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Working Paper Series

Title	State capacity: one concept, many forms?
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Issue Date	2015
Issue Number	3
Paper Number	3
Citation	Chan, A. (2015). *State capacity: one concept, many forms?* (Working Paper Series No. 3, Issue 3, 2015). Hong Kong: The Hong Kong Polytechnic University, College of Professional and Continuing Education, School of Professional Education and Executive Development. Retrieved Jan 5, 2016 from http://weblib.cpce-polyu.edu.hk/apps/wps/assets/pdf/w20150303.pdf
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Working Paper Series No. 3, Issue 3, 2015

State Capacity: One Concept, Many Forms?

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ABSTRACT

Although the concept of state capacity seems to highlight the importance of the state, I argue that the core insight that emerges from the literature review is quite the opposite. This insight is that the government can only do so much. Certain important kinds of state capacity depend on whether and how the state is connected to important stakeholders in society. After reviewing three concepts of state capacity in the literature, namely the capacity for social control, the capacity for industrial policy, and the capacity for industrial upgrading, I discuss the capacity for healthcare reform, which is relatively new in the literature about state capacity. In this new scenario, what the government finds is the medical profession who has been given the privilege for professional self-regulation. How to deal with a profession who has been enjoying a lot of autonomy, and who is unlikely to give up any power without seeing any return to its "sacrifice," will pose a great challenge to the state. I argue that when the issue is about state capacity for healthcare reform, the connection between the state and the medical profession as one of the most important stakeholders in the healthcare sector becomes even more critical.

KEYWORDS: State capacity, Social embeddedness, Information

1 INTRODUCTION

This article is a part of an ongoing research which intends to trace the failure of healthcare reform in Hong Kong to the lack of state capacity. It provides a review of the literature about state capacity. Although the concept of state capacity seems to highlight the importance of the state, I argue that the core insight that emerges from the literature review is quite the opposite. This insight is that the government can only do so much. Certain important kinds of state capacity depend on whether and how the state is connected to important stakeholders in society.[1]

2 LITERATURE REVIEW

State capacity is a research topic that has gathered significant attention from scholars (Skocpol 1985; Krasner 1978; Weiss 1998; Evans 1995; Katzenstein 1978; Zysman 1983; Levy 2006). State capacity refers to the capacity of the state to achieve its chosen policy outcomes (Matthews 2012: 281).[2] Why should we bother about state capacity? It matters because '[d]ecisions made by governments cannot always be carried through' (Skocpol and Finegold 1982: 260). Here, state capacity refers to the ability to implement policy. It goes without saying that policy formulation and policy implementation are separate matters, and the former does not guarantee the latter.

But the significance of state capacity goes beyond policy implementation. State capacity matters to setting public agenda and steering public discussion. State power does not guarantee state capacity. A state granted with a lot of constitutional, legal and administrative power, including the power to control army and police, may be able to formulate policy, but fail to implement it because of resistance from society. It may even fail to gather people's attention or engage them in constructive discussion before it goes on to formulate policy. Capacity is more about the *use* of power than the possession of power itself. All states use power to intervene. But some states use power more effectively; some states intervene more effectively (Weiss 1998: 17). A powerful state may not be capable of soliciting support from society when it tries to implement policy or steer public discussion. In other words, state power is not enough to explain or predict a certain political result. State capacity matters.

Historically, the literature of state capacity emerges in the 1970s as a response to economic *crisis* of developed countries and the call for *reform* after the end of the long boom (Katzenstein 1978). In the 1980s and 1990s when the performance of newly industrializing countries (NICs) attracted attention, and the challenges of industrial upgrading to developed countries began to take shape, scholars began to trace the variation in performance of different countries to state capacity (Evans 1995; Weiss 1998).

Theoretically, the literature of state capacity is a reaction to the liberal argument about the futility of state intervention (Ohmae 1995). While a strong state may not be capable of implementing policies effectively or drawing significant attention from its people, an apparently weak state, defined by the lack of constitutional or administrative power, can be more capable of setting public agenda because it is perceived as a credible source of opinion. This argument about state capacity emerged in the 1990s when globalization became a

[1] One may query whether the Hong Kong government is a state. Putting aside the issue of whether the concept of the state is exclusively about sovereign states on the central level, or may include states in different forms and on different levels, the issue of state capacity remains real to all states struggling to discharge their functions.

[2] Skocpol defines state capacity as 'the ability of the state to *implement* official goals, *especially over the actual or potential opposition of powerful social groups* (1985: 9). As I shall argue in the latter part of this paper, I have reservation about this definition and its implicit zero-sum view of power. I argue that state capacity is not necessarily the ability to go against the opposition of social groups.

buzzword and was said to erode or 'eat away' the state, eventually giving rise to the weak state (Rhodes 1994: 138).

The argument of the effect of globalization on the state is two-fold. Firstly, advance in communication technology which drove globalization, especially information technology, increased the bargaining power of corporations against the states. As the flow of capital became much easier across border, the states were losing control, thus making state intervention futile. Secondly, globalization also increased the power of international organizations, such as the World Trade Organization, against the states. International agreements removed some options, such as tariffs and economic subsidies, from the menu of public policies in many countries, or at least imposed stringent requirements about their use. As a result, the era of globalization witnessed the 'retreat of the state' (Strange 1996).

However, this liberal argument about the futility of state intervention was criticized in the literature of state capacity. State capacity to respond to the challenge of globalization varies across different countries. This is particularly clear in the comparative study about economic performance of different countries (Evans 1995; Weiss 1998). The argument of government failure that liberals often appeal to is indeed too sweeping (Weiss 1998). But what is even more surprising is that apparently weak states have capacity to respond to the pressure of globalization which has been overlooked.

In a review of research about state capacity in East Asia, Ikenberry concludes that states continue to be critical organizational vehicles for modern political order. General claims that states are withering away or turning into simple market agents cannot be sustained (2003: 351). Matthews highlights the paradox of state capacity. What he refers to is the phenomenon that the states in the era of globalization appear to be gaining and losing power at the same time. While they have transferred key control levers to a range of semi-independent organizational forms, they have also sought to develop new forms of state capacity (2012: 282).

In face of globalization, the state remains adaptive and resilient. Authority is shifting vertically from the local to the national level, laterally from the legislature to the executive, within the national bureaucracy toward trade ministries and, within the trade ministries, toward external affairs departments (Levy 2006: 14).

The recent development of the literature of state capacity is particularly interested in the study of the new roles of the state (Ikenberry 2003; Levy 2006: 367-93; Block 2008; Matthews 2012). If the market-steering form of state intervention is becoming obsolescent in the era of globalization, the market-enabling role of the state is yet to be explored. Globalization can be enabling rather than simply constraining. It all depends on the particular role that the state chooses to play and the particular form of intervention that the state pursues (Levy 2006: 1-28).

Perhaps, the most unexpected response to globalization comes from the United States. Block argues that beginning in the 1980s, a hidden developmental state emerged in the United States to push for the advance of innovative technology, and to turn innovations into commercial products. For this purpose, the states gradually shifted from its conventional role of regulating business activities to the new role of networking people and ideas. The new venture of the hidden developmental state in the United States highlights the new kinds of state capacity that are called for by new environment.

But the resilience and adaptiveness of the state in the era of globalization cannot be taken as a self-congratulatory note about the all-powerful state. On the contrary, scholars sharing interest in studying the role of the state apparently agree that the generalized concept of state capacity is meaningless. Just like the state is not a monolithic entity, but a set of disparate organizations sharing a common identity, the idea of state capacity does not refer to any abstract competence, but needs to be further pinned down. There are different kinds of

state capacity. What explains state capacity depends on what kind of capacity one is talking about (Weiss 1998: 4, 15-16; Krasner 1978: 58; Brodsgaard and Young 2000: 15).

Three different kinds of state capacity can be identified in the literature. The first is the capacity for social control. This kind of state capacity refers to whether the state can overcome resistance from local society of particularistically oriented clans and tribes by imposing universalistic laws and regulations (Migdal 1988; Mann 1993).

The second is the capacity for implementing industrial policy. This kind of state capacity depends on whether the state has built a bureaucracy of professionally trained bureaucrats who are bestowed with sufficient political authority to coordinate the private sectors by fiat (Johnson 1982).

The third kind of state capacity refers to the capacity for industrial upgrading. It emphasizes the ability of the state to build connections with the private sectors without sacrificing the autonomy of the state (Evans 1995; Weiss 1998). While the autonomy of the state is crucial for choosing the right kind of policy that addresses public interest, the connections of the state with (or its embeddedness in) the private sectors are crucial for the ability to implement the policy so as to achieve public interest. Evans refers to this intricate balance between autonomy and embeddedness as embedded autonomy (Evans 1995). The spirit of the argument is that the cooperation between the state and the private sector is crucial to the capacity for industrial upgrading.

The three kinds of state capacity appear to be related to dealing with different problems at different stages of development of a country. While the capacity for social control is critical to the early stage of state-building when a country is preoccupied with imposing laws and order uniformly across regions marked by particularistic orientations, the capacity for implementing industrial policy is crucial to this country's economic take-off. This kind of state capacity for implementing industrial policy is crucial for late industrializing countries who try to play catch up in economic development. Finally, the capacity for industrial upgrading is required for the relatively developed country to move further up the hierarchy of international division of labor.

The state is not necessarily all-round with respect to different kinds of capacity. As Krasner argues, '[t]here is no reason to assume a priori that the pattern of strengths and weaknesses will be the same for all policies. One state may be unable to alter the structure of its medical system, but be able to construct an efficient transportation network, while another can deal relatively easily with getting its citizenship around but cannot get their illnesses cured' (1978: 58).

Nor does the presence of one kind of state capacity imply the presence of another kind. Different kinds of state capacity within the same country require different explanation. The explanations of the capacity for social control and for implementing industrial policy tend to be statist. They focus on what the state possess or control. For example, the statist explanations may trace state capacity to the control of bureaucracy (Stepan 1978; Trimberger 1978; Skocpol and Finegold 1982; Migdal 1988; Rhodes 1994) or finance (Hu and Wang 2001; Zysman 1983; Pei 2003). To the extent that the state is in control of relevant instruments or resources, it is described as strong state, hard state or developmental state (Krasner 1978; Johnson 1982; White 1988; Midgal 1988; Wade 1990: 337-42). However, it tends to underemphasize the important role of society. It does not trace state capacity to how the state is related to society. One may argue that the statist explanations presume a certain kind of state-society relationship. In this relationship, the society is portrayed as docile and submissive. In other words, the statist explanation assumes a zero-sum relationship between the state and the society.

Reviewing the literature of state capacity from the angle of state-society relationship, the third kind of state capacity, namely the capacity for industrial upgrading, deserves special

attention. It argues that state capacity depends on how the state is connected to important stakeholders in society. Here, the emphasis is not on the general relationship between the state and the society, but the relationship between the state and particular stakeholders in society. For example, the development of information technology (IT) industry depends on how the state is connected to specific professional associations, universities or even companies in the IT sector. But no matter what, the focus is no longer solely on the state. To this extent, the explanation of the capacity for industrial upgrading is non-statist. In this scenario, the state is less autonomous than what the statist explanation argues. The focus is on the embeddedness of the state in certain sectors.

The table is now turned. In previous explanations of state capacity, the emphasis is on state autonomy. But recently, the focus has begun to shift to the embeddedness of the state in certain sectors. What explain this shift of focus? I argue that it can be traced to the shift of interest in the study of economic development. In the past, it is assumed that economic development is about the mobilization of resources, be they capital, labor or land. But when human economy develops to the more advanced stage, and the role of knowledge and innovation is increasingly important, the flow of information becomes more critical. However, information is more fluid and amorphous than resource. In particular, important information is often thick in meaning, and very difficult to define generally or in a context-free manner. The exchange of information is also more difficult to be priced. Therefore, the transmission of information can be either extremely expedient or inordinately sluggish.

When global economic competition intensifies in the era of globalization, and industrial upgrading becomes increasingly important, different countries are competing for the development of high value-added industries, such as information technology (IT) and other knowledge-intensive industries. But when information is becoming increasingly critical, the limitation of the statist explanation is exposed. The state cannot define the information that it wants the society to provide. To put it in a more dramatic way, the state does not know what it wants, except the general but relatively useless claim that it wants useful information. Therefore, constitutional power or administrative power becomes irrelevant.

The government can only do so much. The literature about the capacity for industrial upgrading shows that the connection between the state and particular stakeholders in the society is critical (Evans 1995; Weiss 1998; Ó Riain 2004; Block and Keller 2011). Therefore, the explanation of state capacity should go beyond the state and focus on how the state is connected to the society. The social embeddedness of the state matters to state capacity. State autonomy or state power is not enough.

3 FURTHER STUDIES

My research studies the Hong Kong government's capacity for healthcare reform. In this new scenario, what the government finds is the medical profession who has been given the privilege for professional self-regulation. To the extent that the medical profession possesses sophisticated knowledge and technical skills about medical issues that the state does not have easy access to, there is good reason for the government to delegate the regulation to the medical profession. However, the state's initiative to delegate power to a particular profession shows that the state does not necessarily pursue a model of governance through ever more concentration of state power. But when new problems push the state to pursue healthcare reform, how to deal with a profession who has been enjoying a lot of autonomy, and who is unlikely to give up any power without seeing any return to its "sacrifice," will pose a great challenge to the state. This is especially so for the Hong Kong government when it has been facing fundamental challenge to its legitimacy. In this situation, how to solicit support from the medical profession becomes the most important challenge. I argue that no matter whether the state enjoys legitimacy or not, when the issue is about state capacity for healthcare reform, the connection between the state and the medical profession as one of the most important stakeholders in the healthcare sector becomes even more critical.

State capacity is among the agenda when Skocpol was calling for the intellectual movement of "bringing the state back in" in the 1980s (Skocpol 1985: 3-37). This movement can be easily interpreted as highlighting the significance of the state as a master concept in explaining social and political phenomena. But when the literature about the state and state capacity begins to accumulate, it is increasingly clear that the state only matters so much. In particular, specific kinds of state capacity depend on how the state works together with the society. In the era of globalization when information and knowledge are becoming increasingly important as production factors, the government is no longer "the cockpit from which society is governed" (Matthews 2012: 283-84). The state has already shown its adaptiveness to the new challenge posed by the changing environment. Whether it can succeed to manage the challenge and stay ahead, or whether it will be hollowing out, requires further study. There remains a lot to explore about what explains differential state capacity in different countries. But one has to go beyond the state to look for the explanation.

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