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**THE POLITICAL IMPACT OF GLOBALISATION
AND LIBERALISATION:
EVIDENCE EMERGING FROM CRISIS STATES
RESEARCH**

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DISCUSSION PAPERS

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The Political Impact of Globalisation and Liberalisation: Evidence Emerging from Crisis States Research¹

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Abstract

Patterns of globalisation and liberalisation need to be examined in light of their political consequences, especially in the context of situations of state collapse and violent conflict. Champions of globalisation can be divided into two camps – the advocates of economic liberalisation and the promoters of global governance. They share a common scepticism of the state, which ignores both the developmental lessons of history and the perverse impact liberalisation has had on peace and security. While liberalisation has transformed the terrain of politics, privileging a form of semi-democracy, problems of violent conflict highlight the urgent need for the reconstitution of modern states in the developing world.

Introduction

Few issues have given rise to more debate than the impact of patterns of globalisation and liberalisation on the prospects for development in the South. While some regions of the developing world, mainly concentrated in Asia, have experienced rapid growth and significant poverty reduction, most of Africa and much of Latin America, have experienced economic stagnation, or decline, and witnessed a rise, if not in poverty than in inequality. Much worse, there has been an increasing incidence of violent conflict, state collapse and war. What relation exists between the patterns of globalisation and liberalisation over the past two decades and patterns of crisis, breakdown and state collapse in the developing world? An important part of the work of the Crisis States Research Centre has addressed this question.

In what follows first, I review from an historical perspective the debates about globalisation and liberalisation. The following section looks at the relationship between liberalisation and processes of state collapse and war. Finally, I consider the wider prospects for political change in the context of patterns of globalisation and liberalisation.

Neoliberals and advocates of ‘global governance’ find common ground

It is difficult to get beyond hyperbole and rhetorical flourish when considering debates about processes of globalisation and liberalisation – two terms that have dominated international policy (and especially international development) discourse and the great public debates of the turn of the century. Joseph Stiglitz, former chief economist of the World Bank, has become somewhat incongruously a guru for the world-wide ‘anti-capitalist’ movement, writing about how “globalization today is not working for many of the world’s poor”;² while Martin Wolf, a leading commentator on economic affairs in the pages of the *Financial Times*,

¹ This is an expanded version of a paper that forms the lead article in a special issue of the *International Political Science Review*, to be published in January 2005, which brings together seven articles written by the Crisis States research team concerning the political impact of globalisation and liberalisation to which I refer extensively in this text.

² Joseph Stiglitz, *Globalization and its Discontents*, London: Allen Lane, 2002, p.214.

cheered on by former US Treasury Secretary Larry Summers and echoing the doctrine of his former employers,³ lays out the case for “why globalization works”.⁴

Of course, what both these authors are talking about, as Wolf clarifies, is “liberal globalization”: the “integration of economic activities via markets” driven by both technological changes (advances in communications and transport) and policy changes (reliance on market forces, rather than the state, to steer economic activity).⁵ That this process has been driven for two centuries by the expansion of capitalism has been clear at least since 1848, when Marx and Engels famously described how the “bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country” and replaced “local and national seclusion and self-sufficiency” with the “universal inter-dependence of nations”.⁶

It is also clear that the process has proceeded unevenly at different points in time, driven inexorably forward by technological innovation and the pursuit of private profits, but tempered and shaped by politics. Indeed, it has become almost commonplace to point out that in some ways the global economy, though operating at a much smaller scale than today, was more integrated in the late nineteenth century than at the start of the twenty-first.⁷ The whole point of Wolf’s polemic is to argue that what he calls “antiglobalization.com” – the “mobilization networks...of disparate groups” (environmentalists, human and gender rights activists and all manner of non-governmental organizations) – risks joining the socialists, neo-Marxists and the even more dangerous “mercantilists, nationalist and assorted anti-liberal groups of the right”, indeed “the nationalist and fascist opponents of liberal capitalism” that have in the past thwarted the advance of liberal integration.⁸

The champions of globalisation today can be divided into two groups. First, there are those like Wolf and the dominant voices in the international financial organizations (the World Bank, the International Monetary Fund and the World Trade Organization) who are promoting policies of economic liberalisation – what Stiglitz argues are the three pillars of the “Washington Consensus”: “fiscal austerity, privatization and market liberalization”.⁹ Second,

³ World Bank, *Globalization, Growth and Poverty: Building an Inclusive World Economy*, Washington DC: World Bank, 2002.

⁴ Martin Wolf, *Why Globalization Works*, London: Yale University Press, 2004.

⁵ Wolf (2004), Chapter 2.

⁶ Karl Marx & Frederick Engels, ‘Manifesto of the Communist Party’, in *Selected Works* 1, Moscow: Progress Publishers, 1966 [1848], p.112.

⁷ Jeffrey Sachs *et al.*, ‘Economic Reform and the Process of Global Integration’, *Brookings Papers on Economic Activities*, 1 (1995), pp.1-118; R. Baldwin & P. Martin, ‘Two Waves of Globalization: superficial similarities, fundamental differences’, *National Bureau of Economic Research Working Papers*, 6904 (January 1999); Wolf (2004).

⁸ Wolf (2004), pp.6-7.

⁹ Stiglitz (2002), p.53. The ‘Washington Consensus’ was a phrase coined by Williamson to refer to ten policy issues around which the powerful in Washington DC (the US government and the international financial organisations) could agree. He summed these up as: reducing or eliminating fiscal deficits, reducing public expenditure through eliminating subsidies (though safeguarding spending on health and education), tax reform (to expand the tax base and lower the marginal rate), market determined and positive interest rates, competitive interest rates (with a preference for market determination), import liberalisation, liberalisation of foreign direct investment, privatisation of much of what is owned and run by the state, deregulation of most economic activities, and securing the sanctity of property rights. We can see in this a more nuanced interpretation of the ‘consensus’ than the way it has been portrayed subsequently. What is more Williamson himself was somewhat critical of the positions he described (John Williamson, ‘What Washington Means by Policy Reform’, Chapter 2 in John Williamson (ed.), *Latin American Adjustment: How Much Has Happened?*, Washington DC: Institute for International Economics, 1990).

there are those, following the ideas of Anthony Giddens, who celebrates the creative possibilities of globalisation and the “rise of the ‘new individualism’”. He argues that the “transformation of space and time” have fundamentally weakened the nation-state, “regenerating local identities”, forcing national governments to work in coalitions with each other, with regions, with non-governmental organizations and transnational corporations to provide a form of “governance” over society and economy, which is no longer the prerogative of governments.¹⁰

Both groups share a deep scepticism of the ‘state’. The advocates of liberalisation condemn the state’s meddling in what is best left to market actors, and the advocates of ‘global governance’ point to the state’s tendency to make war and trample the rights of individuals. Needless to say, both share a commitment to individualism: the liberalisers privileging individual choice and the social democrats committed to the ‘new individualism’ privileging universal human rights. In an interesting way, both groups appeared to be coming together around what was beginning to be considered a ‘post-Washington Consensus’, until the Bush administration rejected attempts at reaching consensus around the management of international political and economic affairs. By 1997, the critics of the Washington Consensus had forced a major policy shift among managers of the international financial organizations.¹¹ However, this entailed less a reconsideration of the role of the state, than a marrying of the objectives of fiscal austerity, privatisation and market liberalisation with the goals of “participation”.¹² The NGOs and advocates of global civil society could become partners to private entrepreneurs and corporations in the development process.¹³

The argument that globalisation cum liberalisation, both in its earlier episodes in the nineteenth century and through the last two decades of the twentieth century, represented an unqualified boon for poverty reduction and economic progress, was masterfully demolished by Branko Milanovic. Comparing the two periods of rapid liberalisation (1870-1913 and 1978-1998), Milanovic demonstrates the consistent Janus-faced character of globalisation: a benign and positive face for some, but a deeply malignant one for many. In the nineteenth

¹⁰ Anthony Giddens, *The Third Way*, Cambridge: Polity Press, 1998, pp.28-33. These would include advocates of social-democratic globalisation like David Held (‘Globalisation: the dangers and the answers’, *Open Democracy* (27 May 2004), accessed 19 July 2004, at <http://www.opendemocracy.net/debates/article-6-27-1918.jsp>); enthusiasts of global civil society like Mary Kaldor (Mary Kaldor *et al.*, ‘Global Civil Society in an Era of Regressive Globalization’, in *Global Civil Society Handbook 2003*, London: London School of Economics, 2003, pp.3-17); and the sociologist Ulrich Beck, who bemoans what he calls persistence of “methodological nationalism” (‘The Analysis of Global Inequality: From National to Cosmopolitan Perspective’, in *Global Civil Society Handbook 2003*, London: London School of Economics, 2003, pp.45-55).

¹¹ An article in *The Economist* in November 1996 speculated about the emergence of a “new consensus” in response, interestingly, to social unrest, state collapse and violence, in Latin America (‘Gestures against reform: The backlash in Latin America’, *The Economist*, 30 (November 1996), p.19). Further evidence of a shift came with the publication of the World Bank’s *World Development Report 1997*, devoted to an examination of the role of the state in the development process. Following the Asian financial crisis of 1997, Stiglitz, while still in the World Bank, argued for a new “post-Washington consensus” (‘More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus’, *The 1998 WIDER Annual Lecture*, Helsinki, (7 January 1998), at <http://www.wider.unu.edu/publications/annual-lectures/annual-lecture-1998.pdf>), but the renewed importance he hoped to give to the state’s role in development never became the basis of a consensus in official Washington.

¹² An early and thorough assessment of the Bank’s 1997 report was provided by Hildyard, demonstrating that despite a new attention to the need for an “effective state”, in regulatory terms, the principal prescriptions of neoliberal reform contained within the Washington Consensus remained intact (‘The World Bank and the State: A Recipe for Change?’, London: Bretton Woods Project, 1998, at <http://www.eldis.org/static/DOC8490.htm>).

¹³ James Putzel, ‘The Politics of “Participation”: Civil Society, the State and Development Assistance’, *Crisis States Discussion Papers*, 1, London: Crisis States Research Centre, LSE, 2004a.

century episode there was an expansion of trade between Western Europe and its settler offshoots, wage convergence between North America and Europe through the exodus of labour from the latter to the former, a rapid expansion of telegraph and railroads and a flow of capital from Europe to capital-poor regions like Argentina and Russia. However, he reminds us that globalisation was spread at the point of a gun, with indentured labour flowing to plantations in Southeast Asia and Latin America, rapacious corporate activity like the Dutch East Indies Company's pillage of Indonesia, and a genocide in Congo of up to ten million people – "globalization was colonialism". While there may have been wage convergence in a small part of the world, the nineteenth century as a whole saw the wholesale de-industrialisation of India and an absolute impoverishment of important parts of today's developing world.¹⁴

Even more strikingly, comparing 1960-78 (the period of import substitution, protectionism, the promotion of infant industries and foreign exchange controls) with 1978-98 (the age of structural adjustment and liberalisation), Milanovic shows that growth was between two and three times greater in the first period. What is more, during the era of structural adjustment, the poorest regions of the world grew more slowly than the richer regions. Inequality between the rich regions and the poor was stable in the first period and vastly increased in the 1980s and 1990s. The story of benign globalisation simply cannot account for the fact that overall per capita GDP has not budged in Africa throughout the period, and in 24 countries on the continent it was lower in 1998 than in 1975, while in half of these it was below the level of 1960.¹⁵ The malignant effects were also not limited to Africa, as DiJohn demonstrates in Venezuela, where liberalisation has been associated with deepening stagnation and increased income inequality.¹⁶

Wade follows Milanovic in examining the global context in which states 'fail', making still sharper holes in the case for benign globalisation cum liberalisation.¹⁷ He takes forward the debate on widening world income inequality, and looks at the impact of transnational corporations, the barriers to technology diffusion, the bias in North-South terms of trade, and the manner in which the wealthy countries dominate the international decision making processes that 'govern' the world economy. Drawing on the Crisis States research examining the impact of industrial liberalisation in southern Africa, Webster documents how industrial liberalisation is transforming South Africa's "world of work". He shows how in the auto sector, the tearing down of old barriers has stimulated sharp technological advance and greatly improved working conditions, for those who still have employment. This is in sharp contrast to the negative conditions in the household appliance industry, especially beyond South Africa's borders. Looking out across the continent, and indeed across many regions of the developing world, manufacturing sectors seem more akin to South Africa's household appliance sector than to its automobile industry.¹⁸

¹⁴ Branko Milanovic, 'The Two Faces of Globalization: Against Globalization as We Know It', *World Development* 31:4 (2003), pp.667-683.

¹⁵ Milanovic (2003).

¹⁶ Jonathan DiJohn, 'The Political Economy of Economic Liberalisation in Venezuela', *Crisis States Working Paper*, 46, London: Crisis States Research Centre, LSE, 2004.

¹⁷ Robert Wade, 'Failing States and Cumulative Causation in the World System', *International Political Science Review*, (forthcoming). See also Robert Wade, 'What Strategies are Viable for Developing Countries Today? The World Trade Organisation and the Shrinking of "Development Space"', *Crisis States Working Paper*, 31, London: Crisis States Research Centre, LSE, 2003.

¹⁸ Edward Webster, 'Making a Living, Earning a Living: Work and Employment in Southern Africa', *International Political Science Review*, (forthcoming).

Taking the long view, there are simply no historical examples of development occurring under the conditions of openness and liberalisation promoted in the South by the international development community. Whether one looks at today's rich countries, or those developing countries that have achieved success over the past half-century (South Korea, Taiwan, China and more recently India), accelerated growth has required state involvement, control over the allocation of foreign exchange, subsidies and protection to infant industries.¹⁹ The great achievers in relation to growth and poverty reduction during the recent decades of liberalisation have been China and India, but their success was based in no small measure on the illiberal characteristics of their economies.²⁰ Even Martin Wolf grudgingly accepts that the arguments of Stiglitz, Rodrik and especially Chang, which point to the limitations of trade liberalisation as an engine of growth, problems of financial liberalisation, barriers on labour migration, and the need to foster infant industries, must be taken seriously.²¹

The advocates of social democratic global governance point to the opportunities that globalisation, accompanied by the collapse of the Soviet bloc, has created to advance the cause of human rights, to challenge dictatorial rule, and to spread the principles of democracy throughout the developing world.²² Mason argues that new "alternative spatial configurations" generated by globalisation have begun to eclipse state sovereignty and allowed the emergence of alternative sources of authority that can improve weak states like that found in Colombia.²³ The 1990s witnessed a shift in the international community, marked by UN Secretary General Boutros Boutros-Ghali's "Agenda for Peace", toward a willingness to intervene in (some) situations of gross violations of human rights.²⁴ New criteria of liberal democracy have been advanced in most international development organisations to judge the relative fitness and legitimacy of states, making it difficult, though by no means impossible, for dictatorial regimes to gain legitimacy in the world arena.

However, several trends emerged with the new millennium, which make the hopes of the advocates of social democratic globalisation appear overly optimistic. Gutiérrez, considering the evidence generated from Crisis States research over the past three years, demonstrates how the prescriptions of liberal democracy have made military coups less likely in the Andean region, but how these have combined with economic liberalisation to favour a form of "semi-democracy" limiting the possibilities for the exercise of "voice", in Hirschmanian terms.²⁵ The characteristics of semi-democracy that curb accepted models of democratic governance include: weakening both constitutional checks and balances and the alternation of political parties in power; high levels of personalism and strong presidentialism; and weakening legislatures and strengthening plebiscitary practices. At the same time, constitutions remain formally democratic, elections are held on a regular basis, and a degree of freedom is accorded to media, though often under a long government shadow.

¹⁹ Ha Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem, 2002.

²⁰ Milanovic (2003).

²¹ Wolf (2004), pp.199-204; 288-295; Stiglitz (2002); Dani Rodrik, *The New Global Economy and Developing Countries: Making Openness Work*, Washington, DC: Overseas Development Institute, 1999; Chang (2002).

Wolf fails, however, to engage seriously with the work of either Milanovic or Wade (Wolf, 2004, pp.152-159).

²² Kaldor *et al.* (2003); Held (2004).

²³ Ann C. Mason, 'Constructing Authority Alternatives in Colombia: Globalisation and the Transformation of Governance', *Crisis States Working Paper*, 40, London: Crisis States Research Centre, LSE, 2004.

²⁴ Boutros Boutros-Ghali, 'An Agenda for Peace', Note by the President to the Security Council, S/23500 (31 January 1992).

²⁵ Francisco Gutiérrez Sanín, 'Fragile democracy and schizophrenic liberalism: exit, voice and loyalty in the Andes', *International Political Science Review* (forthcoming); Albert O. Hirschman, *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations, and States*, Cambridge: Harvard University Press, 1970.

Malaysia offers an example of the functionality of 'semi-democratic' political arrangements in the context of accelerated globalisation over a much longer time period than so far seen in the Andean region.²⁶ In the face of ethnic riots directed against the large Sino-Malay minority in 1969, the ruling United Malays National Organisation (UMNO) passed emergency legislation that enhanced the power of the executive, curbed rights of assembly and free press and speech, and enhanced state authority to intervene in economic affairs. The possibilities for voice were not eliminated, but circumscribed, to maintain social peace and redistributive policies to enhance the position of the majority Malay population.

At a wider level, the disappearance of the Soviet bloc has also removed the 'checks and balances' within the international system, leaving hegemonic power in the hands of the United States, which, under the George W. Bush administration, has shown a renewed willingness to act selectively and unilaterally against the wishes of international organizations.²⁷ Fundamentally, the strength and quality of the international organizations and the rules they enforce will, for the foreseeable future, depend on the strength and quality of their member states. While there is a potentially positive role for the expanded voice and influence of non-state actors, an examination of events surrounding the invasion of Iraq under the leadership of the United States and the United Kingdom, shows how little effect these forces can have in determining the course of events. Clearly, the role of states remains crucial. Just how crucial they are is demonstrated not only by the power of the United States within the world system, but also by the chaos that ensues where states breakdown and collapse.

What relationship between liberalisation, state collapse and war?

While we saw above that the era of liberalisation at the end of the twentieth century did not represent a great advance in economic growth and poverty reduction outside of parts of Asia, neither was it a period of increased peace. Table 1, drawing on research at Uppsala University, demonstrates that the number of countries experiencing significant violent conflicts was larger in 1980-2001 than in the 1960-1979 period in every region of the world except for Asia. If we were to include 'minor' conflicts and the number of separate conflicts in each country, the trend would be much more pronounced.²⁸

Even more importantly, the increase in violent conflicts has overwhelming been within rather than between countries. Increased violence and warfare has generally been ascribed to the end of the Cold War and the collapse of the Soviet Union, which led not only to a sharp rise in the number of violent conflicts in Europe, but also a sharp decline in support for weak states in Africa once held together by rival power blocs interested in promoting the stability of their

²⁶ For a comparative account of Malaysia's experience see James Putzel, 'Why has democratisation been a weaker impulse in Indonesia and Malaysia than in the Philippines?', in David Potter, *et al.* (eds), *Democratization*, Cambridge: Polity Press, 1997, pp.240-263. This trend could as easily be described as 'semi-authoritarian', depending on whether the glass is seen as half empty or half full.

²⁷ James Putzel, 'The "new" imperialism and possibilities for coexistence', *Crisis States Discussion Papers*, 2, London: Crisis States Research Centre, LSE, 2004b; and Jean-Paul Faguet, 'Democracy in the Desert: Civil Society, Nation Building and Empire', *Crisis States Discussion Paper*, 3, London: Crisis States Research Centre, LSE, 2004.

²⁸ Uppsala University, Department of Peace and Conflict Research, 'Armed Conflict 1946-2001', annually compiled database, at econ.worldbank.org/files/18207_Conflict_list_1946-2001.pdf. The Uppsala data is of course flawed for counting conflicts by magnitude of numbers of deaths with no reference to the size of populations involved. If this were adjusted then the relative decline in warfare in Asia and rise elsewhere would be significantly more pronounced.

“proxies” on the continent.²⁹ However, it is difficult to imagine that the policies of liberalisation have not had an impact on the patterns of state breakdown and violence, especially in Africa.³⁰

Table 1: Countries affected by War* 1960-79, 1980-2001

Source: Uppsala University, Department of Peace and Conflict Research (2004)

Region	1960-79	1980-2001
Europe	3	6
Middle East	7	9
Asia	14	13
Africa	15	19
Americas	3	6

* Includes violent conflicts judged as ‘intermediate’ (at least 25 but fewer than 1,000 battle related deaths in a year and accumulation of at least 1000 deaths) and ‘war’ (at least 1000 battle related deaths in a year). This counts the number of recognised countries experiencing such conflicts, *not* the number of conflicts, which would be much higher, especially in the second period.

The number and severity of violent conflicts in Africa since 1980, the genocide in Rwanda in the early 1990s, the collapse or near collapse of state authority in Sierra Leone, Liberia, Sudan, Somalia and the Democratic Republic of Congo, coupled with new standards of what constitutes acceptable state behaviour, have led many to interrogate the continued viability of the states in Africa.³¹ There is little doubt that at the time of independence in the 1960s, the new states in Africa were ill-equipped for long-term survival with very poorly formed markets, limited productive capacity, poorly formed health and education systems, very low skill levels, weakly integrated territories and skeletal administrative systems. Clapham argued that incentive structures faced by the elites who came to power did little to promote the capacity for internal security and allowed the evolution of patrimonial forms of government. When faced with dwindling resources to control their territories through patronage, many state leaders turned to outright repression.³²

After the oil price rises in the 1970s, and burdened by debt, much of the African continent was facing crisis. In 1979, the World Bank published a report on the condition of Africa that attacked the failure of overly centralised forms of economic management and laid out an agenda for structural adjustment and liberalisation.³³ Over the next two decades, with a rapid decline in aid and financial credit, especially after the end of the Cold War, states were confronted with demands to privatise assets, to open import markets and, by the 1990s, to create conditions for good governance. It is hardly surprising that in a few decades the states of Africa were unable to create either the economic basis for growth or the conditions for democratic governance, which had taken centuries to establish in Europe. Structural

²⁹ William Reno, ‘The Politics of Insurgency in Collapsing States’, *Development and Change*, 33:5 (2002), pp.837-858.

³⁰ The absence of scholarship investigating the relationship between two decades of structural adjustment in Africa and patterns of violence and war on the continent is striking. Morrisson (1998) presented cross-country comparative data arguing that it was the absence of structural adjustment programmes that was more likely to cause violent conflict (‘Economic Adjustment’, in E.W. Nafziger *et al.* (eds), *Origin of Humanitarian Emergencies: War and Displacement in Developing Countries*, Oxford: Oxford University Press, 1998).

³¹ Jeffrey Herbst, ‘Responding to State Failure in Africa’, *International Security* 21:3 (Winter 1996/97), pp.120-124; Reno (2002); William Bain, ‘The Political Theory of Trusteeship and the Twilight of International Equality’, *International Relations* 17:1 (2003), pp.59-77.

³² Christopher Clapham, ‘The Challenge to the State in a Globalized World’, *Development and Change* 33:5 (2002), pp.775-795.

³³ Berg Report, *Accelerated Development in Sub-Saharan Africa*, Washington DC: World Bank, 1979.

adjustment sought to attack neopatrimonialism and the misconceived state-centric model of development:

but at the cost of undermining those mechanisms by which governments of fragile states had sought to keep themselves in power, and in the process to maintain at least some semblance of state authority.³⁴

Right across the developing world, the removal of trade barriers combined with the relaxation of state control over foreign exchange provided sub-national and non-state actors access to international markets, enabling both the sale of resources (including narcotics and diamonds) and the purchase of commodities (including weapons), as well as avenues to spirit profits away to banks in European and North American cities hungry for deposits.³⁵ This created a perverse and vicious cycle: falling state revenues, leading to increasing ineffectiveness of authority, allowing expanded smuggling, leading to further declines in revenue – a pattern of incentives that could only increase violence.³⁶ With markets overwhelmingly stronger than states, the international organisations' advice to state leaders about strengthening the regulatory functions of the state seem in retrospect either disingenuous or entirely naïve.

In his examination of Sierra Leone, Keen looks at how the international financial organizations contributed both to processes of war and problems in securing peace. During the war, the government underpaid its soldiers, providing incentives for their active involvement in smuggling, looting, extortion and illegal mining – but it received praise from the international organisations for presiding over sound macro-economic management. That praise led to a sharp decline in the legitimacy of international actors and boosted the credibility of the opposition Revolutionary United Front. Most worrying, despite the negative impact of their actions on the course of the war over a whole decade, Keen discusses how a similar package of advice and set of incentives may be hindering the consolidation of the peace.³⁷

Even if adjustment is not seen as the cause of state collapse, its measures undoubtedly reinforced state weakness. In almost a decade of work, Stewart has demonstrated that violent conflicts are most likely to emerge where societies are marked by “horizontal inequality”, or the unequal distribution of income and political power between groups – defined by region, ethnicity, class and religion (rather than as a result of vertical inequalities – the way income distribution and power is commonly measured).³⁸ Stewart's work also shows how weak governments entering conflict fared far worse than others and tended to exacerbate the conflict. The potential impact of liberalisation programmes needs to be assessed by how they are likely to affect and address such patterns of inequality and state weakness. To the extent that liberalisation reduces fiscal strength, or perhaps more appropriately pre-empts its

³⁴ Clapham (2002), p.785.

³⁵ R. T. Naylor, *Hot Money and the Politics of International Debt*, Montreal: Black Rose, 1994; and *Patriots and Profiteers: On Economic Warfare, Embargo Busting and State-Sponsored Crime*, Toronto: McClelland and Stewart, 1999.

³⁶ David Keen, 'Liberalisation and Conflict', *International Political Science Review* (forthcoming).

³⁷ Keen (forthcoming).

³⁸ Frances Stewart, 'The Root Causes of Conflict: Some Conclusions', *Working Paper*, 16, Oxford: Queen Elizabeth House, University of Oxford, 1998; Frances Stewart *et al.*, *War and Underdevelopment: Volume 1: The economic and social consequences of conflict*, Oxford: Oxford University Press, 2001. There is a strong argument against including 'class' as an element in horizontal inequality, since it is defined by the place of individuals in the hierarchical division of labour based on their position in production processes.

creation, redistributive means are impossible, thus governments' ability to redress regional disparities or to promote redistributive policies that might reduce horizontal inequalities becomes entirely undermined. In drawing lessons from this research, FitzGerald argued that in the context of wars and immediate post-war situations, there is a need to break from policies favouring devaluation, reduced government expenditure and import liberalisation.³⁹

A growing number of scholars and policy-makers have argued that in the face of outright state collapse the international community (principally via the United Nations) must consider presiding over the reorganization of the hitherto unquestionable boundaries of states and consider reviving some form of "trusteeship".⁴⁰ While some of these suggestions (a return to traditional authorities and city states) are both far-fetched and undesirable, cases like Eritrea – and perhaps, in the future, Somaliland –⁴¹ provide evidence that more viable states may emerge from some of these "wars of underdevelopment",⁴² in a way that parallels the historic process of state formation. It also must not be forgotten that in countries like Uganda and Mozambique, states have emerged from war reinforced to preside over difficult development challenges.

There is an implication in much of the writing about collapsed and collapsing states that the normal prescriptions of liberalisation need to be suspended due to aggravated conflict, but after peace is consolidated, they can and should be revived. However, an examination of how patterns of globalisation and prescriptions of liberalisation have affected, not collapsed states, but 'states in crisis', raises fundamental questions about such a conclusion.

Liberalisation, 'crisis states' and political prospects

The cases of outright state breakdown and collapse into war remain relatively small in number, but the cases of states under severe stress - what we refer to as 'crisis states' – are much more numerous. By looking at these examples it is possible to gain a better sense of the medium and long-term impact of liberalising trends on politics in the developing world. Work carried out right across the Crisis States Programme considers how liberalisation has affected patterns of political organisation and decision-making, patterns of corruption that were one of the principal targets of liberalizing reforms and, more generally, the prospects for democratic governance.⁴³

Liberalisation has changed the manner in which politics is organised in much of the South. Wade describes how the easy exit options offered to finance-based elites have eroded economic citizenship and incentives to push for long gestation projects.⁴⁴ Webster and Brett, in their discussion of Southern Africa, and DiJohn in the case of Venezuela, demonstrate how

³⁹ Valpy FitzGerald, 'Paying for the War: Economic Policy in Poor Countries Under Conflict Conditions', in Frances Stewart, Valpy Fitzgerald and Associates (eds), *War and Underdevelopment: Volume 1: The economic and social consequences of conflict*, Oxford: Oxford University Press, 2001, pp.21-38. See Tilman Brück, 'Post-War Debt, Reconstruction and Poverty Alleviation in Mozambique', paper presented at the UNU/WIDER Debt Relief Conference, 17-18 August 2001, Helsinki, Finland at http://www.wider.unu.edu/conference/conference-2001-2/parallel%20papers/2_3_bruck.pdf for a similar argument on Mozambique.

⁴⁰ Gerald B. Helman & Steven R. Ratner, 'Saving Failed States', *Foreign Policy*, 89 (Winter 1993), pp.3-21; Herbst (1996); Bain (2003).

⁴¹ Herbst (1996).

⁴² Victoria Brittain, 'Women in war and crisis zones – one key to Africa's wars of under-development', *Crisis States Working Papers*, 21, London: Crisis States Research Centre, LSE, 2002).

⁴³ This work is presented in the forthcoming special issue of *International Political Science Review*.

⁴⁴ Wade (forthcoming).

the increased informalisation of employment has accelerated the decline of traditional sites of political claim-making and organisation, undermining political parties in Venezuela, while raising the need for new forms of political organisation in South Africa.⁴⁵ Wade suggests that the lack of internal sectoral economic integration has made class alliances much more difficult, thus handicapping democratic regimes.⁴⁶

Consistent with arguments of the advocates of social democratic globalisation, Mason suggests that expanding sites of political organization are reinforced by transnational networks (Webster's new "transborder solidarities"). Webster reports the rise of influence of religious organisations, a development consistent with Mason's alternative sources of authority. In a state that enjoys considerable legitimacy this can be a boon for democracy, but where state legitimacy is weak, the increased role in politics played by religious organisations, which are by definition exclusionary and usually legitimised and resourced from abroad, can have a corrosive effect.⁴⁷ It is sometimes forgotten, in discourses about the positive role of 'faith based organisations' in development that have gained such prominence in recent years, that the organisation of modern state authority was forged in the crucible of struggles with supranational ecclesiastical authorities that historically were not exactly at the vanguard of promoting democratic authority.

DiJohn shows how the requirement of building state capacity plays second fiddle to that of levelling down the role of the state in the economy. Liberalisers have bemoaned the inefficient role of bloated bureaucracies in many parts of the developing world, but DiJohn shows how state size can play a role in maintaining social cohesion.⁴⁸ Indeed, Keen demonstrates that the hiving off and underpaying of state employees, and especially members of the security forces, contributed to the rise of violence in Sierra Leone.⁴⁹

Downsizing public budgets and outsourcing activities has changed the balance of power between executive authorities and legislatures, and the relation between executive authorities and social constituencies. Representative political systems have always involved some aspect of 'delivery of the goods' to constituents. Liberal reforms have both reduced the size of such resources and weakened the influence of representatives in their allocation. In places where decentralisation has been implemented effectively, local political authorities may well have increased their power, but this change in allocative procedures has weakened the role of representative assemblies, and therefore also the political parties organised within them. Fewer resources are available to build political support and networks within constituencies. While the absolute amount of resources has in most cases decreased, executive authorities have greater arbitrary authority over what remains, and tend to build patronage systems beyond political parties.⁵⁰

⁴⁵ Webster (forthcoming); E. A. Brett, 'From Corporatism to Liberalisation in Zimbabwe: Economic Policy Regimes and Political Crisis, 1980-1997', *International Political Science Review* (forthcoming); DiJohn (2004).

⁴⁶ Wade (forthcoming). This trend stands in sharp contrast to the practices of providing massive agricultural subsidies to European and North American farm producers, while international development agencies promote the removal of subsidies and the abandonment of domestic food security policies throughout developing country economies, where much greater proportions of households generally depend on agricultural income.

⁴⁷ Mason (2004); Webster (forthcoming).

⁴⁸ DiJohn (2004).

⁴⁹ Keen (forthcoming).

⁵⁰ Generally speaking, in countries heavily dependent on foreign assistance, it is the departments of the executive branch of government that are empowered to manage these new resources. In the Philippines, for instance, President Gloria Macapagal Arroyo was presiding over a major fiscal crisis in the last quarter of 2004, necessitating cutbacks in government expenditure, with the first cuts proposed being budgetary allocations to

Gutiérrez shows how rule by referendum has increased, as has the practice of impeachment of executive authorities in the Andean region (a similar trend can be observed in the Philippines and Indonesia).⁵¹ In the Philippines, where legislatures have been too weak to oust presidents, a renewed role for the military has emerged.⁵² Keen shows how under President Stevens in Sierra Leone, the expansion of personalised rule was facilitated by processes of privatisation. In some cases, downsizing and outsourcing have left the security sector, and particularly the armed forces, the most organised and cohesive component of the state. Of course, in many instances the armed forces have, in fact, become something like private organisations themselves, expanding and ensuring their self-reproduction through the control of business interests of their own, as was the case in Suharto's Indonesia.⁵³ While international promotion of democratic as opposed to authoritarian norms of government may have made outright military putsches at least temporarily less likely, as Gutiérrez shows, military organisations appear to be playing important and decisive roles in an age of new populism and weak politics.⁵⁴

Paradoxically, while liberalisation formulas were promoted all over the developing world as a primary means to fight corruption, the evidence emerging from the Crisis States research demonstrates how privatisation and deregulation have had precisely the opposite effect.⁵⁵ In both Venezuela and Zimbabwe there was a vast underestimation of the capacity required within the state to manage liberalisation, especially the regulatory functions required with rapid privatisation. The simultaneous requirement for speedy reductions in budget deficits made the prospects for expanding capacity to regulate new private operations still more difficult to achieve.

Conclusion: Challenging the premature obituary of the state

Most damaging in the development prescriptions advanced over more than two decades has been the failure to examine the political requirements for economic reform and the failure to consider the potential impact of reforms on the structure and practice of politics.

members of Congress to spend in their constituencies. At the same time, new foreign assistance is channelled through central government line agencies under presidential authority, in times provoking accusations that some of these are spent in ways conducive to presidentially endorsed political campaigns.

⁵¹ Gutiérrez (forthcoming). One of the consequences of presidentialism is the expansion of practices of impeachment when the 'strong' president is perceived to lead the nation astray. Both President Joseph Estrada in the Philippines and President Abdurrahim Wahid in Indonesia were forced from office following impeachment campaigns in 2001. These were mounted by coalitions of business interests and middle class led non-governmental organisations, with sustenance from media organisations.

⁵² This can be seen in the decisive role played by the armed forces in changing presidents at moments of crisis since 1986, including the overthrow of Ferdinand Marcos in February 1986 and the ouster of Joseph Estrada in January 2001. Interestingly, in Indonesia as well, the withdrawal of support from Wahid by the military was decisive in the impeachment process.

⁵³ Keen (forthcoming). On Indonesia see Richard Robison, *Indonesia: The Rise of Capital*, London: Allen & Unwin, 1986, Chapter 8. I am grateful to Peter Lock for suggesting in personal communication the importance of understanding the extent to which military organisations can even reasonably be considered as lodged within the state. Additionally, in many cases policing functions have been decentralised and outsourced – creating another set of problems.

⁵⁴ Gutiérrez (forthcoming) and DiJohn (2004). I say temporarily, as there appears to be a shift in especially the US tolerance for military authority as it wages its 'war on terror'.

⁵⁵ DiJohn (2004); Brett (forthcoming); and Keen (forthcoming). For the Southeast Asian case, see James Putzel, 'Developmental States and Crony Capitalists', in Pietro Massina (ed.), *Rethinking development in East Asia: from Illusory Miracle to Economic Crisis*, Curzon Press, 2002, pp.189-222.

The wars that have mushroomed since the end of the Cold War are not so much “new wars”, in the language of the advocates of global governance,⁵⁶ as they are a very old type of war between rival potentates, bandits, warlords, repressive patrimonies and religious aspirants. These are the type of wars that preceded the foundation of nation states, and their proliferation is unlikely to be thwarted without the creation of sound political authorities organised on the territorial principles of the modern state. There may well be a role for the international community to play in reviving notions of ‘trusteeship’ where states have collapsed, and there may also be a role for ‘global civil society’ to assist in these processes.

However, the positive move within the international community towards a new basis of humanitarian intervention will only contribute to securing peace if the community’s actions are consistent and undertaken without prejudice to one or another great power. Nothing demonstrates more clearly the continued pertinence of the modern state than the particularly powerful role played by the world’s strongest state, the United States. The quality of the international organisations that aspire to provide global governance depends fundamentally on the quality of its members: individual states. Even the possibilities for increased regional governance are entirely dependent on the evolution of member states sharing common values.⁵⁷

When states collapse, the first order of business must be to engage in their reconstruction. The parameters of the international economy, as well as the requirements of development and the limitations of capacity, may well mean that the most appropriate and feasible types of state in conditions of late development are ‘semi-democratic’ ones. But if that has to be the case, state reformers might well look more to the model of Malaysia than Venezuela. The former has, in many ways against all odds, created considerable capacity and managed ethnic diversity through continual attention to problems of horizontal inequalities, through decidedly semi-democratic, or semi-authoritarian means. Globalisation and liberalisation have radically transformed the terrain of politics, but the role, and indeed the need for the establishment or reinforcement, of modern states has never been more important.

⁵⁶ Mary Kaldor, *New and Old Wars: Organized Violence in a Global Era*, Cambridge: Polity Press, 1999; Michael Ignatieff, *Virtual War: Kosovo and Beyond*, London: Vintage, 2001.

⁵⁷ Laurie Nathan, ‘The absence of common values and failure of common security in Southern Africa, 1992-2003’, *Crisis States Working Paper*, 50, London: Crisis States Research Centre, LSE, 2004.

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The aim of the Crisis States Programme (CSP) at DESTIN's Development Research Centre is to provide new understanding of the causes of crisis and breakdown in the developing world and the processes of avoiding or overcoming them. We want to know why some political systems and communities, in what can be called the "fragile states" found in many of the poor and middle income countries, have broken down even to the point of violent conflict while others have not. Our work asks whether processes of globalisation have precipitated or helped to avoid crisis and social breakdown.

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Research Objectives

- We will assess how constellations of power at local, national and global levels drive processes of institutional change, collapse and reconstruction and in doing so will challenge simplistic paradigms about the beneficial effects of economic and political liberalisation.
- We will examine the effects of international interventions promoting democratic reform, human rights and market competition on the 'conflict management capacity' and production and distributional systems of existing polities.
- We will analyse how communities have responded to crisis, and the incentives and moral frameworks that have led either toward violent or non-violent outcomes.
- We will examine what kinds of formal and informal institutional arrangements poor communities have constructed to deal with economic survival and local order.



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