States, Social Policies and Globalisations

Arguing on the Right Terrain?

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1 Introduction

The debate about the future of welfare states and social policies in the Organisation for Economic Co-operation and Development (OECD) countries[1] has a number of relatively well-defined characteristics:

(i) It has a clear focus: the notion that most citizens in OECD countries have enjoyed relatively high levels of (state-provided) social protection; that the future is likely to be different; and that it will be characterised by greater 'privatisation', notably more market-based self-provisioning, and greater use of non-state agencies through contractual arrangements. The debate centres around the extent and nature of these privatisation processes.

(ii) Some relatively tangible forces persuade even the defenders of core welfare state principles that reform is necessary – if only for fiscal reasons. These include the implications of ageing populations; pressure on public health spending resulting from medical advances; the high cost of labour-intensive personal services that dominate social spending; and more contentious, the alleged growing tax resistance of the median voter.

(iii) The case that 'something must be done' for these tangible reasons is often integrated (or confused) with a similar argument about the far less tangible globalisation imperative: the argument that (economic) globalisation – understood as greater international capital mobility and greater economic openness generally – empowers controllers of capital in their dealings with states and organised labour (see below). It is believed that these globalisation processes will almost inevitably lead to some combination of: reduced fiscal commitment to social provision, less regulation of employment conditions, and a greater role for the market across the board.

(iv) This debate is primarily retrospective and defensive in tone. Even among the proponents of radical reform, there are few outright enthusiasts for a future world of decentralised, plural and privatised provision. The tone even of the enthusiasts is predominantly one of realism. There is a strong tendency to cling on to what is already there.

(v) Recent events in (predominantly) middle income countries outside the OECD – the disastrous collapse of social provision in most former communist states; reform of social security funds in Latin America; and the accumulating evidence that income inequality is increasing in many countries (UNCTAD 1997: chapter 3) – have chimed in sufficiently with this image of the welfare state under threat to support the view that there is a generic, global 'crisis' of welfare provision rooted in globalisation processes.

(vi) Despite disagreement over values, facts, projections and policy preferences, most participants in the debate share some assumptions about context. The different contenders have a common understanding about when and where they will turn up to do battle. Three elements of that consensus are relevant to our concerns:

- *The erosive effects assumption*: the expectation that the various processes of change will have erosive effects on income distribution, the poor, the power of states (in relation to capital), social spending, and/or the capacity or willingness of states to protect the poor. The political project is therefore primarily defensive: to protect against forces rooted in markets and technology; and/or to mitigate their adverse impacts.

- *The state capacity assumption*: it is taken for granted that states perform their basic functions: control and tax populations, exercise a monopoly of organised force, and make authoritative decisions about the allocation of public resources. The social policy debate is about whether states that perform these basic functions should or can operate in the more discretionary area of social policy.

- *The biased architecture assumption*: the more stridently neo-liberal OECD states (New Zealand, UK, USA) have been actively promoting the changes in the architecture of the state that are usually labelled 'new public management' (NPM). Some of the key components of NPM include: an emphasis on measuring outcomes of public activities and obtaining value for taxpayers' money; contracting out of service provision and 'public–private partnerships'; widening the impact of commercial forces and principles in internal operations; and greater accountability to service consumers through performance indicators and choice. In unequal societies, the introduction of NPM has high potential to disadvantage the poor: to justify reduced social provision, and to empower more vocal and organised groups of citizens at the expense of the poor. There is a belief that those struggling to preserve the welfare state and to resist the tide of NPM are fighting the same battle.

My main purpose here is not to question whether these assumptions are valid in relation to the OECD countries. As political argument, it appears right to argue for the restoration of a pattern of social provision that commands wide public support and is clearly under threat. Linking the OECD situation with that of former Communist countries is strategically sensible. The spectre of the wholesale collapse of social provision in parts of the former Soviet Bloc illustrates graphically what might be in store. To mobilise resistance to further welfare state cuts, it makes sense to argue that the common enemy – globalisation – is likely to worsen life for ordinary people everywhere. But I believe that this way of presenting the situation can be misleading in relation to poor countries: not just because it is in some sense wrong, but also because it simply directs attention to the wrong issues. Development studies specialists need to perform their most traditional role: to judge whether intellectual theories, fads and concepts rooted in the concerns of the richer part of the world are relevant to and realistic in the context of poor countries. In this case, I am more than sceptical. In adopting an OECD-based agenda or definition of the problem, we would be arguing on the wrong terrain. Each of the three common assumptions of the OECD-based social policy debate, listed above, is wrong and/or misleading, sometimes in relation to the recent history of the OECD countries themselves, and certainly in relation to the poor countries of the world.

(i) Globalisation need not erode the capacity or willingness of states to protect the poor. Looking at both the histories of the evolution of OECD welfare states, and of the extension of state activities in all parts of the world in the light of the notion of political responses to livelihood risk, we discover a very different story. This is the story of (effective) political pressures on states to expand activities to help protect against the livelihood risks associated with 'openness'. Globalisation has tended to boost rather than shrink states in the past. There is as yet no reason to believe that the future will be radically different (see Section 2).

(ii) Many poor people are (nominally) governed by states that do not fulfil their core governance functions. In such cases, the main obstacles to effective social policy do not lie in the absence of the right 'policy decisions': there are deeper obstacles to effective social provision. Solutions lie mainly in 'better governance' across the board – increasing the effectiveness and accountability of states – rather than in reforms in specific sectors (see Section 3).

(iii) It is not helpful to treat the new public management as inimical to effective social policy in poor countries. NPM is a symbol and embodiment of a broader change that is taking place in the architecture of OECD states: a relative shift of emphasis from taxing and spending activities to rule-making. The frequent but piecemeal introduction of NPM principles in poor countries is likely to continue. The problem for poor states will remain a dearth of regulatory capacity of any kind. Ameliorating that problem is as urgent in relation to social policy as it is in other sectors. In many poor countries, a great deal of health and education is already provided by commercial and non-state agencies that are virtually unregulated. If NPM helps to draw more explicit attention to the issue of regulation and potential institutional solutions, then it may play a positive role (see Section 4).

2 The Social Policy Consequences of Open Economies

Two propositions lie at the heart of pessimistic interpretations of the likely effects of globalisation on the capacity and willingness of states to conduct pro-poor social policies:

- that economic openness is reducing the economic power and scope of the state (in relation to capital, in particular)
- that the reduction in the actual and potential economic role of the state will have especially adverse effects on poorer people, because the more wealthy (and influential) will abandon the poor politically, and seek their own salvation in private, market provision of the social goods that might otherwise have been publicly provided. More broadly and simply, the welfare state is understood primarily as a set of policies for redistributing resources between income groups ('classes').

The redistibutional (or 'labourist') interpretation of the welfare state is especially popular in the Anglophone OECD countries and, even more marked among people with trade union and leftist sympathies. At the extreme, the welfare state is presented as the product of the struggle of the working class, through the trade union movement and labour parties. Since both these champions are in decline, it may be concluded that welfareism is left without powerful defenders. We know that this 'labourist' interpretation of the rise of the welfare state is a considerable simplification (Skocpol and Amenta 1986). It is valid at a high level of generality: industrial nations have developed the most extensive welfare states, and the political pressure from organised labour has played a significant role. However, attempts to explain variations in welfare state provision in terms of variations in labour movements have not been very successful (Baldwin 1990: 8). We know that two other forces have been very influential in shaping the character and extent of welfare states:

(i) The imperatives and strategies of state elites. It is better to flog to death than to ignore the point that modern welfareism was introduced by Bismarck in order to undercut the growing power of the German trade unions and the Social Democratic Party. There are plenty of parallels in the contemporary world, notably in East Asia, where 'Welfare programmes were overwhelmingly introduced by those in power rather than as a result of popular demand' (White and Goodman 1998: 15).[2] Indeed, the 'Anglophone-North European' experience of extensive welfareism introduced mainly by labour parties[3] is notable less for its typicality than for the wide influence it has on understandings of what a 'proper' welfare state looks like.[4]

(ii) The societal interests and politics driving the development of welfareism in Western Europe are best characterised not in terms of differences and redistribution between 'classes' (i.e. poor versus rich scenarios), but in terms of vulnerability to risk. And risk is no great respecter of class position, as conventionally understood. In the words of the prime exponent of the risk-focused interpretation of the politics of European welfare states:

> Risk categories have sometimes coincided with entire classes as they are defined in terms other than the actuarial. The interests of the industrial proletariat both as a class and as a risk category have tended to be consistent – a coincidence that founds the widely held view that its concerns in particular have lain behind social policy reform of the most redistributive sort. Nevertheless, on the occasions when workers' interests did change, the new approach was determined not by their relation to the means of production, but by their stake in the means of security.
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> When the German and French labor movements shifted from favoring to opposing solidaristic pension and health insurance legislation in the 1960s and 1970s, it was the transformation of the working class from a winner to a loser in social insurance's redistributive calculus that explains the volteface. Equally often, on the other hand, risk categories have cut across more general social groupings. The middle class in particular has embraced a multitude of risk categories with divergent interests that explain its vacillating approach to redistribution. Depending on which, if any, risk category won the upper hand to speak for the class as a whole, it has sometimes favored, sometimes resisted, solidaristic reform. As frequently however, the middle class has fragmented into its actuarial components, taking different and mutually contradictory approaches. In no sense has the bourgeoisie historically been a consistently unsolidaristic class' (Baldwin 1990: 17–18).[5]

What are the implications for poor countries of these more nuanced interpretations of the politics of OECD welfare systems? The fact that states have often played a leading role in creating and extending welfare systems is not generally of much consolation to the poor in contemporary poor countries. Direct pressures on states to extend social provision are relatively muted these days. There is no global threat of communism. Concerns about the inability to recruit sufficient healthy soldiers that played such a role in Britain a century ago (Searle 1971) ring few bells when sophisticated weaponry plays the major role in shaping the outcome of armed conflicts. The imperatives of the 'competition state' to extend and improve popular education in order to boost national economic performance bear heavily on most contemporary OECD states and a number of industrialising middle income countries, but are weak in most of the poor world.

A more optimistic view of potential political support for public social provision in poor countries is obtained from this risk-centric analysis which suggests that political pressures for governments to 'intervene' in markets are likely to emanate from (perceptions of) market-induced risks to groups of citizens. One might hypothesise that, all else being equal, the degree of market risk will determine the extent of political pressures on governments to intervene to ameliorate that risk. Further, given that globalisation (economic openness) is likely to increase actual or perceived risk, one might also hypothesise that economic openness will tend to increase the degree of state intervention in the economy. And there is powerful statistical evidence that these hypotheses are valid. Among the OECD countries, the rate of growth of the public share of the economy – measured as the ratio of tax revenue to GDP – was significantly shaped by the degree of economic openness, a finding believed to be related to the livelihood risks associated with openness (Cameron 1978). Recent work by Rodrik (1998) extends that finding to a larger sample of countries at all income levels, and provides us with a more convincing analysis of the causal sequences. Rodrik shows that more precise measures of the risk associated with economic openness – the volatility of the terms of trade, and the extent to which their exports are concentrated on a few products – are better predictors of the growth of the state's share of the economy than are measures of economic openness *per se*. He provides evidence that, whereas governments of richer countries tend to respond to the political pressures to cope with economic uncertainty by expanding social spending as we conceive it, governments of poorer countries tend to expand government consumption. Rodrik's explanation of the difference is that governments of poor countries lack the administrative apparatus to undertake compensatory social spending. They use the tools they have at hand: government jobs and 'development' programmes.

I find convincing Rodrik's explanation of why governments of poor countries tend to use these 'indirect social policies' in response to political pressures to provide protection against economic risk. At the least, this supplements the crude and tautologous 'rent-seeking' interpretations of the size of the state – that rent-seeking drives all growth of state activities. It would be surprising if these 'indirect' social policies were as efficient or well targeted as more tailored alternatives. But that is not the main concern here. Especially when combined with the risk-centric explanation of the politics of the welfare state, Rodrik's analysis provides us with a very different perspective on the political implications of globalisation for social policy than the conventional account.

The essence of the conventional account is a story of how increased capital mobility is undermining the capacity of governments to take leftist or progressive policy positions, to redistribute assets or income to the poor, or to expand social provision. The underlying arguments rest on the notion that globalisation has produced a relative shift of power away from states to the controllers of capital. Capital has become more mobile internationally. The greater the efforts that governments make to tax or redistribute income or capital, preserve or increase social protection, or influence private sector investment, the more they will be 'punished' by capital. Capitalists do not need to get together to bribe governments or conspire against them. They will individually reduce or threaten to reduce investments where regimes lack 'realism'. The spectre of declining tax revenues, rising unemployment and falling political support will persuade most governments to accept reality: to reduce business taxes, cancel promises to redistribute land, dilute proposals to extend employee rights, and postpone plans to provide a basic income to all destitute households.[6]

Most established arguments against this interpretation of the political consequences of globalisation focus on the extent to which capital and capitalists need effective states (e.g. to enforce property rights) (Evans 1997; Weiss 1998). To the extent that these alternative arguments are valid, they are not very encouraging from the perspective of our concerns with social policy in poor countries. Even if, like Rieger and Liebfried (1998), one can make a conincing case that controllers of capital wish poor states to pursue active social policies for reasons of political and labour force stability, or to reduce political obstacles to economic adjustment,[7] one may be left with a fragile sphere of social policy at the mercy of the perceived, indirect needs of capital. The risk-centric explanation of the politics of social policy suggests a more direct, powerful and consistent source of pressure for active social policies: the concerns of citizens of poor countries to find protection against market risk. Unless for some unexplained reason the future is to be significantly different from the past, any increases in globalisation and economic openness will tend to increase the intensity of those pressures. Then add the fact that unprecedented pressures and incentives for poor countries to become more democratic are integral features of contemporary globalisation. Unlike previous waves of democratisation, that which developed in the 1980s has not foundered on international geo-political rivalries. This third wave of democratisation has been unusually vigorous and sustained. It shows no signs of receding. The stabilisation of democracy is likely to intensify the political pressures on governments to provide citizens with protection against the risks inherent in the global market economy.[8]

Possibly the biggest threat posed by globalisation to active social policy lies in our minds: in the fact that we have been re-educated to believe that public action to reduce poverty, inequality or insecurity is intrinsically very difficult for both political and technical reasons, and is unlikely to succeed very often (see Moore 1999). We have to try to separate out globalisation as ideology from globalisation as fact, and then examine carefully the likely consequences of the facts. Some are distinctly gloomy. There is evidence that increased exposure of labour to international competition tends to reduce wage rates and worsen employment conditions in many places (Wood 1994). However, that is very different from the case that globalisation undermines the political capacity of states to pursue social policies. On that I am much more sceptical, and correspondingly uneasy at the notion that attentions of poor countries are best absorbed in defending a status quo – a level of social provision that provides a foundation on which more can be built. In poor countries, the foundations are all too often missing or too shaky to bear much weight. In particular, it is fact, not just neo-liberal propaganda, that in many poor countries 'social policy has long been oriented more towards relatively privileged sectors than towards the poor' (Huber 1995: 1).

3 The Barely Instrumental State

The debate over social policy within the OECD assumes the basic instrumentality of states. It is taken for granted that states perform their basic functions: to control and command the loyalties of their populations, tax them, exercise a monopoly of organised force, and make authoritative decisions about the allocation of public resources. Discussion about instrumentality deals with second order issues of a 'principal-agent' nature. Do children's homes really provide the kind of service expected of them? What combination of facilities best provides for needs – state institutions or contractual arrangements with non-state institutions? The big questions about the extent and character of social policies are debated either on normative, ideological grounds or on fiscal-cum-political grounds. Both types of argument assume that states are basically competent.

The OECD states are broadly similar to one another. They are relatively effective, but also relatively accountable to their citizens. On average, poor countries are under the formal authority of states that are relatively ineffective. States are unable to rule many of their nominal citizens or to authoritatively pursue any kind of collective interest. The state apparatus does not immunise, educate, tax, police, or protect many citizens, and is unable to police its borders. These states are relatively arbitrary, despotic and unaccountable. Even those that are formally democratic are often ruled in an extra-legal fashion, and lack democratic substance (O'Donnell 1999). Why should so many states be relatively ineffective? There are six main explanations:

(i) Many Third World states are both relatively recent and the product of simple, brutal (colonial) conquest. This is especially true of sub-Saharan Africa, where colonial conquest was recent and swift, took place in a context where the differences between conquerors and victims were unusually large, where the process of redrawing the borders of pre-colonial polities was especially radical, and where there was relatively little co-option of local elites into the system of colonial rule (Young 1994). Colonial and post-colonial states were often rooted more in the arid soil of coercion and conquest than in the rich compost of history, tradition, co-operation and consent. The states of the rich countries have had longer to mature.

(ii) Once the now-rich states became more powerful, they became 'puppet-masters' in relation to the rulers of poor states. During the Cold War in particular, many Third World governments were able to profit from a bargaining position in relation to great power rivalry. Exploitation of these rivalries could generate valuable support from abroad, including the active military back-up that might reduce internal political support to an optional extra rather than a basic necessity for effective rule (Tilly 1992: chapter 7; Luckham 1996). States have been rooted more in external than internal resources and support.

(iii) Former European colonies became independent after the operative rules of the international state system had effectively been rewritten with the creation of the United Nations. The previous norm was for recognition of statehood – effective control of territory and populations and a demonstrated capacity to resist rivals. After 1945 in particular, this ceased to be the *de facto* condition for recognition by other states. To be the legitimate successor of colonial rule was itself adequate to guarantee the recognition and material resources, including international aid, that accrue to those holding governmental power. And in most of the ex-colonial world, but most strikingly in sub-Saharan Africa (until recently), Darwinian processes of inter-state competition were not only discouraged, but positively ruled out by the new international and regional state systems. Governments that lost effective control of the populations and territories over which they nominally ruled did not as a matter of course fear wholesale predation on the part of their neighbours. Conflict was almost all internal (Tilly 1992: 201). The incentives for states to maintain control of their territories and populations – to rule as well as to reign – have thus diminished in favour of incentives to nourish connections to the international state system (Jackson 1990).

(iv) Poor states depend to an unhealthy degree on 'unearned income', and not on tax revenues earned from the mass of their own citizens.[9] State income is 'earned' to the extent that the state apparatus has to put in effort with citizens in order to get its money. There are two criteria we can use to judge how far state income is earned. One is organisational effort. How large, elaborate, differentiated and efficient is the bureaucratic apparatus that the state deploys to collect its income? The other is reciprocity. How far are citizens obtaining some reciprocal services in return for their tax contributions?

Many contemporary poor states are heavily dependent on mineral royalties.[10] Despite relatively high average per capita incomes, these countries notoriously and consistently score low on measures of political stability, democracy or accountability. They generally have large military and police establishments but poor quality public bureaucracies. In sum, their governments are both unaccountable and ineffective. Dependence on unearned mineral revenues helps bring about these political outcomes through mechanisms that can only be summarised here:

- The state apparatus, and the people who control it, have a 'guaranteed' source of income that makes them independent of their citizens (' subjects'?).

- It is tempting to try to take over the state by force: it is much easier to squeeze a quick fortune out of an oil well than out of a hundred thousand taxpayers. Politics in mineral states tends to coup-ism.

- There is little incentive to establish an efficient public service. The task of raising revenue from mineral facilities requires few specialists. Incentives to create an efficient public bureaucracy will be concentrated on the military and intelligence apparatuses.

- The failure to tax the bulk of the population – and thereby bring them into the ambit of a regular civilian bureaucracy – leaves the state vulnerable to the (armed) organisational challenge of competitors – guerrillas, private armies, and religious movements.

- Where public revenues come from a small number of concentrated sources it is relatively easy for revenue and expenditure to be concealed. If a legislature exists, it has limited capacity to exercise oversight over the state because it has incomplete knowledge of – let alone control over – how state and quasi-state agencies raise and spend money.

Absent the point about the temptations to coupism, and much the same could be said about the politics of highly aid-dependent states.[11]

(v) There are vicious circle effects stemming from the co-existence of weak and effective states in a global economy in which large rewards are obtained from (international) trafficking in narcotics (in particular – also arms). When narcotics are produced (and processed) within the territorial domains of weak states, the profits fund powerful trading-military-political networks that are either in opposition to the formal authority apparatus of the state or undermining it from within. The illegal narcotics business has less corrosive impacts on states that are already well institutionalised.

(vi) Very high levels of inequality in many poor countries (UNCTAD 1997: chapter 3) make the maintenance of social cohesion and political order an especially challenging task.

How should all this affect our understanding of social policy in poor countries? First, it reminds us of the extent to which many poor states fail to provide basic public services. Some national political-economic systems manage to achieve high levels of human development at low average income levels; others with higher incomes perform badly in generating human development. Statistical analysis of cross-national variations in longevity, education, and literacy provides an explanation (Moore, Leavy, *et al.* 1999). For 61 developing countries between 1980 and 1995, a measure of the efficiency with which national political–economic systems convert GNP per capita into human development for their citizens, or relative income conversion efficiency (RICE), was calculated. Four variables explain variations in RICE in a consistent and robust fashion:

- Population density: it is easier and cheaper to provide health and education services to densely-clustered populations. This is a fact of life, and has no particular policy implications.

- All else being equal, countries located in West Africa have lower RICE scores than countries located elsewhere.[12]

- A composite measure of the quality of government institutions, produced for international investors, turns out to be significantly but negatively correlated with RICE. In other words, countries with governance institutions that are attractive to international investors tend to perform badly at converting material resources into human development.

- The 'unearned income' hypothesis set out above was validated to the extent that we were able to test it. We have no adequate statistics of the extent of government dependence on unearned income, and used as proxies the degree of dependence of national economies on aid inflows and mineral production. Levels of aid exercised a depressing effect on RICE only at the extremes of high aid dependence. A large mineral sector, however, exercised a more consistent and statistically significant negative effect on RICE.

In sum, basic features of many poor states exercise a significant and negative effect on their capacity and incentive to provide basic public services to poor citizens. These basic governance problems – low administrative capacity, political and fiscal autonomy from citizens, external orientation – should be central to any debate about social policy in poor countries.

4 The Future Architecture of the State

Within the OECD countries, there has been a close connection between (a) the (neo-liberal) intellectual and/or fiscal attack on levels of welfare provision and (b) the introduction of consistent changes in the architecture of the state that are usually labelled 'new public management' (NPM).[13] The most stridently neo-liberal OECD states (New Zealand, UK, USA) have also been the most active and consistent users of NPM ideas. There has been a clear political synergy between the two processes: the fragmentation of public sector labour market institutions inherent in the practice of NPM has weakened the public sector trade unions, which had been behind increasing public spending on the social sectors. Within the OECD countries, it is easy to identify resistance to the extension of NPM practices with a 'progressive' attitude toward public social spending. In Chile such reforms have indeed led to inequalities in health and education provision, and a system of income support for the very poor that is (intended to be) highly stigmatising (Huber 1995: 19–24). The relevance of the Chilean case is however unclear as it is not typical of poor countries. For most poor countries, it makes little sense to associate a progressive social policy with resistance to NPM. There are four reasons:

(i) The notion that social services either should be, or recently have been, provided by the state, does not make historical or strategic sense in the context of poor countries. It is not even very accurate for OECD countries (see Salamon 1987). We do not have good aggregate figures for poor countries, but those that we do have indicate that states are not the dominant providers (see Robinson and White 1997: 13). We need to assume that sources of social provision are multiple and likely to remain so.

(ii) The gradual spread of NPM ideas and practices to poorer countries appears inevitable. It is not clear that it would be desirable in principle, or possible in practice, to slow this process. I do not make these statements because I am a strong advocate of NPM. Behind them lie several subsidiary propositions and impressions, including that NPM is spreading to poor countries mostly in a decentralised and autonomous fashion. The main aid and development agencies that one might have expected to be vigorous proponents of NPM have in practice been guarded and sceptical.[14] In Latin America much of the initiative appears to come from politicians and public servants who have been exposed to international ideas through American education. This process of 'autonomous' spread of NPM in poor countries is fragmented and piecemeal, with differing combinations of elements of NPM being introduced relatively randomly within particular agencies or programmes. The fragmented nature of NPM experiments increasingly reflects prevalent ideas about NPM in the countries where it has been most vigorously pursued. It is no longer a radical, distinct set of ideas and practices in clear contrast to the existing alternative: it has become the norm, and a broad menu rather than a set meal.

This 'normalisation' of NPM in (some) OECD countries reflects the fact that it is not the sole recent innovation in the architecture of the state. It is a component of a broader shift: from a 'positive' (direct-provider, taxer and spender) to more regulatory (rule-maker and enforcer) state (Majone 1997). Much NPM practice can best be conceived as a move towards more regulatory relationships between operational agencies and policy-cum-financing 'ministries' within the state apparatus. And it appears increasingly clear that this change in the architecture of states toward regulatory activities is driven principally by advances in electronic information, data processing and communication technologies. It is becoming cheaper and easier for central public agencies to monitor performance, disseminate results, measure consumer satisfaction, cost precisely, assess alternative modes of achieving policy goals, and negotiate with suppliers. In sum, transactions costs are falling, and traditional, hierarchical arrangements for providing public services, that economise on transactions costs, are losing their relative advantage. It is increasingly possible to run public services through more market-like relations, with the financing/policy agency concentrating on regulation. Regulation may be internal to the state apparatus, e.g. the regulation of local by central government, of operating agencies by financing/policy agencies, or 'external', e.g. the regulation of contractors, banks, companies, trade unions, traffic by government agencies.

(iii) Even within the universe of the OECD states and richer countries generally, there is no unique association between effective social policy and the more 'positive' state. The East Asian capitalist nations have, in recent decades, provided relatively effective social services with the state playing a stronger regulatory role than in most OECD states.[15]

(iv) The introduction of NPM practices – along with the privatisation of utilities – tends to draw attention to the regulation issue in general.

There is a tendency to discuss the issue of the 'role of the state' mainly in terms of who will provide services – public agencies, NGOs, churches, commercial contractors, etc. – leaving the regulation issue aside. This emphasis is wrong.[16] Poor states already perform poorly in basic regulation functions. Building regulations are widely flouted. Medicines and agro-chemicals are not controlled. The effectiveness of schoolteachers is only loosely monitored. The need for more and better regulation can only increase in the social policy domain as medical treatments become more diverse and complex and as an increasing array of commercial agents, local or transnational, become more influential and seductive in their offers to provide private pensions, health insurance, health treatment, education and security.

I am neither endorsing nor condemning the adoption of NPM practices in poor countries, but making a different point. In poor countries, the direct provision of social services through a hierarchical state organisation is not the norm. That is not the terrain to be defended. Services are more likely to be provided commercially, by non-commercial, non-state agencies (mainly religious organisations), or not at all. The role of non-state agencies, and of state agencies working under 'internal' contracts, is likely to increase – because there are powerful technological and economic pressures in that direction. All these arrangements require a great deal of regulation. The state neither has nor should have a monopoly of regulation: markets can also provide that. But the state should play a major role. In poor countries, effective state regulation is very much under-provided. Much more is needed, independently of the question of whether it is commercial, civil society, NGO or operational state agencies that need to be regulated.

Notes

1. Some of the views summarised here are from Clayton and Pontussson (1998); Esping-Andersen (1994); Pierson (1996); and Rieger and Liebfried (1998).
2. See also Kwon (1999).
3. Although the British welfare state was established by the Liberal Party early in the twentieth century, they were competing seriously with the nascent Labour Party for the votes of organised labour.
4. For an admission of the way in which this model shaped his early interpretations of the Japanese welfare system see Goodman (1999).
5. Overbye (1995) presents the same argument in a more formal political economy style.
6. An excellent account of the political consequences of the mobility of capital is to be found in Winters (1994, 1996: chapter 1). Winters is not himself a proponent of globalisation arguments.
7. They are likely to do so if the cost is ultimately borne mainly by labour. And this, Adrian Wood has suggested to me, is a likely outcome if one assumes competitive international markets.
8. More generally, national politics still significantly affect the ways in which social policies change under globalisation pressures (Castles and Pierson 1997).
9. The concept of the 'unearned income' of states, and its political consequences, derives from my own work in progress. See Moore (1998).
10. In 1991, there were about 30 countries in the world where minerals accounted for at least 10 per cent of GDP (Davis 1995: 1771). We can assume that most of their governments depended heavily on the mineral sector for their income.
11. My best estimate, for the early 1990s, is that aid accounted for almost half the income of the typical government of those (mainly African) countries that the World Bank classifies as least developed (Moore 1998).
12. It is plausible that it should be unusually difficult to reduce mortality in West Africa because it is such a reservoir of difficult-to-treat diseases. However, our results indicate that West Africa also performs badly in relation to literacy and education. There are unsolved puzzles here.
13. There is now a vast literature on the New Public Management. Hood (1991) provides an early but conceptually very clear introduction.
14. In particular the World Bank and the UK Department for International Development.
15. For the general argument see White and Goodman (1998); and for an excellent illustrative study, see Goodman (1999).
16. The 1997 World Development Report on the role of the state did place an appropriate emphasis on regulation (World Bank 1997: chapter 4).

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