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SOUTH-SOUTH COLLABORATIVE PROGRAMME

OCCASIONAL PAPER SERIES

**Towards An Agent-Structure
Approach to Understanding the Rise
of Reformative State and its Choice
of Policy**

Dennis Trinidad



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ABSTRACT

Even the most ardent advocate of neo-classical economics would admit that the state has a role to play in the economy, especially in the provision of public goods. In reality, many states in the South do not have the capacity to perform even the minimal functions that neo-liberal economists advocate, much more of a developmental state. Many scholars attribute the effective implementation of policies to state capacity. However, the concept of state capacity is one step ahead. Institutions have to be put up to transform an “incapable” state into a “capable” one. The transformation experiences of Third World countries vary and, in many of them, have been problematic. Some have succeeded while others failed. The paper introduces the concept of reformative state which is described as the state’s receptivity to and capability to adopt change. The success rate of adopting new policies becomes higher when the state reaches its reformative status.

What accounts for the rise of reformative state and under what circumstances does receptivity to change occurs? The article provides a discourse of the current literature on the reform process. The primary aim is to advance a framework for inquiry which will aid scholars and policymakers understand what delays or speeds up the state’s receptivity to reform. The proposed framework combines both the agent and structure approaches and assumes that their interaction is dialectic.

Keyword/s: developmental state, state capacity, reform, reformative state

Introduction

The neo-liberal revolution of the 1980s following the debt crisis had set probably the fiercest challenge to the role of the state in the development process. Unfortunately, the two and a half decades of Washington consensus-based structural adjustment in the South had failed to deliver their intended purposes. Instead, the market-based strategy spewed failures in several economies in the late-1990s culminating in the East Asian Financial crisis. This led to a new wave of renewed interest on the state and its role in cases of market failures. Paradoxically, attempts to discredit the state in the pervasive state-market debate had produced an unintended wide appreciation for the state and institutions and their critical impact to growth. The World Bank (2002) admits the importance of political institutions and governance which the state can only facilitate. This report stressed the positive association between good governance and growth; and that good governance requires the ‘power to carry out policies and to develop institutions that may be unpopular among some – or even majority – of the population’ (World Bank 2002:99). But this would not suffice. The government must know what policies to adopt, what institutional reforms to undertake, and above all, what

benefits political and economic elites would get from all of these changes.

Even the most ardent advocate of neo-liberal policy would admit that the state has a very critical role to play, at least, in the provision of public goods. In reality, many states in the Third World do not have the capacity to perform even the most minimal functions that neo-liberal economics prescribe. The role of the state was misconstrued because the neo-liberals wrongly assumed that the state is an internally cohesive and unitary actor. The state is not generic. Many scholars tend to ignore the fact that 'state structure is not an internally coherent, unitary entity, but is composed of several distinguishable dimensions like executive leadership, executive-bureaucratic nexus, intra-bureaucratic dynamics, and bureaucratic constituents' (Moon and Prasad 1998:11). Understanding the state in this light is helpful in examining why several states in the South failed to accomplish even the minimal functions which the neo-liberals accorded to it.

This implies that much more is expected of a developmental state. Since developmental states require performing various functions beyond the provision of public goods, much more institutional capability is needed. Previous scholars attribute the success or failure of intervention to the structure of the state, the policy instrument available to the government and the state-society relationship in general (Wade 1990; Evans 2003). From this body of literature came the idea of state capacity which was understood to mean bureaucratic capacity, insulation, and public-private sector coordination. In other words, state capacity is associated with implementation process or condition which facilitates efficient coordination between the government and the private sector. Institutions for coordination therefore must be put up to achieve state capacity. Scholars, however, neglected the fact that setting up these institutions in many Third World countries can be intricate and, at worst, problematic. Reforming the institutions to achieve state capacity requires the high resolve of decision-makers. It is also important that the state must have the intent and the motivation to reform. When these criteria are present, the state is said to be reformative or receptive to change. Several governments in the Third World have failed miserably to effect change because they did not have the resolve and the intent to pursue it. Under what circumstances do states become reformative? This paper advances an agent-structure framework in examining the factors that tend to delay or speed up the emergence of reformative state. I argue here that agent and structure approaches provide a very useful tool in analyzing economic change. While many scholars create a dichotomy between agent and structure, the paper assumes that they interact dialectically. Structures can shape or alter the conditions or context of decisions which can lead to sudden reversal of agents' policy preferences (Trinidad 2006). The outcome of this reversal is change.

Situating the State in the Reform Process: The Basis of Reformative State

The statist view implies that the impetus to change comes from within. It sees the state as the locus of change, that it is capable of autonomous actions that are 'not simply reflective of the demands and interests of social groups, classes or society' (Skocpol 1985:9). The state, thus, is assumed to be

inherently reformative. But why are states disposed to reform? Where does the motivation or intent to reform come from? Skocpol (1985) notes that the reformative behavior of states comes from certain officials who are insulated from dominant socioeconomic interests. This could be members of elites, military, or political parties whose actions are driven not by personal interests but by certain ideology or nationalism. The primary concern of their independent action is to address immediate problems, which can be either socioeconomic or political, or a combination of both. In order to succeed, this reform group must also enjoy organizational strength within the existing state structures.

Trimberger's study of revolutions is replete with examples of state as agent of change. She attributes the social transformation of Japan Meiji era, Turkey's Ataturk Revolution, Egypt's Nasser Revolution, and Peru's 'corporatist' coup of 1968 to what she calls 'Revolution from Above' (Trimberger 1978). A group of autonomous bureaucrats and members of the military in these countries seized and reorganized state power, destroyed the existing dominant class, and reoriented national economic development. There are two preconditions to Trimberger's 'Revolution from Above:' one, 'a relatively autonomous bureaucratic state apparatus; and two, dynamically autonomous bureaucrats.' The autonomy of bureaucratic apparatus, on the other hand, depends on two conditions: '(1) they are not recruited from the dominant, landed, or commercial, or industrial classes; and (2) they do not form close personal and economic ties with these classes after their elevation to high office' (Trimberger 1978:4). In order to succeed, 'post-revolution' leaders must consolidate political power by 'gaining the cooperation of the most influential local interest,' and 'use the state apparatus to mobilize resources for economic development' (Trimberger 1978:105-108).

While Trimberger dealt with extraordinary instances of achieving state autonomy, Skocpol (1985:11-13) entertained the idea that it is also possible under constitutional polities. She noted for instance the importance of state initiatives from the works of Hugh Hecló's *Modern Social Politics in Britain and Sweden* in which the author highlights that not all state actions were acts of coercion or domination but rather the result of intellectual activities of civil administrators, and Stephen Krasner's *Defending the National Interest* in which the concept of bureaucratic autonomy was used in understanding the continuity of the U.S. foreign policy during the 20th century. He attributed this autonomous state action to certain groups or actors in a 'special location within the otherwise weak, fragmented, and socially permeated U.S. government.'

Trimberger's and Skocpol's concept of autonomy is close, if not synonymous, to the idea of insulation. Following their lines of arguments, the capacity of the state to reform depends on the level of autonomy or insulation of 'reformists' from outside influence especially from the dominant social class. This suggests that reform and autonomy is 'leader-dependent,' which is why autonomy can be lost overtime. As Skocpol concluded, 'state autonomy is not a fixed structure of any government system.' Moreover, bureaucratic autonomy is a necessary but not sufficient condition for the state to have the capacity to reform. In an insightful article, Chibber (2002) suggests that a crucial

precondition is internal cohesion. To achieve this, the state must be staffed by what he calls 'rule-following bureaucrats' and that there must be an appropriately coordinated state apparatus (Chibber 2002:956). He adds that it is important that states must be able to 'act as corporate entities with broadly collective goals, rather than as the sum of the individual strategies of their functionaries' (Chibber 2002:952). Chibber, however, neglects to explain what pushes agents in the state to pursue broad goals and why some states succeed in putting in place an 'appropriately coordinated state apparatus' while others fail. What motivates states to develop internal cohesion? This important aspect is left untouched in his paper.

Though necessary, state autonomy alone would not automatically make the state receptive to change. Neither would it allow bureaucrats know what policies are appropriate and what are not. The choice of policy and context of decisions are indispensable factors to the study of reform that statisticians have neglected to consider. Once an autonomous bureaucracy is set up, the course of policy that it would pursue is unpredictable. It may end up promoting policy of shared growth or otherwise. Why some autonomous states prefer one strategy (e.g. intervention) over another is a mystery for state-centered theory because of inattention given to the roles of private sectors and civil society groups. Even Trimberger (1978:108) recognized the existence of these influential sectors, which she called 'influential local interest', but did not elaborate how they contribute to policy choices. Apparently, non-state organizations play significant roles in determining policy outcomes but to what extent or degree they exert successfully on policymaking should be closely examined as Evans (1998) did in his embedded autonomy hypothesis. Furthermore, it is important that agents must find rents in reform. As to choice of policies, Skocpol averred that autonomous states might adopt policy initiatives that are either 'stupid or appropriate' and that the appropriateness of policies which they have successfully produced may have been 'accidental' (Skocpol 1985:15).

Another fault of the state-as-agent-of-reform perspective is that the institutional setting that determines the behavior of agents in the state was not given sufficient attention. Autonomous states have institutional basis. For instance, a merit-based, non-discriminatory recruitment process is a precondition to bureaucratic autonomy. Moreover, well-insulated politicians are outcomes of an electoral system or appointment process that can reduce transaction costs. Through electoral laws, pecuniary qualification to candidates can be avoided or forbid the appointing power to choose from any members of his/her family within the fifth degree of consanguinity or affinity. These institutions have to be put in place first before a cohesive autonomous state could be constituted. But then, agents must find rents in instituting these reforms. Local and domestic processes can alter their context of decisions, and hence, create new sets of incentives to agents to make them more receptive to change. This is based on the assumption that states are part of a larger social system or a much bigger global system.

The conception of a socially embedded state is manifested in Joel Migdal's (1988; 2001) works, which are perhaps the most important references to the state-society approach and provide "the most ambitious explanations for the

variation in state capacity across developing countries” (Montinola 1999). For Migdal (1988:33), “the capacity of states (or incapacity as the case may be), especially the ability to implement social policies and to mobilize the public, relates to the structure of society.” For him, to regard the state as an entity that claims monopoly of the legitimate use of physical force within a given territory is too idealistic. He rightfully observes that not all states enjoy legitimate use of force. In fact, he notes that states, particularly those from the Third World, are in constant struggle for social dominance. States are often posited as ‘omnipotent given’ in many social analyses. The role of social conflict is more often downplayed or neglected in the study of state behavior and if considered, it is always epitomized in the Marxist tradition. Migdal’s studies of Israel, Sierra Leone, and Egypt led him to conclude that states are in constant struggle for domination against powerful non-state organizations in the society. These impenetrable barriers to state dominance are chiefs, landlords, bosses, clan leaders, caciques, and the likes.

The degree of social control of states over these organizations depends on various factors. Migdal (2001) points out four sufficient conditions for creating a ‘strong state.’ These are: (1) world historical timing, (2) military threat, (3) independent bureaucracy, and (4) skillful leadership. These conditions, however, vary from one state to another. One of the main causes of variation is historical legacy, such as colonial experiences. Colonial policies have fragmenting effects on social control, even among highly homogeneous societies, by arbitrarily favoring certain group or clan or organization that exercises social control. This superficial social control vested to local elites or certain groups relies heavily on the backing of their colonial masters. Thus, the political vacuum left after independence rendered their social control weak and vulnerable to threat posed by non-state and state organizations. The four conditions cited above would determine consequently the success or failure of the state’s struggle for social dominance. Weak states usually inherited strong non-state organizations which the colonialists either consciously or unconsciously strengthened or did not help neutralize. With weak foundation of social control, they eventually fall into the so-called ‘politics of survival.’ State mobilization of the population becomes all the more difficult and the dilemma of state leaders acute when strongmen have been able to maintain tight grips on local resources.

This condition, thus, compels weak states to resort to practices and strategies for political survival even at the expense of their country’s economic growth. The dilemma of state leaders, as Migdal (1988; 2001) saw it, was that they do everything to prevent the possible rise of ‘power centers’ from among state agencies and non-state organizations which could threaten their political status. The paradox is that state leaders also depend on non-state organizations as conduits to induce political mobilization in order to effectively affect change or implement reforms. The politics of survival, thus, forces state leaders to use their appointing power to shuffle ministers of state, military commanders, and top bureaucrats to prevent loyalties in potentially strong agencies from developing. State leaders resort to non-merit appointments to choose the officials with deep personal loyalties as much as possible. As Migdal (1988:222) put it, ‘where loyalties to other organizations besides the state or nation have run high and where the state’s rules have

confronted heavy opposition, state leaders have taken great care in making appointments.' State leaders also tend to disregard the overlapping of bureaucratic functions even though it may be detrimental in implementing policies because 'it does fit into conception of the policies of survival quite well' (Migdal 2001:79). Perhaps the worst strategy that state leaders can employ to prevent centrifugal forces from enveloping is the use of 'dirty tricks' or actions by top-ranking personnel which include imprisonment and deportation, strange disappearances, torture, and the use of death squads (Migdal 2001:81).

For Migdal (2001:88), the officials who are in the most difficult situation are the policy implementers at the local level who confront a 'triangular relationship with strongmen, on the one hand, and with other state and party officials, on the other.' Migdal avers that the critical role played by local implementers on the continuity of state policy either contributes to further strengthening or lessening of fragmented social control. Social fragmentation is reinforced when local implementers collaborate with local strongmen. The best way to break this 'triangle of accommodation' is to enhance the powers of what Migdal called 'countervailing forces.' These forces must be permanently ensconced in the region; they must have sanctions to apply that can affect the implementers' career goals; and they must be rather impervious to the sanctions that those in the 'triangle of accommodation' could apply against them. Examples of these are the bishops and parish priests in the 1970s in Latin America.

Given the constant struggle of state for social domination, is there hope for weak states to regain full social control? Migdal (2001) says that societies must be weakened before a new distribution of social control is possible. He observed that strong states usually experienced major social disturbances that disrupted the social control of non-state organizations. Some common disruptions include: combination of war and/or revolution as in the case of China, Korea, Vietnam, Russia, and Yugoslavia, and mass migration in the case of Taiwan and Israel (Migdal 1988:269-271). Migdal also adds global structures as constraints to the actions of state leaders. State officials 'interact with representatives of other states, large corporations, international organizations, and an assortment of other transnational actors' as they perform their official duties (Migdal 2001:62-63). Moreover, state actions are constrained by sets of international rules or pattern that define the systems of trade, investment, finance and so on. Added to these are the characteristics of power relations among states that no state leaders can ignore.

Migdal indeed made a magnificent analysis of variation of state capacity across developing nations based on social conflict. His theory of human nature is obviously based on the Hobbesian perspective where the state is perceived as an organization that was established primarily to maintain social order. In his theory, Migdal portrays weak states as countries in which mutual suspicion exists between state and non-state organizations, like a feudal community with strongmen exercising varying degrees of social control. This is not surprising for a scholar who spent time studying power relations in states like Israel and Egypt for a number of years. Unfortunately, not all developing

nations have the same predicament. But indubitably, social control is an essential characteristic of reformative state.

The state-society perspective as a framework to understanding social and economic change is limited. For one, there seems to be an implicit assumption that state leaders (whether national or local) and those Migdal considered strongmen are two different personalities. In the Philippines and even in other Third World countries, the government, especially the national legislature, is dominated by elites or what Migdal prefers to call strongmen during most of the post-War period. Most of these elites were part of the landed class. Hence, social conflict in the Philippines involved peasants and landholders, many of whom occupied either national or local public positions. Second, there is also an implicit supposition that the state knows what economic policies to formulate and implement except that lack of full social control impedes implementation. There is a high risk of predation when strongmen (for instance, agrarian barons) are the same people who dominate the state. This condition casts doubts to the appropriateness of policies they adopt and implement. There are occasions where state leaders still pursue unpopular policies or actions in spite of resistance from various sectors. The Philippine legislature, for instance, ignored for a very long time the enactment of comprehensive agrarian reform law during the late-40s and 50s despite peasant-related insurrections in the rural areas. This is a lucid indication that state leaders and even non-state organizations have their own policy agenda and interests. Migdal did not rigorously probe this issue. What is clear to him is that policies are outcomes of the politics of accommodation transpiring among state leaders, implementers, and strongmen.

Moreover, Migdal's readers would have an impression that non-state organizations are the antagonists because of the challenge they pose to state's social dominance. Is there a possibility of cooperation between them in any case? If cooperation was possible, then under what circumstances do non-state organizations and strongmen cooperate with state leaders? Ironically, reforms sometimes originate from non-state organizations in some states. When this happens, the government becomes an impediment of change rather than its agent. Moreover, weak states are trapped in the politics of survival and in the triangle of accommodation. In Migdal's view, reforms that would benefit the general welfare are difficult to sustain, unless there are powerful countervailing forces or when abrupt social disturbances take place. This makes the pursuit of economic growth a secondary objective of the state behind social dominance. It is only after obtaining the latter that it can proceed to seek the former.

Choosing the policies beneficial to the general welfare is a complicated task, much more so formulating and adopting them. The inability of social conflict based approach to explain major policy change leads us to consider the behavioral characteristics of state leaders. State leaders have their own reasons for supporting certain policy and for rejecting others. The preferences of policy agents, including their stakes in the implementation cannot be ignored if one has to understand state policy preference in general. It is possible that state leaders do engage in the politics of survival because they benefit from the status quo or it is advantageous to their own policy agendas.

This leads us to examine the attributes that motivate policy agents (legislators, the president, etc.) to seek reform.

Agents' Motivation and the Reform Process

The rational choice model provides an analytical framework for understanding the behavior of politicians, bureaucrats, and other policy actors in the state. Simply put, it 'proposes to analyze human behavior on the assumption that actors are rational' (Hindes 1988). From this perspective, individuals are perceived to be self-interest seekers, whose actions are always directed toward maximizing utility. The insufficiency of conflict paradigm, such as that of Migdal's to explain major policy shift, has led some scholars to apply the rational choice approach in their analysis of variation of state capacity across developing countries. One of them was Barbara Geddes whose study of state capacity in Latin America, particularly Brazil's, contributed another dimension in the current literature. Stressing the rationality of behavior of policy agents, Geddes (1994:2) viewed state as a 'collection of self-interested individuals' and where government policies often reflect the interests and economic ideologies of state officials, rather than those of domestic or foreign economic elites or powerful organized middle-and working-class groups.

Geddes (1994:14) argued that the 'capacity to implement state-initiated policies depends on the ability to tax, coerce, shape the incentives facing private actors, and make effective bureaucratic decisions during the course of implementation.' She added that state capacity depends on the competence of bureaucracy to perform these tasks. Needless to say, reform of the bureaucracy is necessary to state capacity. But since the pursuit of personal interest determines the behavior of political actors, support for bureaucratic reform is only possible when doing so would not undermine the bureaucrats' interests or when supporting reform would contribute to the enhancement of their careers or economic well-being. Politicians in particular are conscious of their reelection while bureaucrats seek career promotion and security of tenure. Administrative reform can be costly to politicians because any sort of reform tends to diminish, if not deny, the politician access to resources of the state, which he needs in order to maintain the support structure of his political career.

Rational choice proposes that agents are engaged in cost-benefit analysis in their decision-making. In some cases, politicians use the issue of reform to attract the support of constituents even if this would eventually reduce their access to resources once the promised reform has been adopted. This is what Geddes called the 'politician's dilemma.' In pursuing interests, politicians among Third World countries engage in two overlapping prisoner's games: one is between politician and his constituents, and another between him and other politicians. Geddes depicts a patron-client type of relationship that characterizes these games. Politicians pledge some particularistic benefits to their clients like provision of jobs in exchange for their support. If politicians were concerned about their re-election bid, why do voters fail to make credible threats to punish those who renege on their campaign promises?

Geddes attributes this to 'information asymmetry' where citizens generally lack the necessary information to judge whether or not politicians are carrying out their promises. Moreover, politicians would rather respond to the interest of few but politically 'useful citizens rather than to the general interest of the public as a whole' (Geddes 1994:42).

Another study affirmed this and concluded that politicians always renege on their campaign promises once in power. Montinola's (1999) study of Philippine politics based on rational choice framework offers a principal-agent model in which she argues that unless competition to influence policy is largely confined to a single dimension, politicians have no incentive or 'political will' to adopt bureaucratic reform. A single dimension type of competition to influence policy occurs when voters' preferences over one issue can be used as predictors for their voting behavior on a majority of issues (Montinola 1999:744-745).

Will the rational choice approach suffice in explaining reform? It may be true that the pursuit of personal interest determines the behavior of state leaders. But to argue that politicians' main concern or interest - that affects their policy preference - is solely confined to the enhancement of their political careers is simplifying the complexity of human behavior. History is replete with great rulers who fought for what they believe was right rather than because of their interest to enhance their political careers. It is also tempting to argue that the rational choice theorists, particularly Geddes, deliberately exclude in their analyses the electoral rules in Latin American where reelection is prohibited. Both Geddes and Montinola do not entertain the idea that the inclination of state leaders' and politicians' behavior to enhance their careers may not be an end in itself but rather a means to achieve a concealed end.

State leaders and bureaucrats need their positions to protect or promote certain interests such as the privileges they obtain from their positions in relation to their own or their families' businesses. What comprises these interests is based on the type of business in which agents have a stake or where they are directly or indirectly affiliated or associated. The problem in most economic performance studies is that they focus too much on policy outcomes rather than on the process (March and Olsen 1984). That is, poor economic performance is often attributed to poor economic policies than poor policy process. Many scholars carelessly assume that once the state realizes what policies are essential to growth, it can easily formulate, adopt and implement them. What determines the policy preferences of agents is either ignored or neglected.

A reformative state must have the ability to introduce appropriate and coherent institutional reform. It must have either perceived or actual benefits from these reforms. On the other hand, the literature on state capacity is one step ahead. Reform is an act of reversing existing policies. It manifests the desire of agents to shift from one policy direction to another. It is a response from perceived or actual conditions that abruptly affect the interests of individuals within the state. Institutional framework particularly the system of representation and decision-making procedures determine the extent and the kind of reform to be adopted and implemented in the state. In this view, politics ultimately makes a difference in the choice of policy. 'A conception of

politics as decision-making is at least as old as Plato and Aristotle: It is reflected in the language and concerns of political thought, from the earliest political philosophers through Bentham to Merriam and Lasswell' (March and Olsen 1984:741). Likewise, the study of politics is a study of resource allocation. The policy institutions of the state are tasked to allocate these resources through policymaking process. Analysis conducted in the neoclassical approach focuses more on the quality of the policies adopted rather than on the process of how these policies were formulated, hence, neglecting the important issue of why some states allocate their resources better than others or why they prefer certain kind of policy. This can be gleaned from the policy process. The question of who gets what, when, and how out of this process will help us understand policy choice. Specifically, the dialectic interaction of agents and structure determines the scope and intensity of reform in the state.

The Elites as Agents in the Reform Process

The direct and indirect role of elites in choosing the policies of the state is axiomatic (Putnam 1976:6-8). The elites are highly esteemed in society. Economic elites are prominent community members who possess vast tracts of land, wealth, high level of education and influence. Elites have inherent interest and high stake in governance because they are the most affected when the system breaks down. This leads them to have direct or indirect involvement in shaping the policies of the state. On the other hand, political elites play a key role in economic decision-making by actually influencing prices, regulating the degree of competition, formulating the rules of economic transactions, and enforcing rules that protect contracts and private property rights. In most societies, decision-making power is unequally distributed and is more often than not in the hands of few but influential and powerful individuals. However, the power to affect decisions is also unequally distributed even among elites. Some elites are more powerful or influential in the policy process than others. The ultimate authority to decide is vested to the so-called 'proximate decision-makers.'

Elites as policy agents are, without doubt, rational. Policy decisions are outcomes of cost benefit analysis and maximization of utility. But what kind of policy do elites promote? I have asserted elsewhere that there is multiplicity of interests among elites instead of simply assuming that they foster the well-being of their own class (Trinidad 2006). Under normal conditions, they would not support policies that tend to diminish their power or curtail access to state resources. Moreover, they tend to support policies that would give them immediate benefits than those that promise long-term profit. There seems to be an anomaly in the case of elites in the high-performing East Asian economies. The political elites in East Asia promoted the policy of shared growth, which the economic elites have supported. Some of these include education, land reform, market liberalization, support for small and medium-size industries and government provision of basic amenities like housing and public health services and imposition of self-restraints to prevent abuses. By sharing the benefits of growth with non-elites, they were able to win the support of their constituents and subsequently acquired complete authority and political legitimacy. This has made the adoption of subsequent reforms

politically viable, thus enhancing their reform capabilities. The next issue then is what causes the elites to change their policy preferences and what determines the kind of reform which the state adopts and implements? The recent changes in the global economy, particularly the rapid integration and interdependence, have made national economies mutually vulnerable. Changes in the international structure can, thus, abruptly affect the basis of interests of elites which make them abandon policy preferences in favor of new ones.

Global Processes and Institutions as Constraints to Rational Decision-making

Generally, the impetus to reform must come from the realization by agents that the existing policy is undesirable and obsolete. This is where exogenous pressure helps in the reform process. An exogenous factor, like prices in the international market, can abruptly reverse old policy preferences. This happens when external factors adversely disrupt or change the settings which provide incentives or disincentives to agents' behavior. External environment critically motivate or hinder the adoption of reforms. In one study, Woo-Cummings analyzed the relationship of development and national security in South Korea and Taiwan (Woo-Cummings 1998:319-336). Simply put, she argued that the national development of these nations was an important strategy for national security. Preoccupied by the possibility of external attack, their national survival was perceived to be contingent upon economic development. The two countries were also ensconced by the Cold War conflict that time and were part of the United States' global strategy. Moreover, just as Japan had started its postwar take-off with the occurrence of the Korean War, the Vietnam War boosted the economies of Taiwan and South Korea. Both of them benefited from American purchases of agricultural and industrial commodities, use of military facilities and depots for repair of equipment, use as a site for rest and recreation, and contract work for Vietnam (Lewis 1998 quoted in Woo-Cummings 1998).

The Philippines, on the other hand, was not threatened directly by any other countries during the Cold War. Thus, political leaders and policymakers did not have the urgency to attain economic development as fast as the state could, in the same manner as Taiwan and South Korea did. The international setting rather served as a constraint to policy options not just for the Philippines but to other developing countries as well. As noted earlier, policy shift in the Philippines was noticeable especially in the 1990s. The country has achieved growth that was almost comparable to East Asian neighbors during this decade. What motivated Filipino policymakers to support liberal reforms? Some answers to this can be gleaned from international conditions at that time (Trinidad 2006).

Stallings identifies three distinct ways in which international factors impinge on domestic policy option (Stallings 1992:41-88). The first involves shifts in international markets, both goods and capital. International market fluctuations determine the availability of external resources, which in turn, set limitations to national economic policy. The second is through international

linkage. Policymakers among developing countries have the tendency to identify their interests with international actors, whom they have networks or links. The extent of linkage determines policy stand. Stallings argues that from the standpoint of policy choice, business groups constitute the most important networks. Finally, international influence on domestic policy is also possible through the use of political or economic leverage. Aid is a typical instrument of leverage used by creditor nations to developing countries. An example of leverage is the imposition of aid conditionality to developing nations by the International Monetary Fund (IMF) and World Bank (WB).

The two decades following the Second World War is replete with stories about economic reconstruction of national economies, end of colonialism and emergence of new states, and civil strife in many former Third World colonies. In the international relations front, the era was the beginning of bipolarization. When the Cold War began to unfold, many countries sided with either of the two superpowers. There were, however, a number of states that remained non-aligned. In the international economic front, the gold standard was replaced by an international system based on Bretton-Woods. All the other countries' currencies were set in relation to the United States (U.S.) dollar. The 1950s was characterized also by growing resource nationalism in the Third World. Meanwhile, Japan experienced high growth rates in the 1955-73 periods, eventually influencing other countries, particularly those of South Korea and Taiwan, to follow its development strategy. While Japan was embarking on an outward-oriented industrialization, most developing countries including the Philippines preferred to imitate their Latin American counterparts on their import-substituting industrialization. The seventies, on the other hand, was highlighted by two oil crises, one in 1973 and again in the 1979-80 period, and collapse of the Bretton-Woods system in 1973. The floating system of exchange, where the value of a country's currency system is set daily in the foreign exchange market, replaced the fixed exchange rate system. The Philippine peso, by virtue of an agreement with the United States under the so-called Bell Trade Act, was tied to the U.S. dollar.

Mosley, et al. (1995:4-9) argued that the two oil shocks were responsible for deceleration of growth that characterized the rest of the 1980s, with the exception of China and some countries in South and Southeast Asia. The situation became more unfavorable for the developing countries when creditor nations began to raise interest rates on commercial loans. This and the sharp decline of low- and middle-income countries' export prices in international market subsequently triggered another crisis – the Debt Crisis – during the 1980s.

For most developing countries, the 1980s was a turbulent decade and a revelation for policy reforms. The economic crisis that afflicted them and the contributory factors that were associated to it were classic lessons to all. As a result of the oil price increases in the early-70s, European and American commercial banks recycled the “petrodollars” to Third World countries in the form of loans. The result was a boom in international lending and dramatic flow of commercial bank credits to developing countries during the 1970s. Taking advantage of these cheap, accessible loans, they borrowed heavily

from commercial banks to finance their development and infrastructure programs. However, after the second oil shock in 1979, creditor countries began to tighten their macroeconomic policies, especially monetary policy, that raised international rates on commercial loans incurred by developing countries during the 1970s. Thus, by early-1980s, there was scarcity of credit supplies. The decline of demands for and prices of exports of developing countries had aggravated their balance of payment deficits. Based on a World Bank (1988) estimate, 'the combined effect of the terms of trade and interest rate shocks was more than 3 percent of the developing countries' average GDP in 1981-86.'

The crisis call for adjustment strategy to correct short-term imbalances of national accounts, usually by controlling demand, led to the introduction of structural reforms to restore efficiency in production. As private sources dried up, developing nations gradually resorted to International Monetary Fund and World Bank for financial support. The latter's introduction of policy-based lending has resulted in extensive conditionality imposed upon the borrowers and close coordination among major financing agencies that produced 'external pressure on internal economic policies historically unprecedented in scope and detail and in the number of countries affected' (Mosley, et al. 1992).

Almost all foreign debt-ridden countries, in response to the crisis, had adopted one or more conventional stabilization packages in the 1980s, mostly under IMF's guidance and financial support. Some countries in Latin America notably Argentina, Brazil and Peru had opted for a heterodox approach to the crisis. In contrast to the demand management approach, the heterodox approach did not hinge primarily on demand restraint to contain hyperinflation and stabilization. On the other hand, many developing countries adopted a neo-orthodox approach that promoted greater reliance on market mechanisms and fuller integration into the international economy. Haggard and Kaufmann (1992) observed that the developing countries' responses to the crisis have not been uniform but the 'one-size-fits-all' policy recommendations of the IMF-World Bank elicited disparity in economic performance among adjusting countries. Those that were able to cope well with the crisis were the ones who had made the earliest economic adjustment successfully. The 1990s, on the other hand, is associated with the demise of the Soviet Union, acceleration of globalization of the world economy, and the Asian financial crisis in 1997.

Apart from international settings, it is now an established fact that institutions can constrain or reinforce the actions of agents (North 1990). Castanheira and Esfahani (2003) identify three key functions of institutions that contribute to economic performance, namely, effectiveness in representation, effectiveness in commitment, and effectiveness in coordination. Of the three, effectiveness in commitment is probably the most relevant to policy choice. Institutions that maintain effectiveness in commitment comprise 'any cost that policymakers must bear if they decide to reverse an adopted policy.' This means institutions can make the cost of policy reversal expensive, thus discouraging policy agents like the president to reverse reform. On the other hand, in a society where institutions are ineffective, policy shift can be a double-edged sword because it permits both the introduction and the reversal

of reform.

As described above, the economies of developing countries are vulnerable to external shocks. They are necessary impetuses to reformative state. The rise of reformative state thus requires political and economic elites who are receptive to change and who seek institutional reform to allow, flexibly, other reforms to take place. For this to happen, the elites must first realize that their current policy preferences are no longer desirable. Structures like global processes and development in international economy can alter the elites' perception of what action is rational and what is not. When this occurs, agents are inclined to change the rules of the game by aligning it with the new international setting (e.g. adoption of liberal policies). It could also lead to elite fragmentation as some of them would shift to other more lucrative modes of business (e.g. from agricultural to manufacturing and services). This eventually creates a diverse group of elites in the state with multiple interests. On the contrary, the elites in a non-reformative state are less diverse (e.g. majority of which belong to the agricultural sector). The diversity pushes agents to support institutional reform in order to make the rules of the game fair to all. The economic transformation of developmental states of East Asia and even industrial countries came only after they became reformative.

Table 1: Rise of Reformative State

When the state becomes reformative, it adopts new rules (e.g. recruitment process that is based on merit and ability rather than nepotism) that give rise to institutional make up of state capacity such as bureaucratic autonomy. This leads to subsequent adoption of other reforms in the economy and political system. The prevailing situational attributes, which is altered by global processes, will determine the nature of the choices of policies to be adopted. It is only when receptivity to reform essentially occurs across most groups and agents in the state that a reformative state is born. A general consensus to take a new path to development takes place.

Conclusion

The study of reform process and what delays or speeds up the rise of reformative state must take into account both the assumptions of agent and structure-based theories to realistically explain the state's receptivity to reform. The role of political elites as rational actors, what determines which policies are rational and which are not, the situational attributes that provide incentives or disincentives to their actions and the international setting that reverses or reinforces the context of decisions of agents must be considered in the analysis. Also, states must be assumed to be embedded in a larger global system. This explains their vulnerability to systemic changes in the global setting. Most Third World countries are not receptive to change which is why they could not make any headway to development. Political elites must see some rents in adopting new policies, otherwise reforms are unattractive. Rents are usually, but not necessarily limited to material or economic well-being. They can be equated with the political survival of the elites or the

survival of the nation as illustrated by the experiences of the authoritarian regimes of high-performing East Asian economies in the 1960s. The economic reforms currently being enforced in the Philippines under the Arroyo administration is, in part, a strategy for the President's political survival after several alleged corruption and election cheating were raised against her.

The recent liberal reforms in some African countries are instigated by a mixture of factors. This does not suggest, however, that they have successfully developed into reformative states. The construction is underway. One prevailing literature why economic development is occurring slowly in several African nations is that their traditional societies are not receptive to change. Anthorpe (1960 quoted in Doornbos 2000:85) argues that it is in societies which are not hierarchically centralized that Western ideas of bureaucracy can be more readily adopted. This view holds value and culture as keys to understanding social change, but, more important than these is the implications of adopting or not adopting reforms on agents. In some countries, political and economic elites are faced with either being overthrown or share power with new emerging elites (e.g. agrarian barons sharing power with industrial elites). As Doornbos (2000:92) concludes,

In the final analysis, 'receptivity' to political change is primarily a function of the nature and objectives of political goals and strategies, and of popular assessments of their implications, rather than of the particular characteristics, cultural or traditional-structural, of recipient of 'target' groups.

Moreover, external factors can shape the outcome of cost-benefit analysis of agents as regards reform by altering their context of decisions. For instance, foreign crisis brought about by European imperialism to pre-modern Japan swayed several elites to support the imperial restoration movement. The Meiji restoration signaled the rise of a state that was receptive to change. In another case, Tshibaka (2003) emphasized the impact of unfavorable world economic environment to the export commodities and deterioration of domestic terms of trade in Senegal, Niger and Cote d'Ivoire. Their governments, in response, were compelled to adopt adjustment policies prescribed by the IMF-World Bank. Indeed, the rapid integration of the world market and the rise of free trade areas (FTAs) have recast the context of decisions of agents in different parts of the globe.

The issue of replicability of the East Asian model or even the success of neoclassical model to any Third World countries is contingent upon their receptivity to and capacity to engage in reform. But compared to the neoclassical view, the developmental state model requires a more aggressive and highly interventionist state. This means that much more capability is needed so the state could carry out its transformative role. The set of incentives and disincentives presently available to nations will determine which one will succeed in the long run and which one will remain stagnant for years to come.

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