Reshaping the state from above, from within, from below: implications for public health

Michael R. Reich*

Harvard Center for Population and Development Studies, 9 Bow Street, Cambridge, MA 02138, USA

Abstract

The modern state is being reshaped by multiple forces acting simultaneously. From above, the state is actively constrained by agreements promoted by international agencies and by the power of multinational corporations. From within, the state is being reshaped by increasing trends toward marketization and by problems of corruption. From below, the state's role is being diminished by the expansion of decentralization and by the rising influence of non-governmental organizations. This article explores these three sets of processes—from above, from within, and from below—and suggests some implications for public health. Public health professionals require an understanding of the changing nature of the state, because of the consequences for thinking about the metaphors, solutions, and strategies for public health.

Keywords: State; International agencies; Markets; Corruption; Decentralization; Non-governmental organizations

From above

Rise of international regimes: In recent years, international agreements have emerged in all sorts of fields: the environment, trade, consumer products, toxic waste, biodiversity, weapons, pharmaceuticals, to name just a few policy domains. According to one count, the number of international environmental treaties grew from a few dozen to more than 900, in the two decades from 1972 to 92 (Matthews, 1997)—and that deals with only one field. In addition to treaties, international aid agencies such as the World Bank and the International Monetary Fund have introduced formal conditionalities for loans and grants, thereby constraining the actions and directions of states through a combination of incentives and disincentives, through a mixture of rewards and threats.

In effect, international agencies have transformed themselves from agents into principals. Rather than serving as the agents of their member-states, international agencies have become independent actors that shape the structures and policies of states. For example, a study of science policy in developing countries demonstrated that UNESCO acted to promote the acceptance of certain state policies, instead of having those policies emerge from social processes and demands within the state itself (Finnemore, 1994). This example represents a more general pattern of international-agency-driven policy reform, in which states are pushed to comply with the policy directives issued by multilateral organizations.

The same happens for health policy. An analysis of health policy development in Uganda in the early 1990s showed how external donors exerted pressure on national politicians and policymakers to adopt their policy proposals (Okuonzi & Macrae, 1995). The two cases were the World Bank's efforts to promote the development of a user-fee policy and the Danish aid agency's efforts to shape the essential drugs policy. In both instances, the external donors used the incentive of future financial benefits and the threat of an imminent aid cut-off, as leverage to push for specific changes in national policy, either through the legislature or the executive branch. As with the case of UNESCO's promotion of science policy, the international actors concerned with health policy were not simply creating passive constraints on states, but were actively shaping and reshaping state policies (Finnemore, 1994). The title of the article on Uganda's health policy reflected the...
authors' conclusions: "Whose policy is it anyway?" (Okuonzi & Macrae, 1995).

But international pressure does not always succeed. One study of donor efforts in two African countries (Niger and Nigeria) found that attempts to get governments to adopt a new policy “can become a dragged-out process of negotiations between donor and host with much opportunity for misunderstanding and requiring a heavy and continuous input of resources from the donor” (Foltz, 1994). In short, the influence of international donors is not a simple one-way process of pressure. Also, international agency efforts to reform state policies can persist, even when success is elusive or unlikely.

Recently, even the World Bank has become aware of the political aspects of policy reform (World Bank, 1997). In the health sector, World Bank officials increasingly recognize that their plans for health reform, as expressed in the 1993 World Development Report, did not adequately take into account the political dimensions of policy change (Reich, 1997). The World Bank has not been particularly successful in persuading countries to accept and implement comprehensive health policy reform, because of the multiple obstacles of domestic politics (Glassman, Reich, Laserson, & Rojas, 1999). The World Bank now wants to know more about political economy, in part to know how to twist domestic arms more effectively to meet the policy demands of World Bank task managers.

Rise of multinational corporations: Marxists have long been concerned about the controlling influence of private corporations on the state. And in the development field, dependency analysts have argued that multinational corporations have effectively operated in a zero-sum relationship with poor states, where companies extract benefits to be transferred back to the core states and thereby cause the underdevelopment of the periphery states.

But you do not have to be a Marxist or a dependency theorist to understand that multinational corporations can and do wield enormous influence over states. Neoclassical economists have also observed the powerful influence of interest groups over public policy decisions. These analysts have explained the impacts through the higher incentives for business groups to influence government decisions (Olson, 1965) and through theories of regulatory capture (Stigler, 1971). Recent analyses have emphasized the information asymmetries that exist in regulatory decisions, between the regulated company and the regulating bureaucracy and between the bureaucracy and politicians and the public.

These information and power asymmetries are even more pronounced in the relationship between multinational corporations and poor states. Multinational corporations tend to have much greater access to new technologies, regardless of the industry (information, agriculture, biotechnology, computers, transportation, etc.), and this access gives them leverage in a bargaining relationship over state rules.

But even under these asymmetries, the big corporation does not always win over the poor state. Contrary to the assertion of dependency theorists, the game is not always zero-sum, and multinational corporations do not always achieve their goals. For example, in pharmaceutical policy, a number of developing countries have been able to introduce policies that were adamantly opposed by multinational corporations (Reich, 1995). Even in these instances, however, multinational corporations exerted substantial influence at the highest levels of national power and produced changes in the content and implementation of national policy. Similarly, for policies related to smoking control, the multinational tobacco industry has opposed advertising restrictions and warning labels in poor states around the world, and this access has succeeded in a number of instances. One example of efforts by multinational companies (and the US government) to reshape national policy is the campaign to change South Africa’s 1997 Amendments to the Medicines and Related Substances Control Act, particularly section 15C, on measures to assure the supply of more affordable medicines, which might allow compulsory licensing and parallel imports (Bond, 1999).

The point here is that multinational corporations are increasingly involved in reshaping the state in the developing world, especially with the downfall of the socialist economies, the growing trend toward marketization, and the rising enthusiasm for private capital investments to spur development.

From within

Rise of marketization: From the early 1980s on, the idea of expanding market forces and reducing state autonomy caught hold in both rich and poor countries. In poor countries, the push for marketization came from internal disappointment with the record of public sector production, and also from external pressures in structural adjustment loans to privatize and downsize, as part of IMF/World Bank structural adjustment programs.

Of course, privatization comes in many forms, with various combinations in the transfer of ownership and control (Prager, 1992, p. 312). For example, the state could transfer some portion of ownership, but retain control over key decisions. Or the state could transfer both ownership and control, but keep the firm as a private monopoly. Third, the state could transfer both ownership and control, and liberalize the market to allow competition. Fourth, the state could retain ownership, but contract out control and management. Or the state could retain both ownership and control, but
contract out production to the private sector. Regardless of the form, the 1980s witnessed an international trend of emphasizing state failures and of expanding market forces, throughout the developing and developed worlds.

This trend toward marketization reflected a shift in the prevailing philosophical view of government, from a public interest perspective to a public choice perspective (Reich, 1994). While this shift was expressed most explicitly by the Reagan and Thatcher governments, similar values percolated through the development field, in bilateral and international aid agencies. Government action became viewed with skepticism, and market-oriented approaches became attractive.

In the health field, marketization has been pushed with great fanfare as the solution to inefficient government health services. But as William Hsiao wrote (Hsiao, 1994, p. 351),

The magic of marketization often seduces governments into action without a critical understanding of the conditions required for efficient markets and with no reference to empirical evidence. The health market has serious failures and they may produce results the opposite of what was intended. Correcting market failures may be impossible or expensive.

Hsiao examined the experiences of four countries that “wholeheartedly embraced market principles in overhauling their health systems since 1980” (1994, p. 352). Singapore, South Korea, Chile, and the Philippines all expected to improve efficiency and control cost inflation. But, in Hsiao’s analysis, the market-based reforms accomplished neither objective, and in some cases produced the opposite consequence. For example, in Singapore, the market-oriented reform resulted in cost inflation, as physician payment spiraled out of control.

Marketization reforms are designed with two edges: to reduce the discretionary power of the state, and to unleash market forces in the health sector. According to Hsiao, simple-minded marketization simply does not work (1994, p. 356). The expected efficiency gains in the health sector are undermined by serious market failures and by powerful provider groups. Some efficiency gains may result, as economists suggest, but those gains may be pocketed as profits by medical providers or by financial intermediaries, raising distributional and philosophical issues (Ovretveit, 1996, p. 79).

In short, weakening the state while expanding the market in health is asking for trouble. The enthusiasm for marketization emerged as a reaction to government failures of various sorts. Typically, market-based reforms seek to reduce the state’s direct role in the delivery of health services. But these reforms often disregard or underestimate the importance of strengthening the state’s regulatory capacity, especially the state’s capacity to address market failures and market abuses. Complex combinations of market-based and state-based approaches must be designed to counter the market failures that occur in the health sector. With marketization, the state needs to enhance its regulatory capacity for the oversight of health providers, health facilities, pharmaceuticals, medical devices, traditional medicines, and more—nearly all aspects of the health system touched by the market. If the state is going to expand the role of the market in the health sector, then it must paradoxically also expand the role of the state in regulating the market. Otherwise, marketization is likely to produce unintended and undesired consequences.

Rise of corruption: Corruption is a well-known by-product of government, in both rich and poor countries, and it appears in many creative forms. A United Nations report in 1989 on corruption in government defined the phenomenon as “the abuse of public power for private and other group gains” and provided examples of the different forms of corruption (UN Department of Technical Cooperation for Development, 1989, p. 4). The forms include:

Acceptance of money or other rewards for awarding contracts, violations of procedures to advance personal interests, including kickbacks from development programmes or multinational corporations; pay-offs for legislative support; and the diversion of public resources for private use, to overlooking illegal activities or intervening in the justice process. Forms of corruption also include nepotism, common theft, overpricing, establishing non-existent projects, pay-roll padding, tax collection and tax assessment frauds.

Corruption has multiple consequences for the state. It undermines the legitimacy of state agencies, as it reduces effectiveness, redirects official activities, and rewards criminal activities. Overall, corruption tears at the moral fibers of the state and society.

Whether corruption is increasing in its incidence or its volume is difficult to say, because of measurement problems. Collecting accurate information is problematic due to incentives to keep information secret and the lack of effective control measures. The past decade has demonstrated, however, that corruption is not only a problem of poor states; the events of high-level corruption in Italy, Japan, the United States, and elsewhere provide persuasive evidence about the existence of corruption, even systemic corruption, in the so-called developed countries. The mass media carry articles on a daily basis about corruption in countries around the world, sending the message that corruption pervades all political systems, especially related to the financing of political campaigns. For example, on April 26, 1997, The New York Times carried one article about
corruption in France (Whitney, 1997) and another about corruption in South Korea (Pollack, 1997).

In the development business, the existence of corruption in poor states has motivated calls for good government and for downsized states. Corruption by its nature reshapes the state—transforming state activities from serving public purposes to filling private pockets. Various efforts to address corruption are being proposed. The World Bank’s 1992 report on governance and development, for example, provided a list of measures intended to reshape the state and reduce corruption (World Bank, 1992). These efforts, however, may not solve the problems of corruption and can actually end up providing new opportunities for corruption, as shown by experiences with privatization in the former socialist countries.

Implementing effective policies to reduce corruption, however, is no simple matter. Reshaping the state may just end up reshaping the corruption, unless it is accompanied by effective institutions to prevent and investigate corruption across various sectors (Doig, 1995). Most development agencies rarely address anti-corruption strategies directly, unless the problems involve their own employees. And the problems of corruption are generally disregarded in the public health field, with very limited research, publications, or public information.

Recently, the World Bank has given prominent attention to corruption in development. The director, James Wohlfenson, has placed this once-taboo subject on the Bank’s development agenda. The 1997 World Development Report on the state, for example, included analysis on the causes and consequences of corruption, as well as a multipronged strategy to combat corruption (World Bank, 1997). Whether the Bank’s efforts will make a difference in government policy or in corruption practices, however, remains to be seen.

The new agenda on corruption at the World Bank has been motivated in part by the non-governmental organization Transparency International, which is supported by multinational corporations. This group has promoted “islands of integrity” where all participants in public contracts pledge not to take bribes. Unfortunately, an advocate for this approach in Ecuador, one of the organization’s cited success cases, reportedly bribed a member of parliament to get the anti-corruption law passed (Anon, 1997).

From below

Rise of decentralization: Economists have long argued that the efficiency of state bureaucracies can be improved through decentralization (Jackson, 1982, p. 205). Breaking up a centralized bureaucracy into local government units is expected to improve two types of inefficiency. Decentralization is intended to improve allocative efficiency, by bringing the officials closer to the preferences of the electorate, and improve technical efficiency, by increasing the level of managerial control. For example, the World Bank’s analysis of the health sector in developing countries, in the 1993 World Development Report, recommended decentralization in order to increase efficiency (World Bank, 1993, p. 12). Indeed, the report called decentralization “potentially the most important force for improving efficiency and responding to local health conditions and demands” (World Bank, 1993, p. 162).

The phenomenon of decentralization is not restricted to poor countries. Europe is experiencing a surge of regionalism, as authority refocuses downward, away from national capitals and towards provinces and cities. John Newhouse described regionalism, whether within or across national borders, as “Europe’s current and future dynamic” (Newhouse, 1997). He pointed to various sources for this greater identity with subnational regions than with states, but especially “sour memories” about the processes of cobbling together the European states, and the sense of belonging more to Europe than to a “nation-state of clouded origins and dubious boundaries”.

Europeans thus seem to have more confidence in the capacity of local officials to create wealth and welfare than in the capacity of national officials. To give just one case: Italy has spawned a strident secessionist movement, known as the Northern League, which seeks to separate the Italian north from the Italian south. The central administration is viewed as incompetent and corrupt; and abundant evidence supports these views, not just in Italy. Subnational authorities therefore seek to shave off many functions of the center, especially in the economic sphere. But in Italy, and elsewhere, the responsibilities for defense, taxation, and social security will probably remain with the reshaped central administration of the state.

In practice, decentralization does not necessarily enhance efficiency, for a variety of reasons (Jackson, 1982, pp. 19–20). First, a local community still has a range of preferences within it, so that problems of allocative efficiency remain. Second, local government can still be secretive and unrepresentative, so that voter demands are not reflected in local bureaucratic decisions. Third, decentralized government can still be highly bureaucratic government, with high degrees of technical inefficiency, especially if local units have limited managerial capacity and expertise. Fourth, the small scale of decentralized units can produce a loss in economies of scale. In short, decentralization in practice creates multiple problems that may overwhelm any efficiency gains expected in theory.

Decentralization can have several impacts on the state. If it carries real decision making authority,
decentralization restricts the scope of central state action, thereby reducing the state’s degrees of freedom on both adopting policy and implementing policy. In addition, decentralization imposes new costs of bargaining and negotiating to gain acceptance and action on policy by subnational actors. At the same time, decentralization can shift financial obligations from central to local authorities.

Rise of nongovernmental organizations: The state is also being reshaped by a surge in non-governmental organizations (NGOs) throughout the world. Estimates of the number of NGOs vary widely, from one citation of 35,000 NGOs in developing countries to a statement that “the true number is certainly in the millions” (Matthews, 1997). According to Jessica Matthews, who has written about the growing role of NGOs, these groups range from “the tiniest village association to influential but modestly funded international groups like Amnesty International to larger global activist organizations like Greenpeace and giant service providers like CARE, which has an annual budget of nearly $400 million” (Matthews, 1997).

Some NGOs are taking over social services previously delivered by governments at the national level. Others are exerting new influence in areas traditionally covered by the state in international agencies, such as providing official development assistance and negotiating the terms of multilateral agreements. Still others are emerging as the watchdogs of the actions of both international and national agencies, while simultaneously becoming new constituents and supporters of these agencies.

The surge in NGOs and their influence have been spurred along by the revolution in information technologies. First the fax and then the internet created new possibilities for communicating around the boundaries previously erected and protected by nation-states. These technologies have created new sources of power: through new flows of ideas, information, alliances, strategies, and money. The new technologies are also undermining the modern hierarchies guarded by the modern state, while allowing for new networks to flourish across national boundaries. These technologies reduce the information monopolies that states seek to maintain, and allow for the dissemination of alternative visions of both the present and the future by non-governmental organizations. It is no exaggeration to say, as Jessica Matthews did in Foreign affairs, “Increasingly, NGOs are able to push around even the largest governments” (1997, p 53).

Implications for public health

One group of scholars argues that we need to reconceptualize, reinvigorate, perhaps even reinvent the state. Political scientist Lynton K. Caldwell wrote about the need to resurrect statecraft for the 21st century (Caldwell, 1996):

Today, the State is the only institution through which a nation might create consensus among its many autonomous organizations. In today’s world, consensus cannot be a top-down coordination. It must coalesce from independent recognition among diverse interests that there is a common interest in a sustainable preferred future. But the State as it is today is neither oriented nor structured to facilitate this kind of democracy, nor to discover whether or how this role might be filled.

Caldwell suggested that reconceptualizing the State in a democracy would require new forms of social learning. He recommended the idea of autonomous citizen councils, as a means to create and institutionalize a new statecraft.

Caldwell warned that this challenge to reconceptualize the state is non-trivial. Indeed, he cited Machiavelli (1950):

The ruin of state is caused—because they do not modify their institutions to suit the changes of the times. And such changes are more difficult and tardy in republics; for necessarily circumstances will occur that unsettle the whole state.

Whether Caldwell’s solution is the right one is debatable. But the challenge he posits is certainly real.

The categories of “from above, from within, and from below” may not be the only ways to think about the ongoing transformation of the modern state. Some non-state actors do not fit neatly into these three boxes. For example, some global NGOs act more “from above” than “from below.” In addition, these three dimensions are linked in various ways. For example, international development aid and multinational corporations can create opportunities for corruption. But the problems of categories should not distract readers from the basic argument: the state is suffering from increased pressures, arising from all sides, and may not be able to manage the consequences.

A basic challenge is the discontinuity between the relatively stable boundaries of states and the ever-shifting boundaries of problems. Many current problems do not respect the administrative limits of states: environmental threats, refugee migrations, illegal trade in arms and addictive substances—all critical public health issues. Conflicts are likely to continue to grow between the political boundaries of states and the cross-national nature of today’s problems, creating continuing challenges for states and for other international actors. How can effective solutions be designed that both
respect the interests of states and respond to the nature of problems?

What are the implications for public health of these forces that are reshaping the state? I would like to suggest three broad implications, considering the metaphors, solutions, and strategies.

First, metaphors. Two of the main metaphors for thinking about public health programs are ‘horizontal’ programs and ‘vertical’ programs. Neither of these metaphors adequately captures the complexity of forces reshaping the state in public health. I would suggest that a more apt metaphor would be that of a network, a web of relationships that link organizations and individuals across organizations. This metaphor better reflects the complex political ecology of states today, as they are reshaped by multiple forces acting simultaneously. Finding the right metaphor for thinking about public health programs is important, because metaphors affect policies and actions. Current metaphors mold proposed solutions.

Next, solutions. Given this complex political ecology of the evolving state, I would suggest that simple solutions to public health problems are unlikely to work. We need to develop a healthy skepticism of single-factor solutions, because of the multiple forces at work. Some popular single-factor solutions include such ideas as: all you need is user-fees to introduce market forces and thereby improve efficiency in the health system; or all you need is rational priority-setting mechanisms to help decisionmakers allocate their resources more efficiently; or all you need is decentralization to improve the quality of programs by bringing them closer to the grassroots. Complex social problems usually demand complex solutions—along with analytical tools that can explore how single solutions and packages of multi-solutions might be adopted and implemented in network environments.

Finally, strategies. If multiple forces are acting on the state, from above, from within, from below, then what can be done to improve the public’s health within this complex political ecology? I would suggest that measures are needed to shore up the state, not wither away the state, while allowing growth in the private sector and non-governmental sector and encouraging innovative public-private partnerships (Reich, 2000). A downsized state alone is not likely to improve public health. In developing societies, efforts at shrinking the state may not produce an effectively functioning state. In some cases, these efforts could contribute to the emergence of a failing state buffeted by all sorts of forces. In extreme situations of decay, failed states can generate public health problems, as suggested by experience in Africa (Goldberg, 1997). The world therefore has public health self-interest in maintaining a minimum level of political stability and state capacity in Africa.

The multiple pressures on states today provide an opportunity for government officials and policymakers to reevaluate traditional state functions and identify what the state does best. This process will require serious reflection on the roles of the public and private sectors, on the relative strengths and weaknesses of these two sectors, and on their intended and unintended interactions. States require downsizing and strengthening at the same time, in order to manage the multiple forces pressing the public health challenges of today. A strengthened state may not be a sufficient condition. But the public health disasters of failed states provide ample evidence that a strengthened state is a necessary condition.

Acknowledgements

An earlier version of this paper was presented at the 75th Anniversary Symposium of the Harvard School of Public Health, held in Boston, Massachusetts, 27–29 April 1997. The author appreciates thoughtful comments from Tom Bossert, Scott Gordon, and Gayle Martin.

References