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### ***State capacity and inclusive development: new challenges and directions.***

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## **Abstract**

This paper takes stock of recent advancements in the literature on state capacity and connects them to the study of inclusive development. Specifically, four particular lines of argument are presented. First, state capacity is best approached as a multi-dimensional concept that can usefully be disaggregated into three distinct, but interrelated dimensions: (1) the *external embeddedness* with non-state actors, (2) the *organizational competence* of state agencies, and (3) their *territorial reach*. Second, the established focus on geography, external pressures and capitalist development needs to be complemented with close attention to elite politics, ruling coalitions and domestic conflict when identifying key determinants of state capacity. Third, the capacity of states to promote inclusive development is also shaped by historical patterns of state formation itself, in particular the institutional and political legacies left behind by European overseas colonialism. Fourth, contemporary state transformations linked to neoliberal globalisation, democratisation and power shifts in the international order have major implications for the capacities of states to promote inclusive development. The conclusion puts the spotlight on the key issues that should be taken up by future research on the topic.

## **Keywords**

State capacity, state formation, state transformation, development, social provision, economic growth, history, legitimacy, political coalitions, globalization, neoliberalism

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## State capacity and inclusive development: new challenges and directions

States shape development. There is a broad consensus in the development literature—even across distinct disciplinary, epistemological and methodological traditions and different political and ideological orientations—that state institutions and their actions have major implications for wellbeing and the distribution of rights. Scholars and policy makers alike are centrally concerned with identifying which types of states, and the institutional configurations constitutive of them, promote inclusive development outcomes.

At the most basic level, inclusive development is about the expansion of human capabilities (Sen 1999). It is associated with the equitable distribution of social and material benefits across social groups and categories.<sup>1</sup> States affect inclusive development in at least two major ways (Leftwich 2008). The first one is growth. States establish the institutional foundations for economic exchange and capital accumulation (Acemoglu et al. 2001; North 1981; Weingast 1993), act as major economic players in their own right (Amsden 1989; Evans 1995; Wade 1990) and take on a transformative role and break down resistance against market exchange (Harvey 2005; Khan 2004; Polanyi 1944). Yet, inclusive development is not limited to growth and economic transformation, it equally involves redistribution. The second main process therefore is social provision. States establish welfare regimes both to facilitate economic growth and protect citizens against the harshest consequences of capitalist transformation and the major risks of life in an industrial(ising) society (Wilensky 2002; Pierson 2001). The establishment of social safety nets and basic provision is also coupled to inequality and poverty reduction (Huber and Stephens 2001) and the management of class relations (Offe 1984).

Not all states are equally able to promote inclusive development. States vary in their *capacity* to guarantee the non-contractual bases of the market, provide the ‘right’ economic incentives and establish welfare regimes appropriate to economic development and societal needs. Indeed, states might even hinder development and generate dramatic failures, even if they are equipped with the necessary external ties, organisational competence and territorial reach to act developmentally (Scott 1998; Li 2007). Furthermore, the same state might be endowed with very different capacities and commitments for growth stimulation and welfare provision, as powerfully illustrated by the sharp contrasts between economic and social development in many developing contexts, from Kerala to Indonesia to Costa Rica (Heller 1999; McGuire 2010). States also differ in their organisational competencies across different institutional domains. Well-functioning poverty-reduction programmes might be matched by a poorly working health care sector. The concept of state capacity is attuned to capture those patterns. State capacity varies—across different states, between areas of state activity, and across time.

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<sup>1</sup> This approach to inclusive development follows the conceptualisation pursued by ESID.

State capacity provides a powerful tool for the study of development. It is more nuanced and precise than related concepts in capturing the basic functionings of state institutions. Categorical concepts such as ‘developmental states’, ‘fragile states’ or ‘failed states’ are less useful because they envision states as undifferentiated wholes, and thereby often build on an implicit ‘methodological nationalism’ (Wimmer and Glick-Schiller 2002). For example, cases with dramatic subnational variations in economic growth (e.g., Brazil) or an unimpressive record in child mortality reduction (e.g., Indonesia) might still classify as developmental states because of their impressive growth records. The delimited focus on the exercise of power inbuilt into the concept also constitutes a significant advantage over the widely used concept of governance,<sup>2</sup> which conflates the analytically distinct issues of access to power and exercise of power, and fails to distinguish between the contents of specific policies and the procedures to implement them (Grindle 2004; Mazzuca 2010; Rothstein and Teorell 2008). As a matter of fact, the analytical distinction between the *goals* of state authorities and their *capacity* to implement those commitments (Centeno and Portes 2006; Fukuyama 2004) enables researchers to investigate the interactions between developmental commitments and the organisational capabilities of states to do so.

It thus does not come as a surprise that state capacity, and related ideas about state strength and state power, have been important tenets in the development literature.<sup>3</sup> At least since the late 19<sup>th</sup> century scholars have worked on different heuristic devices for identifying the ability of states to promote growth, redistribute resources and remain accountable to citizens. The concept has its roots both in class-analytic and organisation-analytic perspectives on the state.<sup>4</sup> Even though a variety of often competing definitions have proliferated (Anderson 1974; Besley and Persson 2009; Bräutigam et al. 2008; Geddes 1994; Jessop 1990; Mann 1984; Migdal 1988; Robinson 2008; Stepan 1978; Trimberger 1978), some fundamental points of convergence can be detected. State capacity is a multi-dimensional concept (Cammatt and MacLean 2011), in that it captures both the organisational and relational qualities of states. Tracing variations in state capacity thus requires close attention to the specific properties of both state structures and state-society relations.

The aim of this review paper is to articulate the recent scholarship on state capacity with the study of development. Four particular goals are pursued here. First, by taking stock of this fast-growing literature a working definition of state capacity is proposed. In the broadest sense, state capacity refers to the ability of states to apply and implement policy choices within the territorial boundaries they claim to govern. This ability implies, most fundamentally, the competence of states to control their borders and enact law and order (Weber 1978), to enforce contracts and collect taxes (Levi 1988), to incorporate and mobilise non-state actors (Jessop 1990), to supply public goods (Tilly 1975), and to

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<sup>2</sup> In its most widely-used version governance is defined as ‘the traditions and institutions by which authority in a country is exercised’ (Kaufmann et al. 2004: 3).

<sup>3</sup> See Enriquez and Centeno (2011).

<sup>4</sup> Class-analytic approaches to the state have a strong root in the Marxist tradition and comprise a variety of often competing lines of work, including class-theoretical, capital-theoretical and strategic-relational approaches. Their common denominator is the conceptualisation on the state as the institutional embodiment of social relations. Organisation-analytic approaches constitute an equally heterogeneous theoretical tradition that includes historical institutionalism, organisational materialism, the ‘state in society’ perspective and state formation approaches, which are united by treating the state as a special kind of formal organisation. See Jessop (2007) and Vu (2010) for instructive overviews.

do so across their territories (Mann 1984). I analyse state capacity as being composed of three distinct, but interrelated dimensions: (1) the *external embeddedness* with non-state actors; (2) the *organisational competence* of state agencies; and (3) the *territorial reach* of state institutions. Defined in this way, state capacity is indifferent to the particular goals it is used for. States, or particular state agencies, may employ their societal links, coordination facilities and geographical coverage to deliver inclusive development (e.g., through economic transformation or redistribution), but they may equally use their capacities for repression, exploitation or even genocide (Mann 2005; Strauss 2006). For the purpose of this review, this makes it paramount to interrogate the recent literature about the particular kinds of state capacities that have been proven developmental.

The second goal of the paper is to revisit discussions around the major causes of state capacity. The established literature on state formation portrays geography, external pressures and capitalist development as key determinants of state capacity. As I hope to illustrate, recent scholarship challenges this focus with an emphasis on elite politics and domestic conflict, and shows how ruling coalitions and political settlements are inscribed in state institutions. It is the combination of geopolitical pressures with political violence (or the threat thereof) in domestic contexts that drives the formation of state-building coalitions and 'developmental' political settlements. New works on the immaterial components of states also bring the issues of legitimacy and monopoly of knowledge to the forefront when seeking to explain state capacity and its roles in social provision and capitalist transformation.

The third reason for this review is to bring history (back) into the equation. The capacity of states to promote inclusive development is shaped by historical patterns of state formation itself. I suggest that current research pursue at least two major lines of investigation around the temporal aspects of state capacity. The first one explores the duration of state building and discusses the extent to which the construction of state capacity should be treated as a long-term endeavour. The second one examines why the colonial history of states matters and how the institutional and political legacies left behind by European overseas colonialism continue to shape the capabilities of states.

The fourth goal is to identify contemporary state transformations at the beginning of the 21<sup>st</sup> century. I examine how the capacities of states to promote development are implicated by neoliberal globalisation, democratisation and power shifts in the international order.

The remainder of the essay proceeds accordingly. Its organisation resembles the major goals of this review and is divided into four parts that showcase the major substantive, conceptual and methodological contributions recent scholarship makes to the analysis of state capacity and inclusive development. The conclusion puts the spotlight on the key concepts that should be taken forward by ESID and identifies the main gaps in the existing literature that should be addressed by ESID-based research. Where feasible, the conclusion also points to plausible strategies of how to go about researching these topics.

## **Redrawing the conceptual boundaries**

Tracing variations in the ability to exercise control and put policy choices into practice requires close attention to the specific properties of both state structures and state–society relations. The established literature traces variations in state capacity to the external embeddedness of the state and the bureaucratic professionalism of the state apparatus.<sup>5</sup>

The focus on embeddedness draws both on class-analytic and organisation-analytic perspectives.<sup>6</sup> Most class-analytic lines of work on the state converge in their emphasis on the relational aspects of state capacity. States at least partially derive the ability to act from their ties (and the nature of those ties) with forces beyond the state (Offe 1984; Jessop 2007). Without relations to non-state actors, states are severely limited in their capacities. The organisation-analytic approach is equally concerned with state–society relations. In this line of reasoning, ties to capitalists and civil society actors enable the flow of knowledge and resources. Yet these ties must not entail the cooptation of state officials by powerful economic actors and the blurring of boundaries between state and civil society. In order to be able to act coherently and coordinate efforts among different state agencies effectively, state authorities require the ability to act independently of dominant economic interests. The paradigmatic example for this perspective is Peter Evans' (1995) argument of 'embedded autonomy' constituting a necessary condition for industrial development in developing contexts. Similarly, Theda Skocpol's (1979) classic study of the origins of social revolution suggests that the lack of state autonomy from economic elites greatly contributed to the collapse of old regimes.<sup>7</sup>

Organisation-analytic analyses also focus on the 'Weberianness' (Evans and Rauch 1999), that is, the internal quality and coherence of the state apparatus. Scholars working within this perspective emphasise that an effective bureaucracy is crucial for the ability of states to pursue their projects. As famously suggested by Max Weber (1978), the rational organisation of social relations within the state machinery through meritocratic recruitment, hierarchical authority structures, standardised procedures and predictable careers enables coordinated action among different state agencies and enhances the probabilities that public officials act as required. Others, most prominently Daniel Carpenter (2001) and Phil Gorski (1995), emphasise the complementary effects of organisational culture. An esprit de corps among bureaucrats, that is, a sense of community, shared norms about proper and improper conduct, public esteem and the belief that civil servants are performing an invaluable task, reinforces the boundaries of the state apparatus and fosters discipline among state actors, thereby increasing their competencies to implement policy choices.<sup>8</sup>

The notion that bureaucratisation and external embeddedness are necessary for states to act developmentally continues to dominate much of the writing on states and development (e.g., Evans 2010; Lange and Rueschemeyer 2005). Yet, recent work has 'chipped away' at this basic consensus in the literature. Scholars from a variety of disciplinary outlooks and substantive fields suggest that the organisational competence of states is not just a function of a coherent and effective bureaucracy, it may—under certain circumstances—also rest on patrimonial arrangements and clientelist networks.

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<sup>5</sup> See Lange and Rueschemeyer (2005) and Jessop (2007) for recent overviews.

<sup>6</sup> See Footnote 4 for a more detailed discussion of the different analytical traditions prevalent in state theory.

<sup>7</sup> Other examples for works in this tradition include Bates (1981) and Nordlinger (1981).

<sup>8</sup> Other studies within this perspective include Skowronek (1982) and Geddes (1994).

Similarly, the recent spatial turn in the study of the state puts the spotlight on the geographical coverage of state organisations and its often contradictory implications for inclusive development. This section critically reviews this new scholarship, identifying insights, shortcomings and paths for future research.

### **Revisiting debates around patrimonialism**

The meagre results of the ‘good governance’ agenda and its exclusive focus on the creation of bureaucratic skills (Grindle 2004; 2007) have sparked a renewed interest in the decisively non-bureaucratic aspects of governance, most prominently patrimonialism and clientelist networks, and their implications for the organisational competence of states. This is coupled with a growing literature on informal institutions, or rules and procedures that are created and produced outside of official channels (Helmke and Levitsky 2004; 2006).<sup>9</sup>

One of the implications of this new scholarship is a rethinking of clientelism and patrimonialism. Rather than treating these informal institutions as inherently problematic for state capacity, a growing number of works makes the case for a more complex relationship (Erdmann and Engel 2007; Kiser and Sacks 2011). Based on a comparative study of seven African countries, Tim Kelsall and David Booth (Kelsall and Booth 2010; Kelsall 2011) suggest that in all of them the state apparatus is best described as patrimonial—personal ties rather than meritocratic criteria decide upon who enters public service, and appointed individuals draw on their public posts for private gains. Yet, in some cases, most prominently in Malawi (1961-1978),<sup>10</sup> Kenya (1965-1975) and Rwanda (after 2000), the regime in power was committed to long-term economic development and exercised central control about the collection and distribution of rents, with the result that patrimonial arrangements became ‘developmental’ and managed to engender substantial economic growth. A similar argument is made by Keith Darden’s (2008) study of corruption in post-communist Ukraine. His analysis finds that when state leaders manage to systematically control and monitor the flow of rents, then the tolerance of graft among lower-level civil servants secures compliance and loyalty to central authorities. The ironic consequence of such a decisively non-Weberian arrangement is a state apparatus endowed with a robust, impersonal hierarchy and significant organisational competence.

From a broader historical perspective, these possible ‘positive externalities’ of patrimonialism do not come as a major surprise, as powerfully illustrated by recent comparative histories on state formation. Julia Adams (2005) shows that the 17<sup>th</sup> century Netherlands, one of the world’s leading geopolitical forces during this time, experienced substantial economic growth, even in the absence of bureaucratic machinery and with deeply engrained patrimonial arrangements between ruling families, civil servants and merchant capitalists. Closely following the gist of Adam’s argument, Philip Gorski’s (2003) study of the early modern Netherlands and Brandenburg-Prussia demonstrates

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<sup>9</sup> Recent research on the nexus between informal institutions and state capacity has not been limited to patron–client relations and corruption alone. New scholarship has also focused on custom law and informal justice systems (Van Cott 2005; 2008), and social solidarity and reciprocity systems (MacLean 2010; Tsai 2007) in shaping the organisational competencies of states to engage in public goods provision.

<sup>10</sup> Chingaipe and Leftwich (2008) reference? challenge the classification of Malawi as developmental patrimonialism.

that the 'organisational entwining' between state agencies and religious associations enabled these states to extract resources and engage in poor relief, rather than the presence of a coherent bureaucracy. In other words, new evidence on Western Europe, often treated as the paradigmatic model for Weberian state formation, indicates that patrimonialism does not by default undermine state capacity (Vu 2010).<sup>11</sup>

Yet, the new work on 'developmental' patrimonialism remains limited in important ways. To begin with, it confronts a rather large literature from a variety of disciplinary and methodological backgrounds that continues to demonstrate the negative effects of patrimonial arrangements on state capacity. Statistical studies, whether regional or cross-regional in focus, show that effective bureaucracies and reliable law enforcement remain powerful determinants of economic growth and social welfare (e.g., Knack and Keefer 2003; Sacks and Levi 2010). Recent comparative historical works convey a similar picture. Former Spanish and British colonies that were left with patrimonial states often turned into economic and social laggards, with sometimes alarmingly low levels of human development (e.g., Lange et al. 2006; Lange 2009; Mahoney 2010). This raises the issue of to what extent claims about the developmental capacities of patrimonial states are based on a select number of rather exceptional cases.

Moreover, recent scholarship poses more questions than it answers about the nexus between organisational competence and patrimonialism. Most of the recent studies converge, in that they see the centralised monitoring of rents as a crucial aspect of 'developmental' patrimonialism. Yet, even (or especially) the effective control of graft presupposes a minimum of hierarchic organisation and impersonal decision-making usually associated with bureaucracies. In other words, 'developmental' patrimonialism possibly requires a certain level of bureaucratisation to begin with. Another issue concerns the link between patrimonialism and inclusive development. Most of the recent studies, whether on contemporary sub-Saharan Africa or the 17<sup>th</sup> century Netherlands, show that 'developmental' patrimonialism appears to be associated with episodes of economic growth. By contrast, the literature does not give any indication that a similar argument holds for social provisioning, another major dimension of inclusive development. More than accumulation, redistribution requires states to engage in massive coordination and planning efforts (Kuhonta 2011).

And finally, even when focusing solely on economic growth, the sustainability of developmental patrimonialism remains questionable. Recent research shows that this institutional arrangement is often not sustainable on the long run (Brinkerhoff and Goldsmith 2005; Kelsall and Booth 2010). As suggested by Khan (2004), one possible reason for this is the political modus operandi of developmental patrimonialism and the lack of structural transformation it entails. Developmental patrimonialism can maintain elite commitments to a small growth coalition, but it cannot engender the expansion of the productive economy, the systematic formation of human capital or the creation of new social forces through redistributive measures. Thus, once continued economic development takes off, more bureaucratisation and different ties to non-state actors are required for inclusive development.

### **Bringing space (back) in**

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<sup>11</sup> Clientelist networks and organised corruption, and not rational-legal bureaucracy, were also important drivers of industrial development in the 19<sup>th</sup> century United States (Lachmann 2011).

A second trend in recent scholarship concerns the territorial reach of states. All major definitions of the modern state from Max Weber (1978) onwards emphasise that state power is fundamentally spatial.<sup>12</sup> Modern state action is premised on the notion of territory—states claim to exercise authority over a bounded area and seek to regulate economic processes and social relations within a territorially demarcated area (Giddens 1985; Mann 1984; O'Donnell 1993). Yet, in contrast to the well-established research programmes on embedded autonomy and bureaucratisation, scholars have for a long time not developed a comparable conceptual apparatus and body of empirical research on state spaces and their implications for development. It is only for the last 15 years that research became more explicitly concerned with this dimension of state capacity.

One prominent research stream draws on the concept of infrastructural power, initially coined by Michael Mann (1986; 1993) to analyse the *territorial reach* of the state.<sup>13</sup> Scholars working within this perspective are primarily concerned with the extent to which state organisations are able to penetrate society and carry out their projects throughout the territory they claim to govern. For example, Jeffrey Herbst (2000) attributes the lack of sustained economic growth in much of sub-Saharan Africa to the fact that most states in the region lack the ability 'to project power over distance' (p. 173). A similar argument is advanced by John Coatsworth (1998), who suggests that the roots of economic stagnation in 19<sup>th</sup> century Latin America are linked to the fact that the provision of basic infrastructure and the enforcement of property rights were territorially bounded—the reach of the central state was often confined to not much more than the major cities and surrounding areas. These observations for economic growth are echoed by research on the nexus between infrastructural power and social provision. Hillel Soifer (2012) finds that differences in the territorial presence of the state in Colombia, Chile, Mexico and Peru go a long way in explaining contrasting social development outcomes between the two countries. Other scholars focus on infrastructural power to account for political outcomes, most prominently the rise of indigenous movements (Yashar 2005), social revolutions (Goodwin 2001), and civil violence (Fearon and Laitin 2003; Kalyvas 2006). Overall, research within this perspective 'territorialises' state capacity by putting the spotlight on the extent of stateness—or the territorial reach of the state.

Other approaches are equally concerned with the spatial dimension of state capacity. Scholars working in fields as diverse as contemporary globalisation studies, political economy and international relations problematise the political geography of the modern state and the developmental implications of its territorial organisation. Research from these fields tends to conceptualise the territorial reach of the state as a function of distinct *spatial projects*. Most prominently, Neil Brenner, Bob Jessop and others working on a spatial theory of the state (Brenner 2004; Jessop et al. 2008) identify a major recent shift in models of statehood. Whereas the post-war period was characterised by a spatial project that emphasised administrative uniformity and the equalisation of skills resources across state territory as the key to ignite growth and human welfare, the new contemporary project (post-1980) is primarily focused on global competitiveness. This is achieved through customised administration, institutional differentiation and

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<sup>12</sup> Exceptions are conceptual approaches that treat the state as a normative order or collective representation (e.g., Abrams 1988; Geertz 1981).

<sup>13</sup> For an overview of this growing literature see Soifer and vom Hau (2008).

decentralisation of authority to sub-national units. Writing from a different theoretical angle, Catherine Boone (2003) comes to similar conclusions. In her study of West African states, she argues that dramatic sub-national variations in state capacity are first and foremost a function of the ways in which political authority is organised. Based on an analysis of different rural property regimes, she shows that central state leaders might deliberately stay away from state building in certain areas to contain the scope of conflict with local society. In this sense, approaches concerned with spatial projects suggest that the territorial unevenness of state power is not necessarily linked to an inability of state organisations to ‘reach through’ society, but might in fact constitute an explicit strategy.

The two key concepts in these distinct literatures, spatial projects and territorial reach, around which much of the recent research is organised, echo the distinction between commitment and capacity. States, no matter how organisationally competent their agencies and how embedded (and yet autonomous) their officials, often vary in their strategies of how to achieve development across state territory. The recent literature also makes a strong case for treating territorial reach as a separate dimension of state capacity. States might be characterised by embedded autonomy and organisational effectiveness and still lack the capabilities to promote inclusive development—largely because the extent to which their organisations can reach through society is confined to territorially delimited areas. To account for variations in territorial reach, the literature converges in emphasising that domestic politics are most likely the key determinants. The next section builds on this lead and reviews different arguments about the causes of state capacity in more detail.

## **Political and ideological determinants of state capacity**

The established literature focuses on geography, international war and capitalist transformation as the major determinants of state capacity. Much of the recent scholarship diverges from this emphasis and puts the analytical focus on domestic conflict, elite coalitions and state legitimacy as major causes of state capacity.

### **Ruling coalitions**

Often motivated by a deep frustration about the ahistorical and depoliticised analysis of state institutions in the good governance perspective (e.g., DiJohn and Putzel 2009), recent works emphasise the importance of looking at the coalitions—or political settlements—among contending social groups and classes when seeking to understand state capacity. Differences in the ability of states to engender economic growth, redistribute resources or provide basic social services are ultimately rooted in the balance of power between different social forces, and the political organisation of those relationships.

The boldest statement of this approach comes, surprisingly, from one of the intellectual architects behind the good governance perspective. Nobel Prize winner Douglass North and co-authors (2009) argue that state building is an inherently political process. In their view, state institutions ultimately operate as a means to manage conflict and violence among powerful social actors. ‘Dominant coalitions’, and the relationships among the elites embedded in them, structure states and their performance. As such, even similar state institutions might marshal very different capacities, depending on the elite bargains

that underlie them. The recent literature on political settlements comes to similar conclusions. Echoing the focus on economic elites in certain strands of Marxist state theory (e.g., Block 1980; Miliband 1969; Mills 1956) yet moving away from its overt emphasis on class power alone, this scholarship portrays the form and actions of state institutions as the result of the negotiations and rolling agreements between powerful elite actors (Lindemann 2008; Khan 2010; Parks and Cole 2010).

A somewhat more nuanced version of this argument that specifies the *kinds* of elite coalitions most conducive to state capacity comes from Dan Slater's (2010) comparative historical analysis of mid-20<sup>th</sup> century Southeast Asia. His explanatory framework stresses that state strength (conceptualised as the capacity to tax) is a function of elite alignments. In cases with encompassing 'protection pacts', which include economic elites, state officials, middle classes and communal leaders, elites are willing to pay higher taxes in exchange for the central state providing security and crushing popular threats. In cases with flimsy coalitions, flimsy state organisations are the consequence. This point is echoed in David Waldner's study (1999) of Syria, Turkey, South Korea and Taiwan, which argues that 'elite cohesion' was a necessary condition for the expansion of state capacities for development, whereas elite disunity and factionalism produced broad cross-class coalitions, which were ultimately not conducive to the building of developmental states.<sup>14</sup>

The bottom line of these arguments is that state capacities to engender growth and engage in social provision are affected by the balance of power in society. As a matter of fact, most of this literature subscribes to similar explanatory framework, when seeking to account for distinct trajectories of state formation. The overall causality runs from conflicts to coalitions to state capacity. Distinct patterns of contentions among social groups and classes produce different alliances and alignments, especially among elites, which in turn shape the form and performance of states. In many ways, this explanatory model resembles a fusion of two well-established research programmes on democracy. The 'transition' literature has long emphasised the decisive role of elite strategies and elite negotiations in processes of democratisation (e.g., O'Donnell and Schmitter 1986), while power resource approaches (e.g., Moore 1966; Rueschemeyer et al. 1992) have put the analytical spotlight on societal pressures and their organisational power to account for transitions towards democracy.<sup>15</sup>

Distinct works within the coalition approach emphasise different mechanisms through which elite coalitions translate into state capacity. Some emphasise infrastructural power. Protection pacts enable states to assert authority over societal elites and extract revenues from these actors. In turn, a greater tax base is necessary for states to intervene in economic development or transform social relations through redistribution and social policy (Slater 2010). Conversely, broad cross-class coalitions entail diminished tax capacities, while state authorities are likely to confront increased pressures for payments to class constituencies (Waldner 1999). Others emphasise the rule of law when identifying the nexus between political settlements and state capacities for development. Encompassing and consolidated elite coalitions set the stage for transforming elite privileges into well-defined elite rights, a first and necessary building

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<sup>14</sup> A similar point is made by Tuong Vu (2007), who locates the origins of developmental states in the interplay between elite unity and mass suppression.

<sup>15</sup> See Collier (1999) for a combination of these two perspectives in the context of democratisation research.

block in moving towards more inclusive forms of legal protection and the impersonal delivery of public goods (North et al. 2009).

Coalition arguments greatly advance the study of state capacity. By exploring how the distribution of power is inscribed in state structures and their organisational capabilities, this approach brings elite politics to the forefront of the analysis. The recent literature also addresses some of the long-standing criticisms of earlier Marxist approaches to state capacity. Ruling coalitions are analysed as organisationally grounded and politically expressed and negotiated, and not as mere 'condensations' of socioeconomic structures and class interests (e.g., Block 1980; Miliband 1969; Poulantzas 1973; Wallerstein 1974).

At the same time, certain issues warrant further exploration. To begin with, scholars employ a variety and often interchangeably used concepts to unpack the distribution of power in state–society relations, including but not limited to coalitions, alignments, alliances, pacts and elite bargains. Most prominently, the mushrooming literature on political settlements has not made sufficiently explicit what constitutes the specific analytical purchasing power of this concept. For instance, are political settlements fundamentally distinct from coalitions, in that they depict a consensus about the very rules of political competition (Burton and Higley 1987; Higley and Burton 1998)? Or do political settlements describe the alignment of interests among dominant elite groups, and thus can be used interchangeably with the concept of coalitions (Khan 2010; Parks and Cole 2010)? More rigorous conceptual work is needed clarify the precise meanings attached to these concepts and their relations to each other.

Additional work is also needed to recalibrate and refine coalition arguments for research on states and development. For one thing, inclusive elite alliances do not necessarily translate into inclusive developmental outcomes (DiJohn and Putzel 2009). Encompassing protection pacts might bring about strong and centralised states that provide the security and political stability desired by economic elites, yet these states might still be ineffective in poverty reduction, or economic growth ignition. In Thailand, for example, a broad elite and military alliance supported the construction of a state apparatus with significant competence in steering and regulating export-oriented industrialisation, while its ability to address income inequality remained severely circumscribed (Kuhonta 2011). Future research thus would explore the specific *configurations of elite coalitions* conducive to state developmental capacities. Similarly, future research would also benefit from more systematic operationalisation and measurement of elite coalitions. Most of the current works do not make sufficiently explicit how distinct forms of 'intra-elite conflict' or 'intra-elite cohesion' are identified across different cases and time periods.

Finally, the temporal boundaries of coalition arguments require closer attention. The extent to which insights derived from the recent scholarship on elite politics 'travel' to contemporary situations remains an open question. Most of the works reviewed here base their claims on historical cases. These studies converge in their finding that up to the mid-20<sup>th</sup> century, states in the post-colonial world only rarely combined effectiveness with accountability (Slater 2008). This raises the question of whether elite political settlements remain the main driver of state formation, in a world-historical context where procedural democracy has become a global norm and the political reality in most developing countries. A similar question is posed by the increasing transnational engagement of economic and political elites (and, through these engagements, the

growing importance of the Hirschmanian 'exit' option to them), and its implications for elite bargains and state developmental capacities. These questions point to other relevant dimensions for the analysis of state formation: the geopolitical and domestic social environments within which elite politics unfold. The subsequent section explores these issues further by putting the spotlight on the nexus between war, contentious politics and state formation.

### **International and domestic conflicts**

What motivates elites to form alliances with state leaders and support the construction of high-capacity states? The classical literature on European state formation provides a straightforward answer: war. According to the 'bellicist approach' (Centeno 2002) modern states were the by-products of military conflicts (Downing 1992; Ertman 1997; Mann 1993; Tilly 1990). War (or the threat of war) induced economic elites to pay taxes and accept other controls on their behaviour. Similarly, war pushed rulers to build an administrative and extractive machinery capable of mobilising the resources necessary for the deployment of armies and the acquisition of military technology. Another causal mechanism emphasises the expansion of citizenship and cross-class solidarities. With the imposition of conscription state leaders became more responsive to the demands of citizen-soldiers for the expansion of political rights and social provision (Hobsbawm 1990; Skocpol 1992; Kestnbaum 2009).

The bellicist perspective has come under critical scrutiny. While the policy implications are unpalatable, there is also a growing consensus that the generalisability of this approach is severely limited (Vu 2010). Different kinds of military conflicts have different, sometimes even contrasting, consequences for the construction of state capacities. The argument that wars were at the heart of modern state building appears to apply exclusively to international wars, as powerfully illustrated by a vast literature on the devastating effects of civil wars on the organisational competencies of states (e.g., Kalyvas 2006; Thies 2005).<sup>16</sup> And even international wars foster bureaucratisation and infrastructural power only under very specific circumstances. A certain level of institutional capacity is required for external threats to induce state building: wars do not make states if there is no state machinery to begin with (Kohli 2004; Centeno 2002).

From a comparative historical perspective, recent works on China, Latin America and Southeast show how state formation unfolded in the relative absence of major geopolitical threats or international wars (Lopez-Alves 2000; Hui 2005). And even new scholarship on European state formation casts doubts on the bellicist approach. Fourteenth century French state centralisation, preceding the surge in warfare during the early modern period, was the result of elite political bargains (Spruyt 1994), while in the 17<sup>th</sup> century Netherlands, close networks between patriarchal ruling families and merchant capitalists provided the necessary resources to wage war, even in the absence of a centralised bureaucracy (Adams 2005). Thus, the arguments that geopolitical conflict was the crucial impetus to state building only applies under certain narrow conditions, which might have been met only by 18<sup>th</sup> century Europe.

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<sup>16</sup> But see Skocpol (1992) for a sophisticated bellicist account of the links between the Civil War (1861-1865) and welfare state formation in the United States.

Yet, the general focus on conflict emphasised by the bellicist perspective should not be dismissed. Even if international wars did not play the central role assigned to them in the classical state formation literature, the question of what kinds of conflict—both international and domestic, and combinations thereof—are conducive to state formation, remains an important one. Putting the spotlight on conflict enables researchers to avoid the analytical pitfall of associating capacity building with situations of political stability and consensus. It also helps to combine coalition arguments with a focus on the broader geopolitical and social contexts within which elite politics play themselves out. Intriguing examples of such a synthesis are the recent works by Slater (2010) and Fernando Lopez-Alves (2000).

Slater's (2010) explanation for the rise of state-building coalitions in some (but not all) Southeast Asian countries after World War II emphasises that the form and intensity of contentious politics shaped elite bargains. In Malaysia and Singapore, revolutionary urban mass mobilisation overlapped with ethno-religious tensions, with the result that social elites sought state protection. In the Philippines, rebellions occurred primarily in rural areas and, in combination with the relative absence of communal conflicts, made elites more confident in existing institutional arrangements. Lopez-Alves (2000) is similarly concerned with conflict patterns when explaining distinct patterns of state formation in 19<sup>th</sup> century Latin America. In Argentina a centralised army, constructed from Buenos Aires outwards during the wars of independence, transformed into the main vehicle for the political incorporation of highly mobilised rural sectors, leading to a infrastructurally stronger state. In Colombia and Uruguay, the wars of independence moved from the countryside to the city, leading to a more fragmented army. Political parties came to control the rural poor, and the central state apparatus remained weaker. As these two examples illustrate, threats of political violence often constitute the backbone of state-building coalitions. A comprehensive framework for the analysis of developmental state capacities would therefore benefit from combining a focus on elite coalitions with close attention to the geopolitical and domestic conflicts in which they are embedded.

### **Legitimacy and domination**

Another focus on state capacity takes a different angle altogether. Leaving the physical and institutional bases of state power behind, a growing literature explores the relationship between state capacity and legitimacy—the extent to which people consent to and even support state power. The established research programmes, with their emphasis on bureaucratic professionalism and embedded autonomy, tend to bracket the issue of legitimacy, and sometimes even take the existence of legitimate authority as a given (Evans et al. 1985; Migdal 1988; Skocpol 1979; Tilly 1990).

Yet, as research across different disciplines shows, legitimacy is a crucial cause of state capacity. The ability of state organisations to transform social relations, extract resources and implement policy effectively is not disconnected from the beliefs and sentiments about the state held by social actors, as powerfully illustrated by the recent failures of foreign-directed state-building in Iraq and Kosovo. And, as argued by scholars from disciplinary backgrounds as diverse as anthropology and international relations, the 'idea of the state' (Abrams 1988; Buzan 1983)—or the ideological consensus about what constitutes legitimate political authority within a given territory—shapes how citizens respond to state action. Similarly, the 'imagined community' (Anderson 1991)—or the dominant agreement about who makes up the collectivity embodied by the state— has

major implications for the probability that citizens will recognise as valid and act upon the decisions made by state authorities (Gorski 2003). These understandings of authority and community do not need to be explicit. A recent study by sociologist Mara Loveman (2005) argues that legitimacy is implicated when citizens accept certain state-sponsored identifications and group distinctions as natural and take the exercise of state power as a taken-for-granted feature of everyday life.

Some scholars working from a legitimacy perspective even suggest that state capacity should be reconceptualised as the ability of states to command loyalty—the right to rule—from their citizens (Holsti 1996). It is the attachments and allegiances to an ‘experiential “we” from whose will the activities of government seem spontaneously to flow’ (Geertz 1973: 239-240) that shape the extent to which state authorities are able to implement their projects. In this view, high-capacity states are those that can build on a strong collective identity and enjoy legitimate authority in the eyes of their citizens, while low-capacity states are those that lack cohesion and legitimacy and therefore exercise rule through force and coercion (Lemay-Hébert 2010).

The empirical record suggests that the analytical insights provided by this perspective are limited. A brief comparison between Argentina and Spain makes this evident. Both countries were roughly at the same level of state capacity in 1960. They could not be more different today, despite the fact that it is the Spanish national state, and not the Argentine one, that confronts powerful and sustained challenges to its political authority and conceptions of national community (Guibernau 1996; Muro 2008). The comparison also points to another shortcoming of the legitimacy perspective, the implicit entwining of state capacity with culture and collective identity. Even states as culturally homogeneous as Argentina might not be able to affirm authority over their territories, as powerfully illustrated by widespread citizen resistance against taxation. Similarly, even states that confront competing claims to national sovereignty within their territorial boundaries, such as Spain, might be able to tax and engage in social provision. The two examples discussed here caution against equating state and nation, and treating state capacity as a function of national attachment and cultural cohesion.

An analytical approach that combines attention to legitimacy and state capacity therefore provides the most promising direction forwards. In this context it is useful to distinguish between different channels through which legitimacy and state capacity interact. For one thing, the recognition of state power as legitimate by citizens is a direct *product* of state organisations. States that marshal the organisational competence and territorial reach to provide a wide variety of public services may enjoy significant legitimacy in the eyes of social actors, simply because these states deliver. In other words, this ‘output’ legitimacy is directly linked to public goods provision.<sup>17</sup> Another channel through which institutional performance translates into legitimacy is state ideological work. Collective identities are not primordial. Individuals must agree that they belong to an imagined community and care about the wellbeing of its members, even if they have never met them (Miller-Idriss 2009). And states vary in their capacity to intervene in the socialisation of their citizenry and instil such a sense of belonging (vom Hau 2008).

Yet, legitimacy is not just a byproduct of state performance. Legitimacy is itself a *producer* of state capacity. Even states endowed with the necessary institutions to

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<sup>17</sup> For the distinction between input and output legitimacy see Scharpf (1999).

name, register, tax, police and educate their subjects, both in the capital and in the farthest points of their territories, might not be recognised as legitimate. The supporting beliefs and ideological justifications of state power help to frame the presence of state organisations as natural and inevitable, thereby facilitating cooperation among citizens. Legitimacy thus reinforces the social relations constitutive of state power and expands the ability of states to implement their projects (Rueschemeyer and vom Hau 2009).

In sum, close attention to legitimacy is warranted when seeking to explain how states gain the capacity to promote inclusive development. To unpack the kinds of relationships state organisations have with non-state actors, it is crucial to understand how citizens perceive and evaluate 'the state'. An explanatory framework for the analysis of state capacity therefore needs to focus on interaction between the external ties, organisational properties and spatial coverage of state institutions, and the attachments and beliefs about the state and its power found among citizens. This is best achieved by drawing a clear conceptual distinction between legitimacy and state capacity, and by analysing legitimacy as both a determinant and outcome of state capacity.

### **Bringing history back in: state capacity in time**

State formation is deeply enmeshed in history. Taking history seriously and treating states as embedded in world-historical time (Skocpol 1979) brings the temporal dynamics of state capacity to the forefront. Assessing state capacities for development requires close attention to when and under what conditions specific configurations of external embeddedness, organisational competence and territorial reach came about, and the developmental implications of distinct historical trajectories of state formation (Pierson 2004). This section explores two major areas in which recent research historicises state capacity: (1) the pace and duration of state formation; and (2) the legacies of colonialism and other potential critical junctures.

#### **Pace of state formation**

State formation is inherently a slow-moving process that is likely to take decades, if not generations. Dietrich Rueschemeyer (2005) develops a theoretical rationale for this claim. He suggests that state building is slow and incremental because it involves the coordination of complex organisations and diverging interests, and the institutionalisation of new norms in state agencies and state–society relations. In turn, the remaking of organisational structures and normative orientations often entails recurrent internal conflicts among state organisations and opposition from societal actors who stand to lose power, further contributing to slow and interrupted institution building. Thomas Ertman (1997), Michael Mann (1993) and Charles Tilly (1990) provide empirical support for this claim. These scholars converge in their assessment that the construction of effective states in Europe took more than a millennium. Studies of state building in Northeast Asia echo this argument, showing that the origins of the South Korean and the Japanese developmental state can be traced back to a long history of education and civil service as paths of upward mobility (Cumings 2005).

At a first glance, the emphasis on the deep historical roots of contemporary state capacities does not leave much room for agency. The duration of state building lies beyond the time span of generational turnover (about 25 to 30 years), not to mention the

time horizon of political tenure. Yet, taking a long view on state building should not be conflated with an overtly structural and path-dependent approach. Indeed, a more careful look at the recent literature requires some qualifications. Under certain conditions, rapid advances in state capacities are possible. Major crises might prompt the creation of new state organisations and dramatic changes in state–society relations, especially because these extraordinary situations often go along with the concentration of political power, the muting of oppositional forces, and new possibilities to mobilise resources.

Scholars identify major international wars as crucial catalysts for the rapid expansion of state capacities in late 19<sup>th</sup> and early 20<sup>th</sup> century Europe (Mann 1993; Tilly 1990). Similarly, social revolutions have been tremendously successful in transforming existing state structures and creating bureaucratic and infrastructurally powerful states (Goldstone 1991; Goodwin 2001; Skocpol 1994). And then there have been periods of rapid state building, even in the absence of revolution and war. Thomas Ertman (1997, 2005) observes that once Europe had met a number of conditions that took centuries to develop, most prominently a division between secular and sacral power, the practice of procedural justice, and the emergence of an autonomous market economy, the construction of effective state bureaucracies often unfolded within a couple of decades. Thus, episodes of rapid state building appear to be possible.

A crucial theme that is left underexplored in this literature is to what extent these historical observations translate into insights about contemporary state formation. We need to know more about what kinds of crisis situations—if any—are likely to facilitate the rapid transformation of state capacities in the developing world. Such a research agenda seems particularly relevant in light of the declining prevalence of total wars and revolutionary situations, especially since the end of the Cold War (Kaldor 1998; Goodwin 2001). It also connects to the question of what kinds of conditions enable particular cases to break away from the ‘weight’ of history in state building.

### **Historical critical junctures and their legacies**

A second major line of inquiry focuses on specific historical events and their legacies. This literature feeds on the recent turn to history and institutions in development economics (Acemoglu et al. 2001; Engerman and Sokoloff 2002) and incorporates tools from the interdisciplinary study of institutional change, including ideas around path dependence and critical junctures (Collier and Collier 1991; Mahoney 2000; Mahoney and Thelen 2010; Pierson 2004). Scholars are particularly concerned with one of the most transformative events in modern history: colonialism. There is a widespread consensus that colonial rule led to a ‘reversal of fortunes’ in most of the developing world (Acemoglu et al. 2002).<sup>18</sup> In particular, studies in this line of research emphasise the long-run impact of colonialism on contemporary state capacities.

James Mahoney (2010), for instance, shows that Spanish colonial rule left behind surprisingly durable legacies in Latin America, depending on the type and extent of colonial state building. During the early mercantilist phase, colonial state authorities imposed tight regulations on trade, ownership and economic participation, creating an entrenched patrimonial elite, especially in the colonial centres of modern Mexico, Peru and Bolivia. During the later liberal phase, colonial state building increasingly focused on

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<sup>18</sup> See Nunn (2009) for an excellent overview.

former mercantilist peripheries, such as modern Argentina, Uruguay and Venezuela, and encouraged long-term entrepreneurial investments, thereby strengthening liberal elites (see also Lange et al. 2006; Mahoney and vom Hau 2005). These distinct elite configurations greatly affected the form and functioning of post-colonial state institutions put into place after the end of Spanish colonialism. Melissa Dell's (2010) study of the *mita* forced labour systems implanted in colonial Bolivia and Peru provides additional sub-national evidence for this argument.

Matthew Lange (2009) comes to similar conclusions when analysing the developmental consequences of British overseas colonialism. Strategies of colonial rule determined the type of state apparatus that British colonisers sought to build in a particular area. Direct rule entailed the creation of bureaucratic states with extensive territorial reach, while indirect rule relied upon local intermediaries and led to patrimonial states. Like Lange, Abhijit Banerjee and Lakshmi Iyer's (2005) study of differences in revenue collection across districts in India finds strong support for the distinct legacies of direct and indirect colonial rule. Evidence from other colonial experiences and world regions is equally suggestive of a causal association between colonialism, state building and post-colonial development. In South Korea and Taiwan, Japanese 'administrative colonialism' contributed to the construction of an effective bureaucracy, a crucial factor in the later rise of developmental states (Cumings 2005; Woo-Cumings 1999), while in former French colonies, most prominently Cambodia and Laos, colonial state institutions had adverse effects on post-colonial state formation (Kwon 2011).

As this brief overview shows, in much of the post-colonial world, colonial state building left behind enduring legacies for contemporary state capacities, even though the initially established institutions ceased to persist. Authors differ in the specific transmission mechanisms they identify to account for this relationship. Some see causality operating through power relations and external embeddedness. Mahoney's (2010) core argument is that liberal and mercantilist institutions had widely diverging distributional consequences, constituting asymmetrical collective actors that benefited from these institutional arrangements. Other scholars focus on organisational competence and infrastructural power. Lange (2009), for instance, suggests that in indirectly ruled areas, the central state's dependency on local powerholders led to state organisations without a coherent sense of identity or ability to act in a coordinated manner. These fragmented state structures ultimately account for the persistence of patrimonial states without social and territorial reach through society, even after the demise of colonial rule.

Their institutional focus allows authors to distinguish between different colonial projects, and spells out the specific channels through which past institutional arrangements continue to exert influence on contemporary state capacities. At the same time, the overt emphasis on institutions also constitutes a weak spot. Specifically, studies in this tradition generally pay little attention to the role of culture and discourse in colonial state building. This point has been made forcefully by the new 'imperial-colonial studies', a recent sub-field in sociology.<sup>19</sup> For example, in his comparative analysis of German colonial state formation, George Steinmetz (2007) identifies ethnographic discourses about the colonised as crucial for explaining the dramatic variations in colonial policies towards indigenous people across Samoa, Southwest Africa and Qingdao. From a slightly different angle, Julian Go's (2008) study of US colonialism in the Philippines and

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<sup>19</sup> Go (2009) provides an instructive overview of this field.

Puerto Rico shows that the responses of indigenous officials to colonial state building was crucially shaped by the respective elite discourses about American culture.

The imperial-colonial studies perspective thus makes a strong case for including cultural factors into the analysis of state capacity. And the argument is not just programmatic. Studies such as the monographs by Steinmetz and Go provide a number of methodological strategies for evaluating the impact of discourse and cultural idioms on colonial policies and state building. Yet, important drawbacks remain. It is not clear how the ethnographic representations or the meaning-making of local officials affected subsequent state-building projects. In other words, the imperial-colonial studies perspective currently does not establish specific transmission channels that link culture and discourse during the colonial period to post-colonial state capacity outcomes.

A more fundamental issue that confronts both institutionalist and culturalist analyses of colonial state formation is the choice of critical juncture. A focus on colonialism might overlook other historical events and processes that are crucial to explain contemporary state capacities. One of those was imperialism. Recent works on the legacies and impacts of the British Empire in the 19<sup>th</sup> century and the American empire of the 20<sup>th</sup> century (Arrighi 2007; Mann 2003), show how the informal and non-territorial forms of rule associated with imperialism impacted on the developmental capacities of affected states, whether through direct military interventions and the deposing of regimes, the training of local state officials, or the setting of conditions for loans and investments.<sup>20</sup> Other emphasise more recent dynamics and focus on the economic and political crises that took place in many developing countries during the 1970s (Arrighi 1994, Young 1994). A second group of studies turns the clock back even further. The works on African states by Jeffrey Herbst (2000) and Nicola Gennaioli and Ilija Rainer (2007), for instance, emphasise the crucial impact pre-colonial institutions had on state formation in the region. In light of these findings, careful justification of plausible critical junctures is warranted when seeking to identify the historical roots of state capacities for inclusive development. Moreover, a focus on the past needs to be complemented by close attention to contemporary patterns of state transformation.

## **Twenty-first century challenges and transformations**

The past three decades constitute another critical juncture for state capacity in the developing world. Since the 1980s, the global political economy and the international state system have undergone several profound changes, with major implications for the embeddedness, organisation, and territorial reach of states.<sup>21</sup> This section focuses on three critical factors that impact contemporary processes of state formation: (1) neoliberal globalisation; (2) democratisation; and (3) power shifts in the international state system associated with the rise of 'the BRICs' and other 'emerging powers'. The recent literature on these topics indicates that the argument that globalisation would weaken states and erode state capacity (e.g., Barrow 1993; Poggi 1990; Strange 1996) has given way to the consensus that globalisation and other recent factors in fact have a

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<sup>20</sup> An excellent discussion of the distinction between colonialism and imperialism is Steinmetz (2005).

<sup>21</sup> See Robinson (2008) for an overview.

*transformative* impact on state institutions and their practices (e.g., Mann 1997; Weiss 1998). Yet, how and why states are changing, and how these state transformations affect inclusive development, remain a matter of intense debate.

### **Neoliberal globalisation**

Expanding worldwide flows of commodities, capital and labour have led to a more interconnected and competitive economic environment (Castells 1997). In particular, trade liberalisation entailed a dramatic increase in the flow of commodities across borders (Hirst and Thompson 1999; Chase-Dunn et al. 2000), breaking the nexus between national production and domestic consumption. Similarly, financial liberalisation has endowed transnational corporations with greater flexibilities to choose the sites where they wish to produce and invest, while local entrepreneurs are increasingly linked into global production networks. Capital mobility is closely entwined with financial globalisation and the growing weight of finance as a distinct form of accumulation (Krippner 2011).

The origins of these global economic transformations are largely political (Chorev 2007). As already emphasised by Polanyi (1944), there is usually a strong association between the shape of the global economic system and the political and ideological forms sustaining it. From the 1980s onwards, 'neoliberalism' emerged as a new market-centred policy paradigm (Fourcade-Gourinchas and Babb 2002; Harvey 2005). This ideological platform and its belief that markets constitute the key to development, and that therefore state intervention in markets needs to be minimised, inspired a set of policy prescriptions often described with the term 'Washington Consensus'. The initial wave of reform at least in part responded to the OPEC-fuelled debt crisis and the exhaustion of import-substituting industrialisation as the dominant development paradigm. Often under the tremendous pressure of international financial institutions, such as the World Bank (WB) or the International Monetary Fund (IMF), developing countries implemented far-reaching structural adjustment policies aimed at the deregulation of business practices, privatisation of public services, budget cuts, the removal of trade protections and the opening up of financial and foreign exchange markets (Stiglitz 2002).

Neoliberal globalisation has major implications for states to act developmentally. The literature on the subject identifies a variety of channels through which laws and policies inspired by the Washington Consensus have affected state capacity. One line of work suggests that greater capital mobility and economic openness increased the power of economic elites vis-à-vis state authorities (Huber and Stephens 2001; Glatzer and Rueschemeyer 2005). This power shift entailed a decline in the organisational competencies to tax and redistribute resources. Another consequence of capital mobility concerns embeddedness. Ties between states and transnational corporations are unlikely to revolve around a shared project of national development (Chibber 2003; Kohli 2004). Flexible capital movements also shaped the territorial reach of states. 'Global cities' (Brenner 2004; Sassen 2001) emerged as the engines of the world economic system, and the spatial concentration of financial and service sectors became closely entwined with the concentration of public infrastructural investments in those urban areas. Other channels through which the Washington Consensus impacted on state capacity in developing countries were drastic budget cuts and the privatisation of state services, which entailed the reduction of social insurance or other forms of social provision (Mesa-Lago 1997; Portes and Hoffman 2003). Thus, the overall agreement in

the literature is that the Washington Consensus had largely negative consequences for state developmental capacities.

Over time, the face of neoliberal globalisation changed. By the end of the 1990s, governments in developing countries increasingly realised that the structural adjustment prescriptions did not work, and that the social and political costs of these policies were prohibitive. The consequence was a search for new policy solutions that would be more closely tailored towards specific local conditions in individual states. These new policies often focused on achieving export-oriented industrialisation through 'reregulation' (Snyder 2001), the creation of strategic public–private partnerships and the decentralisation of governance (Falletti 2010; Robinson 2008). The declining hegemony of the Washington Consensus could also be observed within international financial institutions. In the WB and, to a lesser extent, the IMF, an increasingly influential movement of officials and researchers promoted a new set of policy orientations that combined the established focus on market efficiency with concerns for social inclusion and poverty reduction (Andolina et al. 2009; Korzeniewicz and Smith 2000).<sup>22</sup> This transformed agenda meant greater attention to social and political institutions, while the call to 'minimise government' was replaced with a rallying cry for 'good governance' as the basis of development.

The links between the second phase of neoliberal globalisation and state capacities for economic growth remain a matter of debate. In some cases, such as Brazil and Turkey, states responded to increasing global competitiveness and capital mobility by creating new organisational competencies (Kohli 2004). In their quest to foster growth and industrialisation, these states formed special institutions to promote exports and forge ties with a broad set of non-state actors to acquire technologies and build strategic industries (Weiss 2003). A similar point is made by the literature on 'regulatory states'. In this perspective, many of the contemporary economic 'success stories' are states that moved away from direct and centralised state action towards rule making, delegation and the establishment of complex networks between state agencies and non-state actors (Levi-Faur and Jordana 2005). What enabled particular states to transform and expand their developmental capacities continues to form an issue of scholarly disagreement (e.g., Amsden 2001; Kohli 2004). Yet, the main point of agreement in the literature is that politics matters. In particular, the domestic balance of class power with a country, mediated by historical legacies of state formation and its particular insertion into the global state system and international political economy, has played a decisive role.

The effects of neoliberal globalisation on state capacities for social development equally remain a field of contention. While some cross-national studies find a positive correlation between economic openness and public spending (Garrett 2001), there appear to be dramatic variations. In particular, evidence for Latin America and Africa shows that capital mobility continues to undermine the basic competencies of states to provide safety nets and social insurance, especially for the weaker strata (MacLean 2010; Portes and Hoffman 2003). Yet, not all developing countries in these two regions followed the same path. Some countries, such as Costa Rica and Mauritius, have maintained or even improved their capacities for social welfare provision, even in the midst of increased foreign competition, and sometimes even in the absence of economic growth (Sandbrook et al. 2007). Despite these divergent findings, scholars again agree that

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<sup>22</sup> Andolina et al. (2009) distinguish between 'no society neoliberalism' and 'social neoliberalism'.

domestic political dynamics provide the most feasible explanation for variations in social development capacities of states.

### **Democratisation**

The second factor central to contemporary transformations of state capacity is democratisation. The past decades witnessed the global expansion of at least formally democratic regimes. And even in non-democratic settings elections have become regular features of 'competitive' authoritarianism (Levitsky and Way 2010; Schedler 2006). While there is a large literature on the effects of state capacity (or the lack thereof) on democracy (e.g., Holston 2008; O'Donnell 1993), scholars increasingly reverse the causal arrow and investigate the impact of democratisation on the embeddedness, organisational competence and territorial reach of states (Mazucca 2010). In democratic contexts citizens, legislatures and elected politicians make greater demands on the accountability and transparency of state officials. As a matter of fact, under a democratic regime public authorities have to engage with a much wider range of actors when deciding upon and implementing policy (Robinson 2008). Other researchers are more concerned with the nexus between democratisation and infrastructural power. Under certain conditions, most prominently robust mass mobilisation, competitive high-stakes elections may contribute to expand infrastructural power (Slater 2008).

At the same time, democratisation does not necessarily lead to greater state capacity for inclusive development. Democratic pluralism might counteract coherent and effective state performance. For one thing, democratisation might create new channels of influence for social actors that favour state retrenchment. Pepper Culpepper's (2010) recent work on business politics is a case in point. The requirement of responding to a variety of newly empowered social actors might also stretch the organisational capabilities of states to a maximum, leading to incoherence and fragmentation (Robinson 2008). In particular, democracy can limit the ability of state officials to make tough decisions that might be necessary for a growth-centred development strategy (Haggard and Kaufman 2008; Kohli 2004). Finally, the necessity of winning elections for political survival affects the kinds of development projects elected state officials choose to implement (Whitfield and Therkildsen 2011). Election cycles and concerns with the immediate visibility of state action, and not the long-term viability of projects, are likely to shape investments in organisational competencies and infrastructural power.

The literature on 'participatory democracy' comes to similar conclusions (e.g., Avritzer 2002; Baiocchi 2005; Van Cott 2008). Focusing on the nexus between new participatory practices and local state institutions, Baiocchi et al. (2011) argue that decentralisation created new arenas for political contestation and democratic deepening at the level of local urban states. For example, in many Brazilian cities after the democratic transition, local governments and citizens started to experiment with various new mechanisms of participation, including participatory budgeting, citizen councils and direct health policy. In some cases, citizen input led to the more effective provision of services and infrastructure. In others, the shift of distributional power to ordinary citizens reinforced clientelist networks and organised rent-seeking. Ultimately, the question of whether democratisation enhances or weakens state capacity requires a context-specific answer that is attuned to state embeddedness and the balance of power between different organised social groups (Heller 2001).

### **Supra-national changes**

Democratisation and local governance are closely entwined with supra-national dynamics. Changes in the international state system constitute a third major factor that shapes contemporary transformations of state capacity. Some scholars put the spotlight on new forms of regional and global governance. Regional institutions, such as ASEAN, MERCOSUR or NEPAD, establish legal and regulatory frameworks that preconfigure – and sometimes even reduce – the policy choices available to national governments, while international financial institutions, such as the World Bank or IMF, impose carefully monitored ‘good governance’ reforms of how local bureaucracies should be run. At the same time, these new governance structures also establish new forms of international cooperation. For example, the new financial surveillance mechanisms recently instituted by East Asian states seek to prevent another financial crisis and protect the resource base of local states (Humphrey 2006).

Other research focuses on the emergence of a more multipolar global order.<sup>23</sup> Of particular concern is the rise of Brazil, Russia, India and China, often dubbed ‘the BRICs’, and other emerging powers. Over the last decades the growing economic and political power of these countries has obtained widespread attention (e.g., Friedberg 2005; Narlikar 2010; Soares de Lima and Hirst 2006). And indeed, 20 years ago it would have been difficult to imagine Brazil as the main regional leader in Latin America, India as a major player in the WTO, or China as the second largest economy in the world. Beyond the BRICs there are other new South–South dynamics that are altering global politics. These include, to name just a few prominent examples, South Africa becoming a regional powerhouse in sub-Saharan Africa, and Turkey becoming a major source of overseas development assistance (ODA) in Central Asia and sub-Saharan Africa.

The emergence of the BRICs and other rising powers is highly consequential for developmental state capacities in the Global South. Though the markets of the US and EU continue to be of immense importance, the BRICs and others have become sites of significant demand. Indeed, China constitutes the biggest trading partner for many developing countries, from South Africa and Brazil to Mali and the Democratic Republic of Congo (Zweig and Jianhai 2005). Similarly, the BRICs and other economic risers have started systematically to invest in the services and infrastructure of many developing countries. For example, South Korea has become a significant new source of Foreign Direct Investment (FDI) in the developing world (Kalinowski and Cho 2012), while China funds new road and electricity networks and supports sanitation and health care provision in many close trading partners (Carmody and Owusu 2007). Moreover, these shifting power relations have led to a partial decoupling of the global South from the OECD economies. This trend opens up new spaces for negotiation, and establishes new international alliance partners for local elites. Yet, precisely how the new multipolar world order affects state capacities in individual developing countries remains a blind spot in the literature. Research on this topic is basically non-existent.

In sum, research on contemporary state capacities in developing countries rejects the notion that national states are ‘withering away’. Instead, the literature reviewed in this section indicates that states have transformed over the last decades, and with that their organisation, embeddedness and territorial reach. Neoliberal globalisation, democratisation and the rise of a multipolar world order have contradictory implications

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<sup>23</sup> This and the following paragraph draw on vom Hau et al. (2012).

for states to act developmentally, and these international factors are crucially mediated by domestic power configurations.

### **State capacity and inclusive development – towards a new research agenda**

This paper set out to review recent advancements in the literature on state capacity and assess its implications for studying states and inclusive development. At the most basic level, state capacity is identified with the ability of states (whether national, regional or local) to apply and implement policy within their territorial realms. I have shown that the concept of state capacity is multi-dimensional and that it can be disaggregated into three distinct, but interrelated dimensions: (1) the *external embeddedness* with non-state actors; (2) the *organisational competence* of state agencies; and (3) their *territorial reach*.

The recent literature indicates that embeddedness remains an absolutely central aspect of the analysis of states and their capacity to act developmentally. In contrast to the well-established research programme on ‘embedded autonomy’ (Evans 1995) and its focus on state–business relations, the current use of the term captures a different set of ties. In the contemporary era of globalisation, embeddedness takes the form of broad connections with civil society that are often mediated by deliberative institutions. While this reconceptualisation is appropriate, more conceptual work is warranted. A plausible starting point for ESID-based research would be the construction of a typology that specifies *varieties* of embeddedness and their consequences for inclusive development. As powerfully illustrated by insights from the recent literature on patrimonialism, not all forms of embeddedness have developmental consequences, especially when it comes to the ability of states to engage in redistribution. An important step forward, therefore, would be to identify the social actors, and the density and form of ties that would facilitate the promotion of economic growth and/or social provision.

Recent scholarship on patrimonialism also revisits debates around the organisational competence of states. New scholarship on informal institutions and revisionist histories of European and East Asian state formation challenge the automatic association of corruption and clientelist networks with ‘bad governance’ and state weakness. Yet, developmental patrimonialism remains a rare phenomenon, and the new literature does not do away with central tenets of established research: patrimonialism usually limits states in their capacity to promote inclusive development. State-based forms of social provisioning especially require an effective and accountable bureaucracy. Future work would therefore benefit from identifying the specific scope conditions and temporal sequences that enable states to do both, acting developmentally in the context of patrimonial politics, while eventually moving beyond patrimonialism.

Finally, this review paper has shown that the territorial reach of the state apparatus constitutes a third and analytically distinct dimension of state capacity. Without infrastructural power, states are severely hampered in their capabilities to implement policy decisions. One possible avenue to incorporate a geographical focus into the ESID research agenda would be to explore the interaction between the territorial reach of state organisations and inclusive development in different subnational units. Relatedly, the territorial unevenness of many states in the developing world points to the importance of

analysing how infrastructural power and distinct ties to non-state actors relate to each other, and the developmental implications of those interactions.

This last suggestion also points to another avenue for further research: the interrelations between the three dimensions of state capacity. The precise causal relationships between embeddedness, organisational competence and territorial reach currently remain underspecified. Recent works suggest that infrastructural power might be treated as a necessary condition for organisational competence. By contrast, organisational competence might be one of many factors in shaping the expansion (or contraction) of infrastructural power. Similarly, the directions of causality between geographical coverage and territorial reach require further exploration. Here a temporal perspective is crucial. The genesis of infrastructural power implies a certain degree of autonomy from organised social actors, while it is precisely the 'organisational entwining' (Gorski 2003; see also Weiss 1998) between state agencies and non-state organisations that generates territorial reach at later stages of state formation. From a research design perspective, the most feasible strategy to unpack these interactions would be to work backwards from 'success cases' and identify specific configurations of the three components of state capacity that underpin the ability to promote inclusive development.

The causal chains between embeddedness, organisational competence and territorial reach are closely linked to more general questions about the causes of state capacity. The recent literature has moved away from an exclusive focus on international wars and capitalist transformation. Works from a variety of disciplinary backgrounds (e.g., Khan 2004; North et al. 2009; Slater 2010; Waldner 1999; Whitfield and Therkildsen 2011) emphasise that domestic conflicts and elite political settlements constitute the main determinants of state capacity, with international and economic pressures likely to be mediated by these factors. There appears to be widespread agreement about the basic explanatory model, which moves from conflicts to coalitions to state capacity. Distinct patterns of conflict, whether grounded in international tensions, elite feuds or contentious politics (or a combination thereof), bring about distinct elite pacts, which in turn shape the abilities of states to construct ties to civil society and establish organisational competence, throughout the realms they claim to govern.

There are at least four major ways in which ESID-based research could move beyond this explanatory framework. First, the relationship between political settlements and state capacity needs further attention. Ruling coalitions do not *build* states, but presuppose a minimum state capacity. In the absence of any meaningful ability to extract resources, provide security and establish infrastructure, it is unlikely that elites concede resources to the state, and that state officials are able to enforce a political settlement.<sup>24</sup> Moreover, once a ruling coalition crystallises and state capacity expands, feedback effects are likely. The expansion of the relational, organisational and territorial capabilities of states may also lead to structural transformation, the rise of new social forces and the creation of new resources for resistance and contestation, potentially entailing the breakdown of the dominant ruling coalition. In other words, state capacity is best conceptualised as a 'two-way street' – both a product and a producer of political settlements. ESID-based research could refine existing research with precisely such a focus on the interdependencies between settlements and capacity.

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<sup>24</sup> Sam Hickey, personal communication

Second, and related to the previous point, treating state capacity as a function of elite political settlements ignores the potential impact of historical legacies of state formation. As illustrated by the vast literature on colonialism and imperial rule, state institutions are often path-dependent, and this path dependency circumscribes the impact that contemporary ruling coalitions might have on the developmental capacities of states. ESID-based research would thus benefit from paying close attention to the historical legacies of state formation when explaining variation in developmental capacities. This could be done by examining cases that escaped from the 'weight of the past' and by exploring the factors that enabled such a divergence. Another worthwhile research direction for ESID would be to explore with greater rigour the reproduction of state capacities over time. This is a severely underdeveloped research area with significant potential for both academic debates and policy options.<sup>25</sup>

Third, the literature on neoliberal globalisation, democratisation and global power shifts raises the issue of which particular *configurations* of these recent factors contribute (or undermine) the developmental competencies of states. In other words, scholarship on contemporary state transformations would benefit from a comprehensive explanatory framework that is able to synthesise the different literatures and their topical foci. A possible starting point for the creation of such a framework would be to examine how recent state transformations are mediated by domestic politics – that is, the political settlements underpinning state power and the historical legacies of state formation and legitimacy. Moreover, scholarship on contemporary state transformations also points to another possible area of future ESID-based research. So far, there has been only very limited work on the effects of neoliberal globalisation on the ability of states in the Global South to promote social welfare provision.<sup>26</sup>

Fourth, another new and upcoming area of research concerns the nexus between state capacity and legitimacy. States are producers of legitimacy, and their organisational competencies and territorial reach affect how citizens perceive and evaluate state authority. At the same time, state capacity is also a product of legitimacy. The ability of state organisations to formulate and implement policy is greatly enhanced when their power is seen as legitimate. One avenue for future work would therefore be to explore how the ways in which ordinary citizens identify with 'the state' affect each component of state capacity. Another worthwhile avenue for ESID-based research would be to advance the currently very limited understandings of the determinants of legitimacy.

The analytical approach proposed in this review also has major methodological implications. Most prominently, the distinction between external embeddedness, organisational competence and territorial reach questions whether it is at all desirable to construct a master 'capacity index' that draws a universal distinction between high-capacity and low-capacity states. Instead, social, historical and geographical contextualisation is crucial. Recent scholarship supports a multi-dimensional approach to operationalisation and measurement that is attuned to identifying capacity across different areas of state action.<sup>27</sup> Such a perspective suggests a comparative case-study approach as the most feasible way forward. A research design organised around

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<sup>25</sup> Soifer (2012) is one of the few attempts to address this issue.

<sup>26</sup> A notable exception is Sandbrook et al. (2007).

<sup>27</sup> Enriquez and Centeno (2011) come to comparable conclusions.

focused comparisons makes it possible to unpack the external connections, institutional features and geographical coverage that underlie state performance in specific policy domains. Careful case selection also helps to 'control for' the developmental commitment of states, levels of economic development and state legitimacy. Finally, a contextualised approach provides important leverage for avoiding common measurement problems, such as conflating state capacity with the potential outcomes it produces (Soifer 2008).

On the whole, this review illustrates new and valuable ways of analysing state capacity. Engaging a diverse set of literatures, the paper has delimited the boundaries of the concept and evaluated current debates around the causes and consequences of state capacity. Jointly, these arguments identify several major puzzles, questions and research gaps for taking research forward on state capacity and inclusive development.

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