

# PART ONE

## RETHINKING THE STATE— THE WORLD OVER

THROUGHOUT HISTORY, NOTIONS OF THE STATE'S ROLE HAVE SHIFTED DRAMATICALLY. For much of this century people looked to government to do more—in some cases a great deal more. But during the past fifteen years the pendulum has been swinging again, forcing the world to look at government from a range of conflicting perspectives. The end of the Cold War and the collapse of command-and-control economies, the fiscal crises of welfare states, the dramatic success of some East Asian countries in accelerating economic growth and reducing poverty, and the crisis of failed states in parts of Africa and elsewhere—all of these have challenged existing conceptions of the state's place in the world and its potential contribution to human welfare.

Governments are also having to respond to the rapid diffusion of technology, growing demographic pressures, increased environmental concerns, greater global integration of markets, and a shift to more democratic forms of government. And amid all these pressures remain the formidable—and persistent—challenges of reducing poverty and fostering sustainable development.

It is not surprising, then, that countries are again putting the state under scrutiny, asking what government's role ought to be and, critically, how that role should be played. This Report explores why and how some states have

been more effective than others at playing a catalytic and sustainable role in economic development and the eradication of poverty. This part of the Report provides a broad historical and conceptual introduction to the issues (in Chapter 1) and examines the empirical evidence of the impact of state policies and institutions on development (in Chapter 2). It conveys three principal messages:

- Development—economic, social, and sustainable—without an effective state is impossible. It is increasingly recognized that an effective state—not a minimal one—is central to economic and social development, but more as partner and facilitator than as director. States should work to complement markets, not replace them.
- A rich body of evidence shows the importance of good economic policies (including the promotion of macroeconomic stability), well-developed human capital, and openness to the world economy for broad-based, sustainable growth and the reduction of poverty. But as our understanding of the ingredients of development improves, a deeper set of questions emerges: why have some societies pursued these actions with greater success than others, and how, precisely, did the state contribute to these differing outcomes?
- The historical record suggests the importance of building on the relative strengths of the market, the state, and civil society to improve the state's effectiveness. This suggests a two-part strategy of matching the role of the state to its capability, and then improving that capability. These are the subject, respectively, of Parts Two and Three.