Structural adjustment and privatisation programmes over the past two decades have significantly redefined the economic role of state institutions in numerous countries, North and South. The World Bank has actively promoted these processes; yet its 1997 World Development Report (WDR), *The State in a Changing World*, appears to mark an abandonment of support for minimal government in favour of a strong and vigorous state. Close analysis of the Report, however, suggests little has really changed.

**The Bank’s Report**

Markets and states, says the WDR, should not be viewed as opposites, but as complementary; the state being "essential for putting in place the appropriate institutional framework for markets". Indeed, the WDR warns that, unless states can improve their "effectiveness" and invigorate public institutions their prospects may be bleak; further public strife, rampant corruption and the collapse of many states are predicted. Government credibility which the WDR defines as the "predictability of rules and policies and their consistent application" is now considered as important for attracting foreign investment as the content of those rules and policies. The Bank cites the "tiger" economies of South-East Asia where states have "harnessed the energy of private business and individuals and act as their partners... instead of restricting their partnership" as precedents.

The Bank puts forward a two-pronged approach to strengthening the state. First, states must try to match their role to their existing capability, then they should work to raise their credibility. Weak states should concentrate on the basics, the most urgent tasks being to:

- establish a foundation of law;
- maintain macroeconomic stability;
- invest in basic social services and infrastructure;
- protect the vulnerable, and;
- protect the environment.

Weak states are advised to formulate only modest goals whilst considering two main types of strategies that may help them become more successful. The first is to bolster policies with such strict rules that governments find them costly to reverse. Examples are currency boards panels of economic experts who make it difficult for the government to redirect its monetary policy or international agreements which commit countries to open trade. Secondly, weak states are advised to design policies that can be implemented by private firms, non-government organisations (NGOs), and individuals.

A third set of proposed reforms involves "reinvigorating the state’s institutional capability, by providing incentives for public officials to perform better while keeping arbitrary action in check." This can be achieved through policies aimed at:

- establishing effective rules and restraints;
- fostering competition, and;
- increasing "citizen’s voice and partnership with the private sector".
Addressing corruption, says the WDR, is particularly important if authority is to be restored to state institutions. One way to achieve this will be the introduction of policies that foster competition by lowering controls on foreign trade, removing entry barriers for private industry and privatising state firms.

Finally, the WDR lays major emphasis on the need to involve citizens in decision-making. Governments are most effective, it argues, when they listen to, and work with, citizens and businesses. "Where governments lack ways to listen, they are not responsive to people's interests, especially those of minorities and the poor". Greater information and transparency, combined with participatory approaches to project implementation, are thus deemed vital for informed public debate and "to increase popular trust and confidence in the state".

All Change... But No Change

The WDR has been welcomed in many quarters as a rejection of the Bank's free-market fundamentalism. In fact it represents less a change of direction than a repackaging and updating of neoliberalism in the face of a popular backlash against the policies promoted by the Bank.

The political significance of the WDR's rejection of a minimalist state, for example, amounts to little in the face of abundant evidence that neoliberalism has been less about stripping back the state than about redirecting it: disavowing a minimalist state that has never existed constitutes clever political manoeuvring rather than a U-turn.

No Room For Debate

Although calling for an effective state, the WDR begs the key question: effective for whom? The Bank acknowledges that "different groups may hold conflicting views about the role of the state" but fails to engage with those different views or to discuss their validity. Instead the WDR adopts a tone and a language which implies that neoliberal policies are self-evidently superior to other development agendas.

Failure to Engage

Critically, the WDR fails to engage with critics of neoliberalism, or with alternative approaches to development. Nowhere, for example, is there any discussion of the substantive points raised by anti-poverty groups about the role Northern states could play in relieving Third World debt. There is no discussion of the many proposals made by trade unionists and others to address the state's role in securing labour rights in a globalised economy.

Likewise, the WDR is silent on the issue of states implementing international and national controls on transnational companies or on NGO proposals to reform the World Trade Organisation (WTO) in order to address inequities in the world trade system. Nor does the WDR engage with the fundamental criticisms of neoliberal theory and neoclassical economics made by the Japanese aid community and others.

Governance by Economics

Reflecting the Bank's continued neoliberal framework, the WDR views an effective state almost exclusively through the lens of economic efficiency. The Bank's benchmark for assessing the "effectiveness" of political processes, procedures and institutions is whether they act as lubricants or potential barriers to free market economic reforms and fiscal discipline. One outcome of this economistic approach is that the WDR grossly oversimplifies the complex political, social, cultural and economic landscape in which states and markets operate. It also depoliticises the debate over what constitutes an effective state.

Locking Society Out

The WDR advocates greater participation in decision-making so as to "bring government closer to the people", yet it is deeply suspicious of public input going too far. The Bank expressly rules a number of key
policies off limits to public participation, since they "require insulation from political pressure". Chief
among these is macroeconomic policy. Of particular concern to the Bank is the possibility that participation
may lead to reforms being reversed. It is thus seen as intrinsically desirable to entrench reforms, for
example through "external commitment mechanisms" such as agreements with the IMF. This notion is
profoundly undemocratic.

Indeed, to the extent that the Bank sees people being involved in decision-making, it is primarily in order to cut
the costs of providing services and of managing local projects participation is seen as a tool for engineering
consent at a local level to policies already framed by right-minded governments at the national level.

Blind to Corporate Power
Underlying the Bank's analysis is a deep fear of the capricious state. The text is littered with arguments for
limiting the scope for "arbitrary action" by officials and the need to "cut back on their discretionary
authority". Yet the WDR does not extend this analysis to the private sector. It portrays companies merely as
engines of economic growth and makes little or no mention of capricious, unaccountable or arbitrary action
by the corporate sector, or of the political influence that companies wield. Thus the Report does not
advocate controls which might check the abuse of corporate power.

A Role For Intervention?
The Bank accepts that the state has a major role to play in "protecting the vulnerable" through social
welfare programmes and basic education and health. The WDR's support for active intervention in
economic planning, however, or for strong regulation is at best lukewarm. Indeed, it implicitly argues
against intervention in many of the areas where regulation is perceived by critics to be most urgent for
example on the environment.

Do What We Say
Despite the powerful evidence submitted to the WDR team on the inappropriateness of promoting a single,
universal approach to reform, the WDR gives space to one view and one view only of what
constitutes and effective economy and an effective state. The result is that the Bank's approach to reform is
only marginally less formulaic than previously.

No Self-Assessment
Throughout the WDR the Bank seems more interested in telling others particularly developing country
governments what to do rather than assessing its own roles and how they have undermined states' capacity to plan and fund development. There is also no analysis of why the Bank's interventions to support
privatisation and public sector reform have a very high failure rate or of whether the Bank and other aid
agencies are appropriate institutions to intervene to redefine the role of the state in societies where they
themselves have no democratic mandate and are extremely unaccountable.

Towards a New Mandate?
Given such omissions, many have questioned the Bank's motives for raising the issue of the state in such a
prominent way. One interpretation is that the Bank is following its own institutional imperatives; by focusing
on the "ineffectiveness" of states, the Bank is able to use the state as a scapegoat for failures that should
properly be ascribed to the failure of market-led reforms.

There is also a concern, voiced by many NGOs, that the Bank is seeking to bolster its position as a
provider of North-South finance and advice in an age where the private sector is increasingly taking on the
task of "developing" the South. The fear is that it is seeking to carve out new roles as a supranational
authority which oversees the politics as well as economics of Southern states.
**Structure of this Report**

This counter report is primarily intended to set the Bank’s “rediscovery” of the state in context.

- Chapter One looks at the political and economic changes that have occurred within states as a result of the neoliberal reforms since the 1980s. In particular, it documents the rise of the “Neoliberal State”, in which state power is increasingly harnessed to corporate interests.

- Chapter Two considers the impacts of this agenda on people, in particular, their bargaining power within markets.

- Chapter Three considers the perspectives of some of the movements that have emerged in response to neoliberalism. These have widely differing agendas—some positive, some profoundly disturbing—and reflect very different views of what constitutes an “effective state” in the late twentieth century.

- Chapter Four documents the failure of *The State in a Changing World to* engage with the issues raised by such movements and offers a critique of the Report’s key conclusions. In particular, it seeks to expose the continuing neoliberal agenda at its heart.

The order of the report is deliberate and reflects a perceived desire to set the WDR in its proper context as a response to growing unease over the direction of neoliberalism and of elite efforts to contain that unease. It is also intended to reinforce a key political point: namely, that the future boundaries of markets will not be established by the theoretical models of economists within institutions such as the Bank but by the everyday processing of power relations within society at large.

In that respect, the Bank’s failure to engage with the wider political opposition to neoliberalism—not least by failing to recognise, let alone address, the demands of social movements critical of its policies—is particularly disturbing. Repackaging the free market agenda will not address the world’s inequities and poverty; on the contrary, it will continue to worsen them. At a time when xenophobic nationalism is one of the main responses to neoliberalism, the Bank’s continuing free market fundamentalism is likely to fuel intolerance and social exclusion. Thankfully, other more progressive agendas are on offer. But they will only take root through the active engagement of concerned citizens.