State-Building: The Missing Dimensions of Stateness

Francis Fukuyama
Johns Hopkins University
School of Advanced International Studies
# Functions of the State

<table>
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<tr>
<th>Functions of the State</th>
<th>Minimal Functions</th>
<th>Intermediate Functions</th>
<th>Activist Functions</th>
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<td>Functions of the State</td>
<td>Providing pure public goods</td>
<td>Addressing externalities:</td>
<td>Coordinating private activity:</td>
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<td>Protecting the poor</td>
<td>Regulating monopoly:</td>
<td>Asset redistribution</td>
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<td>Antipoverty programs</td>
<td>Overcoming imperfect information:</td>
<td>Fostering markets</td>
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<td>Disaster relief</td>
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<td>Property Rights</td>
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The Scope of State Functions

Minimal Functions
- Providing pure public goods
- Defense, Law and order
- Property rights
- Macroeconomic management
- Public health
- Improving equity
- Protecting the poor

Intermediate Functions
- Addressing externalities
- Education, environment
- Regulating monopoly
- Overcoming imperfect education
- Insurance, financial regulation
- Social insurance

Activist Functions
- Industrial policy
- Wealth redistribution

X-axis
Two Dimensions of Stateness

Strength of State Institutions

Scope of State Functions
State capacity, defense law, and order property rights protecting the poor. Macroeconomic management, public health, education, financial regulation, redistributive pensions, environmental protection, unemployment insurance, asset redistribution, fostering markets, cluster initiatives.
The Stateness Matrix

Scope of State Functions

Strength of State Institutions

United States

France

Japan

USSR

Turkey

Brazil

Sierra Leone
Reform Paths

Scope of State Functions

Strength of State Institutions

Path I

Path II

Path III

Path IV
Tax Extraction Rates v. Per Capita GDP

Revenue effort improves with income and reliance on distortion.

Tax revenue as a percentage of GDP

Real GDP per capita in 1985 PPP-adjusted dollars (log scale)

Note: PPP stands for purchasing power parity.
Source: International Monetary Fund, Government Finance Statistics.
## Components of Institutional Capacity

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<tr>
<th>Component</th>
<th>Discipline</th>
<th>Transferability</th>
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<tr>
<td>Organizational design and management</td>
<td>management; public administration; economics</td>
<td>high</td>
</tr>
<tr>
<td>Institutional design</td>
<td>political science; economics; law</td>
<td>medium</td>
</tr>
<tr>
<td>Basis of legitimation</td>
<td>political science</td>
<td>medium-low</td>
</tr>
<tr>
<td>Social and cultural factors</td>
<td>sociology; anthropology</td>
<td>low</td>
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</table>
Weak States and the Black Hole of Public Administration

- Central issue of all organizational theory is delegated discretion
- Underlying issue in socialism debate (Hayek), corporate structure (Chandler), federalism
- Contemporary approach brings this under a principal-agent framework
Principal-Agent Theory

- Coase, theory of the firm 1937
- Alchian and Demsetz, firms as nexus of contracts 1972
- Williamson, opportunism and bounded rationality
- Jensen and Meckling, agency costs 1976
- Fama, markets for managers 1980
Domains of Organizational Uncertainty

- Ambiguity of goals
- Impossibility of erecting formal system of monitoring and incentives
- Inability to determine appropriate degree of delegation *ex ante*
Public Sector Outputs

Quadrant I: Low Specificity - Low Transaction volume

Quadrant II: High Specificity - High Transaction volume

Quadrant III: Low Specificity - High Transaction volume

Quadrant IV: High Specificity - Low Transaction volume
Monitorability of Public Sector Outputs

- Aircraft maintenance
- Telecoms
- Railroads
- Highway maintenance
- Foreign affairs
- Court systems
- Primary school teaching
- University education
- Preventative medicine
- Guidance counseling

Transaction volume: Low to High
Consequences of Organizational Ambiguity

• Need to understand better where different public sector activities fall in the matrix
  – Seek to fix problems that are actually solvable
• New approaches to activities for which there are no “best practices”
• Need to teach development differently
What follows if public administration is not a science?

- Need for *metis* (Scott)
- Does not necessarily imply leaving local institutions in place
- Requires rather contextual judgment about applicability of foreign models
- Need to think about the structure of decision-making rather than content of decisions
Applications

- Japan: MacArthur’s decision to keep the Emperor
  - versus the clean break in Germany
- Iraq: disbanding the Iraqi Army
- Iraq: tribalism in the Sunni triangle
Making Things Worse

- IFIs and donor community complicit in *destruction* of institutional capacity
- Contradiction between objectives of capacity-building and provision of services
- Need to rethink aims and emphasis of Phase II nation-building
Implications for Democracy Promotion

• Need to rethink 1990s emphasis on civil society
  – Good theory but questionable allocation of resources

• Need to deal first with problem of weak states
  – Party-building ahead of civil society promotion