MODELS OF GOVERNANCE AND DEVELOPMENT ADMINISTRATION

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Writing on governance and development typically distinguishes two meanings (Leftwich 1993; Williams and Young 1994). The first, 'good government', is concerned with legitimacy, accountability and the limits of state power (Moore 1993). The second, originally invoked by the World Bank (1989: 60), is more concerned with the ability to govern effectively. Here I want to consider applications of a third meaning, which sees governance as the result of the interaction between different models of coordination, including markets and communities, as well as hierarchy, the state or 'the government' (Campbell, Hollingsworth and Lindberg 1991; Kooiman 1993; Larmour 1994).

A triangular relationship between models of organisation was first suggested by Polanyi (1957). To study the economy as an 'instituted process' he proposed an expanded 'tool box', which combined reciprocity, which assumes symmetry between participants; redistribution, which assumes 'some measure of centricity'; and exchange which requires 'a system of price making markets' (1957: 25). Polanyi's 'forms of integration', which correspond to community, hierarchical and market models of organisation, are shown in triangular form in Figure 1.

Any actual process of organising typically involves a mix of ideal typical models (Colebatch and Larmour, 1993). Ideas about hierarchy, community and markets are used by participants to make sense of organizations, and urge reforms, as well as by academics analysing them from outside. Extending the idea that market failure justified government intervention, the 'failures' of any one model provide reasons for the introduction of another (1993: 28-39). Thus 'state failure' might be corrected by the creation or revival of 'community' forms of organisation, as when community-based non-government organisations are called upon to redress the failures of top-down policy implementation.

Hierarchy, market and community do not exactly correspond to three 'sectors' (public, private and voluntary, non-profit or 'third' sector). Relations within the public sector, for example, are not all or exclusively hierarchical. Government departments are partly organised by professional
norms and values, as well as by self-interested exchanges, as in the ‘internal markets’ being introduced for health care in New Zealand and Britain. While they may have a monopoly of the legitimate use of violence, governments are often reluctant to use coercion. Similarly, the ‘private sector’ is partly organised by government legislation, while large firms may be as bureaucratic and rule-bound as any government department. Voluntary organisations develop bureaucratic forms, and compete with each other for clients, members or donations. So each existing sector contains a shifting mixture of models of organising, though one may predominate.

This article uses a triangular model to assemble three lines of theorising: the movement for ‘bringing the state back in’ to political science (Evans et al. 1985; Jessop 1990; Poggi 1990); the new interest in institutional economics (Hodgson 1988; North 1990); and the revival of economic sociology (Friedland and Robertson 1990; Granovetter and Swedberg 1992). Each is a kind of ‘new institutionalism’ in the sense that it believes that institutions matter in structuring the alternatives available to individual actors, and shaping their preferences (March and Olsen 1989). Each links two corners of the triangle of hierarchy, market and community.

Then it considers how the triangle might be extended in time and space, and at two theoretical issues it raises—the problem of drawing a line between state, society and economy, and its basis in model of a rational, self interested individualism. While the main purpose of the article is theoretical, it concludes by suggesting how a ‘governance’ approach might be applied to development administration and training. Concern with the intersection of hierarchy, market and community has a sharp practical edge where governments seek rapid economic growth, or where command economies have collapsed.

Polanyi’s model was originally applied to pre-modern economies. It has been staple of development economics that community structures may resist the introduction of markets, and that the state should act to correct market failures—at least until what Toye (1987) called the ‘counterrevolution’ of the 1980s which rejected earlier rationales for intervention. Neo-liberalism or the New Political Economy noticed that the ‘state’ might ‘fail’ too (Colclough and Manor 1991; Findlay 1990). The New Institutionalist or governance literature deals mainly with the organization of advanced industrial societies (Powell and diMaggio 1991; Steinmo et al. 1992). However, Ostrom (1990) provided a number of cases from developing countries involving governance of natural resources. I applied a triangular model of ‘market’, ‘bureaucracy’ and ‘community’ to land management in Melanesia (Larmour 1990), and Hamilton and Biggart’s (1988) tripartite analysis of business organisation and development in East Asia is discussed below.

The three simple models are related to more complex theoretical objects (‘state’, ‘economy’ and ‘society’) and to disciplinary distinctions between political science, economics and sociology. For the purposes of this paper, hierarchy is treated as equivalent to the state, market to the economy and community to society. Each side of the triangle will be looked at from two directions: the state—society relationship from the ‘hierarchy’ corner, and then from the ‘community’ corner; the state—economy relationship from the ‘hierarchy’ corner and the ‘market’ corner; and so on.

**RELATIONSHIP BETWEEN HIERARCHY AND COMMUNITY**

Theorists of ‘bringing the state back in’ have distinguished between ‘society-centred’ view of the relationship, and their own more ‘state-centred’ views. Skocpol (1985: 4–7) argued that both Marxism and pluralism are ‘society-centred’ in that they explain state activity in terms of economic and social conditions: modes of production, or interest group pressures. Marxists tend to see the state as an effect of more fundamental social conflict—once this is resolved, then the state can revert to more technical and administrative activity. Pluralism is also ‘society-centred’ in so far as it explains state action as the result of voter demands
or pressure group activity.

A strongly society-centred view is Adam Smith's famous 'three duties of the sovereign':

- first, the duty of protecting the society from the violence and invasion of independent societies
- second, the duty of protecting, as far as possible, every member of the society from the injustice and oppression of every other member of it, or the duty of establishing an exact system of justice
- third, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain, because profit could never repay the expense to any individual, or small number of individuals, though it may frequently do much more than repay it to a great society (quoted in Alt and Chrystal 1983: 16).

Instead, state-centred explanations look at the state in its own terms, looking sideways to other states, as well as down towards the populations and territories governed. The relationship between state and society is often seen as fundamentally elitist and extractive, as the state uses domestic resources to prosecute its competition with other states. For example, 'bringing the state back in' to the politics of development Migdal (1988) developed a typology of weak and strong states and societies in which chiefs and local strongmen constituted strong societies that could resist the penetration of states. Migdal defines state strength in terms of the ability of state elites to impose their preferences on the rest of society, measured by popular compliance with legislation, popular participation in state run institutions, and the legitimacy accorded by the population to state elites (Migdal 1988: 32).

**RELATIONSHIP BETWEEN HIERARCHY AND MARKET**

As with state–society relations, we can distinguish 'state centred' and 'economy centred' views of the relationship. The classic state-centred view is mercantilism, which saw foreign trade as an instrument of state aggrandisement. It is echoed more weakly in modern ideas that economic development is meant to serve state interests, for example in catching up with other states, or developing an industrial base that can support industry to defend the state against others (for example the idea of 'strategic' rather than 'free' trade is 'state-centred').

Looking from the 'economy' corner of the triangle, the idea of 'market failure' provides an economy-centred justification for the state. It refers to the absence of the conditions of a freely competitive market. The standard list includes

- natural monopolies, caused by low marginal compared to average costs, such as in a telephone network that deters new entrants
- externalities, or costs and benefits that fall on third parties, and so are not taken into account in the decision to start up, or terminate an activity
- information and transaction costs which inhibit trading
- the existence of public goods (the latter being non-rivalrous and non-excludable, so that private producers see no incentive in providing them, however beneficial they might be for others).

Each failure provides a justification for state intervention: to regulate natural monopolies, to force producers to internalise externalities, to reduce information and transaction costs, and to supply public goods. However, the list of natural monopolies has shortened. For example so-called natural monopolies are subject to competition from substitutes (trucks compete with rail networks, for example) or from the mere threat of hit-and-run entry into contestable markets. The state may arrange for regular 'competition for the field' rather than insist on more than one supplier. Similarly, the creation of new forms of property
right may do a more efficient job as the regulation of externalities (Alchian and Demsetz 1973). A tradable right to a quiet night’s sleep might replace noise abatement laws. Noisy neighbours could buy the right out, or move their party elsewhere. More sophisticated forms of charging (such as road pricing), and contracting out may remove most of the justifications for state provision of public goods (the list of which was quite small anyway).

North’s ‘neoclassical theory of the state’ sees the state-economy relationship as one of dynamic exchange, rather than to or fro determination of one by the other. On the one hand rulers seek to provide property rights that will balance their need to tax with the need to facilitate economic growth to provide revenue. On the other hand constituents seek to maximise their profits, including seeking the grant of monopolies from rulers, or by supporting rival rulers. The result, argues North, is contradictory and inefficient. However the tendency of people to prefer to free ride, if they can, on the actions of others will stifle the possibility of collective action to install more efficient regimes that would be to everyone’s benefit (North 1981: 20-32).

North’s later work (1990) draws on the transaction costs approach to institutions pioneered by Coase (1951) and Williamson (Williamson and Ouchi 1981), who explained the existence of hierarchically organised firms, with all their inefficiencies, as a response to the relatively greater costs of making and keeping contracts on the market. At some point it becomes cheaper to do things ‘in house’. Firms are thus ‘islands of conscious power in this ocean of unconscious cooperation’ (Robertson quoted in Coase, 1951: 333), and the state is ‘super-firm’ in the sense that it is ‘able, if it wishes, to avoid the market altogether, which a firm can never do’ (Coase 1960: 17). The state-economy boundary adjusts to the shifting balance of transaction costs and hierarchical inefficiencies. However, the fine-tuning of the state-economy relationship can become stuck. Not only do inefficient institutions get locked into place by the organisations that benefit from them, but high transaction costs and imperfect information prevent more than incremental change (1990: 7-8).

While the boundary of market activity has been expanded by the criticisms of traditional ideas of market failure, supporters of the market have also jumped across the boundary and taken their ideas into their opponents’ camp. ‘Public choice’ refers to ‘the economic study of non-market decision making’ (Mueller 1989: 1), particularly the application of the assumptions of rational self interested behaviour to institutions such as the state. So in spite of its origins in economics, public choice is ‘state-centred’ to the extent that it views the state not as the residual of market activity, but as a new field in which to try out methods of analysis developed to understand the economy.

RELATIONSHIP BETWEEN MARKET AND COMMUNITY

An ‘economy-centred’ view of the relationship between economy and society looks at how trust emerges to stabilise cooperative relationships, and inhibit opportunism. This can be examined experimentally, for example in versions of the famous ‘Prisoners’ Dilemma’ game, in which each side has an incentive to defect from cooperative behaviour that, if both followed it, would leave both better off. Axelrod (1990), for example, showed how cooperation evolved over repeated plays of the game as partners tested and gained confidence in each other.

A ‘society-centred’ view of the economy-society relationship works from the other corner of the triangle. Polanyi, for example, developed the triangular model in Figure 1 as a way of explaining how the the economy is ‘embedded’ in social institutions. However, as Swedberg points out, to say that the economy is embedded still accepts that it is somehow distinct from ‘society’ (Swedberg 1987: 110). A more radically ‘society-centred’ account of the relationship would seek to reconstruct economic models of the market in sociological terms. For example, Harrison proposes a sociological account of markets (Swedberg 1987: 110-112). Rather than seeing markets in economic terms as outcomes of independent decisions to trade homogeneous products, Harrison seeks to…
explain the persistence and stability of markets in which products are more or less distinct. Rather than acting independently—a condition of the model of a freely competitive market—Harrison argues that firms take account of each others past behaviour to select niches for the future. The market persists as a stable structure because individuals act together as if it will—a sociological, rather than an economic explanation. To the extent they are successful in judging the market, it will persist.

**EXTENDING THE TRIANGLE**

The simple triangle of ‘hierarchy’, ‘market’ and ‘community’ can be extended in two ways: in time, to account for historical changes and in space, to account for differences between places. Extending the triangle back through time, the process of development is often seen as one of increasing differentiation between state, society and economy, or of increasing domination of one form (‘the market’) over the others. The ‘relative autonomy’ of each is seen a characteristic of advanced industrial societies. Pre-modern institutions such as chieftaincy combined social, political and economic activities. If so, the triangle extends back by convergence to a single point of institutional fusion. The experience of Thatcherism and Reaganism, the collapse of the planned economies, and the ‘counter-revolution’ in development theory suggest that the market model became more predominant in the 1980s.

Extending the triangle in space, different combinations of hierarchy, market and community are often invoked to explain differences in economic performance between countries. Modernisation theory saw custom as an obstacle to development, while critics of liberalism point to the visible hand of the state behind rapid industrialisation in East Asia. Hamilton and Biggart (1988) make more sophisticated use of the three models, which they called ‘market cultural’ and ‘political economy’ and ‘authority’ approaches to explain differences in industrial organisation between South Korea, Taiwan and Japan. Business in South Korea was typically organised in large, hierarchical firms (chaebol). In Taiwan the small to medium-size family firm predominated, while Japanese business was organised around networks of big firms and their suppliers. In spite of these differences, all three countries developed rapidly from a low base after the second world war. So rather than seeking to explain their performance in terms of industrial organisation, Hamilton and Biggart sought explanation for the differences in organisation that nevertheless achieved the same performance. They concluded that a market explanations in terms of technology or transaction costs could not account for the differences between the countries. Nor could explanations in terms of culture—particularly given the relatively similar cultural traditions of the three countries. They concluded that a ‘political economy’ approach, that emphasises government-business relations, and structures of authority within the business sector, best explained the differences of structure between the three countries.

**WHY THE DIVIDED WORLD?**

The relative autonomy of ‘hierarchy’, ‘market’ and ‘community’ and their relationship to individual agency, are issues in explanations of social divisions such as class, ethnicity and gender. The idea of class often involves a mix of subordination, economic position, and solidarity. Similarly, ethnic conflict typically involves a volatile mixture of political subordination, economic inequality, and cultural difference. The subordination of women is not simply reducible to state action, or economic position, or social norms, but some complex and persistent combination of all three. Referring to Polanyi’s idea that the economy is ‘embedded’ in society, Swedberg notes that the task to embed the economy has fallen largely on women (1987: 66) The triangle itself may be gendered, as in Pateman’s (1988) famous image of the fraternal ‘sexual contract’ that relegated women to the ‘private’—or in our terms ‘community’—sphere when men contracted with each other to create the state.

As Pateman suggests, the idea that state, society and economy can be separated analytically, or in
practice, is a characteristically liberal one. Instead, we might see the sides of the triangle as expressing links and identities, rather than antagonistic relationships. Several lines of theory assert the fusion diffusion or totality of state, society and economy.

Theories of corporatism criticise the liberal idea that state and economy in advanced capitalist societies are distinct (Cawson 1978). Not only are they interdependent, but they are fused institutionally through deals between governments and peak associations representing interest groups, particularly capital and labour.

Foucault (1986) describes a distinctly modern form of governmentality in which the arbitrary but ineffective sovereignty of a monarch is replaced by a more dispersed but effective, form of ‘self government’. Rather than state and society fusing, as in corporatism, the one is diffused as a micromechanism throughout the other. And as power (for Foucault) everywhere provokes resistance, the state–society relationship becomes one of continuing small scale irritations and struggles, rather than large scale, to and fro, subordination or liberation.

Marxist theory most famously folds state, society and economy into a single ‘mode of production’, and sees the idea that they can be separated as a characteristic mystification of the capitalist mode of production (Marx 1970: 2-22). Thus Mitchell (1991) accuses theorists of state and society ideas of assuming that which needs to be explained—the idea of a sharp boundary between state and society. The triangle becomes fundamentally ideological, and the point (he says) is to ask how this effect of a separation is achieved: how and why is a line drawn internally within the network of institutional mechanisms through which political and social order is maintained (1991: 78).

The limitations of the triangular model suggest other questions for research. Describing the relationship between hierarchy, market and community as a closed triangle suggests there is a kind of fixed quantum of order; variously parcelled out among the three models. Alternatively, we could ask if a society might be disorganised in all three ways: as a market, and hierarchically, and in terms of norms and values. We could also ask if the relationships can be finely tuned, or are there a limited number of possible shapes of the triangle of state–economy–society. For example, a ‘third way’ of ‘market socialism’ was discussed 1980s but in the event in Eastern Europe there tends to be sharp transitions from central planning to the market, as in Poland’s big bang. It may be that certain combinations of state–economy–society are more stable than others, and the triangle tends to snap into certain shapes, rather than others.

**RATIONAL INDIVIDUALISM?**

As we saw, the distinction between ‘state’, ‘society’ and ‘economy’ is partly a consequence of an academic division of labour between ‘sociology’ and ‘economics’, which adopted the model of the rational actor as its methodology, and the market as its main concern (Friedland and Robertson 1990: 4-6). Harrison argues that sociology defers too much. It should not be urging a richer view of individual character and of culture upon economics conceived of as providing the skeleton of theory (quoted in Swedberg 1987: 110, emphasis added)

Instead it should be providing alternative—in our words ‘society centred’—accounts, like Harrison’s of markets, outlined above.

This methodological and disciplinary division is also related to the two meanings of ‘economic’, which Polanyi (1957) distinguished as formal and substantive. The substantive meaning has to do with the satisfaction of material needs (increasingly, as it happens, through various kinds of markets). The second is logical, rather than factual, and has to do with rational choice between alternatives (which may take place in non-market situations).

Polanyi concluded that the relationship between the two is contingent and that outside a system of price-making markets economic analysis loses much of its relevance as a method of enquiry (1957: 247).

Since Polanyi was writing, the economic approach has been applied more widely, and
aggressively, to phenomena such as education (Becker 1964) or family structure (Becker 1981) which were traditionally the province of sociologists. So it now seems theoretically possible to derive all three models of organisation, not just the market, from individualistic, rational choice assumptions. For example, altruism may be conceived of as a kind of strategic, or long term pursuit of self interest. Shared norms and values help stabilise expectations of others’ behaviour, fill out the details of contracts, and allow trade to develop on the basis of trust. Or hierarchically structured organisations may be explained as a response to high transaction costs in market exchanges or as a consequence of the growth of private self-defence associations. All three models can be explained as responses to the ‘tragedy of the commons’, itself a particular form of the more general ‘prisoners’ dilemma’.

While it may be possible to derive all three models from economic assumptions, it is not necessary to do so. And as yet, economic theories of institutions provide a very attenuated model of the state, and often draw on a very simple evolutionary model of change.

In relation to the state, the theory of market failure identifies the circumstances in which individual choices will not add up to the best outcome for everyone. It justifies state intervention (for example) to ‘internalise externalities’, by insisting on pollution controls, taxing effluents, or subsidising training. Developing countries have traditionally been assumed to be particularly prone to ‘market failure’ requiring state intervention, but as Bates argues:

Traditional development economists suggested why private individuals might make socially incorrect choices in market settings, but offered no theory as to why public intervention would lead to better allocations (Bates 1989: 5).

As Bates suggests, there is no reason in the theory of ‘market failure’ to assume the state will make superior choices: it may misjudge the value of the externalities, or act, or fail to act, for other reasons the theory does not try to explain. In any case ‘it’ is hardly a unitary actor. However, the neoclassical theory of the state does not do much better:

...their neoclassical counterparts merely substitute a socially pernicious state for one that was held to be socially benevolent.

Normatively, the two schools were at odds; as positive theories they are alike (1989: 5).

In relation to social change, Granovetter argues that economic accounts of institutions often depend on evolutionary assumptions, particularly that more ‘efficient’ institutions will—other things being equal—survive inefficient ones, and that actually existing institutions have therefore survived this evolutionary test. He argues that the explanation remains metaphorical until a mechanism for social change is specified, equivalent to biological ‘natural selection’ acting on gene pools (Granovetter 1985: 503). North’s later work, as we have seen, qualifies a simple evolutionary approach by recognising that ‘rent seeking’ groups may acquire a stake in inefficient institutions, and resist their dissolution.

Simplification and metaphor are not inherently vicious (this paper is, after all, based on a very simple triangular metaphor). Models that explain institutions in terms of individuals, or show how institutions construct and constrain individual choices, have the virtue of connecting the small with the large—what Coleman calls the ‘micro to macro problem’ which appears in sociology as a problem of transformation, or in political science as a problem of social choice (1986: 1320-1). Such connections between the micro world of the individual and the firm, and the macro world of state, society and economy include, for example, the relationship between the production choices of individual farmers and grander scale processes such as ‘development’.
CONCLUSIONS

The argument so far has been rather abstract whereas the 'governance' approach may be most useful (for analysts and actors) at the level of particular sectors, such as health or environmental administration, each with their characteristic histories, technologies and 'policy communities' (Atkinson and Coleman 1992). Official and unofficial actors within each sector cannot simply rely on rules, or self-interested action, or ties of affiliation to get what they want, but some mix of all three.

The governance approach extends a simple opposition between 'states' and 'markets' by introducing a third 'community' term, and noticing that any actual organisation contains a mix of all three. It recognises new roles for the state in supporting marketisation (such as creating new forms of property rights, such as tradable permits, or creating the new regulatory agencies that need to be put in place to ensure competition among privatised utilities). It also offers another route away from the state, into non-government, non-market 'community' forms of organisation, and considers the conditions of their existence.

It also suggests some quite specific forms of training for officials, and those in private and voluntary organisations linked in various ways to the state, or crossing the public–private boundary. Traditional forms of development administration training in devising policies, and ensuring they are implemented down a chain of command, need to be supplemented by training in negotiation, bargaining, contracting, monitoring, regulating, and pricing of services suggested by the market model, and training in networking, building trust, and managing egalitarian informal relationships that the community model suggests.
REFERENCES


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THE CHANGING REGION

Over recent years, the island states and territories of the Pacific have faced unprecedented challenges of social, economic and political change. Globalization has brought new external influences on the economies and societies of the region, while the island’s political systems are adjusting to internal pressures which include increasing populations with rising expectations, declining administrative and service delivery capacities, and limited physical endowments. Such changes confront and in some cases challenge the very nature of Southwest Pacific states and are all critical to the future governance of island polities.

Despite high per capita aid flows, rates of economic development have been uneven and per capita growth rates low, with widespread problems of economic management and service delivery. Along with domestic demands, there are pressures from donor countries and international financial institutions on governments in the region to confront these critical long and short term development issues, or risk losing external support.

The State, Society and Governance project will examine the nature of those challenges to island polities in Melanesia and evaluate the prospects for success in meeting and responding to them.

In particular, the project will examine the emergence of new political structures in societies with no tradition of centralised power. The core concerns involve relations between states and societies and challenges to sovereignty in the creation of new national entities, and will include political representation, public order, violence and legitimacy, ethnicity and nationalism.

RESOURCES

Recognising the importance of these issues to island governments themselves, and to Australia as a near neighbour and partner in development, The Australian National University has entered into major new commitments to fund three new scholarly positions in this field, and will contribute $275,000 per annum to the project from 1996. The Commonwealth Department of Foreign Affairs and Trade and AusAID have agreed to support the project for three years with total funding valued at $660,000.

PLANNED ACTIVITIES

From June 1996, the Project will initiate a series of monthly seminars, aimed at developing discussion and debate of critical conceptual and practical issues for state, society and governance in Southwest Pacific countries.

Working Papers, associated with these seminars, and with a schedule of one-day Workshops, to be held twice a year, will generate valuable reference material relevant to public, scholarly and policy-making audiences in the region.

A large International Conference is planned for a Pacific venue in 1998, and will focus on the overall themes of state, society and governance in the context of globalization.

Academic publication of books and articles will proceed from the continuing work of scholars within RSPAS and the Fellows appointed to the Project.

The project involves a strong team of eminent scholars, internationally recognised in their own respective fields, who support and contribute to the work. The Steering Committee comprises:

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Scholars, particularly those in the region, interested in association with the project are encouraged to contact the Steering Committee. For further information please contact: dambrose@coombs.anu.edu.au or at RSPAS.