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Introduction

Francis Fukuyama is always worth reading. Whether one agrees with his ideas or not, Fukuyama is a discourse setter: what he says helps to shape the academic and political agenda. Fukuyama's succinct book, *State Building: Governance and World Order in the Twenty-first Century*, is no exception: it is worth reading, and it openly tries to set a political-cum-academic agenda.¹ Does it fully succeed? Maybe not. However, Fukuyama's symbolic power to state the order of things – to set the boundaries of the questions we ask, to tell us where to look for our answers, and to direct political decision making – makes it all the more important to indicate how and why that is the case.

Tersely put, Fukuyama wants to tell us that *states are important*, and that many of today's problems, from AIDS treatment to terrorism, can in fact be driven back to failed state building and inefficient governance. This is a clear departure from the all-too-simplistic notion of “minimal states” that ruled the development debate until about the middle of the 1990s. Hence we must find out how to build states and how to spread efficient governance: that is Fukuyama's road to World Order.

Below, we will summarize Fukuyama's contribution and explore the limits of his arguments. However, a traditional summary is challenging: Fukuyama tries to bring together research traditions in political science, political/historical sociology, International Relations, and, perhaps most importantly, “New Institutional Economics” (NIE). Moreover, Fukuyama also links his theoretical lessons to a wide range of case studies and real-world political scenarios, from (failed) state-building in Eastern Europe to the when and how of military intervention in sovereign states (e.g., Bosnia, Iraq). To put it mildly, *State Building* is a book with a very wide scope – and, to borrow, Fukuyama's own vocabulary, too much scope may limit the strength. Fukuyama essentially tries to “ground” *and* expand political science and IR with insights from NIE. As we will see, doubts remain concerning the theoretical framework proposed. Many links between theory and a series of substantive claims are left unarticulated, raising the possibility that the book's policy recommendations are unwarranted.

Fukuyama's Argument

As we learn in the Preface of the 2004 hardcover edition, *State Building* is an outgrowth of a series of lectures delivered by Fukuyama at various institutions. The main body of the text is divided into three chapters; while a very short fourth chapter presents the book's concluding message.

Chapter 1, “The Missing Dimensions of Stateness”, takes its cue from the debate about the role of the state in economic development circles the NIE literature. It introduces an important distinction between the *scope* and *strength* of states. On the one hand, *scope* relates to the extent of functions that the state carries out. These are located on a spectrum that ranges from minimal scope (e.g., public good supply, property right definition and enforcement, and macroeconomic stabilization) to intermediate scope (e.g., internalization of externalities, environmental policy, and education) to more far-reaching functions (e.g., industrial policy and the redistribution of wealth). On the other hand, *strength* relates to the power that states have to implement functions that fall within the scope of their activities: it reflects the *institutional capacity* to act in specific ways. Fukuyama’s thesis is that conflating these two dimensions causes confusion and muddled policy prescriptions. For Fukuyama (p. 30), the question is “how do we get to Denmark?” where Denmark represents a developed country with well-functioning state institutions.²

Building on the distinction between the scope and strength of a state, Fukuyama says that to understand state capacity we should also address the question of the supply and demand of institutions. The supply question is composed of four aspects “(1) organizational design and management, (2) political system design, (3) basis of legitimization, and (4) cultural and structural factors” (p. 31). Fukuyama argues that, of the four aspects, the first (organizational design and management) is the easiest to transfer; it comprises knowledge can be expressed formally³. The respective transferability of the second, third and fourth aspects are “medium”, “medium to low”, and “low”; they are embedded in ways of knowing that are difficult to formalize, and hence to transfer.

The question of demand for institutions, succinctly put, refers to the “fact” that if there is not sufficient domestic demand for a well-organized state (that is to say, for a state that comes to combine low-scope with high-strength) then it is unlikely that there will be successful state-building (pp. 47-8). But in “the absence of strong domestic demand, demand for institutions must be generated externally. This can come from one of two sources. The first consists of the various conditions attached to structural adjustment, program, and project lending by external aid agencies, donors, or lenders. The second is the direct exercise of political power by outside authorities that have claimed the mantle of sovereignty in failed, collapsed, or occupied states” (p. 48). Therefore, it is not impossible, says Fukuyama, to successfully build states through power politics – *at least to some extent*. As we shall see, Fukuyama tries to make such a claim more precise in Chapter 3, albeit it in way that might fail to convince.

Chapter 2, “Weak States and the Black Hole of Public Administration”, contains, in our view, Fukuyama’s most interesting contribution. In this chapter Fukuyama points out that, even though formal knowledge about administration and organizational design can be transferred, this does not mean that it is possible to engineer a perfect organization – either in private or public contexts. On this account, he is critical of most dominant economic approaches to the study of organization, because they often overlook informal institutions, such as organizational culture, that enable delegated judgment to make a difference. Indeed, Fukuyama complains that economics has a tendency to frame most problems of organization in optimization terms. To make his case, he proceeds by reviewing two of the dominant approaches in the economics of organization, namely, principal-agent and transaction-cost theories. Since he perceives delegated discretion as the central organizational problem, his primary focus is on principal agent issues, and in particular with incentive alignment or shirking obviation. This does not mean that Fukuyama entirely ignores transaction cost considerations, however.

In a dynamic environment, that is, one characterized by the emergence of new problems and hence in need of continuous organizational adjustment, there are essentially three, essentially cognitive, reasons that render the design of an optimal organization impossible: (1) many organizational goals cannot always be well-defined; (2) monitoring is not a panacea; and (3) there is no fixed rule of thumb for the extent of delegation. Let us briefly take each in turn.

(1) If individuals have limited rationality in Herbert Simon’s well-known sense⁴, then it is not plausible to assume that goals are unambiguous, and hence can be put in the form of an optimal control problem. Organizational problems are not as mechanical as price theory implies. In fact, rather than flowing from top-down, most organizational knowledge is distributed, specialized and sticky. As such, it is not necessarily amenable to formalization. Many organizational problems are solved by organizationally embedded knowledge that is revealed in the reflexive process of adapting to changing circumstances – for example, in the face of innovation or exogenous competitive pressures.

(2) The incentive problem is not just typical of private organizations but also of public ones. Incentive-alignment, as known, is “solved” by monitoring output since it is impossible to monitor input – i.e., work effort – in every point in time. Therefore, incentive schemes – “optimal wage contracts” – are functions of observable and quantifiable output.

But it may also be difficult, Fukuyama specifies, to monitor output. Modifying the working paper version of what eventually became Pritchett and Woolcock⁵ with the

categories introduced by Israel⁶, he accordingly qualifies that public sector services can be distinguished according to transaction intensity and specificity. Transaction intensity “refers to the number of decisions that need to be made by organizations, which range from very small (e.g., decisions to change interest rates at a central bank) to very large (taking deposits in a retail banking system, or delivering primary education)” (pp. 75-6). Specificity is instead “the ability to monitor a service output.” A “highly specific service is jet aircraft maintenance, a complex skill that is hard to fake. If a mechanic is incompetent, there will be immediate consequences. By contrast, high school guidance counseling is a service with very low specificity. The counselor may advise a student to change career directions; the advice may not be taken immediately, and, even if it is, its impact on the student’s later life may not be known for years (if at all, since measurement requires a counterfactual comparison)” (p. 76). In short, a low specificity output is difficult to measure; a high specificity output is less so.⁷ Does this mean that for developing countries informal institutions are the solution to the poor performing formal ones when it comes to activities with low specificity and high transaction volume? Unfortunately, the answer is not so simple, because the matter hinges on the *maturity* of the social capital, not on social capital *as such*.⁸

(3) The problem of the extent of discretion to be delegated to organizational constituents is the last cognitive problem that constrains our ability to engineer optimal organizations. Such problem exists not only in private but also in public organizational contexts, e.g., fiscal federalism (pp. 97 ff.).⁹ Theoretically, here Fukuyama refers especially to the path-breaking contribution of Friedrich A. von Hayek.¹⁰ Extending some of the insights of his mentor Ludwig von Mises about bureaucracy and socialism, Hayek argued that economic central control of planned economy is impossible: no individual possesses all the relevant knowledge. Indeed, to be solved, many problems require “the knowledge of the particular circumstances of time and place”.¹¹ So, knowledge is not only dispersed, but also idiosyncratic or, following Michael Polanyi,¹² *tacit*. This necessarily implies that even though in some cases centralized governance may have advantages (e.g., managing technological innovation) some tasks must be delegated through some level of decentralization. And this leads, of course, to the problem of optimal amount of discretion. The optimal amount of discretion, moreover, is itself particular to time and place (pp. 99-101).

In Chapter 3, “Weak States and International Legitimacy”, Fukuyama relates the problem of weak states to the international level, asserting that “weak governance undermines the principle of sovereignty on which the post-Westphalian international order was built” (p. 129). Yet, the answers given by this chapter to the weak governance question at

the international level move outside the preceding discussions. Fukuyama tries to link the normative debate concerning military intervention (when should states intervene, when is it legitimate to violate state sovereignty, what is to be considered a “threat”, who decides, and is the US right to go it alone in the absence of adequate international institutions?) to the very different question concerning the building-up of efficient institutions. The conclusions reached as to the questions of international legitimacy, democracy, and sovereignty (and the different approaches to state building held by the US and Europe) must therefore be seen as considerations not having much bearing on the theoretical discussions laid out in the first two chapters.

What we think Fukuyama wants to offer in this Chapter, which to some extent does follow from the previous discussion, is actually a word of caution. He indeed distinguishes between different phases of state building, and suggests that it is only within the first phase – post-conflict reconstruction – that we can reasonably expect to achieve something. He is in fact rather skeptical as concerns the task of creating self-sustaining public institutions from the outside. Rather than proposing new solutions for endogenizing institutional demand, Fukuyama basically proposes that we should lower our expectations because “we do not ... know how to transfer institutional capacity in a hurry” (p. 141).

Discussion of Fukuyama’s Approach

Overall, we find interesting Fukuyama’s attempt to introduce contemporary institutional and organizational economic theory into the *realpolitik* discourse. At the same time, we feel that there are some empirical and theoretical issues that need elaboration. Let us mention three of those issues. The first two must be regarded as missing links, whereas the third regards the expansion of theoretical horizons.

First, Fukuyama is certainly correct that we need to think constructively about how to build states and how to export suitable institutions. Both are pertinent issues on the political scene. Forms of state building are of general concern because state/governance problems spill over into the international community. Moreover, as Fukuyama also makes clear, we still need better recipes concerning the different forms of international intervention in “sovereign states” like Serbia and Afghanistan. Evidently, individual state governance and “world order” are interconnected.

Yet there is less recognition of the more embedded ways in which state institutions originated, from the very outset, not just in a national but also in an international context.

Fukuyama addresses this link from a perspective reminiscent of popular political discourse. In other words, Fukuyama links the national and international levels thematically (failed state building in one corner of the world affects the rest of the world) and normatively (trying to set up some guidelines for when the international community can and should intervene in state affairs), but does not do so theoretically. This prevents us from recognizing that states formed and reformed within an *interstate* system of political and economic competition as well.¹³ This national and international notion of power politics ties in not just with institution building per se, but with the *dynamics* of institution building. If states developed also as responses to their position within an interstate system of competition one may equally look at this very concretely in the world today. For instance, it is often not a serious option for political leaders in developing countries to mobilize their citizenry in order to strengthen the state, as happened historically in France and England. Weak states find other ways of adapting to the situation: they remain weak, but channel a portion of the resources they may carve out to ruling families or other elites (or, in the extreme, to one individual: the dictator). These elites have little or no incentive to create so-called modern states, for that would just destabilize their own power position.¹⁴ The only “efficiency” criterion they will abide – if rational – is to assure that the degree of institutional stability offered matches the amount of rent extraction requested.¹⁵

Fukuyama is certainly right that state governance does play an important role in guiding political and economic development. But in his eagerness to “bring the state back in,” he conceptualizes states as closed analytical units that interact with the international level only when they mismanage their internal affairs. This leads Fukuyama to diagnose a series of problems as if their solution were to be found in better management programs of the single polities. However, to bring back in the state does not mean to return to a Hobbesian notion of the state. Whatever the merits, the globalization debate has served to alert social scientists to the many ways in which states are constrained by exogenous forces, and to the variety of non-state actors, local and transnational, that also shape governance.¹⁶ Surprisingly, Fukuyama manages to bypass the whole globalization debate, even if he sees his own work as a contribution to that debate.

Second, one further – and arguably even more pertinent – question has to be raised, for Fukuyama surprisingly does not do it: what is the relationship between so-called enforcement and legitimate rule? Or, alternatively posed, what is the relationship between state enforcement and democracy? This is a crucial problem, especially because Fukuyama is clearly trying to offer “intervention guidelines”: when should we intervene, and what do we

do once we are “in”. Whereas the current Bush-doctrine wishes to establish international security by spreading democracy, Fukuyama wants to do it by spreading efficient governance. Does that amount to be saying the same thing with different words? Fukuyama never really provides an answer. In Chapter 2, for instance, Fukuyama indicates that the two levels of efficiency and legitimacy work together. Legitimate forms of state governance, in the long run, are also the most fruitful ones. That is a very optimistic way to think about it. But, more substantively, it is also a very questionable way to think about, for again it does not follow automatically from the empirical data: which kind of developing countries have done well economically over the past 50 years, the more or the less democratic ones? And is there a relationship at all? No matter which definition of democracy one follows, a state like Saudi Arabia would probably score high on the enforcement scale, but low on the democracy one. The simple fact is not only that it is genuinely possible to create high levels of enforcement through non-democratic methods, but also that it might in fact be cheaper. Relatedly, the success stories of South-East Asian countries do not seem to support Fukuyama’s thesis either: so-called miraculous growth was established without much attention paid to “democracy”.

Third, and referring now to the more theoretical foundations of *State Building*, it should be underlined that some of Fukuyama’s theoretical points are not, as he claims, entirely forgotten in economics. As we saw, he basically turns to the NIE for the theoretical foundations of his argument. However, much of the NIE sources that he refers to are, at their analytical hard core, actually not too different from the (neoclassical) economic theories that he tries to criticize. The NIE is a useful portmanteau that contains a lot of hidden information: not all NIE theories are the same. The NIE contains approaches that are not only (more) neoclassical but also better known.¹⁷ Yet the NIE also contains (arguably less-known) approaches that, much like Fukuyama, explicitly see cognitive limitations as central.¹⁸

Fundamentally, the cognitive limitation approach of the NIE sees learning rather than allocation as central. As a result, it entails a more informed type of comparative institutional analysis. In the evaluations of (known) feasible governance alternatives we should keep in mind two criteria. The first is the ability of alternative governance structures to limit deadweight losses from rent seeking, soft budget constraints, indivisibilities in team production, asset specificity and the like. This is the criterion that has also predominantly filtered into other disciplines and that Fukuyama obliquely takes issue with but by to a large extent drawing on the same NIE sources that use it. The second criterion regards the other side of the coin: the ability of alternative governance structures to generate benefits

impossible to achieve otherwise (such as quasirents and technological innovation in the case of private contexts and economic growth and development in public ones). The cognitive NIE approach is theoretically trying to assert the crucial role played by both criteria: the ability to internalize negative externalities as well as the ability to create positive externalities.¹⁹ Had Fukuyama looked into this other literature, his analytical model of institution building and institution transferability would have resulted more convincing.

From Philosophy of History to Efficient State Management?

Having reported and discussed the distilled essence of Fukuyama's approach, let us finally contextualize the argument by reading it against Fukuyama's authorship, for indeed it seems to us that Fukuyama has walked an interesting trail in his approach to political issues. This trail can be spelled out. It also seems to us that Fukuyama's argument would force him to reconsider the philosophical framework contained in his earlier work. At root, we feel that Fukuyama will have to tackle more openly the tension that exists between universality and embeddedness.

In a certain sense, *State Building* should be seen as a continuation of Fukuyama's controversial "The End of History?"²⁰, and this despite the fact that the two works stand apart in both style and content. On the wave of the fall of the Eastern bloc, Fukuyama claimed in this article – and reasserted more fully in a derived, bestselling book, the *End of History and the Last Man*²¹ – that *the final universal* structure for the governance of human affairs had been achieved: the market economy and (Western) liberal democracy. Following Hegel's footsteps, Fukuyama made a universal claim: the final governance structure concerned the human race as such. And if the final governance structure had not yet been achieved everywhere, it was only a question of time until it did, for the entire world was subject to the same forces of history.

In *State Building* Fukuyama is motivated by a far more pragmatic question: how do countries actually reach the final governance structure? That is, how do we in fact build states that allow for both liberal values and economic prosperity? This motivational question is, in the final analysis, the corridor within which Fukuyama constrains his new, nonphilosophical journey. And the itinerary followed within the corridor is "whether the institutions and values of the liberal West are indeed universal" – and hence, if not yet achieved in all countries, can actually be transferred to all countries – "or whether they represent, as Samuel Huntington (1996) would argue, merely the outgrowth of cultural habits of a certain part of the Northern

European world” (p. 3).²² The answer to this question, we have learned, is tantamount to answering the following two others at the level of economic organization theory: (1) what is a well-organized state?, and (2) how do we build one? And the answers to these two questions, Fukuyama underscores, have important implications for both development and world order.

So, in *State Building* Fukuyama tries to paint a much more complex picture than in “The End of History?”. In this picture, informal institutions (cultural values, customs, mores, norms, etc.) can alter the way in which formal institutions (most notably the legal order) and organizations (most notably the state) function (or not). Because of the nonnegligible role played by informal institutions, there are, Fukuyama now implies, serious obstacles to exporting institutions and organizations. This is so because, crudely put, embeddedness limits universality. Furthermore, Fukuyama points out that we are taxed by severe cognitive limitations that constrain capacity to achieve the best institutional and organizational solutions.²³

Whereas Fukuyama earlier postulated that we had reached the final governance structure, he is now asking *how* such a structure is reached (and can be created and maintained) at efficient cost. Contrary to the previous philosophical perspective this involves, it seems, an implicit recognition that there are no Hegelian forces or world *Geist* that automatically push the world in this or that direction: it is up to us to shape the world in ways that we deem to be superior. In this way, Fukuyama’s trail is indeed indicative of the general development we have seen over the last 15 years: from a renewed Wilsonian Liberal optimism that characterized the early 1990s, to the much more realist and pragmatic approach that dominates today. It is evident to everyone by now that a “New World Order” did not emerge by some hidden force of history, just because Communism collapsed. Nor did Liberal institutions simply settle everywhere. Suddenly, there is a realization that we know very little about how to build and spread “institutions for good governance”. Fukuyama’s contribution has shaped the sense that people make of complex issues: we have learned a way of knowing a little more.

Hence, despite a series of shortcomings, Fukuyama has inspired a fascinating debate, especially in the field of development theory and foreign policy. And the debate should be especially informed by the contemporary theory of economic organization – which owes much to the New Institutional Economics.

We welcome this debate as we welcome the coalition of interdisciplinary scholarship. Everybody talks about it, but Fukuyama has tried to do something about it. While Fukuyama’s conception of state building, as the conduit of power in a new World Order,

might be contested, he has charted the contours of fresh conceptual thinking; at the very least, there is something robust to contest. Supporters and critics are afforded scope to forge a new agenda. We hope that they will meet the challenge.

Notes and References

¹ The book was first published as a hardcover edition in 2004. The new 2005 paperback edition contains two prefaces: the 2004 original, and one that relates Fukuyama's arguments to the ongoing Iraq crisis. With the exception of the prefaces, the pages match in both editions.

² Although ideal types are, of course, abstracted from empirical reality, the choice of Denmark does not seem to be entirely congruent with Fukuyama's thesis. "Denmark" may indeed be used (and has been used, e.g., L. Pritchett and M. Woolcock, 'Solutions when *the* Solution is the Problem: Arraying the Disarray in Development', *World Development* 32(2), February 2004, pp. 191-212) as an ideal type of the kind of state that resembles Weberian rule-bound bureaucracy. But "Denmark" most certainly cannot be taken as a state that has achieved what Fukuyama is after, namely, reduced scope and appropriate enforcement. By any measure, Denmark is one of the states in the world with the largest scope. The state is, literally, everywhere. (We feel entitled to say this, as one of the authors of this paper is from what is called "Denmark".) Even the present government, which proclaimed repeatedly in the 1990s that it would cut down the state sector – Danish Prime Minister, Anders Fogh Rasmussen, even wrote a book in 1993 called *From Social State to Minimal State (Fra Socialstat til Minimalstat)*, when he was still in opposition – has effectively increased the number of state employees. Perhaps Fukuyama should have found himself a better metaphor. But which, if not Denmark? The point may be nothing but trivial insofar as it may be taken to cause problems for Fukuyama's model-to-be-copied of a reduced but empowered state as the way forward for developing countries: if history is anything to go by, the success examples of countries like Taiwan or South Korea indicate a road forward that leaves much more space for authoritarian state intervention (scope and enforcement) than Fukuyama would like to concede.

³ Our impression is that by "formal knowledge" Fukuyama means what some organizational economists call "blueprint knowledge". Compare for example R. N. Langlois and N. J. Foss, 'Capabilities and Governance: The Rebirth of Production in the Theory of Economic Organization', *Kyklos* 52(2), 1999, pp. 201-18.

⁴ Which should actually be thought of as a form of "limited cognition". See Ch. 10 by R. N. Langlois in R. N. Langlois (ed.) *Economics as a Process: Essays in the New Institutional Economics*, Cambridge University Press, New York, 1986.

⁵ Pritchett and Woolcock, *op. cit.*

⁶ A. Israel, *Institutional Development: Incentives to Performance*, Johns Hopkins University Press, Baltimore, 1987.

⁷ These categories will prove confusing to many organizational scholars, for in Williamson's framework (see O. E. Williamson, 'Comparative Economic Organization: The Analysis of Discrete Structural Alternatives', *Administrative Science Quarterly* 36(2), June 1991, pp. 269-96) asset specificity refers to the nonfungibility of an asset. A highly specific asset is one with low or no fungibility. As such, it can lead to opportunistic behavior and a tussle for quasirents, which can only be solved through vertical integration.

⁸ "Workers ... can and do behave with a high degree of professionalism in developing countries, but their primary ties remain very strong, and the countervailing effects of socialization into the norms of the various professions is weaker, just as other forms of human capital are less developed. This reduces the possibilities for substituting social capital for formal monitoring and accountability, making the performance of low specificity tasks less efficient. Those non-Western countries that have developed the most rapidly were the ones in East Asia that already had highly developed norms of professionalism in public service before they modernized" (p. 90).

⁹ Incidentally, there's an emerging economic literature (called Second Generation theory of fiscal federalism) that focuses exclusively on fiscal federalism from an organizational viewpoint that, though germane, cannot be discussed here. See, among others, W. E. Oates, 'Toward a Second-generation Theory of Fiscal Federalism',

International Tax and Public Finance 12(4), August 2005, pp. 349-73; G. Garzarelli, 'Cognition, Incentives, and Public Governance: Laboratory Federalism from the Organizational Viewpoint', *Public Finance Review*, 34(3), May 2006, pp. 235-257.

¹⁰ F. A. von Hayek, 'The Use of Knowledge in Society', *American Economic Review* 35(4), September 1945, pp. 519-30.

¹¹ *Ibid.* p. 521.

¹² M. Polanyi, *Personal Knowledge: Towards a Post-critical Philosophy*. University of Chicago Press, Chicago, 1958.

¹³ See, for example, sociologists like J. Baechler, *The Origins of Capitalism* (translation by B. Cooper of *Les Origines du Capitalisme*, Gallimard, Paris, 1971), Basil Blackwell, Oxford, 1975; Ch. Tilly, *The Formation of National States in Western Europe*, Princeton University Press, Princeton, 1975; or economic historians such as E. Jones, *The European Miracle: Environments, Economies and Geopolitics in the History of Europe and Asia* (third edition), Cambridge University Press, Cambridge, 2003, esp. Ch. 6.

¹⁴ For example, oil-producing countries, the main income of which is based on (Ricardian) rents deriving from their "resource trap" position, will normally lack incentives toward participatory state building.

¹⁵ Compare, e.g., D. North, *Structure and Change in Economic History*, W. W. Norton & Company, Inc., New York, 1981, Ch. 10 and M. Olson, 'Dictatorship, Democracy, and Development', *American Political Science Review* 87(3), September 1993, pp. 567-76. For a more recent characterization of these delicate political-economic equilibria that view state organization and the development process as indissoluble, see R. Bates, A. Greif, and S. Singh, 'Organizing Violence', *Journal of Conflict Resolution* 46(5), October 2002, pp. 599-628.

¹⁶ See, for example, B. Thomassen, 'Fidelity and Betrayal in Trieste: Locating the "Crisis of the State"', in Th. M. Wilson and H. Donnan (eds.) *Culture and Power at the Edges of the State*, Lit Verlag, Münster, 2005, pp. 31-55.

¹⁷ See, for example, North, *op. cit.*; Th. Eggertson, *Economic Behavior and Institutions*, Cambridge University Press, Cambridge, 1990; Williamson, *op. cit.*

¹⁸ See, among others, Langlois (ed.), *op. cit.*; Langlois and Foss, *op. cit.*; L. Kim and R. R. Nelson (eds.), *Technology, Learning, and Innovation: Experiences of Newly Industrialized Economies*, Cambridge University Press, New York, 2000; R. R. Nelson and B. N. Sampat, 'Making Sense of Institutions as a Factor Shaping Economic Performance', *Journal of Economic Behavior and Organization* 44(1), January 2001, pp. 31-54; Yu, T. 'The Role of Government in the Economic Development of the East Asian Learning Economies', *Journal of Public Finance and Public Choice* 20(1), 2002, pp. 23-41.

¹⁹ Langlois and Foss *op. cit.*; Garzarelli *op. cit.*

²⁰ F. Fukuyama, 'The End of History?', *The National Interest*, 16, Summer 1989, pp. 3-18.

²¹ F. Fukuyama, *The End of History and the Last Man*, The Free Press, New York, 1992.

²² In S. Huntington, *Clash of Civilizations and the Remaking of World Order*, Simon & Schuster, New York, 1996, we were offered a competing meta-narrative to that of Fukuyama's End of History. The world had not settled into any final form: huge differences in values not only persisted, but would grow stronger over time, and this would lead to a clash of civilizations. Hence, Huntington argued that the values Fukuyama had seen as reaching their final destination were mostly Western, and was very skeptical about their diffusion. Lately, Huntington has moved in the opposite direction. In a Preface to a recent book co-edited with Harrison (called, appropriately, *Culture Matters*), Huntington for example argues that we can (and should) spread Western values (see L. E. Harrison and S. Huntington (eds.), *Culture Matters: How Values Shape Human Progress*, Basic Books, New York, 2000, pp. xiii-xvi). Exogenous development strategies, Huntington argues, can work hand in hand with endogenous ones and make people "think the right way". This value or cultural level is exactly the level that Fukuyama, as we saw, deems to be impossible to spread. Hence, Fukuyama has become less "universalistic" and Huntington more so: on that account they seem to have moved towards each other. However, as they meet, they still seem to disagree: Huntington believes that values can be transferred after all (e.g., religion is not such an eternal constant as he led us to believe in *Clash of Civilizations*); Fukuyama instead believes that what can in fact be transferred is found within the more narrow field of organizational design, and partly institutional design.

²³ In a very concrete sense, of course, embeddedness and limited cognition are actually the same problem. See especially A. O. Hirschmann, 'Rival Interpretations of Market Society: Civilizing, Destructive, or Feeble?', *Journal of Economic Literature*, 20(4), December 1982, pp. 1463-84.