrated economy and a political shift away from one-party rule. The concern was whether the state was ready for these changes, as the uncontrolled increase in violence shows. The suggestion by some observers that Mexico had become a failed state like Somalia or Afghanistan generated much controversy. Violence can

undermine the internal legitimacy of the state, and also the ability of the state to interact with other states. “Now, is violence a cause or an effect of state fragility?” she asks. “The two are dialectically related, and in Mexico they co-evolved in the wake of the transition from agriculture to import substitution and the growth of cities, with the state not keeping pace with the ensuing social, political, and economic changes.” The proliferation of armed non-state actors and groups cannot be understood without taking state fragility into account. It represents a situation of “fragmented sovereignty,” which further undermines the state. Diane Davis concludes that “in the developing world we need to redefine what the state is and is supposed to do before we can analyze state fragility and failure, without ignoring the principles of sovereignty, coercion and taxation as fundamental to state authority.”

According to Arbour, President and CEO of the International Crisis Group, who formerly served as the United Nations High Commissioner for Human Rights, the future of the state hinges on having an order that moderates conflict over territory and resources, and protects citizens and non-citizens. The case of the Ukraine is illustrative of the complexity of the problems and the need for lasting solutions. She argues that identity politics around ethnic, religious and other cleavages are a major driver of conflict in every region of the world. The UN was founded on the principle of sovereignty and non-interference in internal matters, but it has felt it necessary to intervene during humanitarian crises. She wonders whether the UN, in order to be effective, needs to add a body representing the peoples of the world as opposed to just states. ■

# An Agenda for Research, Policy, and Activism

**T**he shifting character of the state as an actor and as an institution across time and space calls for changes in the ways in which research, policy, and activism unfold. In light of the debates concerning the welfare state, new forms of state intervention in the economy, state capacity, and state failure, there are a number of potentially fruitful paths of inquiry:

- States as complex, diverse and heterogeneous in terms of both their internal characteristics and the ways in which they relate to the society, to the economy, and to one another, with implications for policymaking and policy outcomes.
- The importance of avoiding functionalist, triumphalist, and universalistic conceptions and explanations of the state, making room for politics, ideology, and moral dimensions.
- Legitimate state activity is driven and enabled by the political process, with the resulting need for participation, inclusion, and avoidance of instances of state capture by special interest groups.
- Alternative modes of organizing for political mobilization, action and participation, including dues-based organizations that may help citizens gain a voice of their own.
- Economic, financial, political, and knowledge elites as fundamental actors which make use of state structures to accomplish their goals.
- Effectiveness and legitimacy as mutually-reinforcing dynamics of state action.
- Attention to the ceremonial adoption of state structures and of democratic practices which may not be conducive to an actual improvement in people's living conditions and in the quality of democratic life.
- Exploration of new ways of bridging the gap between a rapidly globalizing economy and the still local character of political dynamics. ■

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## Download the white papers from past Global TrendLab Conferences:

- *Global Risk: New Perspectives and Opportunities (2011)*  
<http://lauder.wharton.upenn.edu/pages/pdf/other/Global%20TrendLab%202011%20Global%20Risk.pdf>
- *Sustainability: New Perspectives and Opportunities (2012)*  
[http://lauder.wharton.upenn.edu/pages/pdf/other/Global\\_TrendLab\\_2012\\_Sustainability.pdf](http://lauder.wharton.upenn.edu/pages/pdf/other/Global_TrendLab_2012_Sustainability.pdf)
- *Poverty and Inequality: Persistent Challenges and New Solutions (2014)*  
[http://lauder.wharton.upenn.edu/pages/pdf/other/Global\\_TrendLab\\_2013\\_Poverty.pdf](http://lauder.wharton.upenn.edu/pages/pdf/other/Global_TrendLab_2013_Poverty.pdf)

# The Future of the State

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The state is at a crossroads. Welfare programs are rapidly expanding in the emerging world, while they are stagnant or retrenching in the rich economies. New forms of state intervention in the economy have resulted from the global financial crisis and from the rise of emerging economies. States continue to differ in terms of their capacity to act, and their relationship to civil society. Future research, policy, and activism must take into account the growing diversity of states around the world.

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