

## **A Conversation with Francis Fukuyama**

### **State Weakness: The Central Challenge Of the Twenty-First Century**

**USAID, Point Four Conference Room**

May 7, 2003

12:30pm-2:00pm

#### **Executive Summary**

On Wednesday, May 7, 2003, USAID hosted Dr. Francis Fukuyama to discuss state weakness in the context of development challenges. Initially, Dr. Fukuyama grouped states graphically according to their scope and strength. Within this framework, he argued the most important focus for development agencies should be to increase state strength, not scope. Second, he emphasized the importance of institutional support and reform as a means for development, and recommended that development agencies concentrate on those areas where they can best transfer knowledge and hold people accountable: public administration and institutional (constitution level) design. While acknowledging that social capital and cultural issues play a role in institutional reform, he argued that development agencies should not focus on social capital because it is difficult to manipulate from the outside and less likely to have a lasting impact. Specifically, USAID should focus on public activities that can be well monitored (have high specificity) and affected by public policy. Finally, he warned of the potential to undermine long-term state capacity and strength by circumventing traditional institutions to achieve politically-advantageous results in the short run.

#### **Introduction**

On May 7, 2003, USAID hosted Dr. Francis Fukuyama, Bernard L. Schwartz Professor of International Political Economy at the Paul H. Nitze School of Advanced International Studies of Johns Hopkins University. Dr. Fukuyama presented his discourse "State Weakness: The Central Challenge of the 21<sup>st</sup> Century." Dr. Fukuyama argued that state weakness is the "common thread that links most of the problems in the world today." He mapped the exponential growth of weak states in the last decade of the 20<sup>th</sup> century. Contributory factors that he discussed included the Washington Consensus, path dependence in development trajectories, the ambiguous role of institutions, and the relationship between social capital structures and institutional development. He also outlined the role of donors in exacerbating state weakness.

#### **I. Opening Remarks: The Future Path in Development and State Construction**

Dr. Fukuyama opened by stating that we are still in the midst of a 30-year Reagan-Thatcher revolution that has cut back the size and power of the state. However, the problem of the future of development will not be states that are too big, rather states that are too weak in certain critical functions. Dr. Chang posed a critical question to USAID:

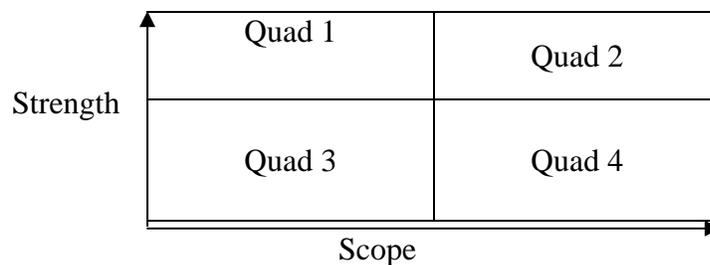
In development, how can USAID turn around its mentality to start focusing on state building and state construction?

Dr. Fukuyama divided his remarks into three parts:

## II. State Scope and Strength

Dr. Fukuyama discussed the importance of fostering state strength rather than state scope in development. State scope is defined by the number of functions a state performs. These functions are divided into three categories: Minimal (supply of pure public goods such as rule of law); Intermediate (addressing externalities such as public education system); Advanced (more complex public policy such as industrial policy). The Washington Consensus over the past decade has called for pushing the advanced functions of the state into the private sector and civil society. However, in trying to reduce state scope, these reforms have also reduced state strength in the process.

State strength is defined as the ability to enforce rules and carry out state functions. Dr. Fukuyama graphed states along two axes: state strength and state scope (see below).



- Quad 1 is optimal—strong, with minimal provision of public goods. (eg.: U.S.)
- Quad 2 (eg. Former Soviet Union, and Western European welfare states)
- Quad 3 includes many failing and failed states (eg.: southern Africa)
- Quad 4 is worst—ambitious state without power to implement. (eg.: Pakistan)

Dr. Fukuyama then discussed the optimal reform path for developing states:

- Maintain or increase strength while decreasing scope.
  - First – establish rule of law
  - Second – privatization of functions
- Development of Governance: State strength is more important than scope
  - It is better for developing states to be in Quad 2, than in 3 or 4.
  - Example: Northeast Asian states have had large success in Quad 2, with very active state governments. Southeast Asian states maintained strong states but with less scope.

Dr. Fukuyama used the World Bank's 2000-2001 Tax Extraction Table (see attached outline) as a substantive measure of state capacity—particularly administrative capacity. The regression shows that the wealthier a state is, the more it collects in taxes. This positive correlation shows that state strength is more important than state scope.

### III. Transferring Institutional Capacity for Governance

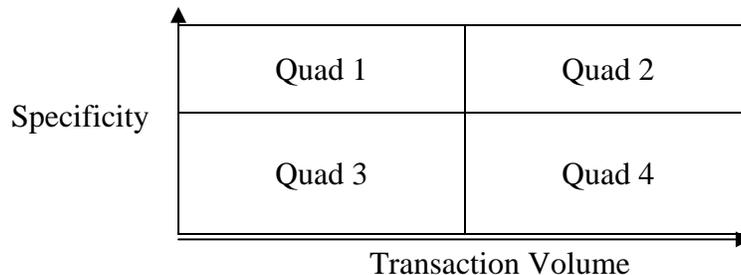
USAID is right in emphasizing the significance of institutions in development, but how much can *formal* institutional capacity be transferred? How much does USAID know about transferring institutional capacity? Dr. Fukuyama gives five known components of formal institutional capacity for governance:

1. Public Administration
2. Institutional Design
  - a. Constitution, Judiciary independence, etc.
3. Legitimation
  - a. To what extent do people believe in the regime? Is it democratic?
4. Political Power
  - a. USAID efforts should not work on this component because it cannot do anything about it (especially in failed states).
5. Culture
  - a. The informal norms that promote cooperation; critical for development of institutions
  - b. The realm of social capital—cannot be affected by public policy

Dr. Fukuyama pointed to the Lant Pritchett and Michael Wilcox paper “Getting to Denmark” that says some aspects of institutions are universal. For example, knowledge of how certain institutions work in Denmark will also apply to how institutions work in Mozambique (civil service protections, public administration rules, budgeting practice, etc.). Other aspects of institutions are highly dependent on historical traditions, local culture, and the people’s understanding of the state government (social capital). Social capital as a variable in development is difficult to manipulate. It can be affected on a micro level, but not society-wide. USAID can have the most impact in the public administration component of institutional capacity.

### IV. Addressing Social Capital in Development in the Public Administration Component

Social capital is involved in enhancing public administration development and promoting state actors’ behavior when socialized norms and incentives are internalized (professional service). Dr. Fukuyama used the Pritchard and Wilcox graph of public sector activities on two axes: specificity and transaction volume (see below). Specificity is defined as the ability to monitor the output of a public sector agency.



Many economists have proposed that corruption, for example, can be fixed by addressing the principal-agent problem. The theory is: “if we can align the incentives of the principal (manager) and the agent (subordinate), then we can get to the heart of corruption.” Fukuyama claims this theory does not hold because some state functions are more difficult than others to monitor activity (different specificity levels). Instead, the key to addressing corruption is to think about the relationship between specificity and transaction volume. Dr. Fukuyama says quadrant 1 is where development can be successful; quadrant 4 is often where development efforts break down.

Dr. Fukuyama concluded with two questions for USAID:

- How can USAID affect social capital in Quad 4 sectors?
- In which of these activities can USAID realistically make a difference?

### **Discussion**

A variety of questions and issues were raised during the discussion session. Among them:

- There are other forms of legitimacy besides democracy, such as economic growth, but only democracy is a sustainable form of legitimacy in the long run.
- Donors, concerned with results, do not work through the weak state institutions but through NGO’s—providing incentives NOT to work for the state but for USAID or other agencies. This further weakens and undermines states. USAID must make a choice: should we accept short-run inadequacies in order to build institutional strength?
- The quality of policies is included in the strength dimension of state capacity. Social capital is useful in this dimension to develop institutional strength so that more coercive means do not have to be relied upon. Centralization of power may be necessary.
- Cultures are very resistant to long term cultural change from external manipulation. You can affect social capital on a micro level effectively, but not on a macro level.
- USAID’s strategy should focus on the changes it can make through public policy, rather than broad underlying social barriers.
- Fukuyama would suggest a more *systematic* method in thinking about how to solve development problems. USAID should think about what conditions must precede reform efforts.
- For a large class of countries, the basic problem lies in quadrant 4—there is a political power problem. Humanitarian assistance may serve as a triage, but USAID shouldn’t fool itself into believing it can move a country into another quadrant.