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IPPG Briefing Paper No. Two

June 2006

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Institutions and State-Business Relations

There is now a body of research showing that countries that have sustained notably high rates of economic growth also have governments that have intervened in the economy so as to provide incentives to both private capital *and* to discipline it. Successful economic growth has required the creation of a positive environment for private investment, in which capitalists (or 'business people') have confidence that their activities will be supported and not frustrated by the state, while at the same time the state has the capability of restraining the negative effects of collusion between individual business people and agents of the state (in what is known as 'rent-seeking').

It is possible for a state to have what may be considered 'the right policies' in place, though if those policies are not implemented in such a way as to ensure consistency and reliability they will not command credibility and the confidence of private capital. Similarly, the same formal institutions – such as laws and regulations, or codes for conduct – may have very different consequences in different contexts, depending on the way in which they operate in practice; the key point is, as made in an article on Latin American development in *The Economist* that 'policies matter, but so do the political institutions through which they are approved and implemented… Chile's economic success, for example, owes much to political factors – a relatively effective and uncorrupted civil service and judiciary, and a broad political consensus which gives investors confidence that they will not face unexpected policy changes' (20 May 2006). Similarly it has now been shown, that the crucial changes in India's economic development came about not with the economic reforms of the early 1990s, but rather with the radical shift in the ideas and attitudes of the political leadership towards the private sector in the 1980s (Atul Kohli 2006).

Yet there is a very fine line here; on the one hand there is benign collaboration between business and government elites, that has positive consequences for the growth of the economy as a whole; especially when positive mechanisms are established that:

(i) facilitate the flow of accurate and reliable information, both ways, between business and government (i.e. there is *transparency*);

(ii) mean that there is at least the likelihood of *reciprocity* between business and government (as, for example, when state actors have the capacity and the autonomy to secure improved performance in return for subsidies);

(iii) ensure that capitalists are able to believe what state actors say (i.e. *credibility*, – when they command credibility it is likely to be possible for them to respond flexibly to changing circumstances without losing the confidence of business);

(iv) establish high levels of *trust* (through transparency, reciprocity and credibility).

Regimes with these features generally correspond with what Peter Evans (1995) describes as 'embedded autonomy', characterised by the relative autonomy of the public bureaucracy in relation to particularistic pressures from within society; this, combined with its 'embeddedness' in networks with business people, essentially helps to build trust between the state and business.

On the other hand, however, there is the evident possibility that 'collaboration' between business and political-bureaucratic elites amounts to collusion in rent-seeking that is unproductive for society and the economy as a whole – exactly as was suggested by many commentators about South East Asia, following the financial crisis in that region in 1997. Collaboration then came to be described in negative terms as 'crony capitalism'; one key question is, therefore, *what are the institutional conditions for*

Paper prepared for the DFID-funded Research Programme, Institutions and Pro-Poor Growth (IPPG). The authors are grateful to DFID for the funding that made this research possible. The views expressed in this paper are entirely those of the author and in no way represent either the official policy of DFID or the policy of any other part of the UK Government.
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the maintenance of benign collaboration between agents of the state and business. To this vitally important basic question about the conditions for successful economic growth the Research Programme on Institutions and Pro-Poor Growth adds another – about the conditions under which such 'benign collaboration' gives rise to outcomes that are distinctly pro-poor; we are concerned with how the relationships between state agents and private producers influence those sectors that are likely to generate productive employment and decent livelihoods – which may include high value agriculture (both crop and non-crop sectors); agro-processing; textiles and garments industries; furniture manufacturing; and small-scale engineering such as supports the transport industry and agriculture.

In answering the key question about the conditions for developmentally positive collaboration between state and private producers, we have to look to both sides of the prospective partnership, to the characteristics of both state agencies and private capital. On the part of the former, positive collaboration probably requires that the public bureaucracy should have the basic features of the Weberian model of bureaucracy: selection and promotion should be on the basis of merit and salary levels should be at least reasonably competitive. As Evans and Rauch (1999) found in their comparative analysis: 'several relatively simple, easily identifiable structural features constitute the key ingredients of effective state bureaucracies'. Of these, meritocratic recruitment was shown to be the most important followed by internal promotion and career stability (the importance of competitive salaries not being clearly established); the bureaucracy should be insulated from particular interests both in society and in the polity (which is why it is so important that recruitment and promotion should be on the basis of merit alone, and not based on personal ties or political sympathies); but at the same time, as Evans' analysis of 'embedded autonomy' shows, it is important that the bureaucracy is not isolated from business and that there is a good flow of accurate and reliable information between the two.

On the part of private capital, much depends first on the extent to which there are broadly consistent national development goals shared by state and business (as Kohli shows, in the Indian case, 2006), and second, on the way in which private capital is organized and hence on its capacity for collective action. This may in turn be influenced by state action – for example through the establishment, by the state, of fora that bring together different groups of producers. Encompassing, multi-sectoral business associations (such as the Confederation of Indian Industry, as it has developed over the last decade or so) are most likely to press for policies that promote growth through the economy – and to have regard for the distributional and welfare consequences of growth, recognising that the legitimacy of the private sector may depend upon these. Such associations may also have the capacity to monitor their members' use of selective benefits that may be made available by the state. Our analysis, therefore, takes account of the way in which business (including agricultural business) is organized in the countries in which we work – in terms of sectors, firms, formal associations and social networks. The size, financing and extent of diversification of individual firms (or farms) has implications for relationships between government and business (for example, where there is a high level of industrial concentration, government action may be constrained); clearly, whether or not there are encompassing business associations matters greatly; so while studying the networks in which both business people and state agents are involved, we are thus concerned with the question of whether there is an appropriate balance between the insulation of government from business and engagement.

If the conditions for the establishment of a developmentally positive relationship between state and private producers are to be sought in the characteristics of the public bureaucracy on the one hand, and in the structure and organization of private capital on the other, the question then arises as to what factors encourage state and business elites to invest in co-operation and in institutions that restrain opportunistic behaviour. Amongst the conditions for such successful collaboration between the state and private capital may be the perception of threats on the part of both state and private sector elites. It may be, for instance, that it is the perception of vulnerability to international competition that provides the incentive for different factions of private capital to come together; or that it is the sense of their political vulnerability that promotes collective action amongst particular ethnic business communities. Similarly it is a well-established line of argument, in regard to the successful developmental states of East and South East Asia, that the political elites' sense of geo-political threats promoted commitment to national economic development – an argument that is actually quite similar to Gerschenkron's in his classic study of European late-developers (1952).

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