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Author(s): Kaufman, Robert R.

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THE POLITICS OF STATE REFORM: A REVIEW OF THEORETICAL APPROACHES

Robert Kaufman

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Robert Kaufman is Professor of Political Science at Rutgers University. This paper is based on a seminar entitled “Theoretical Perspectives on Reform of the State: Political Economy, Rational Choice, and Institutional Sociology” that he presented at the *Center for Advanced Study in the Social Sciences* of the Juan March Institute, Madrid, on May 17, 1996.

Throughout Eastern Europe and Latin America, a central challenge for the consolidation of both democracy and market reforms has been the construction of state bureaucracies capable of implementing economic policies, providing social services, and maintaining public order. For much of the 1980s, this challenge was obscured by severe fiscal crises, which focused attention on efforts to scale back activities conventionally assigned to the public sector. Arguably, these reforms paved the way for the establishment of a more capable public sector by reducing fiscal disequilibria and establishing more sustainable macroeconomic conditions. But the economic reformers of the last decade paid little attention to issues of administrative restructuring and did little to halt the deterioration of human resources within the public sector.

By the mid-1990s, the question of how to rebuild state capabilities had moved squarely onto the public stage. Within international financial circles, increased attention to this issue was motivated in part by a concern to "lock in" fiscal and trade reforms of the past decade, and in part by concerns about moving on to social and regulatory policies that required greater administrative capacity. While it would be an exaggeration to speak of a "Washington consensus" comparable to the one which crystallized around policy reform in the mid-1980s, the agenda of state reform now being contested in Latin America and Eastern Europe has been strongly influenced by at least four broad themes that have evolved within the World Bank and other IFIs.

(1) The centralization and political insulation of control over macroeconomic policy, particularly spending and monetary decisions. Within this context, special emphasis has been attached to the delegation of authority over monetary policy to central banks that are not directly subject to the day-to-day authority of the elected executive or the legislature.

(2) The decentralization and/or privatization of bureaucracies charged with the delivery of social services -- on the assumption that local authorities will be more responsive to constituent demands and that competition among providers will enhance the efficiency of services.

(3) The delegation of regulatory functions to independent agencies charged with monitoring service providers and dealing with externalities associated with privatization, trade liberalization, and other market-oriented reforms.

(4) The creation of a more capable cadre of senior civil servants. These would be recruited according to meritocratic criteria, provided with considerable discretion with respect to operating procedures, and evaluated in terms of performance standards.

Under what conditions are such institutional reforms likely to be implemented, and to what extent are they likely to have their intended consequences? We begin with the assumption that reforming the state is not simply a matter of summoning the "political will" necessary to put the "correct" institutional formulas into place. Even more than economic policy reforms, efforts to transform the institutional framework in which policy is made and implemented will be affected by conflict and bargaining among domestic and international interest groups, politicians and bureaucrats, many with important stakes in the institutional status quo. Thus, despite broad public support in many countries for greater honesty, transparency, and equity within the public sector, countries of both regions are characterized by the persistence of what Guillermo O'Donnell has called "brown areas" in which state agencies have little autonomy from particularistic interests and can provide few of the basic services expected of state organizations.¹

An understanding of both continuities in state organization, and the politics of reform, requires identification of the relevant actors in the political process, specification of their preferences and political resources, and an analysis of the way their choices are constrained by existing political

¹ Guillermo O'Donnell, "On the State, Democratization and Some Conceptual Problems: A Latin American View with Glances at Some Postcommunist Countries," *World Development* 21, 8 (August 1993), 1355-1371.

and social structures. In this paper, I explore the way three different theoretical perspectives have dealt with these questions: political economy (IPE); institutional rational choice; and institutional sociology. These perspectives can be complementary as well as mutually-exclusive, but each provides different clues about actors, preferences, and constraints.

Political economy approaches explain policy outcomes and institutional change by focusing mainly on relations among economic interest groups and the way such groups are linked to global trade and capital markets. A key issue to emerge from this approach is the extent to which national political leaders are constrained in their choices about state reform by the globalization of such markets and the strengthening of internationally-oriented economic constituents.

Institutional rational choice perspectives tend to emphasize the "supply side" of state reform. A core assumption of this approach is that bureaucratic (re)organization reflects the preferences of competing politicians whose primary goals are getting or retaining office. Responses to demands for state reform would depend on the way such actors calculate the way reform would affect their capacity to compete with rival politicians. This in turn would depend on the way electoral and constitutional frameworks structure the rules of competition and the relative importance of different constituencies.

Institutional sociology, finally, directs attention to the larger matrix of social norms and institutions in which bureaucratic and economic behavior is "embedded." Unlike either institutional rational choice or political economy approaches, sociological theories problematize the identity of the actors, and the way their preferences are formed. They also open the way to a broader investigation of actors that are not fully situated within either state or market institutions.

If we take a very long view, each of these approaches might be situated within more "fundamental" analyses that focus on states as the product of wars, class struggles, and revolutions. In Western Europe, the incentives to construct standing armies and effective civil bureaucracies stemmed largely from continuous military rivalries and domestic class struggles, while the capability

to respond to such challenges depended on the human and material resources available to rulers and their most powerful constituents.²

These developments in turn constrained opportunities for the emergence of strong states in other parts of the globe. From the sixteenth century onward, limited population and capital made Eastern European societies vulnerable to the predation of their neighbors. The weakness of post-colonial Latin American states, similarly, is undoubtedly linked to their dependence on great-power patrons throughout the nineteenth and twentieth centuries.

While the relevance of this broad historical context should be duly noted, however, it is difficult to demonstrate systematically the connection between the "deep structural" roots of state formation and the more immediate issues of state reform now on the agenda of ex-Communist and developing societies. It has been a rather long time, after all, since international political and economic rivalries began to reshape these societies in the sixteenth and seventeenth centuries, and an attempt to trace the causal links which lead into the present day would take us well beyond the scope of this paper.

² Scholars from a wide variety of intellectual traditions converge around this point: see Charles Tilly, *Coercion, Capital, and European States, AD 990-1992* (Cambridge, Mass: Blackwell, 1992); Theda Skocpol, *States and Social Revolutions*, (Cambridge: Cambridge University Press, 1979); Douglass C. North, *Structure and Change in Economic History* (New York: W.W. Norton & Company, 1981); Perry Anderson *Lineages of the Absolutist State* (New Left Books, 1974). For a recent, critical, discussion of the extension of such arguments to Latin America, see Miguel Angel Centeno, "Blood and Debt: War and Taxation in 19th Century Latin America" (December 1996, forthcoming in *American Journal of Sociology*).

The approaches considered here have the advantage of focusing on political processes that are more proximate to the outcomes we want to analyze. At the very least, therefore, they are necessary supplements to macro-historical explanations. Comprehensive surveys of the large bodies of literature that comprise each of these approaches have been undertaken elsewhere.³ My objective in this paper is to spell out some of the hypotheses about state reform that are contained within each perspective, to note the strengths and limitations of each approach, and to provide a preliminary assessment of their relevance to empirical research in Latin America and Eastern Europe.

Part I: Political Economy Approaches

During the 1980s and 1990s, the primary impulses for both policy reform and state reform have come from actors within the international financial and policy community, and their allies within domestic political economies. For this reason, political economy approaches provide a promising entry point for an analysis of how contemporary states might be transformed. Not all students of political economy agree, of course, on the predominance of "international factors;" indeed, this is a matter of considerable debate. But most pay systematic attention to actors who occupy roles within international trade and capital markets and to domestic economic interest groups that stand to win or lose from participation in these markets.

As suggested in the introduction, contemporary analyses have focused on the implications of the dramatic integration of these markets over the past several decades. In a recent essay, Ronald Rogowski and Jeffrey Frieden deal with the consequences of expanding international trade.⁴ As transaction costs decline, they argue, national governments face two kinds of pressure for trade

³ See for example, Peter Hall and Rosemary Thorp, "The New Institutionalism," paper presented at the annual meeting of the American Political Science Association, September 1994.

⁴ Jeffrey A. Frieden and Ronald Rogowski, "The Impact of the International Economy on National Politics: An Analytical Overview," (Manuscript, September 1994).

reform: one from groups that derive distributive benefits from the reforms, and a second from the political gains to be derived from the aggregate effects of trade reform on national income. The easing of trade increases potential returns to internationally-oriented groups and thus encourages the mobilization of support behind liberalization. At the same time, the prospects for increased aggregate gains from trade strengthens opportunities for political entrepreneurs to initiate policy changes that capture the support of broad sectors of the population.

Globalization of capital markets arguably has had similar distributive and aggregate implications. Expanding volume and volatility of international financial flows has provided banks, portfolio managers, and multinational lenders with powerful leverage over interest and exchange rate policies. Given the rapidity with which capital transfers occur, macroeconomic policies which lack credibility can have consequences for the exchange rate and domestic inflation that are felt throughout the economy. The growing importance of external financial flows in sustaining balance of payments has thus strengthened the incentives of politicians to maintain stable macroeconomic policies.

Changes in macroeconomic policy-making institutions are also likely to be affected by these incentives. Of course, it may be easier to alter government practices and goals (policy) than to change the rules through which policy is made. Even so, it is plausible that reformers will seek institutional changes aimed at increasing the effectiveness and credibility of their macroeconomic policy reforms. For this reason, the arguments sketched above suggest a number of hypotheses relevant to the politics of state reform in both Latin America and Eastern Europe.

The first is that increasing trade and competition for capital would encourage a convergence of state structures toward institutional models that enhance competitiveness and are perceived as acceptable in advanced capitalist societies. This is a core thesis, for example, in Sylvia Maxfield's recent work on the sources of central bank influence.⁵ She argues that worldwide trends toward

⁵ Sylvia Maxfield, *Gatekeepers of Growth: The International Political Economy of Central Banking in Developing Countries* (manuscript, July 1995; forthcoming, Princeton University Press).

central bank independence reflect in part the enhanced impact of international capital flows on public finances and political stability. In the same vein, it is plausible to argue, following Frieden and Rogowski, that political entrepreneurs who seek to capitalize on aggregate gains from trade liberalization would also try to reduce the institutional access for distributive interests seeking particularistic exemptions. This would imply the creation of more centralized structures of macroeconomic decision-making and an enlargement of the territorial constituencies of elected officials.

While globalization arguably encourages centralization of control over basic macroeconomic policy instruments, it might also enlarge the role played by regional and local governments in the delivery of social services and other public goods. The basic hypothesis is that the international transactions of local officials, as well as of regionally-based firms and other social actors, are likely to become less dependent on the mediations of central governments. International financial institutions such as the World Bank have reinforced such trends by emphasizing the potential efficiency and equity gains that can derive from the decentralization of governmental authority.

A third hypothesis suggested by IPE approaches is that cross-national variations in the timing and extent of state reform will vary with the nature of the linkages between domestic and international economies.⁶ National propensities toward the "neoliberal agenda" of state reform would be strongest in countries with relatively powerful banking and export sectors; those most closely linked to U.S. or European markets; and/or most dependent on international capital flows to finance balance of payments. Impulses would be weaker in countries with larger domestic markets and/or with more limited prospects for integration into global trading blocs.

Finally, political-economy approaches imply the relative importance of "demand-side" pressures in the process of state reform. Political actors and institutions may play a role in resolving collective action problems: in fact, initiative for both macroeconomic policy reform and

⁶ For seminal statements of this position, see Peter A. Gourevitch, *Politics in Hard Times*, (Ithaca: Cornell University Press, 1986); Ronald Rogowski, *Commerce and Coalitions* (Ithaca: Cornell University Press, 1990).

corresponding institutional changes has come mainly from heads of government and their top financial advisors, whose large national constituencies provide them with the greatest economic stake in aggregate economic performance. But political actors are viewed primarily as brokers or entrepreneurs whose power depends primarily on being able to appeal to underlying economic interests for support of both policy reform and changes in state institutions.

How useful are these hypotheses for understanding the politics of state reform in Eastern Europe and Latin America? A cursory survey of available evidence on central bank reform points to a number of empirical patterns consistent with these arguments. First, as suggested, the contemporary trend toward formal central bank independence does provide some support for the convergence hypothesis. Between 1989 and 1993 -- a period of rapidly accelerating investment in "emerging markets" -- Maxfield observes 23 instances of *de jure* central bank authority, almost twice the total number registered during the preceding thirty years. Eleven of the 23 reforms were in Latin America (Argentina, Chile, Colombia, Mexico, and Venezuela), and Eastern Europe (Bulgaria, the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic).⁷

The demand-side hypotheses sketched above also receive at least indirect support from the fact that reforms were instituted in such a wide variety of political systems. Reforming countries included both parliamentary and presidential regimes, central and federal constitutions, fragmented and relatively well-consolidated party systems. Predictably, these changes have tended to lag in Russia and Brazil. Both are continental nations with huge domestic markets and important actors who prefer to continue to safeguard their shares of national income through administrative controls, despite the substantial costs that may be incurred in macroeconomic instability.

More direct evidence for demand-side hypotheses, finally, is available from existing cross-national statistical studies, which show that central bank independence is closely linked to the

⁷ Maxfield, *Gatekeepers of Growth*, 24.

strength of banking and financial sectors in national economies, and only much less so to variations in party systems and regime stability.⁸

On the other hand, while this evidence points to the potential utility of political-economy approaches as a point-of-departure for an analysis of state reform, there are reasons to doubt that the strong versions of the preceding hypotheses can be generalized beyond reforms of central banks, finance ministries, and other macroeconomic institutions privileged by the concerns about stabilization and trade reform that dominated the policy agenda of the 1980s and early 1990s.

First, the administrative difficulties of creating or strengthening elite macroeconomic agencies are generally less severe than those of reforming larger, service-providing segments of the state apparatus. Initiatives regarding the reform of central bank statutes can draw on relatively well-defined international models. Staffing and budget requirements of Central Banks and Finance Ministries are also generally more limited than those of larger "line" agencies. Moreover, the reform of elite macroeconomic agencies can be undertaken without significantly reducing opportunities to dispense patronage in other parts of the state apparatus. This was the pattern, for example, in Bolivia after 1985 or in Mexico during the 1980s and 1990s.

Financial markets, finally, have more limited stakes in issues that lie outside the domain of macroeconomic management; their primary concerns are with the institutions which deal with exchange rates, balance of payments, and monetary policy. This has not, as noted, precluded the

⁸ William Roberts Clark, "Party Structure, Regime Stability, and the Governmental Supply of Central Bank Independence," delivered at the 1994 Annual Meeting of the American Political Science Association, New York, September 1-4, 1994.) Adam S. Posen, "Why Central Bank Independence Does not Cause Low Inflation: There is no Institutional Fix for Politics," in R.O O'Brien, ed., *Finance and the International Economy*, 7, (Oxford: Oxford University Press, 1993).

World Bank and other segments of the international policy community from opening debates about other aspects of state reform, including decentralization of social services, regulatory reform, social security, etc. While the reform agenda is broader, however, there is still considerable uncertainty about how specific institutional arrangements might affect policy implementation.

Such uncertainty provides politicians with greater leeway to respond to the interests of particular domestic clienteles. Indeed, in Latin America, both the extent and pace of decentralizing reforms have been highly uneven and heavily influenced by domestic politics. In some countries -- Chile is the clearest example -- efficiency goals emphasized by international financial institutions played an important role in the trend toward decentralization.⁹ On the other hand, in countries such as Brazil, Colombia, Bolivia and Venezuela, the strengthening of local governments was motivated more strongly by a number of other factors: democratic reactions against centralizing military governments; presidential efforts to reduce the power of national corporatist elites; and concerns to integrate grass-roots groups into the political system. Finance Ministers and other economic officials were often left outside the planning loop leading to these reforms and frequently objected to many of their provisions on efficiency grounds.¹⁰

Even in the area of macroeconomic institutions, finally, it is important not to exaggerate the pull of international forces toward greater institutional centralization. Regardless of their formal authority, neither central banks nor finance ministries can function effectively without some capacity to enforce compliance of public agencies in accounting for revenues and expenditures flowing through the state bureaucracy. As the Soviet/Russian experiences demonstrate quite vividly, plugging illegal local and regional leaks in such flows can be a major challenge for central authorities.¹¹ More

⁹ The more appropriate term in the Chilean case is "deconcentration:" greater delegation of authority to local officials within the central state.

¹⁰ Fernando Rojas, personal communication, March 1996.

¹¹ Christine I. Wallich, "Fiscal Decentralization: Intergovernmental Relations in Russia" (The World Bank: Washington, D.C.: Studies of Economics in Transition, Paper Number 6, 1992); Alexander Neuber, "Fiscal Federalism or Fiscal Separatism: A Second Look at the Russian Federation in 1992/1993" (EBRD: London, June 1994).

broadly, the extraction of revenues involves particularly complex systems of monitoring and quasi-voluntary compliance that can strain the administrative and political capacities of even the most advanced state bureaucracy.¹²

¹² Margaret Levi, *Of Rule and Revenue* (Berkeley and Los Angeles: University of California Press, 1988).

With specific regard to the issue of central banks, it is crucial to distinguish between reforms which increase statutory independence of monetary institutions, and actual capacity of monetary authorities to make independent decisions. Quantitative evidence analyzed by Cuckierman, Webb, and Neyapti strongly suggests that *de jure* central bank independence is not highly correlated with actual tenure of monetary officials, and is a poor predictor of monetary stability in developing countries.¹³

Widespread assumptions about the design and role of such institutions will require further reexamination in the context of the Mexican peso crisis of 1994-1995; in that case, quite obviously, an independent central bank was not sufficient to prevent an explosion. This experience does not disprove the proposition that *some form* of centralization and insulation may be important for overcoming coordination problems associated with stabilization and the liberalization of trade; it does encourage a reopening of debates about how this might be accomplished, and the extent that it can be coordinated with other aspects of state reform.¹⁴

Part II. Rational choice institutionalism

¹³ Alex Cukierman, Steven B. Webb and Bilin Neyapti, "Measuring the Independence of Central Banks and Its Effect on Policy Outcomes" *The World Bank Economic Review* 6,1 (1992) 353-398.

¹⁴ For a recent comparative study regarding the importance of centralized fiscal controls, see Albert Alesina, Ricard Hausmann, Rudolf Hommes, and Ernesto Stein, "Budget Institutions and Fiscal Performance in Latin America" (IDB: September 1995).

Rational choice institutionalism has focused primarily on electoral politicians as "suppliers" of public policies and of the administrative means to implement them. Other actors, of course, also lie within the domain of this approach, including the economic actors discussed in the preceding section; indeed, many of the key concepts of rational choice institutionalism derive from the analysis of principal-agent and transaction cost problems within economic hierarchies. Political scientists who work within this approach, however, have generally concentrated on the strategic political choices of party leaders, legislators, and elected heads of government. As suggested in the introduction, the basic premise is that the behavior of these actors, including their responses to constituent demands for reform, will depend on the way the rules of the political game structure the competition they face from other politicians.

In preceding decades, rational choice institutionalism has been applied empirically principally to United States electoral and representative structures, particularly the U.S. Congress.¹⁵ With the spread of electoral politics in Latin America and Eastern Europe, however, it is plausible that many of the conceptual tools and propositions developed in the United States institutional context can be adapted to an analysis of the countries of those regions. As I shall suggest below, it is quite possible to question the utility of imputing simple power-seeking goals to electoral politicians -- a common assumption of rational choice institutionalism. Nevertheless, politicians who pursue electoral office can arguably be expected to have an increasingly important role in deciding issues related to recruitment, budget, and mandate of government agencies.

¹⁵ See G.J. Miller and T.M. Moe, "Bureaucrats, Legislators, and the Size of Government." *American Political Science Review* Vol. 77, 1983, pp. 297-323; Barry A. Weingast, "A Rational Choice Perspective on Congressional Norms," *American Journal of Political Science* Vol. 24, 1979, pp. 245-263; Morris P. Fiorina, *Representatives, Roll Calls, and Constituencies* (Boston: Lexington Books, 1974); Kenneth A. Shepsle, "Institutional Arrangements and Equilibrium in Multidimensional Voting Models," *American Journal of Political Science*, Vol. 23, 1979, 27-59.

Barbara Geddes has argued that in confronting issues of state reform, politicians must deal with tradeoffs between maximizing their personal chances for political survival and the collective goals they pursue as members of a party or of the "political class" as a whole.¹⁶ Because of its stake in the survival of the electoral system, the "political class" as a whole presumably has an interest in supporting the construction of public bureaucracies that can provide broad collective goods. As members of parties, politicians may also wish to encourage the appointment of meritocratic bureaucratic agents who can implement programs on behalf of large blocs of voters. On the other hand, the political survival of individual politicians may depend on political constituencies built through patronage and discretionary control over the distribution of public funds. This provides a strong incentive for them to oppose bureaucratic "rationalization." Institutional roles and the distribution of political resources will affect the kinds of choices actors make with respect to these objectives. Heads of state and leaders of large national parties can be expected to have some interest in overcoming collective action impediments to reform, because they must appeal for the support of nation-wide constituencies. As Geddes suggests, however, the inclination to pursue such goals will be affected by the actors' time horizons and their control over their own political coalitions. Political rulers threatened by military coups are less likely to relinquish patronage resources than those who can reap the long-term rewards of an effective development program. Reform initiatives are also less likely in systems where party fragmentation or indiscipline increase the executive's vulnerability to the demands of coalition partners and of rivals within their own party.¹⁷

The choices of legislators will also be affected by the way party systems and legal structures affect their chances for reelection. In a recent essay, Stephan Haggard has summarized a number of factors that may lead them to acquiesce to bureaucratic reform.¹⁸

¹⁶ Barbara Geddes, *The Politicians' Dilemma* (Berkeley: University of California Press, 1994).

¹⁷ Geddes, *Politicians' Dilemma*, pp. 133, 154.

¹⁸ The following paragraphs draw extensively on the work of Stephan Haggard, "The Reform of the Bank in Latin America" unpublished, 1995.

(a) The relative importance of programmatic appeals in structuring electoral support: the importance of patronage declines in systems where voters evaluate candidates in terms of their association with a particular party or program. Politicians in turn have a greater incentive to cooperate in the establishment of agencies with the capacity to implement preferred programs.

(b) The extent to which legislative politicians depend on national party leaders for nomination and position on the ballot. Intra-party competition is encouraged in open-list ballots as in Brazil, in systems with primaries, and in systems in which voters can choose individual candidates or competing lists within the same party. The greater the intra-party competition, the greater the incentive for politicians to resist bureaucratic reforms that threaten their capacity to distribute distributive benefits to particularistic electoral followings.

(c) The likelihood that political competitors will be able to gain control over public jobs and bureaucratic resources. As Geddes has argued, in situations where there is a rough parity among parties, politicians may conclude that their own losses of control over patronage can be offset by reforms which deny this control to their competitors.¹⁹

Constitutional design, finally, can also play a role in structuring the way in which executives and legislators interact over issues of reform. Party discipline tends to be stronger in parliamentary systems because the capacity to dissolve legislatures provides executives and party leaders with a major source of leverage over the legislative rank and file. In presidential systems, independent legislative mandates weaken the inclination for legislators to back executive leadership when initiatives conflict with the distributive interests of their individual constituencies.

Terry Moe has argued that presidential systems also affect the incentive of legislators to rely on formal legislative restrictions to control bureaucratic behavior. Because the system of checks and balances makes laws difficult to reverse, politicians seek to protect their interests by entangling

¹⁹ Geddes, *Politicians' Dilemma*.

bureaucratic agencies in "detailed restrictions, formally embedded in legislation."²⁰ In parliamentary systems, the fusion of legislative and executive authority arguably makes it easier for new political majorities to change existing legislation. Consequently, the incentive to impose formal restrictions is relatively weak, and both politicians and bureaucrats and party politicians tend to rely instead on reputation and consultation to make credible commitments to constituent interests. Other things equal, Moe suggests, parliamentary systems are likely to have bureaucratic agencies better suited to the jobs they are expected to do.²¹

²⁰ Terry M. Moe, "Political Institutions: The Neglected Side of the Story," *Journal of Law, Economics, and Organization*, Vol. 6, Special Issue 1990, pp. 240.

²¹ Moe, "Political Institution", 242.

Efforts to examine these hypotheses empirically remain thin, but they provide important potential entry points for an examination of a number of characteristic weaknesses of civil service bureaucracies. Hunger for patronage, for example, undoubtedly helps to explain why politicians have generally responded to fiscal crises by cutting public wages across the board rather than by prioritizing programs and reducing public employment. In Brazil -- a textbook case of weak and unstable parties -- public employment actually grew by 65 percent during the 1980s, with a heavy concentration of patronage appointments at the municipal level.²² Impressionistic evidence suggests a similar pattern in some Eastern European countries, although comparable data are lacking. Patronage appointments clearly expanded in Poland, for example, following the victory of the Peasant Party in 1993.

Institutional rational choice perspectives may also contribute to an understanding of dilemmas associated with administrative decentralization. Heads of government and cabinet ministers are reluctant to yield discretionary control over hiring and resource flows, despite administrative overloads on top decision-makers, problems of inter-agency coordination, and the manipulation of information by subordinate officials. Under certain circumstances, however, they may attempt to by-pass rival power-holders at the national level by delegating authority to local government units.²³ This process can potentially lead to efficiency and equity gains, as well as to

²² Helio Zylberstajn, "Pay and Employment Issues in the Brazilian Civil Service," in Chaudhry *et al*, eds., *Civil Service Reform in Latin America*, p. 128.

²³ Decentralizing reforms undertaken in Venezuela during the early 1990s provide an example of such processes, as did efforts by the Salinas administration in Mexico to deconcentrate the delivery of social services through the National Solidarity Program. In much more autocratic settings, the attempt to forge new alliances at the regional and

broadened democratic participation; but it can also result in local bossism, overlapping administrative jurisdictions and serious problems of fiscal coordination.

local level was also an important element in the strategy of reformist leaders in China and the Soviet Union. See Susan L. Shirk, *The Political Logic of Economic Reform in China* (Los Angeles: University of California Press, 1993), and Philip G. Roeder, *Red Sunset: The Failure of Soviet Politics* (Princeton: Princeton University Press, 1993).

An important step in assessing the explanatory power of institutional rational choice perspectives is to ascertain whether cross-national differences in such patterns of bureaucratic organization do in fact correspond to the sorts of variations in representative and party systems discussed above. Such comparisons, unfortunately, are difficult to make. One problem is the scarcity of cross-national data on civil service organization. Even more important, the pervasiveness of clientelistic and unstable party systems in both regions make it hard to observe much variation in the independent variable. It is useful to note, however, that the Chilean civil service -- one of the most professionalized and honest in Latin America -- initially took root within the context of democratic competition among ideologically-differentiated parties, while Brazil's decentralized and unstable party system provides a paradigm case of impediments to bureaucratic reform. Most of the ex-Communist countries are still dealing with state bureaucracies created under the preceding regimes. Over time, however, cross-national differences in the evolution of programmatic parties could widen the contrasts between state bureaucracies in Central and Eastern Europe.²⁴

Comparisons among Eastern European and Latin American countries can also provide important opportunities to study the effects of parliamentary and presidential regimes on bureaucratic organization. The maze of formal regulations that surround bureaucracies in Latin America seems to conform relatively well to what might be expected in presidential regimes. Because of the absence of alternative constitutional arrangements, however, causal relationships have been difficult to assess through intra-regional comparisons. Eastern Europe's wide array of parliamentary and semi-presidential systems provides a much broader range of variation and opens the possibility for fruitful cross-regional analysis.

Rational choice institutionalism, with its strong emphasis on the microfoundations of political behavior, thus has promise as a powerful tool for analyzing the way electoral and

²⁴ Herbert Kitschelt, "The Formation of Party Systems in East Central Europe," *Politics and Society* 20, 1, 1992.

representative institutions mediate demands for state reform. Among other things, it helps to explain why -- despite the globalization of trade and capital markets -- many governments do not redesign state institutions in ways that might promote greater international competitiveness. In that respect, it is complementary to some of the insights offered by the political economy approach.

But the approach also has important limits. First, rational choice institutionalism tends to be most useful in stable, "repeated-play" situations, in which the rules of the game are clear and there is relatively good information about the preferences of other actors. The utility of such assumptions is much more questionable, on the other hand, in the new and still poorly-institutionalized constitutional governments of Eastern Europe and Latin America.

In the United States Congress, the first empirical "home" of rational choice institutionalism, it is quite plausible to argue that decisions about the structure and function of the bureaucracy reflect the calculations of politicians seeking election. Conditions are obviously quite different in many of the countries of interest here. Widespread debate continues over basic constitutional issues in Poland, Russia, and Mexico. In Brazil and Argentina, as well as in these other countries, there is considerable uncertainty over such questions as federalism and the right of incumbent presidents to be reelected. Colombia, Venezuela, and Peru have all recently experienced widespread constitutional reforms, and electoral laws are subject to contestation almost everywhere.

Even in these countries, existing laws are far from irrelevant to the choices of important political actors -- as writers such as Geddes and Ames have clearly demonstrated in the case of Brazil. Compared to members of the United States Congress, however, actors in many parts of Latin America and Eastern Europe must make choices on the basis of limited information and short time horizons. Interestingly, in these situations another type of rational choice approach -- game theory -- may be more useful than the institutionalist version in predicting outcomes. But in comparatively uninstitutionalized political situations, many of the actors are likely to pursue goals other than political power -- for example, personal enrichment or publicizing an ideological position.²⁵ And

²⁵ Interviews conducted by Barry Ames, for example, show that a high percentage of Brazilian legislators enter

there is a much greater probability that their choices with respect to bureaucratic reform would be the product of miscalculation.

Another apparent limitation of institutional rational choice perspectives is that they are in some respects better suited to identifying the impediments to bureaucratic reform than to explaining why changes come about. Politicians can, to be sure, seek to change institutions if it is in their interest to do so; strong preferences for change within the electorate may provide incentives for political entrepreneurs to incur the costs of overcoming barriers to collective action. Yet a basic premise of the rational choice perspective is that existing bureaucratic organizations reflect the preferences of powerful politicians who benefit from control over appointments and funding.²⁶ Thus, the initial impulse to reform is likely to come from demands emanating from society or the international system, rather than from within the state itself.

politics to pursue business careers within their districts and are not interested in remaining in the legislature for more than one or two terms.

²⁶ For an extended elaboration of this point outside our two regions, see Mark Ramseyer and Frances Rosenbluth, *Japan's Political Marketplace* (Cambridge: Harvard University Press, 1994).

Analysts who work within the institutional rational choice perspective generally recognize, of course, that external shocks and societal demands are essential "starting points" for analyses of reform politics; their point is that political preferences and institutional constraints mediate the responses to such demands.²⁷ To treat such demands as "givens," however, implies that the most important impulses for reform remain exogenous to the theoretical framework. This begs crucial questions about the conditions in which societal groups are mobilized to press for institutional transformations, their strength vis-a-vis opposing interests, and their capacity to affect the overall outcome of the reform process. The extent to which politicians mediate such outcomes, moreover, has by no means been fully demonstrated empirically -- a point that most rational-choice theorists would readily acknowledge. In Latin America, as Scott Mainwaring has noted, demands for bureaucratic reform have come from a variety of social movements and NGOs. Pressures for political decentralization have been especially important, and have contributed to major legal and constitutional changes in a wide variety of countries, including Colombia, Brazil, Venezuela, Bolivia, Mexico, and Argentina.²⁸

Electoral politicians and legislatures, moreover, are not the only channels through which demands for reform can be implemented. In the United States, the courts have played a central role in reshaping governmental institutions, relying on institutional interests and professional standards that were typically quite different from those of electoral politicians. In Latin American and Eastern European judiciaries are far weaker, but could nevertheless eventually become important arenas for contesting the scope and authority of executive agencies. In Brazil, where judges have long been selected through rigorous competitive examinations and generally maintain high professional standards, popular movements and social reformers have already begun to turn to the courts to press

²⁷ See Matthew S. Shugart and Daniel L. Nielson, "A Liberal Dose: Electoral Reform and Economic Adjustment in the Wake of Crisis," presented at the 1994 Annual Meeting of the American Political Science Association, New York, September 1-4, 1994.

²⁸ Scott Mainwaring, Review of *Politician's Dilemma: Building State Capacity in Latin America*, by Barbara Geddes. *American Political Science Review*, Vol 88., No. 4, December 1994, p. 1026.

for the implementation of social welfare policy and corresponding changes in administrative practice.²⁹

Finally, the capacity of electoral politicians and other groups to influence bureaucratic reform is also constrained by historical legacies. State bureaucracies in Latin America and Eastern Europe have not been created *de novo* by contemporary electoral politicians; they have been shaped in fundamental ways by prior regimes. Politicians in the ex-socialist countries must deal with powerful constellations of interests organized originally around the nomenclature and the command economy. David Stark and Laszlo Bruszt have shown, for example, how decisions on privatization have been constrained by the types of inter-firm networks which evolved during the Communist period.³⁰

In Latin America, contemporary politicians are constrained by the bureaucratic legacies of past political bargains forged under both authoritarian and democratic regimes. Centers of power backed by pensioners, public-sector unions, or industrial clienteles have proved very difficult to change in most countries. State reform in Argentina, Brazil, or Chile cannot be analyzed without careful consideration of the legacies of a Peron, Vargas, or Pinochet.

²⁹ James Holston, "Judicial Reform, Alternative Law, and Social Conflict in Democratizing Brazil," Department of Anthropology, University of California, San Diego, 1996.

³⁰ David Stark, "Path Dependence and Privatization Strategies in East Central Europe," *East European Politics and Societies* 6,1 (Winter 1992); David Stark and Laszlo Bruszt, "Network Properties of Assets and Liabilities: Patterns of Inter-Enterprise Ownership in the Postsocialist Transformation," presented at the workshop on "Dynamics of Industrial Transformation: East Central European and Asian Comparisons," Budapest University of Economic Science, May 1995.

Part III. Institutional Sociology

Institutional sociology encompasses a wide array of specific and sometimes opposing modes of analysis. Three broad assumptions, however, tend to differentiate this approach from the perspectives discussed above. The first is that social institutions shape the cognitions and values of individuals who act within them. For both political economy and rational choice perspectives, institutions are systems of rules which constrain the way actors pursue exogenously-positing goals -- income, political power, etc. In institutional sociology, human behavior is "embedded" in a matrix of organizations and informal relationships which provide fundamental filters through which reality is interpreted and basic identities and preferences are created.

Means-ends calculations provide the microtheoretical foundation of the first two perspectives; in institutional sociology, conversely, the rationality calculus is bounded by habit, imitation, aversion to subjectively-defined risk, etc. Hall and Thorp usefully summarize a key implication for understanding state reform: "The panoply of existing institutions," they write, "provide a delimited set of templates on which those seeking new or better institutions draw."³¹

³¹ Hall and Thorpe, "The New Institutionalism", p.20.

A second feature -- although one which is somewhat less widely shared than the first -- is the weight attached to domestic society and to historically-determined and distinctive institutional infrastructures that persist in the face of changes within the international system. Social organizations, to be sure, may pursue legitimacy and status by adopting practices and organizational features of influential global competitors. This possibility is strongly implied in the seminal "isomorphism" hypothesis of DiMaggio and Powell, for example, and may help to explain contemporary international trends toward central bank independence.³² As DiMaggio and Powell emphasize, however, organizational changes undertaken to enhance power or status may be suboptimal from the perspective of enhancing international competitiveness.

More important, most who work within the tradition of institutional sociology are skeptical of international convergence theories, and emphasize the path-dependent character of social and political transformations within individual national societies and sub-national regions. This theme appears recurrently, for example, in the work of Stark and Bruszt on changes in Eastern Europe. Although command economies have collapsed, they argue, political resources that evolved within the framework of the old structure are providing the building blocks for the construction of the new

³² Paul J. DiMaggio and Walter W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality," *American Sociological Review* 48 (April): 147-160; republished in *The New Institutionalism in Organizational Analysis*, edited by Walter W. Powell and Paul J. DiMaggio. (Chicago and London: The University of Chicago Press, 1991). "Epistemic communities" of economic professionals and central bankers would conceivably provide the main mechanism through which influence was exerted, Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," *International Organization* 46,1, Winter 1992.

order. It is thus important to focus on the way new elements combine with "adaptations, rearrangements, permutations, and reconfigurations of already existing institutional forms."³³

³³ Stark, "Path Dependence and Privatization Strategies in East Central Europe," p.22.

Finally, writers within the institutional sociology tradition tend to challenge the utility of the dichotomous distinctions between "state" and "market" which characterize both political economy and rational choice perspectives. Institutional sociologists are inclined instead to focus on the associational spaces that exist between the authority of the state and the exchange relations of the market. Informal networks, formal associations, and other civic groups that fill these spaces provide critical mechanisms of coordination and resource allocation within societies. In the long-run, they suggest, making government effective and accountable may depend as much on the strength of "civil society" as on the structure of public institutions themselves.³⁴

The capability of states to foster development and implement social services is arguably enhanced in several ways by links to dense underlying constellations of networks and private associations. Such associations provide public authorities with information and political support. They also impact directly on the quality of public services as watchdogs and monitors of governmental performance. Finally, civic associations can also contribute indirectly, as Robert Putnam has suggested, by encouraging norms of reciprocity and mutual trust essential to collaboration in both the public and private sectors.³⁵

The importance of these linkages in the economic sphere has been explored in advanced capitalist countries in work edited by Hollingsworth, Streeten, and Schmitter, and is a central theme in Peter Evans' influential research on the "embedded autonomy" of East Asia's developmental states.³⁶ Evans pays particular attention to the way in which links to such associations enables state officials to elicit information and the cooperation of business sectors. Hollingsworth *et al* offer a

³⁴ See for example, J. Rogers Hollingsworth, Philippe C. Schmitter, and Wolfgang Streeck, eds., *Governing Capitalist Economies: Performance and Control of Economic Sectors* (Oxford: Oxford University Press, 1994), especially J. Rogers Hollingsworth and Wolfgang Streeck, "Countries and Sectors: Concluding Remarks on Performance, Convergence, and Competitiveness." pp. 270-301.

³⁵ Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993).

³⁶ Hollingsworth, Streeck, and Schmitter, *op.cit.*; Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995).

slightly different, but complementary, hypothesis: that networks and associations can take on coordinating functions that reduce the "load" on state officials and overcome uncertainties that otherwise inhere in volatile and unpredictable markets.

In Latin America and Eastern Europe, the utility of the state-market dichotomy has been increasingly challenged as well, especially in the aftermath of the "big-bang" macroeconomic reforms of the 1980s and early 1990s. The capacity to respond to new challenges such as deepening capital and labor markets, encouraging domestic savings, and promoting exports, may depend on the way networks and associations mediate the relation between governments and firms. This is the central premise underlying Stark and Bruszt's work on property reform in Eastern Europe and recent research on state-business relations in Latin America.

Eduardo Silva's work on Pinochet's Chile provides a useful illustration of this perspective for Latin America.³⁷ He contrasts the isolation of state officials during the 1970s with the development of more systematic modes of consultation with the private sector during the 1980s. These included the establishment of closer relations with business peak associations, the inclusion of private-sector representatives on policy-making committees, and the direct incorporation of business leaders into sub-secretarial positions within the cabinet. Such arrangements, Silva argues, account for the successful recovery from the economic crisis of 1982-1983.³⁸

³⁷ Eduardo Silva, "Capitalist Coalitions, the State, and Neoliberal Economic Restructuring: Chile 1973-1988." *World Politics* 45 (1993); Ben Ross Schneider and Sylvia Maxfield, "Business, the State, and Economic Performance in Developing Countries," in Maxfield and Schneider, eds., *Business and the State in Developing Countries* (forthcoming, Cornell University Press, 1997).

³⁸ *Ibid.*

The skepticism about the state-market dichotomy found in such work clearly has a normative as well as an analytical component. Writers such as Evans, Silva, and Stark and Bruszt are inclined to doubt that price signals provide sufficient incentive for efficient economic activity -- or that governments uniformly have the information necessary to correct market failures. States and markets are both important for the coordination of social activity, but they work best, the argument runs, when they are rooted in networks and associations which cushion risks and build trust among the relevant economic actors.

This emphasis on trust and the negotiation of shared goals among state and social actors also offers a basis for understanding the evolution of state capabilities in the provision of social services. Evans alludes briefly to this point in his discussion of the Indian state of Kerala, where citizens have built on a long history of social activism to organize close oversight of health clinics and the educational system. As a consequence, Kerala ranks relatively high on most measures of public health, life expectancy, and literacy, notwithstanding very low levels of per capita income.³⁹

Robert Putnam comes to very similar conclusion in a much more sustained empirical and theoretical comparison of regional government in Italy -- a work appropriately entitled *Making Democracy Work*. Putnam's analysis is built around trust and expectations of reciprocity that evolve from participation in civic associations. These expectations constitute a form of "social capital" that facilitates cooperation in both politics and economic life. Successful cooperation, argues Putnam, breeds expectations of further success; thus, unlike other forms of capital, the stock of social capital grows as it is used.⁴⁰

Putnam's writing, along with that of several other authors discussed in this section, is not necessarily inconsistent with arguments emphasizing economic and political institutions, but does significantly refocus explanations of state capabilities. While Putnam acknowledges the importance

³⁹ Evans, *Embedded Autonomy*, pp. 235-240.

⁴⁰ Putnam, *Making Democracy Work*, pp. 163-187. For an important critique and extension of this line of argument, see Richard M. Locke, *Remaking the Italian Economy* (Ithaca: Cornell University Press, 1994).

of institutional design, his main message concerns the strength of civil society. Thus, in Italy, political decentralization augmented opportunities for local participation and helped to reduce ideological polarization. But regional governments with virtually identical structures and legal mandates performed quite differently, depending on the density of associational life within their respective regions.

At the most fundamental level, the emphasis on the structure and density of associational life may be particularly relevant to the capacity of states to provide law and order. In many parts of Eastern Europe and Latin America, vicious circles of official corruption and citizen mistrust have reached crisis proportions. In both regions, economic crisis and the dislocations of adjustment efforts have led to an upsurge of violent crime and to the increasing privatization of police functions in most wealthy neighborhoods. Drug mafias have become deeply entrenched in the Andean countries, Mexico, and some parts of the Caribbean. Weak judiciaries and poorly-trained police forces have been overwhelmed by such problems. Underpaid and undertrained, the police operate in many countries as predators, rather than as protectors of citizens' rights.

If these patterns are to be reversed, strong civil societies are likely to play a pivotal role. In communities that lack a strong tradition of civic association, individual citizens are isolated and therefore vulnerable both to police predation and to risks of reprisals for collaborating with public authorities. In societies where participation in civic life has encouraged traditions of mutual assistance and social responsibility, these risks diminish. Citizens who "come forward" -- whether to collaborate with police or to demand accountability -- are more likely to expect and receive the support of their neighbors. Strong civic associations and strong states thus go together.

In this context, it is important to note that community organizations and civic movements have mushroomed throughout Latin America, particularly in poor urban neighborhoods.⁴¹

⁴¹ For an interesting discussion of new types of "associative networks" in Latin America, see Douglas A. Chalmers, Scott B. Martin, Kerianne Piester, "Associative Networks: A New Structure of Representation for the Popular Sector?", *The New Politics of Inequality in Latin America*, edited by Chalmers *et al* (Oxford: Oxford University Press, 1996).

Organizations range from food cooperatives and neighborhood improvement associations, to groups organized around ethnic, gender, or religious identities. Despite widespread poverty and inequality, they appear to have become important and irreversible new facts of social life. The long-term impact of such associations may not be known for decades. But if Putnam (and Tocqueville) are correct, they may prove to be fundamentally important assets in the political and economic modernization of Latin America -- even, or perhaps especially, in Mexico, Colombia, Peru, Brazil, and other societies in which the maintenance of law-and-order seems deeply problematic.

For all of these reasons, institutional sociology seems relevant to several basic problems of governance in both Latin America and Eastern Europe. Nevertheless, as an analytic approach, it also suffers certain limitations.

First, the microfoundations of political sociology are vague. With their emphasis on preference-formation, and social organization, sociological perspectives provide a potential complement to collective action problems highlighted by game-theoretic and rational choice theories. But sociological theories themselves generally provide few general guidelines to direct us toward who the relevant actors are, or on what psychological basis their preferences are formed. Cognitive psychology might fill this lacuna, as Dimaggio and Powell suggest. Research on risk aversion and information processing, for example, might usefully shed light on the "stickiness" of political institutions. At this point, however, findings from psychology have yet to be incorporated into the mainstream organizational literature.

In part because individual motivations are not clearly specified, current sociological theories are also weak in explaining the origins of existing networks and patterns of association, or the dynamics through which they change. Almost all writers assume, correctly, that existing institutional infrastructures are products of earlier social conflicts and bargains. But when stated so broadly, this assumption either becomes indistinguishable from simple historical description, or slides into highly implausible path-dependent explanations. Putnam's otherwise excellent study of regional differences in Italy provides a good example of the latter. He traces the origins of cross-regional differences in

associability to developments eight centuries earlier: to the hierarchical social order established in the south under the twelfth-century Norman regime, and the communal patterns of social organization that evolved concurrently within medieval towns of the north.⁴²

A third problem, relevant both to academic analysis and public policy, is that institutional sociological perspectives generally fail to specify *ex ante* how variations in types of networks and associations might be expected to affect the operations of the state or the economy. Behavior within associations and networks can be directed toward confrontation or the extraction of rents, as well as toward more productive forms of collaboration with political authorities and economic actors. Looking at specific instances of associational activity, how would we know whether to expect "good" results or "bad?"

Putnam emphasizes the distinction between hierarchically-structured associations and ones with more egalitarian relations among members. Social capital, he argues, is fostered by cooperation among equals, whereas vertical ties encourage exploitation, shirking, and the manipulation of information. Another approach is to focus on the types of linkages among community organizations, rather than the sheer density of horizontally-structured associations. Richard Locke has argued, for example, that the more polarized such inter-associational networks, the lower the chances for cooperative problem-solving behavior. Empirical research into both propositions, however, is still at a very early stage.

In the final analysis, it is possible that the impact of associational life may depend less on the "internal" properties of associations and networks than on the bureaucratic structures and political institutions within which they operate. This is implicit in Peter Evans' attempt to explain why connections between "developmental states" and society do not degenerate into the provision

⁴² Putnam, *Making Democracy Work*, pp. 121-148.

of rents: the answer, he says, is not in particular forms of "embeddedness," but in the autonomy of the state.

Along similar lines, we might speculate that a number of economic and institutional conditions might have a fundamental effect on the role played by associations and networks in the operations of the state. These would include: 1. The imposition of a "hard budget constraint" via strong macroeconomic institutions that impose strict fiscal and monetary discipline. 2. The liberalization of trade and competitive exchange rate policies. 3. The forms of political access offered to community-based groups through political decentralization and other institutional reforms. These factors, it should be noted, are precisely the ones emphasized in political economy and rational choice perspectives.

Conclusions

The observation that there are areas of agreement or complementarity among the three approaches should not obscure important differences in emphasis and assumptions. Political sociological approaches in particular stand well apart from the other two. The most basic points of divergence concern the importance attached to reflexive social behavior and the "public" functions of networks and associations; these arguments cut directly against the rationality assumptions and the strong state-society distinctions found at the core of the IPE and rational choice approaches.

Differences about the dynamics of state reform are only slightly less sharp. These revolve mainly around the hypothesis that state institutions will converge in response to economic globalization and political entrepreneurship. Sociological theories do not always rule out the possibility of cross-national convergence, but they place far greater emphasis on the "stickiness" of existing social institutions and the constraints imposed by the legacy of earlier struggles and social choices. For this reason, they are usually quicker than either IPE or rational choice theorists to reject

strong convergence hypotheses and to argue that the politics of state reform will follow distinctive national paths.

IPE and rational choice are far more complementary bodies of literature since they share many of the micro- assumptions about individual motivations and behavior. Nevertheless, these approaches place quite different theoretical bets on the kinds of actors who are likely to influence the outcome of conflicts over state reform. For IPE, actors organized around economic interests are decisive. Political institutions may mediate such influences, but over time similar configurations of economic "demands" should lead to basically similar patterns of state organization.

There is no inherent reason, on the other hand, why rational choice theorists should accept such arguments. In their approach, political institutions shape both the capacity of economic interests to engage in collective action and the incentives for politicians to respond. Variations in the structure of such institutions could thus lead the "suppliers" of political goods to respond in widely different ways to the demands of their economic constituents.

Noting these differences -- even when they are only matters of degree -- is important both for clarifying underlying theoretical assumptions and increasing the possibilities of cumulative empirical research. Such an exercise, however, need not imply that, as research proceeds, one approach will be left standing and the others discarded. Indeed, given the highly complex social processes comprised by state reform, it is likely that each of the perspectives discussed above can make important contributions. Thus, the question implied by the preceding discussion of each perspective is not "which will explain the most?," but rather, "what are the domains of research in which each can be most useful?"

IPE perspectives, as I have indicated, seem particularly relevant to reforms of institutions that manage the macroeconomic links to international trade and capital markets. Increased integration of these markets has had an undeniable impact on the incentive of political leaders to administer

monetary and fiscal policy through centralized elite agencies that are insulated from legislative pressures and from the day-to-day control of the executive itself.

On the whole, however, the factors emphasized by IPE approaches -- globalization, interest-group demands, etc. -- do not appear to have a strong direct impact on the organization of state institutions. This is most evident when we move from institutions concerned with macroeconomic management to those dealing with a broader range of issues such as police protection, industrial policy, regulation, and social welfare. State reforms in these areas are less salient to the international financial sector and entail more demands for coordination among government agencies and greater cooperation with groups in civil society. International economic markets are unlikely to impose tight constraints on reforms undertaken in these areas.

Where IPE *does* appear important -- indeed, indispensable -- is in the insight it provides on the determination of the reform agenda now facing most countries of the developing world. Different societies may deal quite differently with these agendas, but most of the issues at stake -- central bank reform, decentralization, and the general image of a "leaner and meaner" state organization -- have been forced onto the table by economic crisis and increased global competition. In this respect, the role played by contemporary trends in international economic competition may be analogous to that played in earlier centuries by international military rivalries in earlier centuries: providing an incentive for rulers to forge new bargains with constituents.

Both rational choice theories and institutional sociology provide important tools for understanding how domestic actors respond to such incentives. As discussed above, the spread of electoral institutions means that members of the "political class" are in a position to play a crucial role in the reform process, particularly with respect to the organization of the state apparatus. This would include questions of staffing, legal mandates, and the allocation of authority and fiscal resources within the government bureaucracy.

Rational choice institutionalism may be most useful for understanding how issues regarding these "intra-state" reforms are resolved. Although the judiciary may become increasingly important, legislatures and other elective institutions "process" most of the issues of bureaucratic reorganization in one way or another. And while the politicians who act within these institutions depend on the support of broader social constituencies, it would be wrong to assume that they do not pursue their own interests with considerable independence.

Sociological approaches, finally, are important for understanding how state organizations become "embedded" in larger social structures, and the ways this "embeddedness" affects the capacity of public officials to deliver collective goods. Both political economy and rational choice approaches also deal with such issues, in the sense that they examine exchanges across the boundaries of state and society. It is only in political sociology, however, that we find systematic examination of cognitive understandings and normative links that underlie these exchanges and make possible the consolidation of stable social equilibria.⁴³ Attention to these non-rational links makes political sociology an essential complement to the other approaches. It is particularly appropriate for examining understandings concerning the boundaries and meanings of the state, the transfers and management of flows of information, and the forms of collaboration that evolve between state officials and actors within the private sector.

⁴³ See North, *Structure and Change*, and Levi, *Of Rule and Revenue*.