

## FOREWORD

**W**ORLD DEVELOPMENT REPORT 1997, THE TWENTIETH in this annual series, is devoted to the role and effectiveness of the state: what the state should do, how it should do it, and how it can do it better in a rapidly changing world.

These issues are high on the agenda in developing and industrial countries alike. For many, the lesson of recent years has been that the state could not deliver on its promises: transition economies have had to make a wrenching shift toward the market economy, and much of the developing world has had to face up to the failure of state-dominated development strategies. Even the mixed economies of the industrialized world, in response to the failures of government intervention, have opted for a decided shift in the mix in favor of market mechanisms. Many have felt that the logical end point of all these reforms was a minimalist state. Such a state would do no harm, but neither could it do much good.

The Report explains why this extreme view is at odds with the evidence of the world's development success stories, be it the development of today's industrial economies in the nineteenth century or the postwar growth "miracles" of East Asia. Far from supporting a minimalist approach to the state, these examples have shown that development requires an effective state, one that plays a catalytic, facilitating role, encouraging and complementing the activities of private businesses and individuals. Certainly, state-dominated development has failed. But so has stateless development—a message that comes through all too clearly in the agonies of people in collapsed states such as Liberia and Somalia. History has repeatedly shown that good government is not a luxury but a vital necessity. Without an effective state, sustainable development, both economic and social, is impossible.

History and recent experience have also taught us that development is not just about getting the right economic

and technical inputs. It is also about the underlying, institutional environment: the rules and customs that determine how those inputs are used. As this Report shows, understanding the role the state plays in this environment—for example, its ability to enforce the rule of law to underpin market transactions—will be essential to making the state contribute more effectively to development.

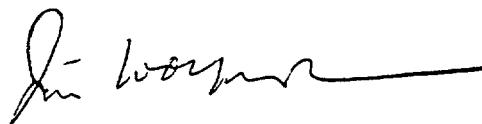
The pathways to an effective state are many and varied. The Report makes no attempt to offer a single recipe for state reforms worldwide. It does, however, provide a framework for guiding these efforts, in the form of a two-part strategy:

- First, focus the state's activities to match its capability. Many states try to do too much with few resources and little capability. Getting governments better focused on the core public activities that are crucial to development will enhance their effectiveness.
- Second, over time, look for ways to improve the state's capability by reinvigorating public institutions. The Report puts particular emphasis on mechanisms that give public officials the incentive to do their jobs better and to be more flexible, but that also provide restraints to check arbitrary and corrupt behavior.

Drawing from examples of successful and unsuccessful states, and of state reform around the world, the Report elaborates this two-part strategy and shows how it can be implemented from a number of starting positions. Significantly, although there is an enormous diversity of settings and contexts, effective states clearly do have some common features. One is in the way government has set rules underpinning private transactions, and civil society more broadly. Another is in the way government has played by the rules itself, acting reliably and predictably and controlling corruption.

Building a more effective state to support sustainable development and the reduction of poverty will not be easy. In any situation many people will have a vested interest in keeping the state as it is, however costly the results for the well-being of the country as a whole. Overcoming their opposition will take time and political effort. But the Report shows how opportunities for reform can open, and widen, with the help of careful sequencing of reforms and mechanisms to compensate losers. Even in the worst of situations, very small steps toward a more effective state can have a large impact on economic and social welfare. As we approach the twenty-first century,

the challenge for states is neither to shrink into insignificance, nor to dominate markets, but to start taking those small steps.



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This Report has been prepared by a team led by Ajay Chhibber and comprising Simon Commander, Alison Evans, Harald Fuhr, Cheikh Kane, Chad Leechor, Brian Levy, Sanjay Pradhan, and Beatrice Weder. Valuable contributions were made by Jean-Paul Azam, Ed Campos, Hamid Davoodi, Kathleen Newland, Kenichi Ohno, Dani Rodrik, Susan Rose-Ackerman, Astri Suhrke, and Douglas Webb. The team was assisted by Ritu Basu, Gregory Kisunko, Une Lee, Claudia Sepulveda, and Adam Michael Smith. Stephanie Flanders was the principal editor. The work was carried out under the general direction of the late Michael Bruno, Lyn Squire, and Joseph Stiglitz.

The team received useful advice from a distinguished panel of external experts comprising Masahiko Aoki, Ela Bhatt, Kwest Botchwey, Peter Evans, Atul Kohli, Klaus König, Seymour Martin Lipset, Douglass North, Emma Rothschild, Graham Scott, and Vito Tanzi.

Many others inside and outside the World Bank provided helpful comments, wrote background papers and other contributions, and participated in consultation meetings. These contributors and participants are listed in the Bibliographical Note. The International Economics Department contributed to the data appendix and was responsible for the Selected World Development Indicators.

The production staff of the Report included Amy Brooks, Valerie Chisholm, Kathryn Kline Dahl, Joyce Gates, Stephanie Gerard, Jeffrey N. Lecksell, and Michael Treadway. Rebecca Sugui served as executive assistant to the team, and Daniel Archison, Elizabete de Lima, Michael Geller, and Thomas Zorab as staff assistants. Maria Ameal served as administrative officer.

This Report is dedicated to the memory of Michael Bruno, Senior Vice President and Chief Economist of the World Bank from 1993 to 1996, whose life's work, including his contributions to this and past editions of *World Development Report* immeasurably advanced our understanding of development.