

State Capacity: A view from constructivist political economy

Andy Smith

Centre Emile Durkheim, University of Bordeaux

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Introduction

In this round table we have been asked to address four main questions regarding contemporary state capacity:

- To what extent (and if so, how) is globalization and the emergence of global governance architectures building new capacities at the domestic level and/or generating new forms of learning and innovation across domestic policy-makers?
- How has such re-invented state capacity or the deployment of new policy tools been legitimated at home and at the global scale?
- What are the politics of global governance architectures and state-based policy making capacities in the populist-nationalist zeitgeist?
- To what degree has global engagement become a regular feature of the daily work of policymakers, and to what extent is there preparedness in national administrations?

This paper sets out some responses to these questions from a constructivist and institutionalist perspective to both state capacity and globalization. Its empirical illustrations are taken from the domain of political economy where the central question concerns how and why different sets of economic activity are structured and governed by and through institutions. From this angle three industries have recently been researched (wine, pharmaceuticals and military aircraft), essentially in the European Union.

Here 'state capacity' will be defined as the material, relational and symbolic resources accumulated by public authorities in order to shape and orientate the institutions (stabilized rules, norms and conventions: Hall & Taylor, 2009) which structure economic activity. This capacity is accumulated (or lost) to varying degrees around the three dimensions of 'political work which either reproduce institutions, or cause them to change: public problem setting, policy instrument making and legitimation (Smith, 2016).

The overall thesis defended here is that:

- Globalization is what actors make of it, both economically and in terms of governing;
- To study 'globalisation' one needs to conduct research at the level of industries;
- And constantly raise the question of the scale and/or polity at/in which their component parts are regulated (Jullien & Smith, 2014);
- This is why, more than ever, social science needs non-determinist concepts, analytical frameworks and research methods.

1. Globalization and the building of new capacities at the domestic level: learning?

As Colin Hay has convincingly argued, globalization (i.e. the emergence of markets or social practices at a worldwide scale) is a (possible) consequence of governmental change, not a cause (Hay 2006). Put differently, as an anonymous, actor-less and contingent process, globalization does not act by, or speak for, itself. Rather, as a recurrent socially constructed narrative and 'imperative', 'Globalization' can have effects on both economic activity and its governing if it is mobilized effectively to legitimize different problems and instruments.

In the three industries studied here, this imperative has been marshalled to varying degrees to bring about institutional change. The resources of states have frequently been redeployed ostensibly to invest in or meet this challenge. However, no overall trend is clearly observable.

In the case of wine (Itçaina, Roger & Smith, 2016):

- Some globalization of productive systems, markets and consumption has occurred (but it is important not to overstate the impact of New World wines)
- Nevertheless, 'globalization' as a constructed imperative has certainly had considerable impact upon the Bureaucratic Field in Europe – a key argument in the reform of the EU's wine policy in 2008
- In so doing it went hand in hand with a change in the composition of wine units in France and the European Commission; and in the use of 'economic' arguments drawn from neo-classical economics about the importance of demand
- Moreover, it coincided with a strengthening of merchants in the Economic Field and of certain types of research in the Scientific Field (Roger, 2010)
- But it is not clear that there is now greater state capacity to think and act in terms of global markets or the regulation thereof
- Rather, at least initially, the European scale of government, and in particular the European Commission, has been strengthened as regards the national scale

In the case of pharmaceuticals, regulation at the global scale has been in place for some time. This first took the form of cooperation between the United States, the European Union and Japan since the 1970s, joined later by other western OECD states. More generally, since the 1970s, both nationally and internationally, the industry has been regulated around three key institutions (Bélis-Bergouignon et. al., 2014):

- *Patents*: the protection of 'innovative medicines'; heavy restrictions on generics
- *Market Authorizations*: 'evidence based medicine', clinical trials, the creation of large firms seeking markets throughout the world.
- *Pricing*: this however remains essentially a national competence, even if many countries are vulnerable to having prices imposed upon them by knock-on effects from pricing in jurisdictions with indigenous pharmaceutical production (and high prices). Here there has been considerable exchange over evaluation and methods, together with the emergence of a national model seen by many as a benchmark: the UK and its agency National Institute for Clinical Excellence (NICE). But this model has not been imported by all, notably elsewhere in Europe and to France in particular (Benoît, 2016).

Overall, economic activity in the pharmaceutical industry frequently takes place on a worldwide scale through a globalised market access that is institutionalized around patents and Market Authorizations given on the basis of clinical trials and 'evidence-based medicine'.

Nevertheless, its government is dominated by the US and a handful of European states, the EU and large multinationals. Pricing remains the key issue area over which states seek autonomous capacity to govern. However, few have equipped themselves with the tools to do so.

In the case of military aircraft, productive systems and markets have traditionally been national (particularly for the UK, France and of course the US). Since the 1970s, however, greater emphasis has been laid upon joint-production (e.g. The Eurofighter or the F35 Lightning II), integrating ‘equipment support’ into the cost and programming of the aircraft and exports. Consequently:

- States have often participated in cooperation over production (but less often the US and France)
- Many have agreed to extend single market rules to the military domain (in the EU), but had difficulty in setting up a fully-fledged EU-scale regulatory authority (OCCAR, the EDA)
- Perhaps more revealingly still, they have externalized increasing amounts of ‘equipment support’ to sub-contractors (a cost that can represent 30-50% of the budget for each aircraft)
- Some states have therefore chosen to improve their contracting capacities as regards private suppliers (Joana, Smith & Surubaru, 2016; Surubaru, 2017), and this through ministerial reorganisations, a degree of agencization and developing more legal and economics informed expertise.

Table 1: Change in the political economy of three industries since 1990

	<i>Power relations</i>	<i>Contingent institutions</i>	<i>State capacity goal</i>
Wine	Merchants & European Commission	Distillation aids, planting rights, geographical ind.	Bio-chemical, marketing & econometric expertise
Pharmaceuticals	Still large firms, EMA & national pricing bodies	Pricing via HTA: Health Technology Assessment	Medico-economic HTA
Military Aircraft	Agencized MoDs, multinational firms	Equipment support contracts	Legal & economic expertise, ‘private sector skills’

In summary, there is nothing automatic about firms, or indeed whole industries, ‘globalizing’ either their productive systems or their government. It all depends on how actors:

- Have defined public problems
- Have proposed and worked to adopt policy instruments
- Legitimated both by creating a discourse about globalization that is both meaningful and credible to economic and regulatory actors.

2. How has re-invented state capacity been legitimated at home and at the global scale?

Legitimation is defined here as the discursive, relational and symbolic practices mobilized by actors in order to both justify the reproduction or change of institutions and infuse it with social meaning (Lagroye, 1985). Inventing new policy tools in order to augment state capacity is ultimately not the main challenge for states. Rather this is embedding these tools within fields and professions (Bourdieu, 1992 & 1993) through, generally lengthy, political work in

order to obtain support these tools in the socio-economic sphere, as well as within parts of the state itself. In short, one can only consider that a new policy tool is institutionalized when it has been legitimated.

In the case of wine:

- Change was legitimated chiefly through a positive discourse and symbolism centred upon 'the new consumer' and the opportunities generated by 'global markets', combined with a negative one about 'economic necessity' and the budgetary cost of previous policy instruments
- Relationally, the rise of Bio-chemical, econometric and marketing expertise in the Scientific field (Roger, 2010) has brought about progressive change in the experts used occasionally by state and EU administrations
- There has been a deeper changing of 'partners' from the Economic Field: large merchants now have at least an equal voice to producers represented by farm unions
- Indeed, the success of all this political work, and its legitimation dimension in particular, means that research often forgets that other alternatives for changing policy, and state capacity, were and still are possible. In particular, calls for a wine industry that has environmental protection at the forefront of its priorities.

As regards pharmaceuticals: Following a much publicized international dispute over generic medicines in early 2000s (centred upon South Africa but with much wider ramifications), supporters of the status quo have been more careful to legitimate themselves:

- By reinforcing the discourse that they alone produce 'innovative medicine'
- Symbolise and 'scientifize' this message with terms such as 'personalized medicine'
- And claim to champion both 'patient choice' through allying themselves with patient associations organized disorder by disorder
- States have reacted with messages about 'the sustainability of health systems' and the need to take the costs, but also the medium and long term effects, of medicines into account – notably through reforming evaluation techniques and systems
- However, state legitimation is often unable to counter the argument that 'health has no price' (particularly in France). Consequently, its new tools are often half-way houses (e.g. medico-economic evaluation of drugs in France) which fail to prevent excessively expensive treatments entering the market, or to take them off it when they turn out to be ineffective. In a word, 'sustainability' has yet to impact favourably on the governing of the medicines industry.

In the case of military aircraft: Discourses about getting 'better value for money' for military equipment have abounded since the fall of the Berlin wall. Sudden cuts have often been made, thereby frequently disrupting the buying of aircraft which had been carefully programmed over a number of years. This has paradoxically often lead not only to declines in military capabilities, but also to increased costs further down the line. Other discourses include:

- 'streamlining' the armed forces and procurement procedures
- 'life cycle' budgeting
- the efficiency of externalization and sub-contracting
- contacting with penalty clauses for delays

In short, a highly technicised discourse has often been adopted to legitimate policy and organizational change. However, this has rarely convinced either the armed forces or their civilian supporters (e.g. MPs).

Table 2: The legitimation of economic governing since 1990

	<i>National scale</i>	<i>EU Scale</i>	<i>Global Scale</i>
Wine	Satisfying 'the new consumer'	Satisfying 'the new consumer'	A worldwide market for wines
Pharmaceuticals	Maintaining 'innovation'	Maintaining 'innovation'	Maintaining 'innovation'
Military Aircraft	'Tough love' is good for business & exporting	Co-operating to reduce costs & maximize comparative advantages	-

3. The role of global governance architectures and state-based policy making capacities in the populist-nationalist zeitgeist?

Have the modes of legitimation sketched out above contributed to the rise of populism and nationalism in Europe? In general terms, our research provides support for Colin Hay's argument that the fatalism of the politicians and civil servants regarding 'economic necessity' is an important cause of *Why we hate politics* (2007). However, this claim can be usefully broken down in terms of scales of government.

At the global scale, it is patently clear that virtually no-one currently works politically to legitimate it.

- For wine, the *Organisation internationale de la vigne et du vin* is just a forum for experts.
- For pharmaceuticals, bi or tri-lateral 'diplomatic type' relations, as well as expert fora (e.g. *HTA World*, exist. But they are unknown to the public.
- And for military aircraft, this is not even 'on the map' for global organizations and fora.

At the EU scale, the legitimation challenge has been taken up, at least occasionally – notably by the Commission over the reform of EU wine policy. However, the key issues in pharmaceuticals relating to pricing and cost have been removed from the EU's agenda. Meanwhile, those that relate to military aircraft have never made it to that stage (they are still framed as a national or bilateral issue).

At the national scale, more sustained efforts have been undertaken to legitimize policy changes in each of the industries dealt with here (see table 3). On the surface then, in response to the classic question so well posed by 'the Judean People's Front' in the Monty Python film *The Life of Brian* –'what have the Romans ever done for us?'- national states have certainly attempted to provide a response. In particular, they have underlined 'successes' made in achieving 'value for money' and making producers and contractors accountable for their actions. However, such discourse is constantly undermined by contradictory discourses which underline at the same time how hamstrung they are by 'economic necessity', (cost) 'competitiveness' and constraints opposed upon them by the EU, the WTO etc. etc. More generally, largely because states such as the UK and France have discarded the term 'industrial policy' over the last forty years, their representatives have restricted their own capacity to develop pro-active and socially meaningful legitimation of their actions as regards the

economic. Small wonder then that large swathes of the population have been left with the impression, that in the face of deindustrialization and high unemployment, politicians have simply ‘stood by while Rome burns’ (to borrow another reference from ‘classics’). This impression sometimes fits with the modest nature of what states have or have not done in an industry. Most often, however, actions have been taken as regards state capacity, yet they have not been appropriately conveyed to the population as a whole.

Table 3: Messages for the general public: vague, neo-liberal & without social meaning

	<i>National scale</i>	<i>EU Scale</i>	<i>Global Scale</i>
Wine	Improving wine quality and consumer choice	Improving wine quality and consumer choice	Improving wine quality and consumer choice
Pharmaceuticals	Improving access to drugs & reducing costs	Improving access to drugs & reducing costs	Improving access to drugs & reducing costs
Military Aircraft	Reducing costs and increasing ‘capabilities’	Reducing costs and increasing ‘capabilities’	-

4. To what degree has global engagement become a regular feature of the daily work of policymakers, and to what extent is there preparedness in national administrations?

At least in the three industries I have recently studied the most, references to ‘the global’ are quite frequent in actor publications and discourse on interview. However, apart from in the wine industry, it is important not to overstate this. This is because in all three key institutions are still largely set either at the national or the EU scale. Consequently, within public administrations ‘preparedness’, and more generally the development of new skills, is still generated essentially with an eye to national preoccupations (military aircraft), or national and EU ones when these two scales overlap strongly (wine, pharmaceuticals). However, in order to explain the variegated take up of new skills by industry and by country, one also needs to examine how the Bureaucratic Field is structured in each instance. It is only through this means, for example, that one can explain that in the UK reskilling has been heavily invested in, whereas in France it has often met with resistance. Similarly, the European Commission, change in administrative practices has also been slowed by the resilience of power relations and institutionalized practices that have dominated this organization for so long (Georgakakis & Rowell, 2013).

Table 4: Investment in new skills within national and EU administrations

	<i>France</i>	<i>UK</i>	<i>EU</i>
Wine	Moderate	Low	Moderate
Pharmaceuticals	Moderate	High	Moderate
Military Aircraft	Moderate	High	Low

Conclusions

- State capacity (also) needs to be researched and compared by industry. As regards the possible globalization of the economy and its governing, this is where the action is;

- In undertaking research into state capacity, one also needs to consistently take into account the role of international regions, notably the EU;
- One also needs to ask why 'global regulators', notably the WTO, have such little governing capacity.

Throughout such research, maintaining a constructivist-driven focus upon how economic institutions are built, reproduced and, occasionally, replaced, provides a robust, non-fatalistic means of enlightening not only the governing of the economic, but that of politics more generally.

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