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Challenging the state: a decade of crisis

The 1980s and 1990s posed great challenges to governments in Latin America and Africa. Deep economic crisis and significantly heightened pressure for political reform severely taxed their capacity to manage economic and political tasks. In fact, the era was a critical moment in which existing state–economy and state–society relations were challenged and, at times, redefined. This book is about the significance of these challenges and redefinitions for the capacities – institutional, technical, administrative, and political – that states in Latin America and Africa require if they are to encourage economic development and provide effective governance for their societies. It explores the roles that political leaders and institutions played in a decade-long drama of crisis and change.

There is little question that this period will be remembered as an era of crisis for countries in Latin America and Africa. An economic crisis, often rooted in development policies adopted in prior decades and greatly increased prices for oil in the 1970s, was precipitated in the early 1980s by a series of external shocks, principal among which were a sharp rise in real interest rates, a rapid decline in the availability of international credit, and a sharp fall in international commodity prices. As a consequence, external terms of trade became highly unfavorable for many developing countries, budget deficits escalated, and foreign debt burdens became unmanageable. International conditions as well as domestic policies explain these problems.

The impact of such conditions on developing country economies was extensive and often extreme. Per capita growth rates in GDP for all developing countries declined from an annual average of 3.4 percent between 1965 and 1980 to one of 2.3 percent between 1980 and 1989. For Latin American countries, per capita GDP growth averaged −0.6 percent for the decade and, for sub-Saharan Africa, it was −2.2 percent.[1] Economic stagnation and decline in real per capita income affected most countries in both regions. In many of them, the 1980s were referred to as the "lost decade."

This economic crisis had major implications for the relationship between state and economy in large numbers of countries. Whether by choice or necessity, state leadership in the process of economic development was significantly reduced. Severe budget deficits and massive debt burdens led many governments to restrain or even halt public sector investments, cut operational budgets to the minimum, and reduce

the size of national, regional, and local bureaucracies. At the same time, state-led development strategies, which had been dominant in some countries as far back as the 1930s, gradually yielded to strategies that placed greater emphasis on market forces to generate economic growth. Such strategies implied efforts to liberalize trade and privatize a plethora of state-owned enterprises and public functions. While in most countries the state continued to be active and interventionist, its former ability to dominate the economy was sharply reduced.

Political crisis also characterized this era. Public protests, demands for greater democratic responsiveness, and regime transitions occurred throughout Latin America, Africa, Eastern Europe, Asia, and elsewhere. In Latin America and Africa, some twenty-four countries experienced at least one change of regime between 1980 and 1990. In Latin America, all such changes were transitions to democratic regimes. In Africa, the 1980s witnessed a succession of military coups, but by the early 1990s, there was an equally impressive spate of transitions to competitive electoral regimes.[2] In almost all countries in both regions, an invigorated civic society pressed for greater presence in political arenas and policy discussions. Increasingly, civic society was characterized by the burgeoning of opposition parties, community level movements, and voluntary associations, as well as by an increase in public debates, media criticism of government, and competitive elections. This heightened political mobilization, debate, and electoral activity expanded public contestation over issues of policy and governance.

These political challenges, coupled with the impact of economic crisis, had clear implications for the relationship between state and civic society. In particular, this was a period of increased vulnerability for political leaders and entrenched political institutions. Often, economic stagnation or decline went hand in hand with widespread questioning of regimes in power and a generalized delegitimation of the state as an agent of economic growth. Many political leaders saw their coalitions of support fall apart or become seriously fragmented under the resulting strains. Moreover, the policies adopted to respond to the economic crisis meant that governments became less frequently the providers of investment capital, services, and benefits and more often the enforcers of unpopular stabilization and structural adjustment measures.

Economic adjustment policies diminished the political centrality of the state by encouraging the privatization of publicly managed activities, liberalization of economic interactions, and curtailment of other traditional state functions. Austerity, privatization, and liberalization, in addition to the increased power of international financial agencies to monitor government performance, meant that political leaders had fewer material resources with which to reward supporters and maintain coalitions. Many policy interventions of the decade also imposed at least short-term hardship on broad sectors of the population; countries varied greatly in public tolerance for such measures, but disenchantment with government in general and political leaders in particular was widespread.

Thus, a decade or more of profound economic and political crisis in Latin America and Africa had an equally profound impact on the nature of state

involvement in economic development and on the power of the state directly to shape modes of collective and individual political behavior. In this regard, the period is similar to development crises of the 1930s and 1940s in Latin America and the 1950s and 1960s in African countries. Just as in those earlier periods, more recent crises encouraged disarray among existing economic and political forces and simultaneously opened up space for new definitions of the role of the state in development, new policy departures, new political coalitions, and new scope for political leadership and institutional innovation. And, just as the crises of earlier periods are important in explaining the economic and political relationships that emerged and characterized the next several decades, so responses to this new era of crisis are the basis on which state–economy and state–society relations in many countries will be constructed for the next several decades.[3]

STATES AND STATE CAPACITIES: DEFINITIONS AND ISSUES IN THE LITERATURE

In this book, I am concerned with how economic and political crises in Latin America and Africa affected dimensions of state capacity that are important in defining relationships among state, economy, and society. This question, explored at a general level for eight Latin American and eight African countries, is assessed in greater depth through the specific experiences of Mexico and Kenya. For these two countries, I expand the analysis to consider how state leaders and political institutions influenced and responded to the pressures that altered the ability to regulate the economy and respond to civic society. The experiences of Mexico and Kenya shed considerable light on how state–economy and state–society relationships are contested, negotiated, and reconstituted at critical historical moments.

In this analysis, I understand the state to be a set of ongoing institutions for social control and authoritative decision making and implementation.[4] The state is conceptually distinct from both economy and society, with inherent interests in expanding its scope for autonomous action, asserting control over economic and social interactions, and structuring economic and social relationships. These interests derive primarily from the state's concern to establish and maintain internal and external security, to generate revenue, and to achieve hegemony over alternative forms of social organization.[5] The ability to achieve security, raise revenue, and assert autonomy and control, however, is profoundly influenced by economic conditions and degrees of social mobilization, as well as by the legitimacy and internal cohesion of the state itself. States are therefore frequently engaged in contesting the right and capacity to make and implement authoritative decisions that structure economic and social interactions. In this regard, the state is a moving target, "defined by contention along its boundaries and among politicians and bureaucrats who, in competing for office and influence, rework social and economic conflict into political terms."[6] States are not monolithic and contention along

boundaries is often combined with contention among branches and levels of government, agencies, and diverse bureaucratic interests.

States assume empirical reality through regimes that attempt to establish political order, set terms for political interaction, allocate leadership positions and power resources, and determine the representation of interests within decision-making contexts.[7] Regimes attempt to negotiate and impose formal and informal rules about how the state will relate to the economy and to the society; durable and legitimate regimes have greater capacity to achieve these goals than do those that are less institutionalized. Within the context of regime structures, political leaders create or maintain coalitions of support to achieve particular policy goals and may seek to use them to expand the scope of autonomous action for the state. In turn, political institutions allocate position and power resources that affect the ability of such leaders to act on their preferences and achieve their goals. These institutions are also subject to contestation over their structures and roles and can change over time to reflect different degrees of autonomy and strength.

As already indicated, economic and political crises had a destabilizing effect on existing state–economy and state–society relations throughout Latin America and Africa, and in many ways, the capacity of states to encourage economic development and maintain social stability was severely undermined. Nevertheless, these crises opened up increased space for deliberate efforts to craft new relationships between state and economy and to redefine relationships of power and accountability with society. They provided opportunities for state elites to mobilize support for new strategies of national development and strengthen the state's capacity to assume newly defined roles.[8] In considering the cases of Mexico and Kenya, the influence of specific political leaders with particular economic and political goals looms large in the explanations of crisis and change. So, too, do the ways in which institutions structure power relationships and allocate political resources that can be used to shape both economic and social agendas. The 1980s and 1990s presented governments with difficult challenges, but this book indicates the extent to which they also provided expanded scope for innovation.

The concept of state capacity provides the organizing theme for this analysis. In recent years, considerable scholarly attention focused on the state as political scientists, economists, and political economists debated its definition, assessed its strength and relative autonomy from groups and interests in national and international arenas, and discussed the role it should play in development.[9] Inevitably, these discussions, along with heightened concern about the causes and consequences of economic and political crisis, fostered questions about state capacity; considerable evidence accumulated during the 1980s to suggest that states varied widely in their ability to set the terms for economic and political interactions and to carry out the functions assigned to them.[10] The notion of state capacity, long assumed to be an inherent characteristic of "state-ness," became more frequently a matter of theoretical concern and empirical assessment.[11]

Growing theoretical interest in state capacity was encouraged by shifting paradigms in development economics. This field, which in the 1950s and 1960s pioneered

work on market failures and the rationale for state intervention in developing country economies, began by the mid-1970s to focus on government failures, that is, the ways in which public action can distort markets and create disincentives for productive investment and behavior.[12] State intervention in the economy through regulatory mechanisms, investment, marketing boards, and parastatal industries soon became central in explaining the economic stagnation and imbalances experienced by a wide range of countries. A prominent view among neoclassical economists and political economists pointed to the state as the single most important impediment to economic development – an "invisible foot" corresponding to the "invisible hand" of the market, an economic predator, and an arena for encouraging directly unproductive activities (DUPs).[13]

Indeed, a new orthodoxy of market liberalism emerged in development economics and was widely subscribed to by academics and practitioners in the 1980s. Embedded in the new consensus, at least initially, was a strong strain of anti-statism, a theme also emphasized in political science by public choice analysts.[14] Extensive state intervention in the market and a series of government failures were shown to be a logical consequence of a close alliance between rent-seeking public officials and rent-seeking economic interests. In turn, radically diminishing the size and scope of state intervention was the clearest way to end rent seeking and to encourage more dynamic economies. At an operational level, this perspective implied the need to disband marketing boards and parastatal organizations, diminish regulatory constraints, and strengthen the role of the private sector in investment decision making. For many economists, the notion of a minimalist state replaced that of the developmentalist state of prior decades.

The vehemence of the neoclassical attack on the state cooled somewhat by the late 1980s, however. Thoughtful observers noted that state minimalism could be carried too far.[15] While the general tone of the attack on the state by development economists remained negative – and considerable empirical evidence accumulated to support their views – literature in economics and political economy raised increasingly insistent questions about the appropriate role for the state in economic development. States were important in the process of development, analysts argued, because states alone could provide a set of conditions essential to economic development – law, order, effective macroeconomic policy, infrastructure development, investment in human capital, enhancement of equity.[16] Renewed interest in state capacity and the relationship between state and economy also encouraged scholars to pay greater attention to institutional structures and how such institutions affect the course of economic development. The research of "new institutional economists," for example, suggested that western capitalist economies developed in the wake of institutional innovations to ensure the rights of private accumulation and the sanctity of contracts among economic agents.[17]

Increasingly, analysts emphasized the importance of the type and quality of state intervention rather than its quantity, the capacity of the state rather than its size. Thus, a number of researchers who sought to uncover the secret of the East Asian "success stories" found significant evidence that the actions and policies of develop-

ment-oriented states were central to generating high and sustained growth rates.[18] In several of these countries, strong, centralized, interventionist, and authoritarian states were specifically credited with engineering economic growth through state policies for investment, trade, and social control. State capacity to set institutional structures conducive to economic growth, to manage macroeconomic policy, and to carry out basic public functions thus became important in explaining the differential history of states that developed and states that stagnated economically.[19]

Scholarly attention also focused on changes occurring in civic society. Empirically, analysts noted that an often weakened, less pervasive, and at times delegitimized state opened up considerable room for redefining and renegotiating traditional forms of state–society relations. This space was increasingly occupied by varieties of civic associations pressing demands on the state or seeking greater autonomy to find solutions to collective problems without the threat of state intervention and control.[20] In Latin America and Africa, the decade witnessed the emergence and strengthening of groups pressing for democratic structures of government and more equitable and participatory forms of decision making. At times, local communities and non-governmental organizations responded to an apparent loss of state presence by attempting to find grassroots solutions to economic and social problems as well as by making collective demands on government at local, regional, and national levels.[21] Responding to the liberalization of economic activities, some private sector groups began to eschew traditional corporatist or clientelist relationships with the state and became more insistent as pressure groups and lobbyists in policy making.

Several currents in social science literature attempted to define the nature of these efforts to establish new political relationships between state and civic society.[22] For example, literature on redemocratization and authoritarian transitions focused attention on the emergence or reemergence of political parties, labor unions, and economic groups that characteristically form the basis for political mobilization in democratic societies.[23] Related work on regime transitions pointed to concerted efforts among politically relevant actors to form pacts around agreements about the rules of the game for political and policy contestation.[24] Still other scholars focused on "new social movements" in which citizens identified common interests that transcended traditional categories of class, interest, or clientelism, coalescing around alternative identities such as community membership, ethnicity, greenness, or gender.[25]

This literature posed several possible outcomes of renewed political vigor in civic society. For example, a significant body of research pointed to the role of civic associations in opposing the state, particularly in non-democratic settings.[26] Common to much of this literature was the emphasis on protest and contestation. In this regard, civic society was credited with a range of efforts to oppose and transform authoritarian regimes, to lay the basis for multiparty systems where no-party or one-party regimes held power, and to open up policy-making processes to public input. The importance of contestation was less evident in literature that defined the ends of state–society interaction as that of negotiation and bargaining. This literature emphasized the formation of horizontally based interactions with representatives of

the state and pointed to efforts to use negotiation rather than petitioning as a form of extracting resources. The movement toward a political culture of citizenship, stressing rights and obligations, as opposed to one based on clientelism, stressing dependent relationships, was identified in this literature.[27]

Interest in the social impact of economic stagnation and fiscal austerity led other scholars to concentrate on efforts of various civic groups to substitute for the state. Many analysts of African political economy focused on the widespread corruption, exploitation, and brutality of some regimes and explored how those most vulnerable to economic and physical exploitation responded to such conditions. They identified a common pattern of disengagement from the state whereby individuals, households, and groups withdrew or tried to avoid contact with officials and organizations representing it.[28] The emergence of parallel markets, black markets, and the informal economy were widely documented forms in which disengagement characterized economic interactions.[29] Less well-documented but increasingly noted were forms of political disengagement such as the emergence of "parallel governments" in which local communities, at times abandoned by state institutions that had formerly provided social welfare services, sought to provide these services for themselves.[30] This literature pointed to the creativity and vitality of efforts at collective problem solving among communities, ethnic groups, and religious or voluntary associations, providing a positive view of the capacity for grassroots organization and supporting a growing literature on the importance of grassroots democracy, self-government, and autonomy.[31]

Literature on contesting, negotiating with, or substituting for the state focused attention on the ways in which citizens attempted to increase their power and autonomy relative to the state. As part of this larger critique of authoritarian modes of political organization and research on emerging forms of political organization, the concept of state capacity was broadened to include characteristics of political representation, conflict resolution, and administrative openness and fairness. Political scientists and others argued that capable states had to be responsive to the demands and pressures of societal groups and to be able to mediate social demands and maintain institutions that were effective in resolving conflict. The concept of governance, referring in part to the political and institutional development of a country and its capacity to achieve and maintain good government, was increasingly used to denote a state's capacity to tolerate and even invite political pluralism.[32]

As suggested in the foregoing paragraphs, diverse literatures converged on the notion that states must have certain kinds of capacities if they are to be effective in managing tasks of economic and political development. The first column in Table 1.1 presents a set of characteristics widely asserted to be those that capable states ought to have. A capable state is one that exhibits the ability to establish and maintain effective institutional, technical, administrative, and political functions, as these characteristics are defined in the table. Theoretically, states that exhibit these characteristics should be well-equipped to manage tasks essential to economic and political development.

Table 1.1 *State capacity: theory and predictions*

Theory	Predictions
Capable states ought to have:	Hypothesized condition after a decade of economic and political crisis:
Institutional capacity	
Authoritative and effective "rules of the game" to regulate economic and political interactions. Ability to assert the primacy of national policies, legal conventions, and norms of social and political behavior over those of other groupings.	Decreased authority and legitimacy of government. Weakened ability of states to set authoritative standards for individual and group behavior. Increased conflict over "rules of the game" for economic and political interactions.
Technical capacity	
The ability to set and manage effective macroeconomic policies. A cadre of well-trained economic analysts and managers. Well-staffed and appropriately placed units for policy analysis. Important role for technical input and information in decision making.	Increased numbers, visibility, and influence of economic technocrats, economic ministries, and policy analysis units. Increased presence of international technocrats in national policy making. Tension between technocratic and participatory policy making.
Administrative capacity	
Effective administration of basic physical and social infrastructure. Ability to perform basic administrative functions essential to economic development and social welfare.	Weakened administrative ability to deliver basic services and carry out normal functions of government. Decreased ability to mediate social and economic demands within administrative contexts.
Political capacity	
Effective and legitimate channels for societal demand making, representation, and conflict resolution. Responsive political leaders and administrators. Societal participation in decision making.	Increased vitality of civic society and lessened responsive capacity of state leaders and managers. Decreased capacity of state elites and political institutions to mediate conflict. Tension between increased technocratic decision making and responsiveness to societal demands and participation.

STATE CAPACITY: HYPOTHESES AFTER A DECADE OF CRISIS

Much of the analysis that produced a multidimensional definition of state capacity centered on what states ought to do to manage dynamic and sustained economic development and what political characteristics ought to define good government.[33] Rarely did issues of how more capable states emerge or change over time get addressed, resulting in considerable gaps between concerns about "what ought to be" and "what is" in a realistic appraisal of state capacity. In fact, persistent crises

of the kind that characterized many Latin American and African countries in the 1980s and 1990s could significantly affect existing abilities to set the terms for economic and political development. In the second column of Table 1.1, I summarize a series of general hypotheses about how crisis can affect institutional, technical, administrative, and political capacities.

The first set of hypotheses relates to the impact of crisis on the institutional capacity of states, that is, the ability of states to set and enforce the broad sets of rules that govern economic and political interactions. Of concern here are institutions such as legal norms governing relationships among economic agents, constitutional and administrative rules setting standards for the behavior of public servants, constitutional dictums governing relationships among state organizations, and electoral systems and procedures for holding public officials accountable for their actions. Similarly important is the ability to ensure the primacy of national policies, legal codes, and norms of social and political behavior over those adhered to by sub-national groupings.[34] To what extent have the convergence of economic and political crises undermined existing capacity to set and enforce such rules and to ensure the stable functioning of authoritative institutions?

At a general level, I hypothesize that economic crisis combined with increased political challenges to existing regimes weakened the legitimacy and coercive capacity of state institutions and laid bare the inadequacy of systems for regulating property rights, enforcing contracts, controlling official corruption, setting boundaries on the use of coercion, and other basic institutional functions. In many countries, then, contention over policy issues frequently incorporated more basic disagreements about the rules of the game for resolving economic and political conflict. Of course, many states lacked effective rules and coercive capacity in the pre-crisis period, but the dual impact of economic and political crises raised the visibility of the need for authoritative institutional structures at the same time that it weakened the capacity of many states to provide them.

A second set of generalizations relates to changes in the technical capacity of states, defined here as the ability to manage macroeconomic policy and analyze economic policy options more generally. I hypothesize that, for many countries, the pressures of economic crisis and the need to negotiate more effectively with international financial agencies during the 1980s and 1990s increased technical capacity in macroeconomic analysis and management. Ministries of finance, central banks, and national planning institutes often became more powerful players in setting economic policies and negotiating agreements with multilateral and bilateral agencies and domestic economic groups. Policy analysis units also became more widespread and influential in government. Similarly, technocrats and policy analysts increased in number and became more visible in decision-making arenas; at times they were able to use their access to data and analysis to increase their power vis-à-vis domestic economic interests opposed to policy change. Equally important was the increased presence of international techno-

crats in national policy discussion. Such changes can alter how policy decisions are made and who participates in decision-making processes. In some cases, for example, technocratic decision-making styles were noted to conflict with the more open, participatory styles pressed for by politically mobilized groups.[35]

A third set of issues concerns the administrative capacity of states and how it was affected by deep budgetary and personnel cuts that resulted from stabilization efforts. Administrative capacity refers to the ability of states to deliver goods and services such as public health and education, provide physical infrastructure, and carry out the normal administrative functions of government, such as revenue collection, necessary economic regulation, and information management. This is a critical capacity for governments because it affects the ability of private economic agents to achieve their goals and the ability of government to satisfy basic needs demanded by civic society. I hypothesize, however, that the administrative capacity of many states declined due to austerity budgets, declining civil service performance, and heightened political conflict. Thus, after a decade of crisis, many governments may have increased their abilities in macroeconomic management while losing valuable capacity to respond to public needs, develop human resources, maintain investment, and provide essential sectoral and infrastructural services.

A fourth set of issues relates to the impact of greater political pluralism on state capacity. Political capacity, as used here, refers to the ability of states to respond to societal demands, allow for channels to represent societal interests, and incorporate societal participation in decision making and conflict resolution. It refers to the effectiveness of everyday interactions between government and citizens, rather than to the broader rules of the game that comprise institutional capacity. How effective are governments on a day-to-day basis, in response to conflict, demand making, and opposition? How good are they at problem solving? Many states moving from authoritarian modes of political control to more open ones lacked channels of access for more pluralistic demand making and representation and the means for negotiating and resolving conflict with an invigorated civic society. As suggested earlier, the confluence of economic and political crisis diminished the capacity of state leaders to command adherence to traditional norms of civic behavior or to purchase allegiance through beneficial policies or clientelistic distribution of public resources. Demands for policy responsiveness nevertheless increased. States were thus under heightened pressure to respond to diverse interests and mediate overt societal conflict, but their capacity to do so may have diminished.

These sets of interrelated questions about the impact of economic and political change on the institutional, technical, administrative, and political capacity of states are broad. Nevertheless, the impact of crisis on state capacity is only part of the task undertaken in this book. As suggested earlier, how states respond to the challenges of crisis and its implications for various dimensions of state capacity is critical to understanding how state–economy and state–society relations can be reformulated at critical historical junctures.