

## BRING BACK THE STATE

By Francis Fukuyama

The death of Ronald Reagan last month and the moving tribute paid to him by Margaret Thatcher remind us that we still live in their shadow, in an era in which the chief impulse of politics has been to reduce the size of the state. That agenda was critical in its time, for it was clear that the enormous growth of state sectors in the developed world in the 20th century had become economically harmful and socially stultifying. China and India have begun to free themselves from excessive state control, which reached monstrous dimensions under communism.

But there are signs that the Reagan-Thatcher era is ending and that the pendulum will swing the other way. Many recent problems have tended to come from the lack of sufficient state oversight, as with the Enron, WorldCom and other auditing scandals, or the privatisations of railways in Britain or electricity in California. The easy gains from privatisation and deregulation have long since been achieved.

The real date of the end of the Reagan-Thatcher era, however, was 11 September, 2001. The terrorist attacks on New York and Washington put back on the table foreign policy and security, which are pre-eminently issues for nation states. The United States created a new cabinet-level agency, the Department of Homeland Security, in direct response. But 11 September also underscored a key feature of the post-Cold War world. While the great problems of world order in the 20th century were caused by too-powerful nation states such as Germany, Japan and the former Soviet Union, many of the problems of our current age, from poverty to refugees to human rights to HIV and Aids to terrorism, are caused by states in the developing world that are too weak. This lies at the roots of Africa's development problem; and a band of weak or failed states from North Africa through the Balkans and the Middle East to South Asia has become the breeding ground of radical Islamism and terror.

It is important to distinguish between the scope of states, and their strength. State scope refers to a state's range of functions, from domestic and foreign security, the rule of law and other public goods, to regulation and social safety nets, to ambitious functions such as industrial policy or running parastatals. State strength refers to the effectiveness with which countries can implement a given policy. States can be extensive in scope and yet damagingly weak, as when state-owned firms are run corruptly or for political patronage.

From the standpoint of economic growth, it is best to have a state relatively modest in scope, but strong in ability to carry out basic state functions such as the maintenance of law and the protection of property.

Unfortunately, many developing countries either combine state weakness with excessive scope, as in the case of Brazil, Turkey, or Mexico, or they do little, and what little they do is done incompetently. This is the reality of such failed states as Liberia, Somalia, or Afghanistan. Some, such as the Central Asian dictatorships that have emerged after the collapse of the Soviet Union, manage to be strong in all the the wrong areas: they are good at jailing journalists or political opponents, but can't process visas or business licences in less than six months.

The Reagan-Thatcher revolution was properly directed against excessive state scope, seeking to reduce regulation and government interference with private economic activity. But applied to developing countries, it had a perversely damaging effect. The policies known as the Washington consensus, pushed by international financial institutions such as the International Monetary Fund and the World Bank, including such measures as privatisation, trade liberalisation and deregulation, failed to take account of missing institutional capacity in many developing nations.

Excessive zeal in pursuing this 'neo-liberal' agenda undermined the strength of states to carry out those necessary residual government functions. Russia went from a state that controlled all aspects of the economy and civil society to one that could not collect taxes or protect its citizens from crime. It turns out that privatisation, while reducing the scope of states, takes a fair amount of state capacity to implement cleanly. This is something Russia did not have as it sold off telecoms and energy companies to well-connected oligarchs.

Thailand liberalised its capital markets before it had an adequate bank regulation system; the result was the collapse of its currency during the Asian crisis of 1997. Elites in sub-Saharan Africa used IMF-mandated structural adjustment programmes to cut core state functions while increasing the size of the patrimonial state. Dealing with the Aids crisis has become immensely more difficult due to the cuts in state capacity that have taken place in most African countries in the past generation.

It is perhaps in light of experiences like these that Milton Friedman, dean of free-market economists, said a couple of years ago that his advice to former socialist countries 10 years earlier had been to 'privatise, privatise, privatise.' 'But I was wrong,' he added. 'It turns out that the rule of law is probably more basic than privatisation.' The cost of learning this lesson was high.

The 11 September attacks underlined the fact that the lack of governance in poor and troubled parts of the world like Afghanistan could have profound security consequences for the developed world.

This has led to the ironic result that George W. Bush, who said when he was running for the presidency in 2000, 'I don't think our troops ought to be used for what's called nation building', has embarked on major nation-building exercises in Afghanistan and Iraq in his first term. The American experience in both countries has underlined another unpleasant truth: while the US has the ability to reach around the world militarily and unseat regimes, it does not have a corresponding capability or the institutions to provide them with strong governance.

The international community also needs new institutions. The United Nations, usually tasked with organising post-conflict reconstruction, suffers from weaknesses both in legitimacy with respect to its democratic credentials, and in effectiveness in its ability to intervene and provide security.

The international community did stabilise Bosnia and Kosovo, but it rules both countries like a European raj; it has no idea how to create self-sustaining institutions in either place that would permit a graceful exit. The UN needs reform and to be supplemented by other, overlapping multilateral bodies, such as Nato or the Community of Democracies, to act where it cannot.

In what now seems like the distant era of the dotcom revolution, a lot of Silicon Valley techno-libertarians saw an increasingly stateless world in which governments 'got out of the way' of wealth creators. Unfortunately, that world is one in which a lot of other, less beneficent actors run free as well. Radical Islamists can make good use of the web to post videos of their beheaded captives. With globalisation, coercive technologies have become democratised and more freely available to 'super-empowered individuals'.

Nation states, with their legitimate monopolies of force, will have to fill this vacuum. State building, as well as state-deconstructing, is something we will have to think seriously about in the post-Reagan era now unfolding.

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