

## 1 Introduction

The World Bank and other supporters of the 'free market' approach to economic and social policy have always had an ambiguous relationship with the state. The package of economic reforms that the Bank and neoliberal governments have promoted in recent years, from privatisation of public services to deregulation of labour and environmental laws, has, in theory, been intended to remove the state from all but a minimal role in the national economy. Market competition, it is argued, best defines and serves the 'public interest', because it is through the market that individuals are best able to express their choices; individual freedom and prosperity are maximised as funds are allocated efficiently; people can purchase what they want at prices determined according to supply and demand; and wealth generated by private effort 'trickles down' to the benefit of all.

Space does not allow detailed presentation of the case, but there is much evidence that the practical outcome of the neoliberal agenda over the past 20 years has not, in most cases, been to diminish the state's institutional power or spending, but rather to redirect it (Pierson 1996: 106ff).<sup>2</sup> The privatisation of state industries, for example, has reduced the direct involvement of the state in the production and distribution of many goods and services. But the process has been accompanied by new state regulations, subsidies and institutions aimed at introducing and entrenching a 'favourable environment' for the newly-privatised industries. In the process, privatisation has often reduced the accountability of those now charged with providing services (such as water, electricity, transport, health care and social insurance) to the public, in particular to marginalised sections.

Moreover, 'states are still massively present in the immediate processes of production, distribution and exchange' (Pierson 1996:113), not least

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<sup>1</sup> Extracted from **The Bank and the State: Dramatic U-turn or Judicious Repackaging?** available from the Bretton Woods Project, PO Box 100, London SE1 7RT, UK.

<sup>2</sup> The most sophisticated neoliberal thinkers have always openly acknowledged that their programme required a 'strong state' to provide a secure legal and political framework within which business, trade and 'family life' can prosper. For a discussion, see Held (1987: 244).

# An Effective State? But Effective for Whom?<sup>1</sup>

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through framing taxation policy; setting interest rates (where independent central banks have not been introduced) or interest rate policy; directing subsidies to certain sectors of industry; farming out government procurement contracts; awarding franchises; setting pollution and health standards; and funding infrastructure projects. Within those sectors that remain under (albeit loosened) state control – education and health are prime examples – new state structures have grown to train or retrain personnel in private sector business methods, to institute new accountancy and management techniques and procedures, and to instil market discipline. In the process, resources have often been diverted from frontline service delivery and staff morale has been undermined.

The repressive powers of many neoliberal states have also been strengthened rather than weakened, not least so as to respond to growing popular resistance to neoliberalism. In addition, neoliberal governments have increasingly intervened in areas of social life which free market ideology nominally places 'off limits'.<sup>3</sup> In Britain, for example, opposition to Conservative free market policies led to new legislation which increased the powers of the police to restrict people's right to protest or to organise in support of strike actions. In India, the security forces have been significantly expanded in order to deal with internal dissent and 'to facilitate domestic capital or foreign exchange-bearing entrepreneurs' (Kothari 1997:114) Special units of the Indian police are now being trained by Western security experts to 'protect the life and property of foreign investors' (Kothari 1996). Indeed, as Smitu Kothari of the Delhi-based human rights group Lokayan notes, 'Business interests have increasingly become associated with national interests . . . . One former finance minister, echoing this spirit of policy focus, stated recently that power should increasingly move from the state to the boardroom' (Kothari 1996).

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<sup>3</sup> As British economic journalist Will Hutton records, 'the Conservatives [in Britain] sought to extend into social life the same individualism, market-contract dominance competition which underpinned their economic reforms' (1997: 16). See also: Bowring (1997) or, on the US, Sklar (1995). In Africa, too, commentators have made a connection between the imposition of World Bank/International Monetary Fund structural adjustment programmes (SAPs) and styles of

## 2 'An Effective State' – But Effective for Whom?

Given the central role that the state has played in implementing neoliberal policies and its continued involvement in regulating the minutiae of the market economy, a direct consequence of the hand-in-glove relationship that neoliberal governments have fostered between 'adjusted' state institutions and market interests, the fashionable free market view that states and markets are somehow intrinsically opposed to each other emerges as something of a myth. The 'free' market needs the protection of states, and it needs their powers of enforcement. The minimalist state is, quite simply, utopian in the original sense of the word; it exists nowhere. In that respect, the political significance of the WDR's rejection of a minimalist state may amount to far less than many commentators have assumed. Certainly, acknowledging any role for the state reflects a welcome change from previous World Bank reports where the subtext seemed to be that state was intrinsically opposed to the best interests of society and the economy. However, disavowing a minimalist state that has never existed may constitute clever political manoeuvring rather than (as some argue) a U-turn.

At issue, therefore, is not whether modern economies require any involvement from the state, but to **what** ends and in **whose** interests the state operates. The central call of WDR97 for 'an effective state' thus inevitably raises the question: what does the Bank mean by 'effective'? Effective for what? Effective for whom?

Such questions are touched upon but never seriously discussed in the Report. The Bank acknowledges that 'different groups may hold conflicting views about the role of the state' (p.147) but fails to engage with those different views or to discuss their validity. Instead, the WDR adopts a tone and a language which imply that the superiority of neoliberal policies over other development agendas is

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government which oppress citizens. Ben Turok, then Director of the London-based Institute of African Alternatives, noted in 1991: 'It is no coincidence that Africa is overwhelmed by military rule at this time of economic crisis. SAPs actually undermine the whole structure of society, including its political structures. SAPs can only be implemented by draconian means and that require authoritarian, usually military government' (1991: 9).

self-evident. Throughout the Report, 'good policies' are equated with neoliberal policies, as if the debate over what constitutes 'good policies' has somehow been resolved: 'although the recipe for good policies is well-known, too many countries still fail to take it to heart' (Cornia in this bulletin).

WDR97 views the effectiveness of states almost exclusively through the lens of economic efficiency. The state, says the Report, is essential for putting in place the appropriate institutional foundations for markets. Its existence is justified where it acts to support private sector-led growth and unjustified where it does not. State-owned enterprises should therefore be privatised where possible. 'Getting the state out of the business of providing many of the goods and services it now provides', however, 'will still leave it with plenty to do'. Indeed, 'the mark of a capable state . . . is its ability to set the rules that underpin markets and permit them to function.' From the Bank's perspective, using public money to bolster the effectiveness and capacity of the state (as defined by the Bank) is justified, since 'faith in governments' ability to sustain good policies can be as important for attracting private investment as the content of those rules and policies' (quotations from Cornia, in this bulletin).

One outcome of this economic approach is that the Report grossly oversimplifies the complex political, social, cultural and economic landscape in which states and markets operate. It also depoliticises the debate over what constitutes an effective state. The underlying assumption in the Report is that what the state can or should do is a technical question, largely independent of society.

Minimal consideration is therefore given to the fundamental question of what institutional and other social and economic arrangements best ensure that the state and all levels of government are representative of collective interests and that policy is decided in a manner that includes all citizens. On the contrary, the Bank's sole benchmark for assessing the 'effectiveness' of political processes, procedures and institutions is whether or not they act as lubricants or potential barriers to deregulation and fiscal discipline. The Report expresses disapproval of Uruguay's practice of holding referendums on key issues, for example, because two recent plebiscites, in 1989 and 1992, respectively guaranteed full wage

indexation every three months and reversed major privatisation legislation. The Report attempts to use economists' techniques to provide guidance on sensitive political decisions advocating a 'political cost benefit approach' which aims to assess the benefits of reforms such as trade liberalisation by forming equations to answer the complex political question of 'how much redistribution takes place for a given amount of efficiency gain' (WDR97: 146).

### 3 Locking Society Out

Nor is this surprising, for many people in the World Bank are deeply suspicious of the public having too much of a say in policy-making. Although the Report emphasises the need for greater participation in decision-making in order to bring 'government closer to the people', the Bank expressly rules a number of key policy areas off limits to public participation, since they 'require insulation from political pressure' (WDR97: 117). Chief among these is macroeconomic policy, where, the Bank argues, 'strong, central guidance in budget and financial matters has proved critical in ensuring sound public finances and a reliable framework for economic development in most industrialised countries' (WDR97: 124).

Of particular concern to the Bank is the possibility that participation, popular protests, elections or similar expressions of peoples' views may lead to reforms being reversed. Whilst in the long run the Bank advocates building up domestic institutions to maintain policy stability and show investors that policies will be maintained, for the near future it argues that reforms can only be entrenched through 'international commitment mechanisms' by which it means 'stronger ties with external actors, for example through stabilisation programmes with the IMF'. The Bank explains: 'To some extent, extraterritorial and international restraints can substitute for limitations on the ability of national institutions to enforce rules and to signal credibly that the rules will remain reasonably stable over time' (WDR97: 101).

This section on the state's role in enforcing the 'rule of law' should be clearly understood. Although much of the Report's discussion on this theme concerns conventional 'law and order' issues, such as reducing crime and corruption, it is important to recognise that in the neoliberal canon 'Rule of Law'

does not imply that citizens should have the right to promote legislation through their own democratic institutions which should in turn have the authority to enforce legislation. Rather, it is that the scope of state action should be limited through lock-in mechanisms. Thus neoliberals argue that the regulations needed to ensure the proper functioning of markets should be agreed internationally and be enforceable through international law, for fear that national legislators will introduce protection and trade measures.

The Report sees international agreements as an important means of 'strengthening commitments not anchored by any domestic institution' (WDR97: 101). 'On the trade front, both the European Union and the North American Free Trade Agreement have been able to play this role,' comments the Bank, adding that 'many countries will find it an important reason to join the World Trade Organisation' (WDR97: 101). A number of other lock-in mechanisms, for example independent central banks, are also recommended' (WDR97: 50).

#### 4 Engineering Consent

Where the Bank sees people being involved in decision-making is in discussions on local level service delivery, on land management, and on the planning and implementation of individual infrastructure projects (WDR97: 117). At this level, NGOs are seen as a cost-effective means of delivering many of the services currently provided by many states (WDR97: 101).

Public involvement in defining the state's major actions and policy directions, however, is not something the Bank seeks to encourage. Much of the discussion on participation appears to be motivated by a perceived need to manage and contain, by consultation and compensation, the backlash that reforms may provoke from politically organised groups. As the Bank puts it:

Evidence is mounting that government programmes work better when they seek the participation of potential users and when they tap the community's reservoir of social capital rather than work against it. The benefits show

up in smoother implementation, greater sustainability, and better feedback to government agencies (WDR97: 11–14).

The Report does not mention or address more radical analyses which see participation as not just a check on the power of government, but as a means to empower marginalised groups in a way that may enable the shifts in relations necessary to alleviate poverty (Harper 1997).

#### 5 Blind to Corporate Power

Underlying the Bank's analysis is a deep fear of the 'capricious' state. The text is littered with references to the need to limit the scope for 'arbitrary action' by officials and the need to 'cut back on their discretionary authority' (WDR: 105, 120). Yet, the Report makes little or no mention of capricious, unaccountable or arbitrary action by the corporate sector or of controls which could be introduced to address the abuse of corporate power. The discussion on corruption exemplifies the approach. Almost an entire chapter is devoted to corruption in the public sector, yet there is no analysis of the extent of corruption and patronage in market economies or of the many well-documented instances of money being used by private companies to gain political and legal advantages in free market economies, such as the US, UK or Malaysia.<sup>4</sup>

Indeed, when it comes to the market in general the Bank appears power blind. Thus there is extensive treatment of the need to prevent the 'local capture' of state institutions by 'rent seeking' officials, but no discussion of the need to address corporations capturing regulatory and legislative processes, of the means at states' disposal to assess and address the monopoly power of companies or of companies' use of techniques as transfer pricing and offshore accounting.

Inevitably, the Bank's power-blind approach to the market leads to exaggerated claims for its market-led reforms. In putting the case for privatising certain health care services, for example, the Bank argues that public funding of clinical health services has 'entrenched social inequalities because wealthier groups benefit disproportionately from hospital care.' Most curative health care, the Bank argues, is

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<sup>4</sup> On patronage in Malaysia, see Bawe (1996: 229–233);

and, in the UK, Weir and Hall (1996).

a (nearly) pure private good, 'if governments do not foot the bill, all but the poorest will find ways to care for themselves' (WDR97: 33; see also Torres and Mathur 1996). The experience of health care privatisation in Chile, however, suggests that this is far from the case: inequalities of power and wealth mean that privatisation has excluded an increasing number of people from health care (Collins and Lear 1995), and that, in many cases, the poor and middle classes still end up subsidising the rich.<sup>5</sup>

The Report's section on international cooperation is also rendered extremely superficial by its failure to identify the key corporate and country interest groups which are obstructing progress on issues such as climate change prevention and realising a peace dividend after the Cold War. On the former, the Bank discusses the 'strong economic rationale for adopting market-based instruments, such as tradeable carbon emissions entitlements, to reduce greenhouse gas emissions', but fails to point out that vested interests such as oil and car companies, and countries such as the US which consume large quantities of oil, are currently obstructing any moves to address climate change in an equitable manner. The Bank, apparently arguing that the political playing field is level, says that 'government willingness' is required to create and regulate emissions entitlements, but fails to point out the political and economic obstacles to an effective agreement on this issue, which may have far more serious social and economic consequences than any of the other policy failures the Bank seeks to address.

## 6 A Role for Intervention?

The Bank accepts that the state has a major role to play in 'protecting the vulnerable' through social welfare programmes, 'to ensure that the benefits of market-led growth are shared through investments in basic education and health.' More generally, the Bank also acknowledges that 'market failures continue to offer powerful economic arguments for state intervention' (WDR97: 25).

Nonetheless, the Report's support for regulation is at best lukewarm. Indeed, it explicitly argues

against intervention in many of the areas where regulation is perceived by critics to be most urgent, for example on the environment. 'Government intervention is not the only answer to pollution', the Report opines. 'An expanding toolkit of innovative and flexible incentives is now available to get polluters to clean up their act. Although there is no substitute for meaningful regulatory frameworks and information about the environment, these new tools, which rely on persuasion, social pressure and market forces to help push for improved environmental performance, can often succeed where regulation cannot' (WDR97: 4).

The many severe difficulties with market-based approaches to pollution control are glossed over, leaving the impression that the 'non-regulatory' approach is an unproblematic and realistic alternative to regulation, although the Report itself notes that the Indonesian Clean Rivers programme, relying on voluntary codes and self-regulation by industry, 'failed to generate any positive action by nearly half the firms claiming to participate in it' (WDR97: 71). Similar experiences in Europe suggest that voluntary schemes have failed to encourage industry to strive for higher environmental performances: rather they have degenerated into a means whereby industries can set the standards they are comfortable with (West: 1995).

## 7 Do What We Tell You

Despite the powerful evidence submitted to the Report's team by the Japanese aid community, non-government organisations and others on the inappropriateness of promoting a single, universal approach to 'reform', the Report gives space to only one view of what constitutes an effective market economy and an effective state (Ohno 1997; and Ohno and Ohno forthcoming).

The result is that the Bank's approach to reform is only marginally less formulaic than its previous approaches and still involves a technocratic model for assessing what the Bank judges to be the capability of state institutions. This means that very different countries will be prescribed the same set of

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<sup>5</sup> Moreover, as Public Services International, a trade union federation, points out, 'It will surprise many people who have benefited from public health services to hear that the Bank regards most curative health care

and higher education as a "nearly pure private good" – in other words, it is of benefit only to the people treated or educated and not to society as a whole.' (The State of the Bank, *PSI Focus*, No 3, September 1997).

reforms based on the Bank's, not citizens', assessment of their institutions' weakness or strength.<sup>6</sup>

Indeed, throughout the Report the Bank tells others, particularly developing country governments, how to assess their performance and how to perform better. Readers of the World Development Report are given the impression that the World Bank, with its huge research budget and unparalleled operational experience across the world, has neutrally presented the most important evidence and analytical tools for assessing the benefits of and best approaches to institutional reform.

No mention is made, however, of the fact that 38 per cent of World Bank operations supporting privatisation and public sector reform are rated 'unsatisfactory' according to the Bank's own internal classification. In 1996 the Bank's Private Sector Development Department wrote a report which found that the causes for this high failure rate 'lie as much with Bank incentives, procedures and culture as with conditions within the recipient country' (World Bank 1996).

The Bank's 1997 World Development Report team, probably because they did not want to offend their operational colleagues in the Bank, did not address these issues of institutional failure within the Bank itself, not those of whether the Bank's interventions are actually helping poor people in developing countries, supposedly the Bank's key constituency. More fundamentally, there is also no consideration in the report of whether the Bank is an appropriate institution to carry out programmes to redefine the role of the state in societies to which it is unaccountable and in an area for which it lacks relevant skills.

## 8 Scapegoats and New Roles

Given such omissions, many have questioned the Bank's motives for raising the issue of the state so prominently. One interpretation (which some feel overemphasises the unity within the Bank and its ability to overcome internal policy splits) is that the Bank wants to blame states' ineffectiveness for failures that should properly be ascribed to market-led reforms. At the same time, it is tactically retreating from an outright public commitment to hard-line neoliberalism, and is seeking to ensure that its role as a provider of North-South finance and advice will be maintained, even as the private sector is undertaking many of the projects it used to finance. The fear is that the Bank is seeking to carve out a new niche for itself as arbiter of the politics as well as economics of Southern states. This concern was clearly expressed by authors Susan George and Fabrizio Sabelli (1994: 159) following the Bank's 1992 report, 'Governance and Development':

The effect, and the intention, of structural adjustment has been to weaken the state and make sure that many of its traditional functions are taken over by outsiders, acting on behalf of the global market . . . . The next logical step is the substitution of supranational for national authority, under the banner of governance.

On this view, the World Development Report 1997 may plausibly be interpreted as a tentative attempt by the Bank to carve out new roles as a supranational authority. Whether or not it succeeds will depend, not on the strength of its theoretical models, but on how their promotion plays out in confrontation with active citizens. In that respect, the 1997 World Development Report is to be welcomed – though not perhaps for reasons which the Bank would endorse. By revealing a chink in the neoliberal armour<sup>7</sup>, the

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<sup>6</sup> The argument that reform programmes should reflect the strength of state institutions can also be seen as a sophisticated way to avoid charges that poorer countries are being denied the economic tools that helped most richer countries get rich.

<sup>7</sup> As Public Services International notes: 'In the right hands, this Report could be the basis for putting many governments on the defensive – especially those which have for years been defending their anti-worker, anti-union and pro-privatisation policies on the basis that this is what the Bank advises them to do. The huge number of examples which the Bank provides of how the public

sector can be effective, the calls for an effective, open and participatory state, the need for services to be designed by and with people wherever possible, the need for adequate resources for the state to be able to fulfil its functions, the need for rooting out corruption and authoritarianism, the obvious failures of market mechanisms to meet the full needs of people in a democratic and sustainable manner – these things give public sector trade unions a powerful weapon to go to governments in all kinds of countries and say, "Even the World Bank shares many of the demands and prescriptions which we as unions have been putting to you for decades." ('The State of the Bank', *PSI Focus*, No 3, September 1997).

Report arguably provides social movements with new political space. More than that, the Report

offers social movements a clear view of how the Bank views their future. To be forewarned is to be forearmed.

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