

Remodeling the State and International Development

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Abstract

In ever-expanding pockets since the Industrial Revolution, and increasingly globally in the post-WWII world, the human condition has dramatically improved. There are, unfortunately, significant and serious gaps in this improvement, meaning that there are millions who have benefitted little from the incredible progress that has benefitted so many. But, generally speaking, using a plethora of indicators, we must conclude that international development over the last 200-plus years has been phenomenal. This progress has resulted from the individual and collective efforts of humans- the private sector. However, without institutions, and in particular those inculcated with the authority of the state, the collaboration and cooperation that underpins our progress would be possible only on such a small scale as to make such progress impossible. In this way, it is an axiom that public institutions are necessary for civilization. Paradoxically, those very same public institutions that enable progress have, *always and everywhere*, the propensity to behave in ways contrary to facilitating progress, becoming anti-developmental. Indeed, it is those very same powers endowed in the state which facilitate development, that concurrently facilitate its progress towards anti-developmentalism. Using the end goal of a Classical Liberal state, in combination with the seemingly contradictory necessity of the Developmental State, this paper attempts to provide a framework through which the following twin goals can be achieved: filling in the gaps of global development, and, correcting the tendency for developmental states to become anti-developmental.

Introduction

If there is one thing we learnt from the 20th Century (and there should be many, many more), it is that the role of the state is a contentious issue. The conflicts between Totalitarian Ultra-Nationalist states and Liberal Democracies in World War Two, and then between Totalitarian Communist states and Liberal Democracies in the (first) Cold War were the most devastating in history, and engulfed the world. The diametrically opposed ideologies

underpinned fundamental divergence in world views. At its heart this divergent perspective concerns the relationship between the state and its citizens. It is the victory of Liberalism in World War Two and then the (first) Cold War, and it is a feature of liberal democracies, that enables citizens to believe and act as if they believe they have a choice regarding the role of the state in their society. Such a choice has never, and can never exist, in totalitarian/communist states. In this way, in Liberal Democracies, it is the role of the state that is at the core of many, or most, issues of public debate. Where citizens have a choice, the political Left advocate for a larger role for the state, while the political Right call for a limited role. It is of course, more of a spectrum, with large variance between the two extremes. Under totalitarian/communist governments, whilst such discussion may be conducted within the one-party state system, such debates do not concern the public, who have no say in such matters. Importantly, if we are to examine the role of the state in society, then we are really evaluating the relationship between the state and society: what are the parameters, if any, of state intervention in a citizen's life? What are the rights and duties of the citizens? What limits, if any, are placed on the activities of the state? Does the state follow the Rule **of** Law, or does it implement Rule **by** Law, meaning arbitrarily enacting laws to serve its own purposes? It is a purpose of this research to reject these ideological approaches to the role of the state in society and the economy, and to instead argue that the role of the state is dependent on local conditions, specifically the level of socio-economic development.

The European migrant crisis is a clear manifestation of the delicate issue of the role of the state in society. It is indisputable that the Western European states have overseen the successful development of their societies. Their way of life is attractive enough to motivate millions of migrants/refugees to undertake the extremely dangerous journey from their home country to Europe. It is unfortunately equally indisputable that the states in these migrants home countries have failed to develop their societies to such an extent that would provide no rationale for citizens to leave. A majority of citizens within the richer EU oppose accepting more migrants¹). However, it is important to clarify that this is not an anti-immigration attitude, but is an opposition to the scale of immigration and concerns about the type of immigration. It seems evident that a majority of the populations within the EU think that their states, and more importantly perhaps, the European Union, have failed to perform one of the most basic functions of a state: external security/ protecting borders. Likewise, if we are to define the refugees/migrants as refugees, then they must think that their states have failed to perform another of its most basic functions, which is providing internal security. They cannot be legitimate refugees if their lives are not in danger in their home country. Evidently, there are state failures on both sides. Clearly too, there are enormous gaps in the levels of human well-being, even in regions so proximate as Europe, the Middle-East and Africa. Such gaps in outcomes, at the individual as well as the national level, in terms of success and well-being, is perhaps one of those uncomfortable axioms of human society. Such gaps are an inevitable, and perhaps even desirable, outcome of development. Indeed, this brings us back to the role of the state in society. There is a persuasive perspective (to be elucidated) that it is only the state that is able to counter the natural tendencies towards inequality, and if we are to counter inequality, then a strong and interventionist state is necessary. Regardless of this, the migrant crisis has

shown that the bottom end of the development ladder is so low that it poses a direct and substantial threat to the well-being of those at the top of the development ladder. Undeniably, international development matters to all, even to those who have thus far benefitted the most from its success.

It is demonstrably true that we, as a species, have made enormous progress in improving human well-being over the past 200-plus years. Whilst, we must not ignore the sometimes considerable negative side effects or unintended consequences, we must conclude that, on balance, the vast majority of humans are far better off than they were 200-plus years ago. Perhaps a billion humans now live a lifestyle that is far above that of even the super-rich a hundred years ago. How have we achieved this? Well, it is people and communities of people, that are the prime drivers of progress. People, and communities of people, have invested their time and effort in their future. In essence, people have sacrificed something for an increase in the future payback- this has enabled growth. Innovation and technology have enabled leaps in productivity that underpin the improvements in human well-being. However, and this is key, institutions provide the framework for this progress. Social institutions are necessary for cooperation, and especially reciprocal behavior that requires high levels of trust. In this way, the state, and the ultimate authority it is endowed with, are fundamentally necessary institutions that provide security and stability through the provision of law and order. It is a premise of this paper that individual freedom/liberty is both a necessary component, and the ultimate goal, of development. However, and herein lies the paradox, liberty needs capacity, and at lower levels of development, capacity is lacking. It is here that we find the solution in the *Developmental State*. But, and herein lies yet another paradox, institutions, and especially institutions that have ultimate authority and supreme power, will always and everywhere tend towards oligarchy. This means that the state always has a strong propensity towards serving its self-interest, and a concurrent propensity towards continual expansion, resulting in *Anti-development*. If we return to our lessons from the 20th century, then it is incontrovertible that the continual expansion of the state will always and everywhere result in the mass murder of its citizens.

We could then postulate the challenge that faces us in international development as follows; how do we concurrently facilitate development in those areas that are behind, whilst at the same time, achieve what seems to be virtually impossible and make a successful state dismantle itself to a large degree? This paper will argue that this can be undertaken through the provision, and initial expansion, of foreign aid, or Official Development Assistance (ODA). This process will not only foster progress in late-developers, but can also become a necessary first step to furthering progress within earlier industrializers.

So as to achieve its purpose, this paper will first give a brief outline of the progress the human race has made so far. The following section will provide a theoretical framework for understanding the concept of development. Then is a theoretical investigation of the necessary functions of the state that facilitate development and progress. The following sections will then contrast that positive role of the state with the very real and potentially very

negative tendency for the state to excessively expand, and become anti-developmental. The final section of this paper will show how a successful developed state can utilize its domestic achievements and in so doing, through the initial expansion of Official Development Assistance, realize the joint goals of furthering domestic development and progress, while at the same time, contributing in a considerable way to international development.

Global Development

In 2016, then-President of the United States, Barack Obama said, “If you had to choose one moment in history in which you could be born, and you didn’t know ahead of time who you were going to be... You’d choose right now.”²⁾ This author will extrapolate that bold statement to say that, generally speaking, now is the best time to be alive. If we want to compare across millennia, then for most of the 200,000 years of human history, life expectancy was perhaps 25–30 years. World life expectancy is now almost triple that. Over most of the last 200,000 years, parents have buried perhaps half their sons and daughters before their first birthday. Now, the global average for infant mortality is less than 30 per 1,000 live births. For most of human history, up to 60 percent of deaths occurred in violent conflict³⁾. Today, less than one percent of deaths occur in warfare. Reducing the time-scale, and comparing across centuries, even just 200 years ago, over 90 percent of the one billion humans lived in what we now define as extreme poverty. Today, of the more than 7 billion humans, about 10 percent live in poverty (which is too many). In 1820, world average per capita GDP was just 1,263 (PPP, 2011 International Dollars). Two hundred years later in 2016, it was 14,574 (PPP, 2011 International Dollars). This was a more than 10-fold increase⁴⁾. Reducing the time-scale yet further and comparing across decades, in the 1960s, in developing countries, food consumption was just over 2,000 k-cals per capita per day. Fifty years later, the figure was almost 3,000. According to the Flynn Effect, average IQ scores rise as countries develop, and this has been recorded through the 20th century. In the UK, for example, children’s average IQ scores rose by 14 points between 1942 and 2008⁵⁾. Since the end of the Cold war, the number of democracies has doubled to almost 100⁶⁾. Whilst we must be extremely careful, because the realities of democracy vary greatly, the expansion in the number of democracies means that about four billion people live in political systems where citizens participate in politics, where freedom is protected by law, and where the exercise of power by the state is constrained constitutionally⁷⁾. Using these measures of human wellbeing, it is indisputable that the human condition has improved dramatically, within the last 200-plus years, and especially since the end of WWII. Importantly however, there is a disturbing and pervasive unawareness of this. As pointed out by Hans Rosling, along with a vast array of other ignorances, on average just 7% of people in advanced countries are aware that the number of people in extreme poverty has been halved in the last twenty years⁸⁾.

So, human civilization has leapt forward in the last 200-plus years, highlighting that progress and development are not homogeneous across time. Progress has also not been, nor indeed can be, homogeneous across space. Some regions have led, others followed. Some regions have followed quickly, others have followed later, but in

leaps and bounds. Others too, have followed slowly, substantial progress seemingly elusive. As previously outlined, the European migrant crisis is a disturbing example of this.

Having outlined the remarkable progress the human race has made, it is necessary to also elucidate the ways in which such progress has not occurred. Indeed, the main argument of this paper not only assumes that international development, in terms of raising the human race out of poverty, is not yet complete, but further takes as a normative position that this is a goal that necessitates action, and further still that this is an achievable goal. So, there remain 21 countries that have life expectancies of less than 60 years (more than 10 years below the global average). There are five countries in which an average of about 1 in 10 infants die before the age of one. The United Nations High Commissioner for Refugees (UNHCR) estimates that there are 25 million refugees worldwide, highlighting that the European migrant/refugee crisis is just a very small part of a much more serious issue. There are 14 countries in which over half of the people live in extreme poverty (on an income of less than US\$1.90 a day). There are about 50 countries in which more than one-third of the population live below the national poverty line. According to the World Food Programme (WFP), almost 800 million people do not have enough food to lead a healthy life, and one-quarter of the people in sub-Saharan Africa are undernourished. There are about 30 countries that have a per capita GDP of less than US\$1,000, there are 50 countries with less than US\$2,000, and there are just under 100 countries that have a per capita GDP of less than US\$5,000. Clearly, despite the global progress of the last 200-plus years, there are pockets where the human condition has not improved so dramatically.

The Development Triangle

How do we define development and progress? Should we perhaps begin with “Civilization is progress and progress is civilization”⁹⁾? We could rephrase this to say that development and progress is the promotion of human flourishing, and that civilization is the manifestation of this. After the last ice-age, a period of warming allowed for the Neolithic Revolution that entailed a shift in human activity from hunter-gathering to agriculture. This occurred just over 10,000 years ago and began in what is today called the Middle-East. Social Institutions, that manage and facilitate social interactions, were a key component of this shift to agriculture and indeed have played a key role in progress and development since. If we use a shorter time frame than 10,000 years, then perhaps the 3,000-year history of Western civilization is pertinent, in that it was the foundation for the Enlightenment, the Scientific Revolution and the Industrial Revolution.

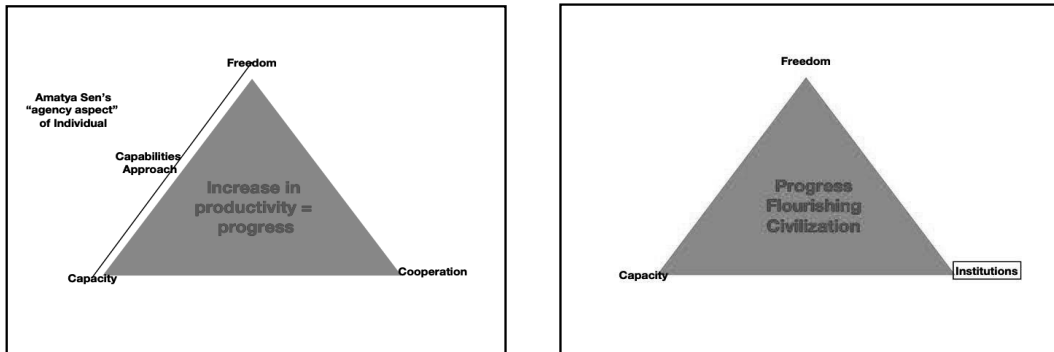
Such progress is enabled by the capacity for cooperation that exists between individuals. Importantly, as pointed out by John Stuart Mill, this capacity for cooperation entails a “sacrifice of some portion of the individual will, for a common purpose”¹⁰⁾. However, it is expectation of the expanded benefits received from the products of cooperation that allows the sacrifice to be borne. While cooperation necessitates an individual sacrifice for a

common good or reciprocated good, importantly though, it must be undertaken without coercion. This is because of the negative impact on motivation that coercion results in. Hayek defines coercion as the manipulation of the environment in which another operates in order to get a unreciprocated benefit¹¹). In this way, individual freedom is necessary for maximizing the productivity of cooperation, and coercion must be minimized, if the benefits of cooperation are to be maximized.

For John Locke, progress was only possible if individual liberty was protected by the state, “where there is no law, there is no freedom”¹²). He argued that not only was the state a necessary condition for cooperation and hence progress, but also that the power of the state over its citizens should be kept to a bare minimum. In this way, state interventions for the purpose of development are essentially a *balancing act*. The state is balancing capacity and freedom, attempting to facilitate capacity development, whilst not overly restricting freedom, because of the negative impact on capacity, and hence productivity.

Amartya Sen identified two primary reasons why freedom is central to development. Firstly, the purpose of development is to enhance freedom, and secondly because freedom, or the “free agency of people”, is necessary for development¹³). In this way, we can define freedom as the ability to achieve goals that one values. Therefore, freedom to achieve something equates to the *capacity* to achieve something, and so freedom is an instrument through which humans actualize their goals. Sen termed this approach the “agency aspect” of the individual, meaning that the individual is the agent “who acts and brings about change”¹⁴). To use a parlance from development economics, it is a *capabilities approach* to economic development, and it necessitates the independence of the individual, or to rephrase, it is built upon the assumption of the Sovereign Individual. Sen connects his definitions of freedom and capacity to those of Aristotle’s use of “flourishing” and “capacity”¹⁵). Importantly, Sen recognizes the institutional arrangements that facilitate the enhancement of these freedoms. John Stuart Mill also stated that, “Municipal institutions are to liberty what primary schools are to knowledge... Without municipal institutions, a nation may give itself a free government, but it has not the spirit of freedom”¹⁶). It seems somewhat paradoxical that institutions, that constrain and regulate, are necessary for freedom and development. However, it is an axiom of human society.

We therefore must conclude that the real drivers of progress are individual people who voluntarily cooperate to achieve common goals. However, institutions are enablers of cooperation. So, development and progress- civilization- results from the interdependence and interaction between freedom, capacity and institutions. Each of these has co-existed, indeed co-evolved, to bring us the benefits previously outlined. The two diagrams below show the Development Triangle.



Institutions: precursors to progress

The concentration of ultimate authority in one hierarchical organization can create a stable and secure environment in which cooperation can be expanded across time and space to enable dramatic increases in productivity. While state-like institutions have existed for millennia, most have been uninterested in sustained, broad and nationwide development, acting merely to maintain their privileged position within the hierarchy. We must look at the modern *nation-state* because it only under this state that broad and inclusive economic development has occurred, and this is because this modern nation-state was able to concentrate power to the degree necessary. Acemoglu and Robinson postulate that there are two kinds of public institutions. There are “extractive” institutions which are ‘captured’ by a small group that use the institution for their own purposes (this tendency will be discussed in the following section). Conversely, there are “inclusive” institutions through which broad-based, national development is possible¹⁷⁾. These inclusive institutions are basically democratic in nature.

Adam Smith identified three duties of “a sovereign or commonwealth”- the state. The first was national defense¹⁸⁾, and the second was domestic law and order¹⁹⁾. The final necessary role of the government was to fund “public institutions and public works”²⁰⁾, meaning certain public goods “that the profit could never repay the expense to any individual, or small number of individuals...” According to Smith, these institutions “are chiefly for facilitating the commerce of the society”. Here Smith specifically refers to the infrastructure that enables the free movement of goods and people, and to the institutions that facilitate commerce. It is this third necessary function that encapsulates what we now call the developmental state. Smith is referring to public goods that cannot be provided by the market, as well as to the rules and regulations, enforced by the state, that enable development. Importantly though, and this is a key point for this paper, Adam Smith stated that, “the performance of this duty [the maintenance of public institutions and public works] requires, too, very different degrees of expense in the different periods of society”²¹⁾. In essence, this is stating that the level of state intervention depends on the level of economic development.

Developmental States

The term developmental state usually refers to those (successful) states that intervene to large extents in the market economy of their nation. Countries such as Japan, South Korea and China have often been referred to as developmental states. In this paper however, we will refer to all states that intervene in their national economies beyond the first two functions of a state (as put forward by Smith) as developmental states. Obviously then, this refers to states that have traditionally interfered very little in their national market economies, such as the US, to the far other extreme where the national economy and the state are the same thing, such as the former Soviet Union. Consequently, we could say that any state which is pro-development is a developmental state.

England was the first to industrialize and so had an advantage, but it was still sometimes deemed necessary for the state to intervene considerably in the economy to protect the interests of certain domestic stakeholders. For example, the Navigation Acts, first passed in 1651, prohibited foreign ships from transporting goods into England or its colonies. Over the next 200 years, these Acts allowed England to monopolize international trade. Even in the 19th century, the federal government in the US played some (limited) role in supporting economic development. In the 1860s, the transcontinental railroad in the US was supported by the federal government through the issuance of government bonds and through grants of land to the companies that built the railroads. In the 20th Century, many of the early industrializers began to become what would later be called *Welfare States*, following Keynesian economics, pursuing full employment and broad welfare programs. During the Great Depression, the government of Franklin Roosevelt initiated the New Deals, which saw an expansion in federal spending and state interventions in the economy. A large number of new federal agencies were created, and Social Security was established in the US for the first time.

“Late-developing countries... have relied heavily on state support in the industrialization process”²²). Whilst we should not ignore the international systemic factors that contributed to the success of countries such as Japan and South Korea, we must conclude that state interventions were instrumental. In essence, “the state steps in to provide resources that they [the private sector] lacks and to protect them”²³). Chalmers Johnson, focusing on the operation of the then-Ministry of International Trade and Industry (MITI), argued persuasively that Japan was a *Plan Rational State*²⁴), which is a particular type of Developmental State. MITI itself called this the “plan-oriented market economy system”²⁵). The successful case of Japan’s development highlights the close partnership between the public and private sectors that underpins the successful developmental state. For example, the Ministry of Finance was able, through the Bank of Japan, to direct financing to favored industries, and this was a method through which the state *guided* the economy with “industrial policy”. The World Bank termed such interventions, “mechanisms for market enhancement”²⁶), and finally and reluctantly admitted the success of the developmental state. In the case of South Korea too, the state, under the leadership of General Park Chung Hee, directly guided economic development through the Economic Planning Board which “allocated resources, directed the flow of

credit, and formulated all of South Korea's economic plans²²⁷).

The varying models of the developmental state have been successful to varying degrees, with the clear exception of the Communist approach which has all but disappeared. It is clear that, on balance, state interventions in the economy can be highly beneficial for the citizens. The state is able to successfully coerce private actors, using the goal of increasing private capacity. This coercion is thus acceptable to private actors, who must perceive the potential benefit (increased capacity) as outweighing the cost (coercion). However, as always, there are costs, and it is this paper's contention that as national economies develop, there is a high potential for these costs to begin to outweigh the benefits.

Anti-Developmental States

Now, while the state is, in a most fundamental way, necessary for the achievement of the previously outlined development and progress, there becomes a point in time when the state is inclined to act against the pursuit of such goals. This is because a higher level of state involvement in the economy can far outweigh the costs only in the earlier stages of economic development, i.e. industrialization. There becomes a point at which ever-broader and ever-deeper interventions become anti-developmental. The state will always and everywhere pursue this, to varying degrees.

One of the many negative impacts of excessive state intervention is aptly summed up by the following quote from Leonid Brezhnev, the leader of the Soviet Union from 1962 until 1982. He apparently stated that the Soviet enterprise managers shy away from innovation "as the devil shies away from incense"²²⁸). It is innovation that drives development, and it was the high level of coercion that stifled innovation and undermined the productive potential of cooperation. The Soviet Union became fundamentally anti-development, as shown by its ultimate collapse. It is perhaps necessary to point out that the Soviet Union was anti-developmental on a much deeper level as well because the state deliberately murdered millions of its own citizens. Regardless of this disturbing fact, the Soviet Union was thankfully an extreme case, and it is necessary to investigate the more mundane examples of anti-developmentalism if we are to comprehend the strong propensity for all states to behave in such a manner.

Before doing so, it is necessary to appreciate what should perhaps be termed the *Law Of Unintended Consequences*. As all truth-pursuing social scientists know beyond a shadow of a doubt, any kind of social intervention is extremely difficult, and is hence highly unlikely to achieve the desired outcome. Indeed, parents who have tried to encourage certain behaviors in their children understand this axiom. It is the extremely complex nature of our societies that make such interventions so problematic. Perhaps more importantly, any state intervention will *always* have negative impacts, and these may far outweigh the intended positive ones. As interventions become grander and goals become larger, the possibility of unintended consequences also increases. There are so

many examples of these unintended consequences. The creation of inner-city slums (and the considerable related social problems) through the building of public housing, without the necessary job creation. Incentivizing illegal activities and empowering illegal organizations, such as the mafia through laws that prohibit alcohol. Taking a much more mundane example, Thomas Sowell, points out that rent control laws, while purporting to be for the benefit of low income families, also incentivizes dishonest behavior on the part of landlords and tenants alike²⁹. Obviously, it is with hindsight that we are able to identify these considerable unintended consequences, but it seems self-evident that caution is the only responsible approach.

It is also true that, because of our democratic political system, politicians are likely to pursue short-term goals that appeal to certain voter groups. Entitlement programs, which give a privilege to a certain group, are a good example of this. The costs of such programs inevitably expand as they motivate other citizens to attempt to gain the same privilege. The Welfare State in Britain has many examples of such entitlements. In the immediate post-WWII period, just 3.4 percent of the population received means-tested benefits. Remarkably, despite the dramatic increase in wealth in the UK since then, 29 percent of the population now receive means-tested welfare benefits. If we use the previously outlined definition of progress, then it seems illogical that as a country grows wealthier, more citizens receive welfare. This was not at all the intention of those who conceived the welfare state. According to a 2012 study, 20 percent of working age households in the UK contain one generation that is not working. Furthermore, one-percent (about 15,000 households) has two generations who are not working. Of this one-percent, almost 10 percent have never worked, and over one-third have not worked in the last five years³⁰. Whilst there are complex reasons for this, it must be the case that welfare programs have a strong tendency to de-incentivize work, and this limits their ability for progress. It is implausible to suggest that being out of work, long-term, is conducive to individual progress and development. It is also contrary to the interdependent goals of freedom and capacity on which development depends, and it is in ways such as this, that entitlement programs become anti-developmental.

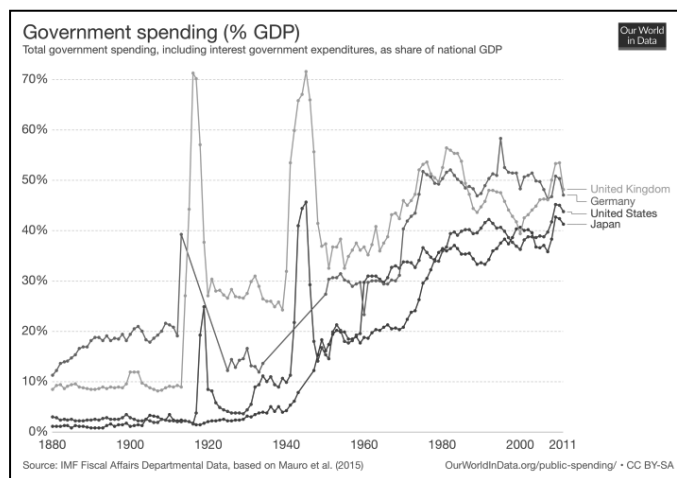
A key component of any successful developmental state is to provide public support for certain targeted industries. However, there are considerable long-term negative costs to this. According to the Organization for Economic Cooperation and Development (OECD), “policy-induced transfers to agricultural sectors of 51 countries... total USD 620 billion (EUR 556 billion) a year (average 2015–17)³¹”. The OECD admits that, “most agricultural policies in place today are not well-aligned with shared objectives for the sector: to increase productivity sustainably, enhance environmental performance, and improve farmers’ ability³²”. Subsidies such as these result in high prices for domestic consumers, and when the inevitable excess production is sold on world markets at low prices, it drives down the price received by producers in developing countries. In this way, subsidies such as these work contrary to international development, because developing countries often have a comparative advantage in the production of agricultural products. In Japan, over 40 percent of gross farm receipts come from public subsidies. Over the last 50 years the food self-sufficiency rate (calorie-based) fell from over 70 percent to

less than 40 percent³³). This clearly illustrates the considerable negative impact that results from distorting the market.

All this public spending on subsidies and welfare payments has had one universal result- debt. Almost all industrialized states run their national budgets in deficit, constantly. Of the 34 OECD member states, all have considerable debt. Only seven have a level of debt that is below 50 percent of GDP. Twelve have public debts that are over 100 percent of GDP, and Japan has a level of public debt that is 237 percent of GDP. This means that these states then have to use a large portion of their yearly budgets just paying back their debt. In the case of Japan, 25 percent of government spending is on servicing its debt, with 10 percent being paid in interest payments alone. In the UK, 6.5 percent of government spending is just on debt interest.

Recognizing these seemingly considerable negative consequences of large-scale state intervention in the economy and society, we must now turn our attention what is perhaps the root cause of such phenomenon. To illustrate this it is perhaps useful to use the description given by Kiyoshi Kurokawa, Chairman of the Fukushima Nuclear Accident Independent Investigation Commission, into the causes of the Fukushima Nuclear Accident, which he called, “a profoundly manmade disaster”. Directly citing the overly cosy relationship between regulators and private operators, Kurokawa criticized the public institutions in which, “regulation was entrusted to the same government bureaucracy responsible for its promotion”. The result of this was that, “bureaucrats put organizational interests ahead of their paramount duty to protect public safety”³⁴).

We can see from the following figure that the growth of the state over the last 150 years has been incredible. It is an intrinsic, ever-present feature of the state, and is the ultimate paradox of human social organization. The German sociologist Robert Michels called this the *Iron Law of Oligarchy*. He argued that all institutions, even democratic ones, will inevitably become oligarchies because, “the principal cause of oligarchy... is to be found in the technical indispensability of leadership”³⁵), meaning that even in a truly meritocratic institution, because of the necessity of a division of labour, elitism is an inevitable outcome. Furthermore, the institutions created by society will inevitably tend towards self-interest and self-preservation, “from a means, organization becomes an end”, and “the sole occupation [of the institution] is to avoid anything which may



clog the machinery”³⁶). It is this Iron Law that explains the continual expansion of the state. Furthermore, it is therefore irresponsible to assume that institutions, particularly those of the state, will voluntarily disband when they have achieved their original function³⁷).

Therefore, we have a recognition that the State is always and everywhere necessary, and is especially necessary in the earlier stages of industrialization, but that it will, by and of itself, grow beyond, and perhaps far beyond, its primary functions. Consequently, whilst we have concluded that the state is a necessary institution for improving the well-being of humans, we have also paradoxically concluded that there are considerable dangers, dilemmas and inefficiencies that result from empowering an institution with ultimate authority. In this way, “the study of human institutions is always a search for the most tolerable imperfections”³⁸).

Official Development Assistance: Success or failure?

After World War Two, the provision of development aid, or Official Development Assistance, became an established norm. However, as with all state programs, such aid also became widely criticised: “the tragedy in which the West spent \$2.3 trillion on foreign aid over the last five decades and still had not managed to get twelve-cent medicines to children to prevent half of all malaria deaths”³⁹). Others argued that not only was aid a waste of money, but was in fact contributing to underdevelopment in Africa because it incentivized both corruption and dependency⁴⁰). One of the key issues seems to be the motivations behind one state providing aid to another. As far back as 1971, Teresa Hayter, claimed that aid provided by the World Bank and OECD countries “serves first and foremost the interests of Western nations and their multinational corporations”⁴¹). Just like domestic state institutions, international organizations, have their own interests and their own norms, which may not coincide with those of donors. Joseph Stiglitz, in an account of the relationship between the IMF and the government of Ethiopia in the late-1990s, stated that, while to Ethiopia the perceived “intrusiveness smacked of a new form of colonialism”, for the IMF, it was “just standard operating procedure”.⁴²) Like so many other state interventions, ODA can take on a life of its own, driven by inertia, ideology and self-interest.

However, this does not mean that there are no stories of success. According to the ex-director of Development Research at the World Bank, “over the last thirty years it [foreign aid] has added around one percentage point to the annual growth rate of the bottom billion [people in the poorest countries]”⁴³). For example, the successful developmental state of South Korea was supported to a considerable extent by aid from the US “during the 1950s to build an infrastructure that included a nationwide network of primary and secondary schools, modern roads, and a modern communications network. The result was that by 1961, South Korea had a well-educated young work force and a modern infrastructure that provided Park with a solid foundation for economic growth”⁴⁴). In this way, if a state is pro-developmental, then financial assistance from overseas, can be hugely beneficial.

There are other considerable successes. According to the WHO for example, in 2017, “about 85% of infants worldwide (116.2 million infants) received 3 doses of diphtheria-tetanus-pertussis (DTP3) vaccine... By 2017, 123 countries had reached at least 90% coverage of DTP3 vaccine”⁴⁵. This has increased from 22 percent in 1980. “Vaccine-preventable diseases and neglected tropical diseases registered half (52%) of the total expenditures”⁴⁶. It is therefore clear that well-targeted public interventions can contribute to development. Even such a strong critic as William Easterly has admitted that there are success stories citing, “the World Bank in the early 1990s helped fund the Food for Education program to keep Bangladeshi girls in school by giving their parents cash payments in return for school attendance”⁴⁷.

Abhijit V. Banerjee and Esther Duflo give a detailed account of the realities of poverty, and show that limited capacity restricts the potential for people to escape⁴⁸. They identify limited capacity on behalf of those in poverty, as an explanation for the bad choices that often perpetuate poverty. However, of equal concern is the strong tendency for public policy to be driven by ideology rather than empirical evidence. In connection with this, there is also a strong tendency for bureaucratic inertia to cause mistaken policies to be maintained, despite clear failure. Importantly though, Banerjee and Duflo give a number of case studies in which a small intervention can have large positive outcomes. For example, the provision of treatment for intestinal worms given to children at school in Kenya over a two-year period resulted in a 20 percent increase in their adult income⁴⁹. In the same way as the states that now provide ODA were once short of private capacity, and needed considerable public interventions, a large number of poor countries are even now in the same position. The donors of ODA can thus provide the necessary injections of finance and capacity, that will increase both public and private sector capacity in the recipient country. This is of course, the stated rationale for providing development assistance to countries overseas.

As outlined by Jeffrey Sachs, key investments in areas such as agriculture, health, education and infrastructure can “enable the poor to escape from poverty”⁵⁰. In his book, *Common Wealth*, he argues that an investment of \$245 billion a year, “would be sufficient to close the financing gap” in foreign aid⁵¹. Paul Collier identified “budget support” as a potentially effective modality for increasing the amount of ODA that a developing country is able to absorb, although this depends on the capacity of public institutions⁵². Peter Orazem, also concludes that conditional cash transfers for school attendance “have consistently increased child attendance”⁵³, while also lowering the poverty rate, among other positive outcomes. It is in such projects as this that donor countries could invest in direct budget support for developing countries.

Research by John Hoddinott and colleagues has shown that an investment of US\$3 billion annually could reduce chronic undernutrition by 36 percent in developing countries. Such an improvement would improve the prospects for 100 million children⁵⁴. The Copenhagen Consensus Center, which focuses on finding the most effective interventions recommends a large number of investments in health and agriculture that could have significant

positive results in developing countries. In other words, they have identified what can work. Therefore, while development is not a straightforward process, we know from the success of developmental states that it can be done in a relatively short time-frame, and we also know that ODA can contribute to this process, if the state is sufficiently pro-development. However, given their reluctance, how do we persuade the populations, and governments of the Global North to increase their spending in other countries?

A New International Developmental State

The work of the developmental state in OECD countries is, to varying degrees, basically almost finished. They have provided a level of equal opportunity that has never been achieved before in the history of mankind. Haskins and Sawhill, in their book entitled, “Creating an Opportunity Society”, identified three very basic social norms that, if followed, almost guarantee a life in the middle class. These three social norms are; working full-time, graduating from high school, and waiting to get married before having children. They found that only 2 percent of persons in families that followed all three norms were poor, whereas 76 percent of persons in families that followed none were poor⁵⁵). These social norms are indeed the bedrock of our civilization, and have never been questioned because they are common sense: improve your capacity, work hard and be responsible. We have progressed so far by adhering to such norms. The state has provided the institutional framework to enable these norms to produce such enormous benefits. But, the state has, in too many cases, far overstepped its most effective spheres of activity, and is now anti-developmental.

As an *end goal*, the simple ideology of Classical (political and economic) Liberalism focusing on maximizing individual freedom and capacity, would provide impelling motivations and garner domestic support for the necessary international investments and concurrent domestic reductions. Let us first turn our attention to how a reduction in the state could be achieved functionally, and then we will look at the potential benefits for citizens of the Global North.

As a crucial part of this process of cutting the size of the state, government spending would be dramatically reduced, but on a progressive basis. Public subsidies to the private sector would be cut completely. This can be done on a gradual basis, but over a specified and short time frame. Welfare spending must be cut dramatically, but not completely. Welfare spending should be implemented according to the principle of *equality of opportunity*, and not, as now, according to *equality of outcome*. Very limited welfare spending may be a necessary component of a civilized society. There are a tiny minority of our society who are genuinely unable to work, and these people should, if necessary, be supported financially by society. However, given our technological prowess, this number is extremely small. In essence, the end goal is a state that focuses on national defense, internal law and order, and regulating the economy and society according to the principle of subsidiarity, and personal responsibility. Such a process will inevitably result in an increase in freedom and concurrent capacity, facilitating development.

As these state functions are reduced domestically in the OECD states, functional activities are transferred overseas in the form of ODA. This means that the OECD states transfer functional activities overseas, for a limited time, to make investments in developing countries. These investments are slowly scaled-back as conditions necessitate, meaning that they are short- to medium-term investments. Such activities will include investments in transportation, health and education infrastructure for which developmental states have considerable expertise. This would include state capacity in the recipient country to provide for the basic state functions of internal law and order and national security, as well as the state capacity necessary to create inclusive institutions. Such a process would mean that the size of the state in OECD countries reduces slowly, even though public spending and activity is reduced domestically, some of its operations are transferred overseas. Within the various government ministries of OECD states, the international cooperation departments can be increased in size, and collaborations with ministries overseas with similar functions can be expanded. This would facilitate capacity building in public institutions in recipient countries.

Importantly, this international cooperation must include exit plans, or goals. The aforementioned end goal for the OECD countries is, the medium- to long-term dramatic reduction in the size of the state; a considerable reduction in the level of state interventions in society and the economy. The exit plan for ODA is, after an initial increase, the medium-term reduction in ODA spending as a component of the reduction in the state activities of donors. The end goal for the developing countries, following the initial increase in state capacity and resulting industrialization, is the medium- to long-term reduction in the size of the state, following the OECD countries. Perhaps a suitable measure for when a state begins to scale back its operations is when it is admitted to the OECD. We could also then expect the OECD itself to perform the function of advising states on this process (as it already provides this service in other areas of development).

There are enormous potential benefits to such a process. A basic premise of the International Relations theory of Liberalism is that an increase in international cooperation fosters international peace by increasing transnational interconnections and building mutual dependence. In the OECD countries, a reduction in the size of public spending would reduce the levels of public debt. It must surely be the case that reducing the size of public debt is a positive move; at the very least, it will reduce government spending necessary to meet debt obligations. Furthermore, a reduction in the size of the state will reduce the high levels of misallocation of resources that results from not allocating resources according to market principles. While we have stated that sometimes this is necessary because of externalities and the provision of public goods, it is surely beneficial to reduce such inefficiencies to the minimum level possible. A reduction in welfare spending will reduce welfare dependency, and increase the potential for development as defined by capacity and freedom.

The advantage of this approach to scaling back state operations through the increased provision of ODA is that the reduction of the state would be a relatively slow, yet systematic process. State functions are determined by the

place of the country on the development ladder, and not by political ideology. Essentially, the states further up the ladder transfer operations down the ladder, thus facilitating faster progress up the ladder. It avoids the shocks of neoliberal economics, by utilizing the capacity of state institutions and merely changing the location of their operations. As the developing countries industrialize, the donor countries can slowly scale back their operations, thus reducing the size of their state, over the medium-term.

It is the case that the state has weakened itself through its propensity towards continual expansion. A reduction in the plethora of state activities would enable the state to focus on its core functions of security and regulation. These functions underpin all others and the state must be able to perform these to a high degree. The military power of the West, and in particular the United States, has been a key factor in enabling the post-WWII successes in international development. Whilst not ignoring the disappointing fact that this military power has sometimes been utilized for illiberal pursuits, it is an essential component of the West's ability to preserve the international system that is the bedrock of international development. This is especially critical as we face up to the daunting reality of a Second Cold War. Furthermore, the Soft Power of the West, is fundamentally about *values*, and these are the values of freedom, rule *of* law, and equality of opportunity, all of which are manifested in democracy and capitalism.

Conclusion

If the Liberal Democracies are to maintain their liberalism (which they must), and if international development is to continue in the face of considerable and diverse challenges, then our states must be strong and focused. The underpinnings of the global political and economic order, that which has brought forth the aforementioned dramatic improvement in human well-being, are the values of individual sovereignty (freedom/ responsibility), and the creation of institutions that unlock the enormous potential of human reason. These are fundamentally human values, stemming from biological evolution and the axiom that humans are social animals. These values were not made in the West, but were only first clearly enunciated there. This paper proposes a return to those Enlightenment values on which all else was constructed.

As international developmental states, the early- and late-industrializers of the OECD thus become the facilitators of global development, whilst at the same time cutting back their own domestic activities, facilitating further progress at home. ODA becomes the mechanism through which the states of the OECD slowly transfer their operations overseas, as a part of the process of reducing their size. It would only strengthen these states, and not weaken them.

Therefore, we have in our sights two joint, mutually-reinforcing goals of global economic development. In the developing world, the final and complete eradication of extreme poverty, the concurrent complete provision of

state-instituted domestic law and order, followed by industrialization, increases in income, progress in education, health and other measure of social development. In the industrialized world, the state can slowly withdraw from interference in the economy, thus facilitating private freedom and capacity, leading to enhanced progress at home. As such, the successful developmental states can veer away from anti-developmentalism, and refocus on their own further development, through capacity and freedom.

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