

# 2

## Understanding the Rise of the Reformative State and its Choice of Policy: An Agent-Structure Approach

---

**Dennis D. Trinidad**

### **Introduction**

The state has a role to play in any economy, especially in the provision of public goods. But the majority of the states in the South lack the capacity to perform such a minimal task. This is partly because the concept of state capacity has not been well articulated and understood in both scholarly and policy circles; nor has the politically-created process that will result in the transformation of the state from an 'incapable' state into a 'capable' one been underway. This is the task the chapter seeks to accomplish, as it examines the prospects of the rise of the reformative state in the South. It adopts the agent-structure framework to analyse the state's choice of policy and its receptivity and capability to adapt to change. The dialectics of the agent-structure approach recommends it for analyzing economic change.

The neo-liberal revolution of the 1980s rooted in the debt crisis had set the fiercest challenge to the role of the state in the development process in the majority of the countries of the South. Following the adoption of the World Bank and International Monetary Fund-styled structural adjustment programme by the majority of the developing countries, which failed to deliver the adjusted economies from economic, political and social crises, there was renewed interest in the role of the state in redressing these failures. Paradoxically, the pervasive state-market debate had produced an unintended wide appreciation for the state and its

institutions in promoting growth. In fact, the World Bank had reversed its earlier position on rolling back the state, to admit that the state and political institutions have an increasing role to play in facilitating good governance and promoting growth and development of the South (World Bank 2002).

However, the role of the state in the reformative process requires the government to know the kind of policies to adopt, the institutional reforms to undertake, and to understand the nature of the benefits accruing from these changes to the political and economic elite. Moon and Prasad aptly captured this when they contended that:

The role of the state was misconstrued because the neo-liberals wrongly assumed that the state is an internally cohesive and unitary actor. The state is not generic. Many scholars tend to ignore the fact that 'state structure' is not an internally coherent, unitary entity, but is composed of several distinguishable dimensions like executive leadership, executive-bureaucratic nexus, intra-bureaucratic dynamics and bureaucratic constituents (Moon & Prasad 1998:11).

One of the implications of the analysis of Moon and Prasad is that much more is expected of the developmental state, especially its institutional capacity to provide the public goods, as demonstrated in the section of conceptualizing the DDS in Chapter One and in Chapter Seven, which examines the incubation of the indigenous business class with which the state wishes to embed in Malaysia and South Africa.

In different studies, Wade and Evans argued that the success or failure of intervention of the developmental state in public service delivery depend, among others, on the structure of the state, the policy instrument available to the government, and the state-society relationship in general. State capacity can include its bureaucratic capacity, its insulation and the degree of public-private sector coordination (Wade 1990; Evans 2003). In essence, state capacity is associated either with the implementation process or the conditions that facilitate efficient coordination between the public and the private sectors. It also emphasizes the need to create institutions with reformist objectives and responsibility.

Unfortunately, the task of reforming the existing institutions in order to build state capacity requires the high resolve of the political leadership and this has been quite problematic. Several states in the South have failed miserably to effect any change largely because they lack the political will to pursue the desired change and reform. The rest of this chapter examines the circumstances under which states can become reformative in their policies and programmes.

### **Situating the State in the Reform Process: The Basis of the Reformative State**

A review of some of the basic literatures on the reformative state is in order to help situate the basis of the DDS in the South. Skocpol had argued that the impetus to change comes from within the state structure and that the state as the locus of change is capable of promoting autonomous actions that are 'not simply reflective of the demands and interests of the social groups, classes and society' (Skocpol 1985:9). Thus, the state is assumed to be inherently reformative. But the recurring concerns are the inability of states to be disposed to reform and the lack of the motivation to reform.

In response to the above questions, Skocpol had contended that the reformative behaviour of states comes from certain officials, who are insulated from dominant social and economic interests. They could be members of the elites such as the top government officials, the captains of industry, the high brass in the military and the leaders of political parties whose actions may not be driven by personal interests but by certain ideologies or nationalism. If the primary concern of the elite were to address immediate social, economic and political problems then it needed to enjoy the organizational strength within the existing state structure (Skocpol 1985).

According to Trimberger, revolutions are replete with examples of the state acting as agent of change, citing examples of the social transformation of Japan's Meiji era, Turkey's Ataturk Revolution, Egypt's Nasser Revolution, and Peru's 'corporatist' coup of 1968, as 'Revolution from Above' (Trimberger 1978). These revolutions were organized by a group of autonomous bureaucrats and members of the military that seized and reorganized state power, destroyed the existing dominant class, and re-oriented national economic development.

However, there are two pre-conditions that made Trimberger's 'Revolution from Above' possible in Japan, Turkey, Egypt and Peru. First, was the relatively autonomous bureaucratic state apparatus; and, second, the dynamic and autonomous bureaucrats. But the autonomy of the bureaucratic apparatus was dependent on two conditions: (i) that the bureaucrats were not recruited from the dominant, landed, or commercial, or industrial classes and (ii) that they did not form close personal and economic ties with these classes after their elevation to high office. For the post-revolution leaders to succeed, they should consolidate political power by gaining the cooperation of the most influential local interests and using the state apparatus to mobilize resources for economic development (Trimberger 1978:4).

Trimberger dealt with the extraordinary instances of achieving state autonomy, while Skocpol argued that such autonomy was possible under constitutional politics. Both Trimberger and Skocpol have conceptualized state autonomy as synonymous

with the idea of insulation; and that the capacity of the state to reform was dependent on the level of its autonomy or insulation of 'reformists' from outside influence, especially from the dominant social class. In particular, Skocpol concluded that state autonomy is not a fixed structure of any government system and that bureaucratic autonomy is a necessary but not sufficient condition for the state to have the capacity to reform (Skocpol 1985). All suggests that reform and autonomy is 'leader-dependent', which accounts for why an autonomy achieved can be lost over time.

Chibber set the preconditions for state autonomy as its internal cohesion and possible measures to achieve it. First, the state should be staffed by 'rule-following bureaucrats'; second, an appropriately coordinated state apparatus; and third, act as corporate entities with broadly collective goals, rather than as the sum of the individual strategies of their functionaries (Chibber 2002:952-956). However, Chibber did not explain what pushes the agents in the state to pursue broad goals, the reason why some states succeeded in developing an 'appropriately coordinated state apparatus', while others failed.

From the foregoing, it can be argued that state autonomy alone would not automatically make the state receptive to change; nor would it allow bureaucrats to know which policies are appropriate and others are not. Rather, the choice of policy and context of decisions are indispensable factors that will facilitate the rise of the reformative state. Once an autonomous bureaucracy is set up, the course of policy that it would pursue is unpredictable. It may end up promoting the policy of shared growth, or otherwise. While some autonomous states prefer one strategy, for example, intervention over another, state-centred strategy could accord significant attention to the hitherto neglected roles of private sectors and civil society groups if the reformative state is to be achieved. In this context, Trimberger recognized the existence of these influential sectors, which she called 'influential local interest', but did not elaborate on how they contribute to policy choices.

Apparently, the non-state organizations play significant roles in determining policy formulation and its outcomes, but the extent to which they successfully impacted on policy making should be closely examined, as Peter Evans did with his embedded autonomy hypothesis (Trimberger 1978; Evans 1998). With regards to the choice of policies, Skocpol averred that autonomous states might adopt policy initiatives that are either 'stupid or appropriate' and that the 'appropriateness of policies that they have successfully produced might be accidental' (Skocpol 1985:15).

Another major weakness of the perspective on the state as an agent of reform is that the institutional setting that determines the behaviour of agents in the state was not given sufficient attention in the discourse. For autonomous states have institutional bases which can be merit-based or involving a non-discriminatory

recruitment process. In fact, the well-insulated politicians, who are outcomes of transparent electoral systems, would want to reduce transaction costs by maintaining an efficient bureaucracy. Through electoral laws, politicians could either avoid pecuniary gifts to candidates, or forbid the appointment of members of their families into political offices. There is the need first, to have such institutions established before a cohesive autonomous state could be constituted. But then, agents must find rents in instituting these reforms. Local and domestic processes can alter their context of decisions, and create new sets of incentives to agents to make them more receptive to change. This is based on the assumption that states are part of a larger social system or a much bigger global system.

Across the South, the conception of a socially embedded state, state capacity and a state-society approach have been well covered in the works of Migdal and Montinola, but the focus is on the former. For Migdal, the state is an entity that claims monopoly of the legitimate use of physical force within a given territory, but it would be too idealistic to conceive the state in such a context. Rather, all states enjoy legitimate use of force, particularly those of the Third World that are in constant struggle for social dominance. Perhaps, much more important to note is the neglect of state behaviour in the discourse but which was relatively well captured in Marxist literature, considering the (state) role in social conflict. Drawing on the experiences of Israel, Sierra Leone and Egypt, Migdal concluded that states are engaged in constant struggle for domination against powerful non-state organizations in the society which are basically the chiefs, landlords, bosses and clan leaders (Migdal 1988, 2001; Montinola 1999).

However, the degree of social control of states over these organizations depends on four varying factors: world historical timing; military threats, an independent bureaucracy, and skilful leadership. The capacity of these factors to further the emergence of a strong state in the South varies from one country to another. For instance, a historical legacy arising from colonial experiences has fragmented social control among hitherto highly homogeneous societies; created arbitrary political boundaries to favour certain groups, clans or organizations to the detriment of other for narrow political gains and the exercise of social control. Such superficial social control vested in local elites or certain groups relied heavily on the backing of their colonial masters. Thus, the resultant political vacuum left after independence rendered their social control weak and vulnerable to threats posed by non-state and state organizations. In fact, weak states usually inherited strong non-state organizations which the colonialists either might have unconsciously strengthened or could not neutralize. With a weak foundation of social control, the non-state organizations eventually resorted to politics of survival, doing so at the expense of the country's economic growth. Within this context, state mobilization of the population becomes more difficult and the dilemma of state leaders worsened when strongmen were able to maintain a tight grip on local resources (Migdal 2001).

One of the dilemmas of state leaders is that they do everything to prevent the possible rise of 'power centres' from among state agencies and non-state organizations which could threaten their political status. But often they fail to achieve it. Ironically, the state leaders depend on the non-state organizations as ground forces to help induce political mobilization in order either effectively to bring about change or implement reforms in the polity. Under such circumstance, the state or political leaders used their power to hire and fire and to appoint and shuffle ministers of state, military commanders and top bureaucrats and to prevent loyalties in potentially strong agencies from taking root. In fact, state leaders resort to non-merit appointments of officials with deep personal loyalties (Migdal 1988).

State or political leaders also tend to disregard the overlapping of bureaucratic functions, even though it may be detrimental to the implementation of policies because 'it does not fit into the conception of the politics of survival' (Migdal 2001:79). Perhaps the worst strategy that state leaders deployed to prevent centrifugal forces from enveloping them was the use of 'dirty tricks' such as the imprisonment, deportation, strange disappearances and torture of the members of the opposition and the use of death squads to annihilate all those standing against their policies and programmes (Migdal 2001:81).

The officials, who are particularly badly hit by the dirty politics of the state managers, are those implementing the policies at the local level, in part because they confront the triangular relationship with strongmen, on the one hand, and with other state and party officials on the other. At the local level, the officials either reverse fragmented social control by collaborating with the local men or weaken it. One of the strategies to break the triangle of accommodation is to create countervailing forces such as the bishops and priests as it was done in Latin America in the 1970s and to enhance their powers by making them impervious to sanctions of the state leaders (Migdal 2001:88).

However, one of the issues in the discourse on the reformative state is whether the constant struggle of the state for social domination will permit the weak states ever to regain full social control. For his part, Migdal had argued that societies, first, must be weakened before a new distribution of social control is possible. He observed that strong states usually experienced major social disturbances that disrupted the social control of non-state organizations. Examples of such common disruptions include the combination of war and revolution in China, Vietnam, Russia, and Yugoslavia, and mass migration in Taiwan and Israel. Global structures like power relations among nations in the international system and international rules that define the systems of trade, investment and finance have constrained the actions of state leaders (Migdal 1988).

Even though the state-society perspective deepened the understanding of social and economic change, it is limited. There seems to be an implicit assumption that state leaders, whether at the national or local level, and those who Migdal considered

as strongmen, are two different personalities whereas they are not. In the Philippines, for instance, the government, especially the national legislature, was dominated by elites or strongmen in the late 1940s and 1950s. The majority of these elites were part of the landed class who were opposed by the peasants. In essence, the social conflict in the Philippines was a fight between the peasants and landholders, many of whom occupied either national or local public positions.

Further, there is a high risk of predation when strongmen, especially the agrarian barons, are the same people that dominate the state. As a result, the peasants doubted the sincerity or the appropriateness of state policies and programmes that they formulated and implemented. The Philippines Legislature had ignored for a very long time the enactment of comprehensive agrarian reform law, despite peasant-related insurrections in the rural areas. This was an indication that state leaders and even non-state organizations had their own policy agenda and interests. Migdal did not really interrogate such a crucial issue in the discourse on the strong state, although he argued that policies are outcomes of the politics of accommodation that had transpired among state leaders, policy makers and the strongmen.

From Migdal's analysis, an erroneous impression can arise that non-state organizations are the antagonists because of the challenge they pose to a state's social dominance. The question that the rest of the chapter seeks to examine is whether there is a possibility of cooperation between the strongmen and non-state actors. And if cooperation is possible, then the next issue to contend with is the circumstances that will allow the non-state organizations and strongmen to cooperate with state leaders. Reforms do originate from non-state organizations in some states and when this happens, the government becomes an impediment to change rather than its agent. However, weak states are trapped in the politics of survival and in the triangle of accommodation as noted. In Migdal's view, reforms that would benefit the general welfare are difficult to sustain unless there are powerful countervailing forces to ensure such policies are implemented or protests are organized by the non-state actors to resist the policies from getting derailed. This makes the pursuit of economic growth a secondary objective of the state, with the struggle for social dominance as its primary aim.

Thus the task of formulating appropriate policies that are beneficial to the general welfare of the people is a daunting one. It is even more difficult to implement such policies when they are formulated. The inability of social conflict frameworks to explain major policy change calls for the need to consider the behavioural characteristics of state leaders as an alternative analytical construct. State leaders have their own reasons for supporting certain policies and rejecting others. The preferences of policy agents inclusive of their stakes in the implementation cannot be ignored if state policy preference in general is to be deeply understood. It is possible that state leaders engage in the politics of survival

because they either benefit materially from the status quo, or it is advantageous to their own policy agendas. This leads us to examine the attributes that motivate the ruling political elites – inclusive of the executive and legislators – to seek reform.

### **Agents' Motivation and the Reform Process**

The rational choice model provides an alternative analytical framework for understanding the behaviour of politicians, bureaucrats and other policy actors in the state. This approach analyses human behaviour on the assumption that actors are rational in their choice of policy and actions (Hindess 1988). From this perspective, individuals are perceived to be self-interest seekers, whose actions are always directed toward maximizing utility. The incapacity of the conflict paradigm such as that of Migdal to explain major policy shifts has led scholars to apply the rational choice approach in the analysis of variation of state capacity across developing countries. One of such scholars is Barbara Geddes, whose study of state capacity in Latin American countries like Brazil introduced another dimension to the current literature. Stressing the rationality of the behaviour of those who formulate and implement public policies, Geddes argued that the state is a collection of self-interested individuals and that government policies often reflect the interests and economic ideologies of state officials, rather than those of domestic or foreign economic elites, or powerful organized middle and working class groups (Geddes 1994).

Further, Geddes contended that the capacity to implement public policies was dependent on the ability of the state to tax, coerce and shape the incentives facing private actors, and to make effective bureaucratic decisions during the course of implementation, which relied on the competence of the bureaucracy to perform those tasks (Geddes 1994:14).

In essence, the reform of the bureaucracy is a necessary first step to build state capacity. If the pursuit of personal interest determines the behaviour of political actors, then the support for bureaucratic reform will only be possible when it furthers the interests of bureaucrats, especially in enhancing their careers or economic well-being. While politicians are conscious of their re-election to political office, bureaucrats seek career promotion and security of tenure. Therefore, administrative reform can be costly to politicians because any reform that diminishes their access to resources and the state's political power, which they need in order to maintain the support structure of their political careers, will be aborted.

As noted, the rational choice theory proposes that agents are engaged in a cost-benefit analysis in their decision-making processes. This explains why politicians have, in most cases, used the issue of reform to attract the support of their constituents, even if this could eventually reduce their access to resources once the promised reform has been adopted. This is what Geddes called the 'politician's dilemma'. In pursuing narrow interests, politicians engage in two



overlapping prisoner's games: one is between the politician and his/her constituents and the other is between him/her and other politicians. Geddes identified a patron-client type of relationship characterizing these games. Politicians pledge some particularistic benefits to their clients like the provision of jobs in exchange for their political support. If politicians were concerned about their re-election bid, why do voters fail to make credible threats to punish those who renege on their campaign promises? Geddes attributed this to 'information asymmetry' where citizens generally lack the necessary information to judge whether politicians actually fulfil the promises made during political campaigns. Moreover, politicians would rather respond to the interest of a few but politically 'useful citizens rather than respond to the general interest of the public as a whole' (Geddes 1994:42).

Work by Montinola in the Philippines lent some support to Geddes's arguments by concluding that politicians always reneged on their campaign promises once in power. Based on the rational choice framework Montinola argued that unless competition to influence policy is largely confined to a single dimension, politicians have no incentive or 'political will' to adopt bureaucratic reform. A single dimension type of competition to influence policy occurs when voters' preferences over one issue can be used as predictors for their voting behaviour on a majority of issues (Montinola 1999:744-745).

While it might be true that the pursuit of personal interest determines the behaviour of state leaders, it is an oversimplification of the complexity of human behaviour to argue as Montinola does that politicians' main concern or interest is solely confined to the enhancement of their political careers. History is replete with great rulers who fought for what they believed was right instead of their selfish interests. It is difficult to sustain fully the argument of the rational choice theorists, particularly Geddes, who excluded the electoral rules in Latin American from her analysis. However, both Geddes and Montinola did not claim that the inclination of state leaders and politicians to enhance their careers was an end in itself, but rather a means to achieve a concealed end.

Political leaders and bureaucrats need their positions to protect or promote certain interests such as the privileges they obtain from their positions in relation to their own or their families' businesses. What comprises these interests is based on the type of business in which agents have a stake or with which they are directly or indirectly affiliated or associated. The problem in most economic performance studies is that they focus more on policy outcomes than on the process (March and Olsen 1984). That is, poor economic performance is often attributed to poor economic policies instead of the poor policy process itself. The majority of scholars have assumed that once the state realizes the objectives of its policy, especially when it promotes growth, then it can be mainstreamed. Such an approach has often ignored the factors that determine the policy preferences of agents such as the absence of democratization in the policy process

as explained in Chapter Three of this work. A reformatory state should be able to introduce appropriate and coherent institutional reform that will overcome such a gap in the policy process.

### ***The Elites as Agents in the Reform Process***

The direct and indirect role of the elites in formulating the policies of the state is axiomatic, because the elites are highly esteemed in society. The elites have an inherent interest and high stakes in governance, partly because they are the most affected when the system breaks down. In particular, while the economic elites are prominent community members who may possess vast tracts of land, much wealth, high levels of education and influence, the political elite plays a key role in decision-making inclusive of the economic sector, by influencing prices, regulating the degree of competition, formulating the rules of economic transactions and enforcing rules that protect contracts and private property rights. In reality, decision-making power is centred in the hands of a few but powerful individuals. The ultimate authority to decide is vested in the 'proximate decision-makers' (Putnam 1976).

As policy agents, the elites are rational. But the unsettled issue pertains to the kind of policy the elites promote and whose interest it caters for. As the author has noted elsewhere, there is a multiplicity of interests among elites. It cannot be assumed that they merely foster the well-being of their own class (Trinidad 2006). Under normal conditions, the elites would not support policies that tend to diminish their power base, or to curtail the access to state power and resources. The elite rather support policies that give them immediate benefits than those that promise long-term gains.

However, there seems to be an anomaly in the case of the elites in the high-performing East Asian countries like South Korea, Malaysia and Singapore. The political elite in East Asia promoted the policy of shared growth, which the economic elite supported. Some of the sectors covered by the policies included education, land reform, market liberalization, support for small and medium-size industries, and the government provision of basic amenities like housing and public health services. When the elites share the benefits of growth with the non-elite, the former were able to win the support of their constituents and, subsequently, acquired complete authority and political legitimacy. This has made the adoption of subsequent reforms politically viable and enhanced their reform capabilities.

The next unsettled issues are the factors that cause elites to change their policy preferences and the kind of reform that the state adopts and implements. The recent changes in the global economy, particularly its rapid integration, have made national economies mutually vulnerable. Changes in the international structure abruptly affect the basis of interests of elites which make them abandon policy preferences in favour of new ones.

### **Global Processes and Institutions as Constraints to Rational Decision-Making**

Generally, the impetus to reform must come from the realization by agents of change or by political and economic elites that the existing policy is undesirable and obsolete. This is where exogenous pressure helps in the reform process. An exogenous factor, like prices in the international market, can abruptly reverse old policy preferences. This happens when external factors adversely disrupt or change the settings which provide incentives or disincentives to the behaviour of the elites or the agents of change.

Woo-Cummings analysed the relationship between development and national security in South Korea and Taiwan. He argued that the national development of these countries was an important strategy for national security. Preoccupied with the possibility of external attack, the national survival of both countries was perceived to be contingent upon economic development. The development of the two countries was also shaped by the politics of the Cold War, especially the United States' global geo-strategic calculations in South East Asia. For example, while Japan had started its post-war take-off as the Korean War was waged, the Vietnam War boosted the economies of Taiwan and South Korea. Both countries benefited from the American purchases of agricultural and industrial commodities, the use of military facilities and depots for the repair of equipment, and as sites for rest, recreation and contract work for Vietnam (Woo-Cummings 1998).

The development experience of Taiwan and South Korea contrasts with that of the Philippines. The latter faced no direct external threat by any country during the Cold War period. Thus, political leaders and policymakers did not have the urgency to attain economic development as fast as the state could in the same manner as Taiwan and South Korea. The international setting served as a constraint to policy options not just for the Philippines, but other developing countries. The policy shift in the Philippines was noticeable in the 1990s, when the country achieved growth that was comparable with East Asian neighbours. The Filipino policy makers supported liberal reforms partly because of developments at the international level at that time (Trinidad 2006).

Stallings had identified three distinct ways in which international factors impinge on domestic policy options of a country (Stallings 1992). First are the shifts in international markets, both for goods and capital. The fluctuations in the international market determine the availability of external resources, which in turn set limitations to national economic policy. The second factor concerns international linkages, which the policy makers from developing countries can take advantage of by connecting with international actors and networks. The extent of linkage determines policy stands and the kind of business groups that constitute the global network. Finally, there is the international influence on domestic

policy, which can be leveraged through the use of political or economic power. Aid is a typical instrument of such a leverage that is used by the creditor nations to assist developing countries. The imposition of aid conditionality on developing nations by the IMF and World Bank is quite instructive in this context.

The two decades following the end of the Second World War in 1945 were replete with cases of economic reconstruction of national economies, the end of colonialism, the emergence of new states, and civil strife in many former Third World colonies. It marked the beginning of bipolarization. When the Cold War began to unfold, many countries sided with either of the two superpowers: USA and USSR. There were however, a number of states that remained non-aligned. In the international economic context, the gold standard was replaced by an international system based on the Bretton Woods system during which all countries' currencies were set in relation to the US dollar.

The 1950s was characterized also by growing resource nationalism in the Third World. At the same time, Japan experienced high growth rates in the period 1955-73, which eventually influenced other countries, particularly South Korea and Taiwan that followed its development strategy. While Japan embarked on an outward-oriented industrialization, most developing countries like the Philippines preferred to imitate the Latin American import-substituting industrialization strategy.

The 1970s was marked by two oil crises, one in 1973 and the other in 1979-80. The Bretton Woods system finally collapsed in 1973. The floating system of exchange rates, where the value of a country's currency system was set daily in the foreign exchange market, replaced the fixed exchange rate system. The Philippine Peso, by virtue of an agreement with the United States under the Bell Trade Act, was tied to the US Dollar.

Mosley et al., argued that the two oil shocks were responsible for the deceleration of growth that characterized the rest of the 1980s, with the exception of China and some countries in South East Asia. The situation became more unfavourable for the developing countries when creditor nations raised interest rates on commercial loans. The sharp decline in the prices of export of low and middle income countries in international market subsequently triggered another crisis – the debt crisis – during the 1980s (Mosley et al. 1995).

In countries of the South, the 1980s was a turbulent decade with dire consequences for policy reforms. The economic crisis that afflicted these countries and the contributory factors that were associated with it were classic lessons for all countries in the South. As a result of the oil price increases in 1973, European and American commercial banks recycled the 'petrodollars' to Third World countries in the form of loans. The result was a boom in international lending and a dramatic flow of commercial bank credits to developing countries during

the 1970s. Taking advantage of these cheap and accessible loans, the developing countries borrowed heavily from commercial banks to finance development and infrastructure projects.

However, after the second oil shock in 1979, creditor countries began to tighten their macroeconomic policies, especially monetary policy, and raised international rates on commercial loans incurred by developing countries during the 1970s. Thus, by the early 1980s, there was a scarcity of credit supplies in the international capital market. The decline in the demand for and the fall in the prices of exports of developing countries aggravated their balance of payment deficits. Based on a World Bank estimate, 'the combined effect of the terms of trade and interest rate shocks was more than three percent of the developing countries' average gross domestic product (GDP) in 1981-86' (World Bank 1988).

The crisis called for adjustment strategies aimed at correcting short-term imbalances of national accounts. As private sources for capital dried up, developing nations gradually resorted to the World Bank and the IMF for financial assistance. The Bank and Fund, in turn, introduced policy-based lending, which resulted in extensive conditionalities imposed upon the borrowers, the majority of which were the countries of the South.

Faced with a huge debt overhang, the adjusting economies of the South were compelled to adopt one or more conventional stabilization packages in the 1980s, largely under the guidance and financial support of the IMF. Some countries in Latin America, notably Argentina, Brazil and Peru, opted for a heterodox approach. In contrast to the demand management approach, the heterodox approach did not hinge primarily on demand restraint to contain hyperinflation and stabilization. On the other hand, many developing countries adopted a neo-orthodox approach that promoted greater reliance on market mechanisms and fuller integration into the international economy.

According to Haggard and Kaufmann, the responses of developing countries to the debt crisis have not been uniform, but the 'one-size-fits-all' policy recommendation of the IMF and World Bank elicited disparities in economic performance among adjusting economies of the South. The countries that were able to cope with the crisis were the ones that had been able to implement earlier economic adjustment packages successfully (Haggard & Kaufmann 1992).

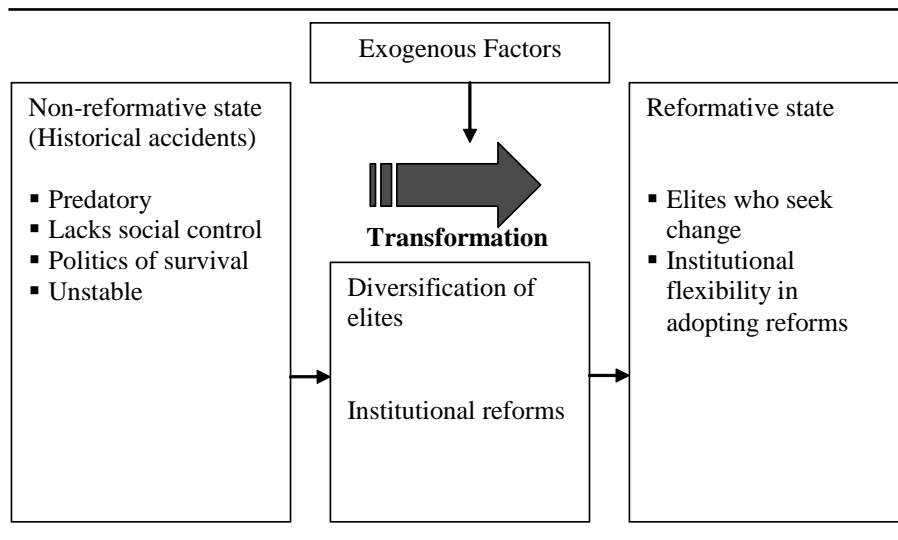
### **The Rise of the Reformative State**

As noted, the economies of developing countries are vulnerable to external shocks, which are necessary impetuses for the creation of a reformative state. Thus, the rise of the reformative state requires the political and economic elite, who are receptive to change and who seek institutional reform, to allow for flexibility so that other reforms to take place. For this to happen, the elites first have to realize that their current policy preferences are no longer desirable.

The global processes and developments in the international economy can alter the elites' perception of what action is rational and what is irrational. When this occurs, agents are inclined to change the rules of the game by aligning with the new international setting. Such a change could also result in the fragmentation of the elite, as some of them would shift to more lucrative modes of business, for example from agriculture to manufacturing and services. Eventually, this will create a diverse group of elites in the state with multiple interests.

The elites in a non-reformative state are less diverse, because the majority of them are active in the agricultural sector. Diversity pushes agents to support institutional reform in order to make the rules of the game fair to all. The economic transformation of the developmental states of East Asia and even in the industrialized countries came only after they became reformative.

**Table 1:** Rise of Reformative State



As outlined in Table 1, when the state becomes reformative, it adopts new rules. For example, it may introduce a merit-based recruitment process in the place of old patterns of nepotism. These may enhance state capacity and bureaucratic autonomy which in turn promote other reforms in the economy and political system. The prevailing situational attributes, which are altered by global processes, will determine the nature of the choices of policies to be adopted. Essentially, it is only when receptivity to reform occurs across most groups and agents in the state that a reformative state is born. Then, a general consensus to take a new path to development can come about.

## Concluding Remarks

The study of reform processes, and the obstacles in their way, should take into account both the assumptions of agent and structure-based theories to realistically explain the state's receptivity to reform. Also, the role of political elites as rational actors determines which policies are suitable or not. Situational attributes provide incentives or disincentives for positive elite developmental action. The international setting can reverse or reinforce the context of decisions of agents. States should be embedded in a larger global system, although it makes them vulnerable to systemic change. The prospects for the reformatory state in the Southern countries are tied to their lack of receptivity to change, beginning with the political elites' accommodation of policy reform. The economic reforms currently being enforced in the Philippines under the Arroyo administration are, in part, a strategy for the President's political survival after several alleged corruption charges and election rigging, but nonetheless in the right direction.

The recent liberal reforms in some African countries are prompted by a mixture of factors. There is the argument that 'traditional' societies are not receptive to change, thus they must adapt by moving toward the Western hierarchically centralized model for the desired change to take place. Second, there is the contention that 'culture' is the key to understanding change in Africa, but how to induce change on this level is unclear. It cannot be stated unequivocally that some African countries are gradually developing into reformatory states, but in some, the process could be argued to be underway (Doornbos 2000).

The East Asian model can hardly be replicated in any Third World country, because the system was closed. Chapter Three sheds light on this. However, the developmental state model requires more aggressive interventionist state policies and programmes. This means that much more capability is needed to enable the state to carry out its transformative role. The set of incentives and disincentives presently available to nations will determine which countries will succeed in the long run and which will remain stagnant for many years to come.

## References

- Castanheira, M. & Esfahani, H., 2003, 'The Political Economy of Growth: Lessons Learned and Challenges Ahead', in G. McMahon & L. Squire, eds., *Explaining Growth: A Global Research Project*, New York: Palgrave Macmillan and International Economic Association.
- Doornbos, M., 2000, *Institutionalizing Development Policies and Resource Strategies in Eastern Africa and India: Developing Winners and Losers*, New York and London: St. Martin's Press, Inc. and Macmillan Press Limited.
- Evans, P., 2003, 'States and Industrial Transformation', in C. Roe Goddard, Patrick Cronin & Kishore C. Dash, eds., *International Political Economy: State-Market Relations in a Changing Global Order*, 2nd Edition. Colorado: Lynne Rienner Publishers.
- Ged

- 1994, *Politicians' Dilemma: Building State Capacity in Latin America*, California: University of California Press.
- Haggard, S. & Kaufmann, R., 1992, 'Institutions and Economic Adjustment', in *The Politics of Economic Adjustment*, Haggard and Kaufmann, eds., New Jersey: Princeton University Press.
- Heo, U. & Tan, A. C., 2003, 'Political Choices and Economic Outcomes: A Perspective on the Differential Impact of the Financial Crisis on South Korea and Taiwan', *Comparative Political Studies*, Vol. 36, No. 6, pp. 679-695.
- Hindess, B., 1988, *Choice, Rationality, and Social Theory*, London: Unwin Hyman Limited.
- Lewis, R., 1998, 'The Origins of Taiwan's Trade and Industrial Policies', Unpublished Ph.D. Dissertation.
- March, J. G. & Olsen, J. P., 1984, 'The New Institutionalism: Organizational Factors in Political Life', *The American Political Science Review*, Vol. 78, No. 3.
- Migdal, J., 1988, *Strong States, Weak States*, Oxford: Princeton University.
- Migdal, J., 2001, *State in Society: Studying How States and Societies Transform and Constitute One Another*, Cambridge: Cambridge University Press.
- Montinola, G. R., 1999, 'Politicians, Parties, and the Persistence of Weak States: Lessons from the Philippines', *Development and Change*, Vol. 30, Issue 4, pp. 739-774.
- Moon, C. & Prasad, R., 1998, 'Networks, Politics, and Institutions', in *Beyond the Developmental State*, Steve Chan et al., eds., London: Macmillan Press Ltd.
- Mosley, P., et al., 1995, *Aid and Power: The World Bank and Policy-based Lending*, Volume 1, Second Edition. London: Routledge.
- Nelson, J. M., 1990, *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World*, New Jersey: Princeton University Press.
- North, D., 1990, *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.
- Putnam, R. D., 1976, *The Comparative Study of Political Elites*, New Jersey: Prentice-Hall, Inc.
- Skocpol, T., 1985, 'Bringing the State Back in: Strategies of Analysis in Current Research', in Skocpol et al., eds., in *Bringing the State Back in*, New York: Cambridge University Press.
- Smith, T. C., 1989, *Native Sources of Japanese Industrialization, 1750-1920*, Berkeley: University of California Press.
- Stallings, B., 1992, 'International Influence on Economic Policy: Debt, Stabilization, and Structural Reform', in Stephan Haggard and Robert Kaufmann, eds., *The Politics of Economic Adjustment*, New Jersey: Princeton University Press.
- Tshibaka, T. B., 2003, 'Economic Policy Reforms, External Factors, and Domestic Agricultural Terms of Trade in Selected West African Countries', in Thandika Mkandawire and Charles C. Soludo, eds., *African Voices on Structural Adjustment*, Dakar: Council for the Development of Social Science Research in Africa, pp.275-304.
- Trimberger, E., 1978, *Revolution from Above: Military Bureaucrats and Development in Japan, Turkey, Egypt, and Peru*, New Jersey: Transaction Books.
- Trinidad, D., 2006, 'Understanding Policy Shift: Class Interest, Exogenous Pressure and Policy Reforms in the Philippines', *Philippine Political Science Journal*, Vol. 27, No. 50, pp. 31-60.
- Wade, R., 1990, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton, New Jersey: Princeton University Press.



- Woo-Cummings, M., 1998, 'National Security and the Rise of the Developmental State in South Korea and Taiwan', in Henry S. Rowen, ed., *Behind East Asian Growth*, London: Routledge.
- World Bank, 2002, 'Political Institutions and Governance', in Chapter 5, *World Development Report*, Oxford: Oxford University Press.
- World Bank, 1993, *The East Asian Miracle: Economic Growth and Public Policy*, Oxford: Oxford University Press.

