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Government Failure, Social Capital and the Appropriateness of the New Zealand Model for Public Sector Reform in Developing Countries

JOE WALLIS and BRIAN DOLLERY *
University of New England, Australia

Summary. — The policy problems posed by a lack of state capacity in developing societies now attract the attention of a growing number of scholars. Both the government failure paradigm, with its "top-down" emphasis, and the social capital theory, with its stress on "bottom-up" approaches, provide analytical frameworks that can be used to comprehend the symptoms of state incapacity reported by the much broader literature on policy implementation. This paper seeks to determine the implications of the government failure and social capital models for policy implementation. More specifically, the paper considers the contractualist approach to public management reform in New Zealand as the epitome of a top-down solution to government failure. It will also evaluate this model from a social capital perspective and suggest ways in which a balanced approach to public sector reform can take into account elements of both paradigms. © 2001 Elsevier Science Ltd. All rights reserved.

Key words — civil society, governance, public sector reform, state capacity

1. INTRODUCTION

The burgeoning literature that deals with the political economy of policy reform has been recently surveyed by Rodrik (1996). The point of departure for this survey is the observation that

> what is remarkable about current fashions in economic development policy (as applied to both developing and transitional economies) is the extent of convergence that has developed on the broad outlines of what constitutes an appropriate economic strategy (p. 9).

This strategy includes the now familiar components of (a) "liberalization"—microeconomic reforms designed to open and free up markets and reduce and rationalize the role of the state in the economy; and (b) "stabilization"—macroeconomic policies designed to reduce debt and control inflation. Rodrik's claim that the so-called Washington consensus (Williamson, 1994) on the appropriateness of this strategy now enjoys general acceptance may, of course, be disputed. It does, however, indicate that the focus of the policy reform literature has shifted from an almost exclusive concern with the technical aspects of this strategy to an increasing interest in exploring the reasons for the observed unevenness in its implementation.

The question of state capacity in developing and transitional societies now enjoys significant scrutiny in the literature (Migdal, 1988). Grindle has summarized the evolution of thought on state capacity as follows:

> 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. 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. 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 (Grindle, 1996, p. 4).

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Several interesting avenues of inquiry have emerged. For example, some scholars have created useful taxonomies for the analysis of state incapacity (Grindle, 1996). By contrast, others have sought to develop indexes of public sector capacity (Polidano, 2000). Various commentators have advanced strategies for the enhancement of state capacity (Betancourt, 1997). Rather more pessimistically, alternatives to state capacity, such as international intervention or even "trusteeship," have been advocated (Langford, 1999). The present paper focuses on the policy problems posed by the lack of state capacity for policy implementation and examines two important analytical frameworks which can guide reform initiatives.

The 1997 *World Bank Development Report* identifies two generic approaches. First, policymakers can attempt to "match the state's role to its existing capability, to improve the effectiveness and efficiency of public resource use " (World Bank, 1997, p. 25). A useful way of conceptualizing the degree to which the state should intervene in any given society is to view the potential functions government can fullfil in terms of Figure 1, which is outlined in the *Report*. Figure 1 delineates three basic levels at which the state can intervene, depending on its institutional capacity. "Minimal functions," such as the provision of law and order and disaster relief, must be provided by all states, even those with very low state capacity. The alternative is the total disintegration of the nation state, with all its attendant misery. Chhibber (1997, p. 17) has forcefully underscored this point:

> It is true that state-sponsored development has failed. But the agonies of collapsed states such as Liberia and Somalia demonstrate all too clearly the consequences of statelessness. Good government is not a luxury but a vital necessity, without which there can be no development, economic or social.

"Intermediate functions" such as public education and the provision of social welfare services, must also be provided by governments. In contrast to its minimal function role, however, the methods used to provide intermediate functions can vary, depending on the level of state capacity. That is, in the case of these intermediate functions, government provision can be separated from government production. The World Bank Development Report (World Bank, 1997, p. 27) has described the role of government in the provision of intermediate functions as follows: "Here, too, the government cannot choose whether, but only how best to intervene, and government can work in partnership with markets and civil society to ensure that these public goods are provided." Finally, "activist functions," such

	Addressing market failure			Improving equity
Minimal Functions	Providing pure public goods: Defense Law and order Property rights Macroeconomic management Public health			Protecting the poor: Antipoverty programs Disaster relief
Intermediate Functions	Addressing Externalities: Basic education Environmental	Regulating Monopoly: Utility regulation Antitrust policy	Overcoming imperfect information: Insurance (Health, life, pensions) Financial Regulation Consumer protection	Providing Social insurance: Redistributive pensions Family allowances Unemployment insurance
Activist Functions	Coordinating private activity: Fostering markets Cluster initiatives			Redistribution: Asset redistribution

Figure 1. *The role of the state. (Source: World Bank Development Report (1997, Table 1.1, p. 27).)*