

BEYOND THE LIBERAL DEVELOPMENT MODEL: LINKING SOCIAL CAPITAL WITH STATE CAPACITY.

KATH, ELIZABETH

1. This paper discusses the connections between two contemporary political concepts — ‘social capital’ and ‘state capacity’ — and the implications of these connections for alternatives to the liberal model of political development. In recent decades there has been widespread discussion of and enthusiasm for social capital, broadly defined as the non—economic underpinnings of progress and development and economic activity generally, alongside a resurgence of interest in theories of state capacity that draw attention to the importance of structures within society that facilitate collective decision—making. The literatures in these two areas have produced many findings that complement one another, however little attention has been paid to these connections.

2. Essentially, neither social capital nor state capacity is a new concept. The importance of social capital can be traced back at least as far as classic works such as Alexis de Tocqueville’s *Democracy in America*, and theories of state capacity follow a long trajectory including the work of Aristotle, Machiavelli, Hegel, Weber and, most notably in recent years, Weiss. Both concepts, however, have recently attracted renewed interest. Their revival is particularly important in the modern climate where the ‘triumph’ of liberalism combines with an emergent discontent with its performance.

3. By demonstrating the important role non—material, social factors such as norms, trust, reciprocity and institutions play both as inputs and outputs in societies’ functioning and development, advocates of social capital have questioned the adequacy of the liberal model’s narrow focus on economic factors. In particular, recognition of social capital suggests that cooperation and collaboration may be more conducive to positive economic outcomes than spontaneously generated decision—making by private actors in market competition. The findings in the social capital literature are compatible with claims made by contemporary statisticians that the state and the political realm, or the realm of collective decision—making, is capable of greater autonomy than either the liberal or the Marxist tradition has acknowledged. This paper argues that an understanding of social capital and state capacity shows that collective decision—making processes (the political realm) in underdeveloped countries development options may have been insufficiently appreciated.

MODERN THEORIES OF STATE CAPACITY

4. State capacity refers to the capacity of a society to achieve distinctive outcomes that would not have been achieved without conscious political decisions and institutional development. The re—emergence of positive theories of the state is an exciting development in political theory considering that both liberal and socialist traditions — the dominant ideological traditions of the modern era — have held a pessimistic view of politics. Due to their scepticism and suspicion of state power, both liberals and Marxists alike have held little faith in the capacity of the political realm to achieve what it sets out to do. Important to more recent discussion of the state has been the causal relationship between politics (collective decision—making) and other

forces in society. That is, the current suggestion by modern statist is that politics is not completely subservient to class of economic forces but may instead determine economic conditions. In other words, it is possible that the collective efforts of a citizenry to control its own destiny can overcome competing economic forces.

5. Marxists have traditionally downplayed or denied the effectiveness and autonomy of the political realm based on a belief that the state could not act independently of social interests.

6. Based on the *Communist Manifesto*'s assertion that the "executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie" ([1848] 1978: 475), they have argued that the state is a 'capitalist state'. However, more recent Marxist work has conceded that the state has 'relative autonomy,' meaning it is not completely dominated by capital but can act independently to some degree. This retreat from determinism is attributed to different social groups or sections of capital that pressure and control the state but whose interests are conflicting. The state thereby acts as a mediator and, to a certain degree, is said to have the capacity to secure cohesion. Overall, the state still serves the interests of capital, and exercises autonomy only within the boundaries of the interests of the capital class. Modern statist have endorsed the concept of relative autonomy but have argued, among other things, that the capitalist class lacks the cohesion, consciousness and organisation that would be required to 'keep the state in line.' Further, the capitalist class may not even be aware of what are its own interests (Block 1987: 83).

7. Liberals insist that the fact that the state *can* act autonomously does not necessarily imply that it *should*, because the political realm is corruptible, potentially authoritarian, inefficient and ineffective in achieving what it sets out to do. According to liberal theory, "the greater degree of state intervention, the greater the dangers of bureaucratic despotism or simple mismanagement" (Jessop 1990: 175). Contemporary statist writers dispute liberalism's negative preconceptions about state power, namely that "all states are essentially alike — predatory and self serving in motivation, incompetent or inefficient in economic affairs" (Weiss 1998: 17). Politics itself should not be seen as inherently undesirable, because strong states don't necessarily threaten democratic freedom.

8. Modern statist have pointed out that liberal theory does not recognise the facilitative role of state power nor the possibility that subordinating the state to market forces may obstruct the democratic process. The facilitative role of the state is brought to light by the recognition that there are different aspects of state power. Michael Mann distinguishes two types of state power — *despotic* power (whereby the state can act arbitrarily, free from constitutional restraint), and *infrastructural* (the state's ability to 'embed' itself in society). In modern politics, infrastructural power is more prevalent and important than despotic power (Mann 1993). There are three dimensions of infrastructural power. These are 'penetrative' power, the state's power to interact directly with the population, 'extractive power,' its ability to reach into and extract resources from a society, and 'negotiated' power, collaborations between political and industrial actors. Negotiated power is considered by contemporary statist to be the ultimate form of state strength because it involves the coordination of activities that would not otherwise be subjected to authority. "State strength," the neo—Weberians argue, "increases with the effective embedding of autonomy, whereas state weakness ensues from despotic abrasion against society" (Weiss and Hobson 1995: 7). In other words, the more concentrated and arbitrary the state's power, the more it becomes isolated from social groups. However, when state power

is integrated into society, its strength is increased by its capacity to generate and to focus economic and social energy (Krygier 1997: 115).

9. Modern statisticians have thus been more optimistic than Marxists about the state. Further, unlike liberals who view the state as an alien body that wields power over society, statisticians have pointed out that the state in fact can generate strength *through* society as the apparatus that enables collective decision—making. In this way state institutions or structures both protect against unwanted change and facilitate desired change, thereby producing not only better outcomes but also *desired* outcomes.

SOCIAL CAPITAL

10. Social capital can be generally defined as the non—material factors arising from cooperative relationships between people that contribute to development and progress. These include such examples as generalised trust and reciprocity, organisations, institutions, networks, established norms, laws and public services and amenities. The main significance of social capital has been the recognition that societies in fact rely on a myriad of previous accomplishments — not just on material resources — in order to function and develop. Discussion of social capital has revealed that, alongside financial and human capital, capital is a relationship between groups that facilitates productive activity and also establishes conditions that live on to pave the way to further productive activity, hence producing a virtuous cycle of progressive development. It should be noted that, in this way, social capital is both an input to and an output of development — it generates desirable outcomes as well as being a desirable outcome in itself.

11. Recent rejuvenation of the concept of social capital began with the work of French sociologist Pierre Bourdieu in the early 1980s. Later, in the English—speaking world, sociologist James S. Coleman reignited discussion of the concept when he published ‘Social Capital in the Creation of Human Capital’ in 1988. The article called attention to the productive force of social capital, suggesting its recognition would broaden the conventional understanding of capital that focuses narrowly on physical and human capital. Coleman’s article outlined a number of examples to illustrate ways in which individuals and communities draw upon resources other than economic ones to facilitate action. More recent work by Robert D Putnam launched a debate over whether there had been an erosion of social capital in the USA and argued that social capital is a vital precondition to democracy. His general argument in *Bowling Alone: the Collapse and Revival of American Community* (2000) is that populations that are engaged in voluntary association and social networks are likely to have a higher level of generalised social trust which contributes to a better working democracy and a greater efficiency in terms of collective decision—making.

12. From these discussions and the proliferation of literature that followed them, there is now a widespread acceptance of social capital’s reality and its important role both as contributor to democracy and a factor in all economic processes. From this recognition it follows that attempts to refer to ‘capital’ that do not recognise this social component lead to flawed accounts of what wealth is and what creates it.

PARALLEL CONCLUSIONS AND THEIR RELEVANCE TO DEVELOPING COUNTRIES.

13. Theoretical and empirical evidence emerging from discussion of social capital overlaps with theories of state capacity. First, by drawing attention to the many social (non—economic) factors that influence societal outcomes including economic outcomes, social capital theorists imply that the role of economic forces alone in deciding societal outcomes may be less significant (less exclusive) than has been traditionally assumed. By demonstrating the importance of cooperative relationships, it corresponds with the statist’s view that political forces have greater autonomy than economic determinists acknowledge.

14. Second, evidence that societies with high levels of social capital produce better material outcomes adds weight to statist theories regarding the facilitative developmental role of infrastructurally strong states. It should be remembered that the modern state takes the form of numerous institutions, often with divergent functions; so the state is not a monolithic actor but permeates and is permeated by societal arrangements. The state’s strength or capacity depends on the degree of this embeddedness in society — equivalent to its level of citizen participation. This embeddedness limits the state’s ability to act independently of the democratic will, although a competent bureaucracy may wish to shape the latter. In this way, the institutions, organisations, social networks, and other structures that activate collective decision—making and that have been described as social capital, increase the state’s infrastructural power and thereby the capacity of a polity to influence future outcomes. Thus, if these structural achievements created by and facilitative of collective decision—making are the determinants of a strong state, evidence from the social capital literature of their important role in determining societal outcomes is also evidence of state capacity.

15. Further, the increasing empirical evidence of social capital’s importance to the development process, including its contribution to economic productivity, provide reason to conclude that the relevance of modern theories of the state extends to developing countries. In other words, it may not be the case that effective state—building can only ensue from prior liberal economic achievements as many statist have assumed.

16. Recent literature on state capacity has tended to focus on already affluent countries, advocating a stronger role for the state as a progression from, but reliant on the building blocks of, previous liberal achievements (such as material affluence and political democracy). The conventional assumption until now has been that the material wealth created by liberalism is a precondition for the construction of a more democratic society where collective decision—making processes play a central role. In other words, social inequalities and limited participation produced by the market were viewed as an initial price a society needed to pay in order to generate enough wealth to build more productive and democratic conditions (Boreham *et al* 1999: Chapter 6).

17. By demonstrating that collective processes may in fact produce better development outcomes including better economic outcomes, however, the understanding of social capital allows us to question these conclusions. As with state theorists, social capital theorists have until now predominantly been preoccupied with production or adjustment challenges faced by industrialised countries. There has been an abundance of discussion of the non—material aspects of economic activity in wealthier countries. The decline of social capital potentially constitutes a threat to

ongoing economic success, particularly compared with other countries' economies where cooperation, institution—building, and production networks are said to be contributing to the capacity to cope with economic change.

18. As an extension of this analytical preoccupation with social capital in the rich countries, we can hypothesise that in less—developed or poorer countries too, a more inclusive society may in fact be conducive to social, political and economic development. If social capital is social, cultural, organic or traditional, there is every reason to believe it can exist in underdeveloped contexts. Thus, it may be that developing countries need not sacrifice social goals to achieve economic ones — the reverse may be true. For developing countries this is a particularly pertinent issue.

19. Until the late 1990s, international policy making institutions such as the International Monetary Fund (IMF) and the World Bank have insisted that rapid economic growth is the only viable way to solve the problems of underdevelopment and that economic growth depends on an environment where social, cultural, institutional and traditional 'impediments' to market forces have been 'reformed' away. Indeed, the recent resurgence of enthusiasm for social capital has emerged alongside a growing recognition amongst policy makers internationally of the inadequacies of economists' measures of wealth and development, whether as outputs, processes or inputs.

20. One of the most poignant illustrations of this awakening is the remarkable shift in development thinking in recent years reported in various *World Development Reports*. The shift followed intense criticism of the Bank's and the IMF's legacy of self—defeating advice in policy making for developing nations around the world and growing international criticism of its over—reliance on market forces in combating poverty. The World Bank now concedes that some of its liberal, deregulatory policies have unnecessarily increased hardship and insecurity in developing countries while failing to eliminate familiar cycles of underdevelopment poverty and corruption. It has called for more attention to be paid to institution—building and the need for social capital. For example, the 2002 issue of the *World Development Report*, subtitled 'Building Institutions for Markets,' acknowledges that weak institutions hinder development and worsen the conditions of poverty. The Report acknowledges that without effective institutions suited to local needs, poor countries may be excluded from the benefits of markets.

21. The long history of failure of free—market mechanisms to relieve poverty or to reverse underdevelopment has fuelled a growing distrust in economists' capacities to diagnose the causes of poverty in the developing world. The critics now notably include former chief economist and senior vice president of the World Bank, Joseph Stiglitz, who publicly pointed out "the devastating effect that globalization can have on developing countries, and especially on the poor of those countries". He criticised the IMF and World Bank for relying too heavily in their policy—making on the "outworn presumption that markets, by themselves, lead to efficient outcomes" and for failing to take into account the potentially important role of government facilitation in economic development (2002: xii). Recent attention to social capital across a broad range of disciplines, alongside the resurgence of positive theories of the state, is itself an indication of increasing dissatisfaction with conventional economic measures and policies.

22. Aside from demonstrating the increasingly widespread discontent with the current liberal economic model, however, this paper's purpose in highlighting the connections between social capital and state capacity is to point out that completely separate theoretical traditions have arrived at parallel conclusions about what is the problem

with that model. In addition, insiders from international policy—making institutions, and to some extent those institutions themselves, have made certain concessions about where their development policies have gone wrong in the past. In doing so, they too have at least hinted at similar conclusions despite still clinging to the basic principles of the liberal model.

23. By drawing attention to the non—economic dimension of capital, social capital theory has brought about a realisation that the liberal model’s failure to recognise the full significance of capital has led to an over—emphasis on the importance of economic factors. As a result, liberal policies prescribing the removal of all barriers to economic forces may in fact achieve worse developmental outcomes than are technically possible. Modern statisticians have similarly argued that economic factors are not necessarily the overriding force in society and neither do they spontaneously produce the most desirable and democratic outcomes. Rather, state apparatus, or institutions that serve as mechanisms for collective decision—making, are in fact protections against economic disruption and other forces that work against the achievement of democratically determined goals.

24. Thus, the main point these two theories have in common is that the factors economic liberals have traditionally viewed as *impediments* to development are in fact developmental *achievements*. In wealthy countries it has finally been acknowledged that, by removing those factors that liberal reformers have tried to eliminate in an attempt to revert to a state of free economic activity, the development process actually moves backwards and in the process exacerbates existing discontent. It is time international policy—making institutions took heed of these theoretical discoveries in wealthier contexts and considered their relevance to the development process where the need is greatest.

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