

CAUGHT IN A CROSSFIRE OF INFLUENCES

Assessing the State in Development

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Introduction

In their recently published Least Developed Countries (LDCs) report, the United Nations Conference on Trade and Development (UNCTAD) concentrated on the role of the state in development. By defining the state as 'formal institutions' (executive, legislature, bureaucracy, judiciary and police) they understand it as a player in the process of governance where its role is shaped by interaction with the society (UNCTAD 2009, 15). In the same report, the duty of the state is seen as an authority promoting development governance and an actor which may '[...] create new national development opportunities and achieve common national development goals' (UNCTAD 2009, 15). They concluded that the connection of good governance concepts – from the view of a variety of different experts and organisations – and economic development is far from being unambiguous (UNCTAD 2009, 19-25). Matt Andrews (2008) comprehensively specified this difficulty by referring to 'problematic shortcomings' of the good governance agenda: 'The lack of a theoretical framework underlying current [governance] indicators [...] is partly the result of a general rush to measure effectiveness without a theory of effectiveness. This has left indicators prompting more questions about effective government than they answer [...]' (Andrews 2008, 399) and hence they mostly provide a 'one-best way model' picture of developmental states and largely neglect varying developmental contexts of individual countries. Pointing to the historic example of Sweden Andrews makes shortcomings more obvious: 'One is guaranteed to find that past models adopted in today's more effective governments fall short of a high-scoring WGI [World Governance Indicator] 'effective government' – many of today's more effective governments did not have formal budget systems in the 1900s, for example, but were involved in important developmental endeavors; but the effectiveness of the Swedish (and other) governments in their own development process is evidenced in their improved results since the 1900s' (Andrews 2008, 392). Wolfgang Reinhard (1999) pointed his argument in the same direction by concluding that states with unmodified Western institutions as well as states with modified

Western Institutions are among 'successful' as well as 'failed' states (Reinhard 1999, 481). Dani Rodrik (2007) – from the perspective of economic development – refers to the importance of identifying 'binding constraints' of national economies, which could be rather varying from country to country. Although there is only 'one economics', successful development strategies could fail from neglecting differences in national economies. As states in general do not face the same kind of challenges – not even most developmental states – it is important to add a case specific context which matters to the character of state mechanisms and their relations to society as well as the external impact on national agendas. Moreover a framework for analysis must not neglect informal processes which impact from both perspectives.

However historical evidence shows that the state matters in development issues (see for example Lange/Rueschemeyer 2005) or as Richard Rose and Terrance Karran comprehensibly put it: 'Governing [...] is not so much about making fresh choices: it is principally about living with the consequences of past choices. Most activities of government do not reflect today's decisions, but decisions made yesterday' (Rose/Karran in: Middleton 2004, 478). Historical path-dependence differs by case and so specific developmental contexts also do. Thus it is indispensable to assess their historically grown capabilities and constraints. Again historical evidence shows that states are terrains which are persistently contested by internal and external actors (see for example Wallerstein 1974-89 & 2006; Evans 1998, for the case of the African state see: Young 1994 or Herbst 2000).

Hence a broad analysis on understanding the role of the state as an actor in development – as clearly in other political areas as well – must address three levels of 'causal regularities': (1) the histories of states, (2) social structures and (3) transnational relations in the modern world (Skocpol 1985, 28). Hence in the first part of this essay, state-society relations (intrastate) are analysed from a functional as well as formal perspective. The second

part provides more context to state society relations by adding an informal level to the framework and by dipping into the external relations (intrastate and global perspective¹) again from both, the formal and informal level as well. Drawn together, all factors determine a range of actions which could be defined as 'policy space'; a room for manoeuvre to the development of policies. The intention of the essay is that all levels (functional, formal and informal) together with the internal and external relations of states have to be considered for a framework for understanding the role of the state in developmental challenges. The analyses mainly deal with only some political economic, historic and socio-political perspectives and as an analytical constraint, this analysis concentrates on states which are obviously interconnected with their societies². This essay suggests an extended, more inclusive framework which might help to overcome the rudimentary state picture of many governance concepts.

State – society relations

This chapter focuses firstly on functional and secondly on formal aspects of the state which are important to understand its role in developmental challenges.

State functions (the policy development level)

Ashraf Ghani and Clare Lockhart (2008) see the rule of law as the 'glue' which connects state, economy and society. Admitting that historic and geographic factors are clearly influential to the state functions, they, however, defined 10 functions a state must fulfil to meet the societies' demands for inclusion and development. From their historical studies and practical experience in state building they proposed following actions as the 'critical functions' for effective states: (1) control a monopoly on the means of violence, (2) uphold the rule of law, (3) oversee international relations and public borrowing, (4) define social contract and delineate citizenship rights and duties, (5) invest in human capital, (6) invest in natural, industrial, intellectual assets, (7) run effective infrastructure services, (8) control public administration, (9) regulate and oversee markets and (10) manage public

finances (all defined by the Institute of State Effectiveness, based on: Ghani/Lockhart 2008, 125-166). Immanuel Wallerstein (2006) concentrates on a more specific aspect of state-society relations: the state-business relations. He proposed (1) the conditions³ for cross border trade of commodities, capital, and labour, (2) property rights, (3) the rules for employment and compensation of employees, (4) the conditions about internalization of cost, (5) the degree of monopolization of economic processes, (6) a tax system, and finally (7) their capabilities to influence decisions of other states,⁴ as important functions entrepreneurs may ask from the state in a capitalist world-economy (Wallerstein 2006, 46).

From the view of the international agreement called 'Paris Declaration on Aid Effectiveness' steered by the Development Co-operation Directorate-Development Assistance Committee (DCD-DAC) of the Organisation for Economic Co-operation and Development (OECD) states are requested to establish effective governance structures and build legitimate institutions in order to provide: (1) public safety, (2) security, and (3) equitable access to basic social services for their citizens (DCD-DAC 2005, § 38). Based on the work of Julius Court (2006), the UNCTAD (2009) rely on more differentiated principles of good governance which are preferably (1) participation of affected stakeholder, (2) fairness (rules equally apply to everyone in the society), (3) decency (rule without humiliating or harming) , (4) accountability (politicians are responsible for their political statements and actions), (5) transparency (clarity and openness of decisions) and (6) efficiency (allocation of resources without waste, delay or corruption (UNCTAD 2009, 16).

Many of these indicators could be influential to development but again it is important to emphasize that none of these functions or effective governance recommendations could firmly and/or exclusively claim to promote development. Others, do not refer to functions which claim to promote development but rather concentrate on basic public goods which could be seen as a minimum a state has to provide to the society, such as Milliken et al. (2003) who sketched out security, representation and welfare as minimum state (Milliken 2003). In a simplified

1 An external impact on the state could be derived from other states (interstate) or – for example – international organisations (global actors).

2 For discussion about states with little or barely any state-society cohesion see for example the concepts of the 'Gatekeeper State' by Frederick Cooper (2007) or the 'Rentier State' by Hazem Beblawi/Giacomo Luciani (1987).

3 The discussion has to start whether they should be allowed and in the next step it should be discussed under which conditions.

4 For example, in the case that firms which are situated within their boundaries are affected, states could use – if existing – their power to externally affect the decisions of other states (Wallerstein 2006, 46).

model Douglass North (1990) – as well – circumscribes a rather basic state role: *'[A] ruler acts like a discriminating monopolist, offering to different groups of constituents protection and justice or at least the reduction of internal disorder and the protection of property rights in return for tax revenue'* (North 1990, 48).

Whether or not state functions could meet development challenges does not only rely on the discussion of what function but rather on discussing historic factors such as their origin, persistence and/or change because particularly functions which are considered to promote development should be recognized as 'dynamic' and thus they rather change than they remain the same over the years (John Dewey in: Ghani/Lockhart 2008, 118). So it is important to exceed the stage of policy development and plunge into the institutional structure of states and the processes that drive their change. Understanding the state in development by addressing only the functional level is rather insufficient because it neglects complex mechanisms which underlie state actions. Hence a view on the formal institutions of the states is an important next step for better insights to problems which finally appear on the functional level. Both, the functional and formal level are mutually influential (see for example level 2 and 3, in Williamson 1999, figure 1, 597-99). Changes on the functional level may not be successful because they merely scratch the surface of complex interconnected multilevel networks.

The formal institutions

The role of states in developing policies could be understood as a process that consists of both, a stage of actions to define strategies and a stage of actions which are responsible for proper implementation. Depending on the concrete nature of the challenge actions could range from intervention to laissez-faire⁵ and depending on the nature of those actions they could be either favourable or destructive for development. Lessons from

the outcome derived from implementation are important to draw. At this review stage, state mechanisms should be challenged on different levels. Some guiding questions such as *what strategies a state develops to cope with societal demands?, what are the actions the state chose for implementation (the intended results)?, what do the results turn out to be in reality?*, could help to differentiate the role of the state in varying policy fields. In doing so the ongoing process of how states choose to address their challenges might be an interesting aspect when addressing state-society relations.

Given *'the will of the people'*⁶ is seen as the improvement of socio-economic and socio-cultural conditions the state should – at least – strive for it. From a supply-demand view cohesion of state-society relations could be sketched out as demand for legitimacy from the part of the state and demand for action⁷ from the part of society. Legitimacy of states – from the view of Adrian Leftwich (2008) – is intimately tied in with allowances and incentives (encouraging and measures) set by their institutions to provide economic growth, investment in welfare and social provision and thus effectively contribute to reduction of poverty (Leftwich 2008, 17). From a comparative historic view Matthew Lange and Dietrich Rueschemeyer (2005a) point out that *'[...] stubborn blockages to state-society relations may be built into state-society relations'* and hence actors engaged in policy development are in need of detailed insights in their functionalities (Lange/Rueschemeyer 2005a, 255).

From an economic historian view these relations could be characterized as Douglass North (1990) did it in his work *'Institutions, Institutional Change and Economic Performance'*. He admits to a more complex constellation in modern representative democracies with some *'hierarchical structure of agents'* (bureaucracy) on the part of the ruler and *'representative bodies'* (parliaments) and *'interest groups'* on the part of the constituents or more specified the voters (North 1990, 49). For the case

5 Wolfgang Reinhard (1999) – for example – announced that even highly pronounced neo-liberal economic policy (often circumscribed with 'laissez-faire') has proved to be an active and highly interventionist policy because it clearly influences economy and society (Reinhard 1999, 342-3).

6 At least with the establishment of the Universal Declaration of Human Rights in 1948, and in many cases even before, '[...] almost all states – whether liberal democracies, one-party revolutionary states, military dictatorships, or traditionalist regimes – subscribed to the notion that 'the will of the people' constitutes the ultimate source of governmental legitimacy.' (Brad R. Roth cited in: d'Aspremont 2006, 884). Hence the awareness for the legitimacy is broadly – even though at least theoretically – accepted by many states, although ideology and interest together with specific historically grown institutional environment could considerably influence this constraint and biased perception which could be generally called 'the will of the people'.

7 Depending on 'the will of the people' in developing countries this could be something like for example equal capabilities

of development countries, North (2005) added that not the exact copy of *'western institutions'* but the *'incentive structure'* which could provide *'recipes'* for economic development matter to positive development. For the purpose of sustainability these structures shall be embedded in the economic and political structures which imply the development of some kind of efficient institutions (North 2005, 159).

The concept of *'embedded autonomy'* provided by political sociologist Peter Evans (1995) makes similar demands to state-society relations. States are embedded in a societal context via *'continual negotiation and renegotiation of goals and policies'* and at the same time a certain degree of autonomy which basically relies on the corporate coherence⁸ character of bureaucracies (Evans 1995, 12). In addition, Evans specified that connectedness complements autonomy (Evans 1995, 72) and state autonomy can not be seen as self-sufficient from society because both structures influence each other (Evans 1995, 41). Joined together they tend to avoid predation and provide capacity to promote effective developmental states (Evans 1995, 247). In his 2005 article *'Harnessing the State'* he proposed that an integrated balance of bureaucratic capacity (meritocratic recruitment, professional norms, division of labour and others), market signals (cost-benefit analysis, performance-based compensation, fiscal discipline and others) and bottom-up democratic participation⁹ (transparency, accountability, broad based deliberative participation and others) *'[...] is a likely means of securing performance from public institutions that will reduce corruption, improve the delivery of essential collective goods and generate increasing well-being for ordinary citizens'* (Evans 2005, 32). Putting the dynamics of all three levels together is currently the main challenge of comparative analysis.

Picking up this picture, states can be differentiated in terms of their internal organization and the way they are tied to societies. Mathew Lange (2005) emphasizes on the necessity of *'social embeddedness'* of states and provides a framework for comparative historical studies which emphasize an improvement of *'general coordination capacity of society'* enforce by the rule of law. For favouring positive-sum developmental outcomes he suggests associations, bureaucracies and markets as structures to coordinate exchanges of actors within both the state and the society and between the two (Lange 2005, 55-59). Matthew Lange and Dietrich Rueschemeyer (2005a) concluded from an historical perspective that the varying developmental performance on a global level is influenced by different histories of building legal-administrative apparatuses and state-society relations. Firstly their development usually takes decades and secondly when they are built they tend to be persistent. Hence their characteristics could be seen influential to social and economic development over long periods of time (Lange/Rueschemeyer 2005a, 254).

Summing up, given functioning institutional framework, the role of the state could be seen as promoter of functions which are favourable for the development process. Understanding the state mechanism on this functional level is important for conclusions drawn from implementation providing feedback for the strategy stage hence – if necessary – support alignment of strategies. The process largely relies on both, *'trial and error'* as well as experience. In the end, policy development ideally reinforces some learning circles which tend to favour the developmental path of a country. Due to the connectedness of the formal and functional layer, an understanding of the role of the state in development has to put the processes of the functional level into context of the formal level described earlier in this essay.

8 It is best characterized by a selective meritocratic recruitment and long-term career rewards which creates a certain degree of commitment (Evans 1995, 12). The concept of meritocratic recruitment – together with the existence of competitive salaries and the degree of internal promotion and career stability – had already been established by Max Weber as one of three factors of corruption and bureaucratic performance (Dahlström et al. 2009, 8). Dahlström et al. (2009) – for example provided empirical evidence that meritocratic recruitment reduces corruption; one necessity claimed by the many good governance concepts.

9 According to Evans (2005) neither bureaucracy capacity nor market signals alone are able to provide real state reform in the absence of the third element of the hybrid. Bottom-up democracy is about innovative ways of increasing the ability of ordinary citizens to enforce transparency and accountability. Evans justifies this claim as follows: *'Privileged private elites [...] have little to gain from the institutionalization of robust, inclusive, deliberative democracy. To the contrary, they are likely to oppose deliberative procedures, simply because effective bottom up democracy increases the possibility that public institutions will address the interest of ordinary citizens, which are inevitably at least in partial competition with particular interests of elites [...]* In the end, the state bureaucracy itself could end up playing a key role in tipping the balance in favour of strengthening the democratic leg of the tripod (or in failing to do so)' (Evans 2005, 43). The works of Mark Robinson and Gordon White (1998) or Richard Kozul-Wright and Paul Rayment (2007) are only two out of a variety of scientific works which argue for building democratic developmental states.

Socio-economic challenges of states do not exclusively originate from conditions on the functional and formal layer of nation states. Their nature is intimately tied to informal processes and some exogenous factors.

Beyond formal rules: The contest on policy space

If the state role only consisted of the functional and formal level, state building would be – even if rather complex – a rather unambiguous, predictable process. This view neglects a large range of contextual factors, which could be seen as a composite of informal processes and external constraints – and clearly affects the development of function and formal levels of states.

The informal level

As mentioned in the functional chapter above Douglass North (1990) described polity as bargaining between ruler and constituents about revenues; incremental revenues if economics of scales are given. The outcomes of the bargains – North adds – are shaped by the *'relative bargaining power'* of the actors involved (North 1990, 49). This exemplifies an important aspect which could be found in the functional level or formal level of state-society relations. Factors as *'relative bargaining power'* are clearly influential to socio-economic challenges. In this model such rather informal factors are counted among the *'informal level'* which again widens the context for understanding the role of the state. Informal processes are important to understand because they could either complement or run counter to the formal level and hence undermine formal activities (Leftwich 2008, 9-10) such as development policy. Hence – as North (2005) emphasizes – the need for *'effective informal norms of behaviour whereof formal rules could draw on'* (North 2005, 120). Here the example of policy space should provide additional evidence for the importance of a more integrated approach. A range of internal factors are influential to the capabilities of state performance.

Lack of policy space of nation states is often discussed by referring to various external factors (for external impact – see below: Chapter III b). For a sufficient understanding of the functions of policy space, it is important to look at internal factors well. Past experience shows that the size of policy space has been changing due to permanent

competition and has generally depended on various domestic actors and factors as well. Interests (for example lobbying and others) as well as ideologies (free market and others) are influential to the policy space of states and clearly make them subject to power considerations. Beyond that they have the ability to mint the character of state actions. For the case of state-business relations Adrian Leftwich noted that *'[...] ideas, interests, ideologies, forms and degrees of power and/or influence which organisations or organised interests – on the state or business side, or externally – bring to practice'* shape state-business relations and either produce *'positive or negative synergy for growth'* (Leftwich 2009, 12).

On the internal level formal as well as informal institutions affect policy space. From historical studies of the Suq and the Campagne Fairs Douglass North (1991) concluded that *'customs, religious precepts, and formal rules (and the effectiveness of enforcement)'* appeared as constraints to economic activity (North 1991, 108). As Andreas Exenberger has already stated in his article in this volume, Oliver Williamson's (1999) categorization of *'Economics of Institutions'* shows that states – from the formal perspective – are embedded in something that could be called informal institutions, customs, traditions, norms or religion and that governments – however – are affected by the formal rules of the state (polity, judiciary and bureaucracy) and hence indirectly from informal institutions as well (Williamson 1999, 597). Drawing for this concept it is important that state actions such as economic activity – as Max Weber has already claimed – can not be properly understood as independent from a greater complex of social relations wherein they are *'embedded'* (Granovetter 1985, 506-7). Immanuel Wallerstein – for example – points to the complexity of the political game in referring to the case of ongoing class struggles where the state had always been a central actor to shift allocations to either one or the other part of the participants while both disputants – vice versa – *'put pressure'* on the state. Pointing to the longevity of this process he adds; *'that it took quite a while, several centuries, before the working strata were able to organize themselves sufficiently to play the political game with any minimal degree of efficacy'* (Wallerstein 2006, 50-1). Summing up, neither informal institutions nor informal processes may be neglected in understanding the state, even if they are clearly difficult to identify in many cases and thus rarely subject to analysis. Additionally the example of policy space can also be used to make the impact of external actors and factors more comprehensible.

External impact

From the external view Ha-Joon Chang (2005, 2008) – from a long term historical perspective – suggests policy space has enormous influence to the economic development of countries and that in the past (for example between the 2nd World War and the 2nd Oil Shock) policy space of developing countries have already been larger than today (see for example the essay in the volume of Gallagher 2005, 2008). Gallagher defines policy space as *'[...] flexibility under trade rules that provides nation states with adequate room to manoeuvre to deploy effective policies to spur economic development'* (Gallagher 2008, 63). On both levels, interests (see for example the case of financiers or exporters of agriculture products, Chang 2008, 19) and ideologies (see for example economists in developing countries, Chang 2008, 20 or politicians, Putnam 1973, 31-92) clearly shape the room to manoeuvre and hence make policy action subject to power considerations.

Finally, it is not all about politically calculated consequences. Unintended effects matter as well and in terms of their impact on policy space they are equally important to analyse as intended effects. For the economic development Kevin P. Gallagher (2008) – for example – referred to information externalities (lack of information about opportunities for profitable investment), coordination (profitability depends on simultaneous establishment of up- and downstream industries), imperfect competition (highly concentrated sectors make market entry and technological change very difficult) and environmental externalities (environmental costs of production and consumption) as aspects of market failure that are particularly critical for developing countries (Gallagher 2008, 63-64). But as in previous levels influence of external impact is not definite. Linda Weiss (2003) – for example – in her volume *'States in the Global Economy'* shows *'[...] globalisation impacting in ways unanticipated by globalists [...]'* and that much of the policy fields such as taxation, social welfare or industrial governance revealed *'[...] a surprisingly broad area for action left to states seeking to promote wealth and social protection'*. However the concept of policy development will not be the same for each country because many of them differ in their type of international integration. Much depends on the intensity and direction of impacts. Different cost

and benefit of policy choices are influenced by *'[...]'* at least three criteria: the country's strength in terms of both its international influence and economic situation, its exposure to an uncertain international environment, and policy sequencing¹⁰ (Mayer 2009, 392-3). Finally there are at least some policy fields – such as for example industrial policy – where interests of local elites in developing countries and external interests traditionally might not differ substantially.

Summing up, constraint and capabilities for policy development largely depends on the characteristic of the external impact as well as mechanisms operating on the three levels described above.

Concluding remarks

'Simply mimicking [...] the organizational forms of a particular 'Denmark' – has in fact been a root cause of deep problems encountered by developing countries' (Pritchett/Woolcock, 2004, 193, cited in Andrews 2008, 348). From a more inclusive view on the role of the state in developmental challenges it becomes clear that it is rather unlikely to initiate a process of development by transplanting the institutional framework and policy instructions of successful developmental states (at any particular stage) into developing countries. As soon as many Post-colonial states – at least formally – adapted the European state model at the process of independence its characteristics were subject to transformation. Wolfgang Reinhard (1999) refers to a hybrid of *'European Stateness'* and *'native political culture'*. European understanding of stateness was only selectively adapted due to different regional, cultural and social autochthonous (indigenous) background. The differences provoked a process of transformation. (Reinhard 1999, 482).

Coping with developmental challenges requires an idea of the entangled levels that are influential to the state: the functional and formal level of states as well as contextual factors such as informal institutions and external impact. In these days, socio-economic development does not principally rely on the expansion of the manufacturing sector anymore but on *'intangible assets'* which has a lot more to do with human capabilities such as *'ideas, skills, and networks'* (Evans 2008, 3-4). Actors involved

10 This is about which policy should be adapted in which order.

in state-building processes must take this change into account. In their book *'Fixing Failed States'* Ashraf Ghani and Clare Lockhart (2008) propose that state-building strategies should be organized by a *'double compact'* along with governments and the international community on the one hand and the country leaders and citizens on the other.

Even if our understanding how to create strong but limited polity has been improved we are still a far way from perfection. Success largely depends on the improvement of the understanding the role of the state in development. Untangling the rather complicated influences of functional, formal and informal level of state-society as well as state-external relations could be derived from more comparative data (see for example the Sovereignty Index in: Ghani/Lockhart 2008) refined to the requirements of this multi-level framework, as for example Matt Andrews 2008 proposed:

'If we identify certain services as key and certain contextual factors as influential, we should be able to understand why they are so, and we should be able to explain how effective governments adjust their challenge focus and choose the processes to meet challenges. The focus should be on why different states match different development contexts' (Andrews 2008, 399).

Peter Evans (2005) proposes to draw lessons from historical examples which are indispensable for current political debates. They should provide basis for *'[...] institutional proposals that are lucid and compelling'* (Evans 2005, 44). Comparing countries with more similar developmental contexts could not exclusively rest on analyzing historical data but must most importantly contextualize their conclusions which experience from actors, which work on the practical issues of development cooperation. A better understanding of the extraordinarily obscure informal level of local, regional and international relations shall be attained by bridging the gap between findings of researchers and manifold experience and first-hand insider information of practitioners. Even from the perspective of researchers – as Ghani/Lockhart (2008) concluded – it is *'clearly richer'* to analyse state practice such as *'dissection of public finances'*¹¹ rather than bare state theory (Ghani/Lockhart 2008, 120-1).

Summing up, what has been clear so far from analysis and (practical) experience – first: *'Creating a strong but limited polity is still a long way from being completely understood even though we have made progress in understanding the issues. But one fact is clear; such a state cannot be created overnight. It entails the development of effective informal norms of behaviour that will undergrid formal rules'* (North 2005, 119-20) and second: *'[P]ermanence cannot be taken for granted even when construction seems successfully achieved'* (Evans 1995, 71). Hence the role of the state in development is long-term and changes at times. In assessing this role it is important to understand that state capacity depends on the size of policy space for learning processes, which one could call policy development (as the UNCTAD do). In talking about states as actors in development it is indispensable to understand that this *"room to manoeuvre"* is influenced by formal, informal and external factors and thus concepts such as *"good governance"* which largely strike not more than the surface of complex networks are insufficient to assess the state in development.

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11 They suggest that this aspect mostly reveals *'state's rights and obligations to its citizens'* and vice versa. Due to the framework suggested here, again it is important not to forget to consider influence of informal processes as well.

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