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STATES, MARKETS AND SOCIETY – NEW RELATIONSHIPS FOR A NEW DEVELOPMENT ERA

Editor **Melissa Leach**

The Retreat of the State (Editorial Introduction)

John Dearlove and Gordon White

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Abstract We are currently witnessing a global process of economic restructuring in both North and South, East and West. Though country contexts may differ, there is one strikingly common element: the criticism of statist modes of development and provision and the move towards greater use of market mechanisms in the delivery of goods and services. As the case studies covered in this Bulletin suggest, this reaction against statist forms of development is common to both Western Europe and the Third World. This similarity is hardly surprising given their economic interdependence, the activity of international disciplinary institutions such as the MF and the World Bank, and the historical link between the emergence of developmental states in the newly independent territories and the system of managed capitalism practised by their former colonial masters. Do the contributors to this Bulletin offer any ways forward for both theory and practice? Certain analytical points emerge which arc important guides to thinking about policy.

We are currently witnessing a global process of economic restructuring in both North and South, East and West. Though country contexts may differ, there is one strikingly common element: the criticism of statist modes of development and provision and the move towards greater use of market mechanisms in the delivery of goods and services.

The problems which this economic 'liberalisation' are designed to tackle vary widely: in Western Europe, there is a perceived need to respond to accelerating technological change, internationalisation of markets and (in the British case at least) relative economic decline, but in developing countries there is a multiple crisis, visible in economic stagnation and debt, social deterioration and governmental incapacity, and the sheer problem of hunger and starvation. Though their cases are complex, one central element stands out: the problem of *state failure*, whether this takes the form of Keynesian macro-economic management and welfare provision in the First World, 'developmental states' in Third World

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countries, or central planning and party power in socialist countries. The crisis is held to be rooted not merely in state policy, but in the state itself – its political and organisational substance and its characteristic modes of operation. Politics is thus central to our understanding of economic restructuring: in its causes, its conduct and its impact.

Concurrent with these trends in the real world has come a 'paradigm shift' in thinking about the roles of states and markets in the process of development. While earlier theorists focused on the inadequacy of the market and provided an implicit or explicit rationale for state provision, current orthodoxies highlight the inadequacy of political solutions and argue for a reduction in the role of the state. This trend of thought is true for both 'neo-liberalism' in capitalist contexts and 'economic reformism' in socialist contexts. In academic circles there has been a movement towards analytical approaches characteristic of liberal economic theory in the discipline of economics itself and in political science, as John Dearlove demonstrates in his critical review of public choice theory.

As the case studies covered in this *Bulletin* suggest, this reaction against statist forms of development is common to both Western Europe and the Third World. This similarity is hardly surprising given their economic interdependence, the activity of international disciplinary institutions such as the IMF and the World Bank, and the historical link between the emergence of developmental states in the newly independent territories and the system of managed capitalism practised by their former colonial masters, whether in the form of Anglo-American Keynesianism or French *dirigisme*, a relationship discussed by Brett and Dutkiewicz and Williams in their articles. Holmes alludes to this link when he describes the Liberation of France in 1945 as the equivalent of independence for ex-colonial states and refers to France as 'the first NIC'.

One can trace certain central politico-economic features common to both contexts. First, they share a similar critique of the deficiencies of state-led development: the incapacity of state officials to manage the economy in efficient ways (Leys documents the inability of African governments to foster agricultural growth and Morgan attributes part of the impulse to liberalisation in the telecommunications sector in Britain to the technical and commercial inadequacies of the Post Office, later British Telecom); the distortions in strategic development strategy induced by the dominance of the state (Fuhr relates this to the preference for 'bigness' in projects and enterprises in Latin American industrialisation which impeded the growth of the small-scale sector, while in the Chinese context White shows how the harnessing of Chinese agriculture to a heavy industrialisation drive imposed a 'triple subordination' on the peasantry which obstructed rural development); and the fact that the dominance of the state is often based on the emergence of a new class or stratum whose power is rooted in political or administrative office (Fuhr and Dutkiewicz and Williams point to the rise of a political or state class in the African and Latin American contexts which uses the state for its own interests). These criticisms are particularly strong where developmental states have failed to live up to the optimistic assumptions of the post-war era. Even in France, however, where *dirigisme* is generally regarded as successful and state corporations have had a relatively good track record, by the mid 1980s the impulse towards economic liberalisation and outright privatisation had become a common plank in the platforms of *both* left and right, as Holmes points out.

Perceptions of state failure have generated powerful political impulses towards economic restructuring in both First and Third Worlds, not to mention the market-oriented economic reforms in Eastern Europe which began relatively early, in the 1960s. The variation in response, the specific nature and impact of restructuring programmes, has been greatly influenced by the particular constellation of political forces at work in each national context. Morgan argues, for example, that though the pressures operating to impel restructuring of the telecommunications regulatory regime in Britain and France were similar, their political responses have been different and the outcomes of restructuring differ markedly. It is particularly important to understand the specific pattern of political interests embedded in the previous, state-dominated system of regulation, to draw a map of winners and losers; this in turn helps us to identify the supporters and opponents of reform. In Britain, for example, the previous system of telecommunications generated widespread dissatisfaction, particularly among business users, but the move towards privatisation was opposed by a coalition of embedded interests, notably the unions worried about job security and the principal supplier firms threatened by foreign competition. Particularly important in the British context was the rise to power of the Conservative Party in 1979, a party that was committed to a neo-liberal perspective and to radical change and was prepared to override opposing interests in the telecommunications sector and elsewhere. In the Chinese context, conservative rural cadres were overridden by the Communist Party which was committed to rural reform.

In the African and Latin American contexts, the political obstacles faced by economic reforms are more impervious to change, rooted as they are in the institutionalised dominance of state interests and patron-client relations between state organisations and specific social interests. Any significant change in policy direction requires the political force necessary to challenge and if necessary dismember these networks of power and interest. Though their hand may be strengthened by the very seriousness of the problems they confront, and forced by the pressure of international institutions such as the World Bank and IMF, the political task is still prodigious. In the African context, Dutkiewicz and Williams remain pessimistic about the political capacity of governments to take on this challenge. In the Latin American context, though a move towards small-scale industry is developmentally rational in the current context of indebtedness, relative stagnation and increasing unemployment, the politico-administrative obstacles posed by the intersecting interests of 'state segments' and powerful business pressure groups, and the characteristic nature of state administrative interventions make this industrial restructuring very difficult. It requires basic political and institutional change. It is significant, however, that where the potential beneficiaries of reform – in this case, small entrepreneurs – are better organised to press their claims, as in Ecuador as opposed to Peru, a greater degree of reform has been possible.

These examples raise the crucial issue of the political nature of *economic reform coalitions* and the relation between economic reform 'from above' (state-sponsored) and 'from below' (socially demanded). One may well doubt the capacity of state elites to transform themselves and undermine the basis of their own power and privilege (unless in unavoidably dire straits). The political basis of economic restructuring will be stronger if there is the possibility of alliances between reform-minded elements of the established regime and those social interests from below that are dissatisfied with the status quo and set to benefit from reform. White's study of the Chinese rural reforms provides a vivid example of such an (implicit) alliance – between reformist leaders in the Chinese Communist Party and large sections of the peasantry who combined to outflank conservative officials in the state and commune hierarchy.

To the extent that the political constraints embedded in the previous statist mode of development are ruptured and a more or less thoroughgoing process of economic restructuring is actually achieved, there will be important *political consequences*. New patterns of beneficiaries and losers emerge to condition the future policy agenda: for example, Morgan shows the uneven pattern of benefits deriving from the privatisation of British Telecom. More fundamentally, to the extent that economic restructuring transfers economic power from state to society and the economy operates in a more decentralised and competitive fashion (and this obviously varies greatly), there is a change in the political balance between state and civil society that may redefine the rules of the political game and the character of the political process. In socialist contexts at least, as White's analysis of China suggests, it may lead towards a more 'pluralistic' political system in the long run.

Do the contributors to this *Bulletin* offer any *ways forward* for both theory and practice? Certain analytical points emerge which are important guides to thinking about policy. The case for the market and against the state is now widely accepted, not the least among socialist economists, but there is a need for caution when faced with the policy bandwagons of 'liberalisation' and 'privatisation'. First, it is important not to accept a simple dichotomy between 'state' and 'market' but to recognise the interdependence and potential complementarity of these two modes of social organisation. To develop effective market institutions there is a need for an effective state to coordinate market sectors and set strategic directions, to set and enforce rules, handle conflicts and inequalities, correct distortions, regulate external transactions and so on – several of our authors make this same point in different contexts. Holmes, for example, argues that state planning in France was not intended to displace the market, but to create a new, more modern type of capitalist economy which would eventually outgrow its patron, the state; Japan and South Korea are also cited as examples of the interdependence and complementarity of state and market. At the deepest level, it is the politics of a society and the interests within it which regulate the nature of this interaction between state and market.

This implies that, even where the state has failed, the developmental problem cannot be solved by turning to the market alone. There is still the need to reconstitute an effective developmental state. Creative thought is necessary here, not least, as Brett suggests, through an attempt to reconstitute that branch of inquiry formerly known as 'development administration'. This may involve a move away from Weberian principles of 'rational' bureaucracy and an eclectic fusion of ideas and practices from political science, organisation theory, business and management studies and public sector economics. The central focus would be on the question of *restructuring the state*, devising new institutional forms and methods of intervention which may serve to reduce its bureaucratised power and well-established developmental deficiencies.

The second point which emerges from the studies in this *Bulletin* is the need to adopt a critical perspective on the 'new orthodoxy' and its policy implications. Liberal principles of economic restructuring are often presented as a simple panacea for what ails the First, Second and Third Worlds. As the articles by Dearlove and Brett point out, however, there are serious analytical deficiencies in the new paradigm. There is also the danger that the new orthodoxy counterposes a realistic view of the (vices of the) state to an idealised view of the (virtues of the) market. As Brett argues, although we can accept much of the current case against the state, it is also important not to forget the original case against the market and the concomitant rationale for state intervention, much of which is still valid, though clearly in need of rethinking. There is a common problem which crosses the state-market divide – that of monopoly power in the economy and the polity – and it is important to tackle this through plans for democratising political organisation and securing real competition in the economic sphere.

Moreover, if part of the new orthodoxy's critique of the developmental state is that it leads to the politicisation of economics, our authors show that markets and market actors, both international and domestic, are themselves highly politicised (for example, Cawson's analysis of Western European firms as political actors). This once more reinforces the centrality of politics *across* both state and market – a theme to be taken further in the next issue of this *Bulletin*.

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