

**The “Technocratic Fallacy”  
and the Reform of the State**

*The World Bank Report: 10  
years later*

In 1997, the World Bank published an influential report in which, after many years of neoliberalism, it underlined the importance of institutions for economic development. Although they were able to place the topic in the centre of political and economic discussion, the recommendations that arose from this Report did not produce the promised results in Latin America, where the weakness of the State continues to be a serious problem. This article argues that the World Bank was guilty of a “technocratic fallacy” when it proposed a reform centred in matters of administration and management, designed exclusively with a view to increasing efficiency without taking into account the political dimension of the problem, the historical processes and the distinctive characteristics of each country.

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The fall of the Berlin Wall, the collapse of the Soviet Union and the failure of the welfare state gave way to the triumph of capitalism and the consolidation of the neoliberal development paradigm. In this way the market became the only mechanism with the ability to reflect and channel the different interests within a society, to guarantee economic growth and social mobility. These ideas had a strong impact in Latin America, at a moment when the import-substitution model was exhausted and the interventionist State was coming under increased criticism.

In the early 1990s, this new development model, centred on the market, was promoted by the multilateral agencies (especially by the World Bank WB - and the International Monetary Fund - IMF -) and synthesized in

the Washington Consensus, which included a series of reforms and measures to be implemented by the governments of the region to achieve development: fiscal discipline, financial and commercial liberalization, complete opening of the economies to foreign direct investments, privatization, deregulation and the protection of multinational companies.<sup>1</sup>

However, towards the middle of the decade, there was a turning point in the international debate. The verification of the poor performance of the Latin American production system and the “adverse selection” which this new paradigm brought with it, led to thinking about restructuring the State and reformulating its role in society. Studies by Peter Evans (1992, 1995) and by the WB itself, based on the theoretic contributions of Joseph Stiglitz (1999) –its vice president at the time – suggest the need for improving the capacities of the states to build a robust market economy, taking Southeast Asia’s miracle as a precedent.

In this context, the WB Report for 1997 “The State in a Changing World” marked a milestone when it raised the reform of the State as a key item in the new agenda for development. The Report begins with a categorical statement: “Certainly, state dominated development has failed, but so has stateless development... Without an effective state, sustainable development is impossible”.<sup>2</sup>

Ten years after the publication of that document <sup>3</sup> it is necessary to reflect on the recommendations it made and the reforms undertaken in the region. This paper aims to provide a critical revision of the agenda proposed for the transformation of the states in Latin America and to analyse the reforms undertaken and the main unresolved challenges.

## ■The State in a Changing World

International experience, the new institutionalist paradigms<sup>4</sup> and, above all, the sustained growth of the Asian countries, proved that a market

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<sup>1</sup> See John Williamson (1990).

<sup>2</sup> WB (1997, p. 26).

<sup>3</sup> The preparation of the report generated an intense discussion within the agency itself. On one hand, those (led by Stiglitz) who defended the need for a new generation of reforms going beyond the Washington Consensus, which might endow the State with a greater regulatory capacity in those sectors in which the market cannot guarantee development. On the other, those who were closer to the Washington Consensus agenda (Burki/Perry). The first group finally prevailed, so the World Bank Report centred its concerns on the challenge of rebuilding the State and asserted that institutional reform is a key element in the performance of countries, notwithstanding economic reform and external openness. This report, together with the whole process of second generation reform, generated a greater consensus than the first generation reforms, both in the different sectors of society and in the political system.

<sup>4</sup> In the 1990s, neoinstitutionalism received a strong impulse from empirical literature on economic growth which rediscovered the role of institutions as promoters of long-term economic performance. This was opposed to the views that focused on the market as the main factor for growth (North; Rodrik).

economy required “effective” institutions in order to optimize economic performance. The WB Report underlines the vital importance of governmental institutions and political stability in order to achieve successful economic development in the long run and, particularly, for the regulation of the markets.

An effective state is needed to provide the goods and services – and the rules and institutions – that allow markets to flourish and to improve the standard of living. Thus, the State is central to economic and social development, not as a direct provider of services but as a partner, catalyst and facilitator. (BM, p4).

To this end, the report defined a strategic selection of collective steps to be promoted by the State, together with greater efforts it should make to decrease the burden which weighs on the public sector, through the participation of businesses and the community in the supply of basic public goods. It is therefore imperative to distinguish between what the State should and should not do.

This leads to a two-part strategy. On one hand, it is necessary to build a selective State, focused on five core tasks, without which it is impossible to achieve sustainable development and the reduction of poverty: establishing respect for the laws; maintaining a nondistortionary environment for creating and implementing policy, including macroeconomic stability; investing in basic social services and infrastructure; protecting the more vulnerable groups; protecting the environment. The second aspect of the strategy defined by the WB consists in promoting a “more capable” State through effective rules and restraints which check arbitrary actions and combat entrenched corruption.

**■The WB recommends the application of a series of transformations. First, the State must define its functions precisely and allow the market to assume a greater role.**

In order to carry out this objective, the WB recommends a series of transformations. First, the State must define its functions precisely and allow the market to assume a greater role. Concurrently, it must increase the participation of the private sector in activities which until then were reserved to the public sector with the understanding that state monopoly in topics of infrastructure, social services and other goods and services tends to be ineffective.

As a complement, the need to strengthen state or institutional capacity is suggested. The State must guarantee the observance of its laws—and do it in a way which is transparent and corruption-free—as well as civil society participation. The objective is to subject government institutions to greater

competition from the market to increase their capability and efficiency, substituting the hierarchical bureaucratic model with a different one known as “new public management” (*New Public Management-NPM-*)<sup>5</sup>. In this sense, New Zealand is the example to be followed. Special emphasis was placed on giving autonomy to the different services provided by the State, competition among them, control by the consumers or “clients” and the application of a contractualist model to the relationships between them.

In other words, the Report suggests a managerial model for public administration in which the State must stop being a direct provider and become a facilitator, a mediator between the actors in the complex matrix of delivery of public services. In this context, the State’s regulatory capacity must be improved by encouraging the activity of markets. To this end operating rules and specific regulations (*ad hoc*, not Keynesian ones) must be established. This will generate an adequate framework within which the actors responsible for providing public services will operate. In the long run, public institutions must develop the capacity to design, evaluate and monitor their policies.

To summarise, according to the WB, governments should concentrate on the basic public tasks, those which neither the markets nor the civil society are able to carry out: establishing the necessary foundation of law; maintaining a nondistortionary policy environment, including macroeconomic stability; investing in basic social services and infrastructure; protecting the more vulnerable groups and protecting the environment.

### ■ The recommendations and their Consequences for Latin America

The new international context and the recommendations from the international agencies led Latin America to adopt a policy of state of reform, in order to achieve economic growth within the framework of globalisation. The aim was to enhance the market and begin by reducing the size of the state, in order to later strengthen it. In the late 1980 both these principles were discussed and considered in the speeches and policies of the Latin American presidents.

First, during the application of the “first generation reforms”, the focus was on deregulation and the reduction of State spending, size and intervention in the economy<sup>6</sup> and on decreasing its participation in the

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<sup>5</sup> For a more detailed analysis of the principles of *NPM* see Peter Aucoin (1990), Christopher Hood (1991), Christopher Pollitt and Geert Bouckaert (2000) and Michael Barzelay (2001).

<sup>6</sup> The debate about the State was centred on to what extent it should be reduced or dismantled in order to guarantee and foster a greater and speedier economic growth. In the 1980s, Margaret Thatcher’s government in Great Britain and Ronald Reagan’s administration in the United States were the starting point of a this new paradigm which became

market. Later, although the liberal approach of the period was preserved, the need to strengthen both state capacity and institutions was approached.<sup>7</sup> Table 1 lists the new recommendations synthesized later in the Washington Consensus.

These reforms prompted dramatic changes in the relative importance of the State, whose scope of action was reduced because of deregulation, massive privatisations and the contraction of public investments and expenditure, providing more opportunities for the participation of private operators.

Table 1

<b>Washington Consensus</b>	<b>Augmented Washington Consensus</b>
<ul style="list-style-type: none"> <li>• Fiscal discipline</li> <li>• A redirection of public expenditure</li> <li>• Tax reform</li> <li>• Interest rate unification and liberalization</li> <li>• A competitive exchange rate</li> <li>• Financial market liberalization</li> <li>• Liberalization of inflows of foreign direct investment</li> <li>• Privatization</li> <li>• Deregulation</li> <li>• Secure property rights</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate governance</li> <li>• Anti-corruption</li> <li>• Flexible labor markets</li> <li>• WTO agreements</li> <li>• Financial codes and standards</li> <li>• Prudent capital-account opening</li> <li>• Non-intermediate exchange rate regimes</li> <li>• Independent central banks/inflation targeting</li> <li>• Social safety nets</li> <li>• Targeted poverty reduction</li> </ul>

Source: D. Rodrik (2006).

However, the reforms oriented toward improving effectiveness and efficiency did not produce the expected outcomes: the dispersion, poor coordination, absence of controls and lack of evaluation of public administration had a negative impact on the quality of public policies.

The results were poor. The reforms were not integrated into a single coherent policy, and failed to establish the minimum conditions necessary to reduce social equity and improve political stability. Between 1990 and 2004, economic growth was lower than expected (see Table 2) and the

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hegemonic. In Latin America, the neoliberal model was predominant in the government of Carlos Salinas de Gortari (Mexico, 1988), Carlos Menem (Argentina, 1989), Carlos Andrés Pérez (Venezuela, 1989) and Alberto Fujimori (Peru, 1990). Its most successful example was Chile, with the reform wave that began during Augusto Pinochet's dictatorship.

<sup>7</sup> See Stephen Haggard and Robert Kaufman (1995); Moisés Naím (1995; 2000); and Shahid Burki and Guillermo Perry (1998).

inequitable distribution led to widespread social disbelief in the Washington Consensus. In fact, by 2005 the average income of Latin American populations<sup>8</sup> had fallen further below that of industrialised countries and of emerging economies than in 1990 when the neoliberal reform was initiated. Furthermore, in 2005 the distribution of income was more regressive than in the developed economies or in eastern Asia.

The social situation in Latin America differed greatly from what was expected (see Table 3).

**Table 2**

**EVOLUTION OF GDP IN THE WORLD (in percentage)**

Regions	1961-2004	1961-1969	1970-1979	1980-1989	1990-1999	2000-2004
World	1.90	3.35	2.05	1.26	1.22	1.62
Developing Countries	2.62	4.25	2,86	2.21	1.79	1.70
Southeast Asia	5.04	1.62	5.01	5.93	6.53	6.48
Latin America	1.54	2.45	3,11	-0.28	1.32	0.81
Sub-Saharan Africa	0.55	2,01	1.17	-0.73	-0.57	1.49

Source : World Bank: *World Development Indicators*, MB, Washington, D.C., 2006.

**Table 3**

	GDP per capita (US\$ GDP)	Poverty (Millions) (% of Pop)	Real Wage (1995=100)	Unemployment Rate (% of labour force)	Population (Millions)
1980	7,302	136 40.5	102.7	7,7	343
1990	6,624	200 48.3	96.2	7,2	423
2004	7,75	216 41.7	96.8	10,3	533

Source: Ffrench-Davis (2005)

Note: GDP per capita, poverty and population based on ECLAC figures for 19 countries. Prisons, hospitals and military services are not included in the population figure. The index of real wages is an average (weighted by the size of labour force per year) of the index of the real wages calculated by The Economic Commission for Latin America and the Caribbean (ECLAC), in 12 countries. The unemployment rate is calculated by ECLAC for 24 countries

<sup>8</sup> The per capita income in Latin America increased by 0.9% per annum which in the United States it increased by 1.8%. In 2005 the real wages were, in real terms, lower than in 1980.

This situation prompts some questions. Why was a radical reform of the State—much needed to return to the path of development—not carried out? Was the initial diagnosis mistaken? Were the recommendations inadequate? Although the process was influenced by several factors the main hypothesis is that the recommendations for reforms failed to emphasize the political aspect—that is, the rules of the political system—or the weakness of the political and institutional democratic framework. This placed limits on the transformation process and did not help to generate consistent, coherent and long-term reforms.

### ■ Technical rationality or political rationality?

The dominant thinking on State reform, as expressed in the WB report, was based on a restrictive view of the State, limited to the “state apparatus” and public administration. These restrictive views of the reform proposals, focused exclusively on technical and administrative matters. As a consequence, the approach was centred on instrumental aspects, reducing political problems to merely operational and procedural matters.

Thus, the debate about policy objectives and the role of the State has shifted to a discussion about the tools for an adequate management of human, material and technological resources. For instance, on how to improve the information system or the internal management procedures. Although these aspects are relevant for attaining better management, the confusion between management instruments or paradigms on one hand, and objectives and strategies for political reconstruction and management on the other, must be avoided.

This is a “technocratic fallacy”. The key issue is how the State acquires and exercises its authority for providing and managing public goods and services. The definition of the public goods is not neutral; rather, it has different contents and implications according to the development objectives which are fostered by each ruling group. The way in which a State manages resources and carries out policies is closely linked to the objectives of political action and the political and institutional environment.

Specifically, the WB recommendations narrowed the problems of the State and institutional rebuilding to a merely technical matter. This had important consequences. First, the reform approach was centred on efficiency and not so much on effectiveness. Second, the State reform process was reduced to administrative structures, processes and procedures, without an analysis of the agents of change, the actors and their interests, and the power struggles at stake. Third, the Report put

forth the importance of institutions for development and underlined the key role of rules—whether formal or informal—but failed to make a clear definition of how institutions have an impact on reform. This means that it did not emphasise political feasibility as a necessary condition for carrying out a specific set of reforms. As a consequence, the formulation and implementation of State reform encountered serious difficulties.

In order to carry out any reform process it is important to consider the set of institutions that have established how power is exercised and state tasks are performed in Latin America. This leads to a study of the way demands are processed, conflicts resolved and public resources used in the political system. More specifically, the rules of the game must be accepted by the actors in the political realm.

As a first step, the following questions must be answered: What are the rules of the political game? Do democratic rules prevail? If not, which are the prevailing rules? Furthermore, it is important to analyse to what extent Latin America resembles this model and the consequences for State reform.

### ■ The Rules of the Game and Institutional Change

Institutions are the formal and informal rules of the game that prescribe the guidelines for relationships between the strategic actors involved in the public decision-making process and regulate the way in which demands are processed, conflicts solved and public resources allocated in the political system (regulatory role).

They also provide a framework of stability, ensuring the constant repetition of certain behaviours by the agents of power and of all the activities related to it (normative role). Furthermore, this set of rules is a symbolic element that allows actors to interpret the world in which they live. Formal institutions depend on cultural elements: the rules and values of a society. Therefore, external powers are seriously limited in their ability to convey to developing countries the existing knowledge about institutional construction and reform. Cultural change takes time and in the short term it can only occur in microenvironments, in specific organizations: public institutions, community associations, etc. (Zurbriggen).

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Therefore, institutions cannot be created or changed by decree. So the failure of administrative reform is often due to a focussing of efforts on formal changes –closing an office, creating a new one, introducing a new management procedure–without considering the political dimensions of that reform. In other words, how the strategic political actors, who are conditioned by the institutional framework, are not only able to articulate interests, resources and agenda in political decisions and in public action options, based on the prevailing institutional system, but also to transform it.<sup>9</sup>

### ■The Relevance of the Democratic Political and Institutional Framework

The State reform process should have as its starting-point a basic but often forgotten premise: the existence of a democratic political and institutional framework (Oszlak/O'Donnell). This involves some rules and mechanisms for representation, legitimation and accountability<sup>10</sup> which influence the development and implementation of public policies.

According to Robert Dahl (1989) a country can be classified as democratic when there is significant political participation by the citizenry and public debate is guaranteed. In order to achieve both standards it is necessary to apply a set of rules that ensure political eligibility and competition—free and periodic elections—and some freedoms and rights—of expression, association, information and vote— together with a final citizen control of the government's actions. According to these requirements a democratic regime must guarantee the minimum conditions for citizen participation and that citizens have the essential capacities to act as such.

Citizen participation is essential to consolidate democracy but it also requires a State able to protect citizens from any arbitrary actions and foster the development of vested rights. A democratic system is institutionalized and works thanks to a State which abides by the rule of law, which implies the rule of law as an expression of the general will, the division of powers and the legality of administration, particularly through control and accountability systems (Díaz).

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<sup>9</sup> It is imperative to understand that institutions are political entities, that is, that they are the result of a political process. They do not operate in a vacuum or act by themselves. The individuals who make up the organizations sustain or change them, and the State is one of the most important organizations since its decisions are binding. Furthermore, institutions have effects on political results through the process of development and implementation of public policies: the State reform process may be analysed as a public policy. Public policies are also the result of negotiations between the strategic political actors but they are influenced by the operation of the society's rules of the political game.

<sup>10</sup> See Adam Przeworski, Bernard Manin and Susan Stokes (1999).

Citizens' rights are guaranteed not only by elections (vertical control) but also by checks to power itself (horizontal control) which is possible thanks to the division of powers<sup>11</sup>. This balance is essential to democracy and requires intense communication with the society, which should exist in parliamentary representation. Therefore political parties play a decisive role as institutionalised channels for representation. Real democracy cannot exist without an efficient party system.

In consequence, a State reform process must include actions to ensure the existence of: professional parliaments with the capacity to control the implementation of national budgets; an accountable public administration; an independent judiciary power and institutions that place checks and balances between powers and enhance citizen control.

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In a democratic system the prevailing rules of the game establish a decision-making process which is responsive to the citizens' concerns and needs. Therefore political decisions must be adjusted to the general interest. In order to get close to this ideal a society must institutionalize democratic practices, and this implies that they must be known and accepted. In the case of conflicting interests, new legislation will not suffice to produce an automatic change in the behaviour of the actors involved. The existence of democracy requires more than laws. Most countries in Latin America have incorporated the basic principles of the rule of law into their constitutions and have organized their bureaucracies according to regulations that make them subject to the rule of law. Nonetheless, this is not complied with as far as practice is concerned.

To understand the limitations of State reform in Latin America, it is necessary to begin by establishing the prevailing rules of the game and unveiling the political and institutional matrix produced by the historical background. This will enable the analysis of when this matrix may be classified as democratic.

### **■Particularism and its Consequences for State Reform**

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<sup>11</sup> In those countries in which the division of powers is consolidated, the Legislative Power –representing the citizenry–regulates and controls the Executive. In the case of a conflict among them, equilibrium may be reached through the participation of the Judiciary, whose role is precisely to decide these issues according to the valid legislation.

Historically, Latin American States have been organized around political parties or fractions, that is, complex networks of related particularist and corporate interests.

In this type of political system, the mechanisms for processing demands, solving conflicts and distributing resources and power which became consolidated, were oriented toward satisfying particular interests of individuals or groups, not the common good. Particularism<sup>12</sup> does not imply a logic of State action as an apparatus; rather, it responds to the logic of the interests and legitimacy of the political parties with respect to the society. If the mechanisms for building loyalties within the political parties are not universalistic and programmatic but of the kind based on retribution, then state reform in a managerial or truly Weberian sense will not be easily accepted.

Attempts were made in the 1990s to carry out reforms based on this political and institutional matrix. Paradoxically, while the political leaders used a liberal and non particularistic rhetoric, the *caudillo*-type party structures and the logic which gave power to these same leaders were clearly in opposition to this discourse. This prevented them from being consistent with their postulates.

As a consequence, in recent years the governments of the region have moved toward building more open economies – as an alternative to the import- substitution model – and toward a transformation of the States – both with respect to their relative weight within the economy and with respect to the operation of public administration, based on the “new public administration” model. Nonetheless, the contradictions between the rhetoric and the reforms carried out in practice led to progress and setbacks. Their political inability to carry out a profound transformation led rulers to attempt a series of reforms of the civil service. The result was a public administration which was Weberian in form, managerial in rhetoric and fragmented and difficult to manage in practice.

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### ■The Remaining Challenges

State reform must be based on an understanding of its role as is suitable for each national situation. This will guide legislation about what is

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<sup>12</sup> By “particularism” we refer to “various sorts of non-universalistic relationships, ranging from hierarchical particularistic exchanges, patronage, nepotism, favours and advantages to actions that, under the formal rules of the institutional package of polyarchy, would be considered corrupt”.

lacking and what is redundant in the existing State. In other words, it is necessary to clarify which of the State's current tasks<sup>13</sup> should be abandoned and which should be strengthened or added because they are essential to the new development model.<sup>14</sup>

Building institutional capacities is not only a technical problem. It is also a political one; it takes time and cannot be accomplished simply through a technical solution which is available in the market. Despite the existence of some general guidelines about the development of State capacities, the answers are endogenous and tend to vary significantly in each national context according to historical and political configurations (Lopes/Theisohn). Building state capacities also requires a learning process conditioned by time, history and geography.

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Thus, State reform means addressing the problem of adapting the state apparatus to the new political, economic and social realities, which can obviously be considered from different perspectives. Therefore, neither State nor public administration reform are justified in themselves but only as instruments of a development model which must be politically defined.

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State reform will not be successful without a reform of the ways of government and a revitalisation of the active citizenry. In developed countries the debate about State reform is centred on the need to make it more democratic and strengthen the *accountability* mechanisms (Peters). The basic idea is that “updating” and “reinvigorating” the State requires systematic efforts to change the way of doing things, new instruments and “good practices”, but it is also essential to consider political processes.

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<sup>13</sup> It is not possible to make a single list of the tasks the State should fulfil, and of the desirable institutions, because this will depend on each society. Nonetheless, it is believed that there are universal institutions (generally the Anglo-American model) which all countries should adopt if they wish to survive in a world of permanent globalisation: political democracy; independent justice, professional bureaucracy – ideally with open and flexible recruitment –; reduced number of public enterprises, etc. However “one size fits all” is not applicable. It is easy to say that countries should abide by the rule of law or have a professional bureaucracy. But how can policy-makers carry out these suggestions? Once again, without some knowledge of the institutions which already exist, it is difficult to make useful statements about this issue (Chang).

<sup>14</sup> Although external forces cannot be ignored in an era of globalisation, it must be pointed out that the endogenous dimension is still relevant. Despite globalisation, internationalisation of the economy and regional integration, the State is still the institutional matrix which articulates the political, economic and social dimensions.

A change of the development model—and of the corresponding State model—cannot be based on an instrumental logic. It involves a change of actors, of power, of knowledge, of abilities and roles, and value. When many of the recommendations for reform were implemented in Latin America, not enough importance was given to the crucial need for a change in behaviour and in political culture in order to achieve a more transparent State, free from corruption and respectful the rule of law. Nor was enough consideration given to the persistence of particularistic practices that are deeply embedded in Latin American societies.

Its failure to consider the political dimension is possibly the greatest weakness of the WB report. In its time, the report was useful as it focused debate on institutional quality, which led to studies stating that corruption, instability of the “rules of the game” and excessive bureaucracy are significant obstacles to economic progress. It also contributed to the generation of empirical evidence about the importance of institutional factors in achieving good economic and social performances.<sup>15</sup>

Despite these efforts, there has not been enough research into the connection between institutions and development. The conceptual framework is insufficient for identifying which institutions are needed, and the way in which they can be combined and how they can promote growth. Furthermore, the inclusion in research of the cultural, social and historical characteristics of each country has met with significant methodological difficulties.

It is generally accepted that an inefficient democratic institutional environment is fairly consolidated in Latin America. What does this mean? 1) Parliaments which are unable to supervise the Executive Power and control the implementation of budgets; 2) rulers with excessive discretionary power who ignore the law regarding the implementation of public policies; 3) the absence of meritocratic bureaucracies; 4) weak judiciaries; 5) a civil society which is not able to hold the government accountable.

With all this in mind it is clear that ten years after the WB Report, State reform in Latin America is still in the agenda. Practically no Latin American countries have carried out reforms in a consistent manner, whether due to lack of political will or of technical ability. Achieving a more efficient State and basically, a more democratic one, is a remaining challenge and it has two aims: making management more efficient and making it more democratic. This requires a deeper understanding of political processes and the way in which some political configurations influence decision making and the quality of reforms.

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<sup>15</sup> See the studies led by Daniel Kaufman in [www.worldbank.org/wbi/governance](http://www.worldbank.org/wbi/governance)

The conclusion is that State reform in Latin America, despite some important achievements, has in most cases been unable to produce a new state order adapted to the needs of the market, in the context of globalisation. It essential to address the demand for a development model centred on the citizenry and the common good.