

Briefing Note #2

The new intermediary state

**WHOSE STATE: THEIRS OR OURS?
TODAY'S STATES ARE INTERMEDIARIES BETWEEN DOMESTIC AND
EXTERNAL POLICY PREFERENCES.**

Globalization has changed the state. Governments now act more like intermediaries between the policy demands of global, mobile actors and those of local, domestic constituencies. This is one of the main findings of *The New Public Finance: Responding to Global Challenges*.

This change in the role of the state explains many recent political controversies—the debates over outsourcing, promoting labor-market flexibility, moving away from gas-guzzling cars and capping harmful emissions.

But it also explains the added policy emphasis on managing such risks as an avian flu outbreak, fighting international terrorism, preventing financial crises and getting ready for future hurricanes and other more violent weather patterns associated with global warming.

Whose state? Theirs or ours?

Do citizens feel that they are being well represented when governments adopt unpopular reforms to make their countries more competitive? Often times not. Just think of the protests in Europe against the reform of the welfare state. Or the fears that trade liberalization instills in workers in industries facing tougher international competition. Or the political outcries against financial liberalization.

So, whose state is it? Electorates are national. But the policy demands that governments pay attention to come increasingly from outside. International market sentiments often make governments change earlier election promises.

And what is the shape of the state today? Is it still the protective nation-state that enjoys exclusive territorial and policymaking sovereignty, aggregates national preferences and fights for the nation's interests abroad through diplomatic and military means?

* *The New Public Finance: Responding to Global Challenges* (edited by Inge Kaul and Pedro Conceição; New York: Oxford University Press, 2006).

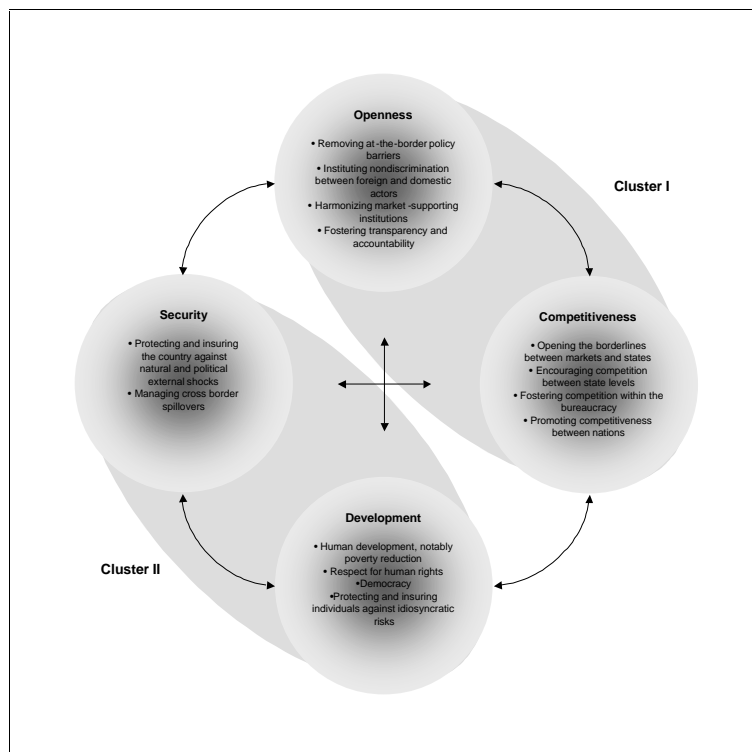
The emerging intermediary state

A new and different state has been emerging. It still looks inside its borders to glean the preferences of its citizens. But to capture global opportunities it also looks to meet external policy expectations. No longer just a protector, today's states are intermediaries between domestic and external policy preferences.

Their performance is regularly monitored, measured and ranked according to more than 150 composite indices, devised primarily by nonstate actors. (See the list at the end of this note.)

What do these indices consider to be “good governance”? With business actors, civil society and intergovernmental organizations engaged in the process, the external policy expectations call for more balanced, better managed, less volatile and fairer globalization. Two main clusters of expectations (see figure below) can be identified:

- Those calling for enhanced openness and competitiveness.
- Those urging better risk management and global poverty reduction.



Put differently, states are being called on to promote desirable openness and new forms of “national closure”, where openness would mean allowing global public bads to freely roam across countries (diseases, financial crisis or illegal drug trafficking). They are to foster competitiveness of governments, firms and workers but also to equip the country and its citizens to cope with the greater volatility that tends to accompany globalization—with, say, unemployment insurance and better opportunities for re-training.

Why states adjust to external policy expectations

The traditional state enjoyed an overarching, controlling role derived from strong coercive powers—from taxation to incarceration. The intermediary state finds itself in quite a different position. While national borders have become more porous, governments now realize that economic openness means business, workers and civil society actors are also more mobile. Many of them have “gone global”. Yet the state remains in large measure shackled to its territory—national in reach.

Competition among states is not bad—but it can be nationally controversial and sometimes, painful for some domestic constituencies

States are now in competition with each other—not necessarily a bad thing. Many people welcome the progress in greater respect for human rights, including gender equality and adherence to the rule of law, and in improved labor and environmental standards, urged by the foreign companies lest they face consumer protests or other penalties in their home markets.

But in other instances state efforts to blend external and domestic policy expectations can be highly controversial. Because, don’t forget, the external policy expectations call for openness and competitiveness. Where governments pay—or, are pressured—to pay more attention to these concerns than to such concerns as building national capacity (“getting ready for the competition”), the national adjustment costs can be very high, at least in the short term.

Where next?

How best to combine openness with stability and competitiveness with security and enhanced well-being for all? The question requires intensive dialogue within each country and among nations. The first step towards finding an effective policy response is to recognize the intermediary state.

Indices measuring aspects of economic openness and competitiveness

- 1 BradyNet Ratings Ladder
- 2 Bribe Payers Index (BPI)
- 3 Capital Access Index (CAI)
- 4 Composite Score of Risk (BRS)
- 5 Corruption Perception Index (CPI)
- 6 Country Risk Evaluation and Assessment Model (CREAM)
- 7 Country Risk Rating (WMRC)
- 8 CSGR Globalisation Index
- 9 Ease of Doing Business Measures
- 10 E-Business Readiness Index
- 11 Economic Freedom of the World (EFW) Index
- 12 E-Government Index
- 13 E-Government Readiness Index
- 14 EIU Business Environment Rankings

15	EIU Country risk rating
16	Emerging Market Bond Indices (EMBI)
17	E-Participation Index
18	E-Readiness Index
19	Ethics Index
20	Eurochambres Economic Survey (EES) indicators
21	European Innovation Scoreboard (EIS) and Summary Innovation Index (SII)
22	Financial Times Credit ratings
23	Foreign Direct Investment Confidence Index
24	FORELAND - Lender's risk rating
25	G-index - Globalization index (AT Kearney and Foreign Policy)
26	G-index - Globalization index (World Market Research Centre)
27	Global Competitiveness Index (including the Growth Competitiveness Index and Business Competitiveness Index)
28	Global Investment Prospects Assessment (GIPA)
29	Global Retail Development Index (GRDI)
30	Global Risk Service
31	Governance Indicators
32	Index measuring the strictness of employment legislation (EPL)
33	Index of Economic Freedom
34	Innovation Capacity Index
35	Institutional Investor Country Credit Ratings
36	Internal Market Scoreboard and Internal Market Index
37	International Country Risk Guide (ICRG) Ratings - Composite Risk Rating
38	Investment and Performance in the Knowledge Based Economy
39	Inward FDI Performance Index
40	Inward FDI Potential Index
41	ITU Digital Access Index (DAI)
42	Latin American Index of Budget Transparency
43	Lisbon Scorecard
44	McKinsey Global Confidence Index
45	Mineral Extraction Risk Assessment (MERA)
46	Networked Readiness Index (NRI)
47	Offshore Location Attractiveness Index
48	Opacity Index (O-Factor)
49	Outward FDI Performance Index
50	Overall Market Potential Index
51	Qualitative Risk Measure in Foreign Lending (QLM-FE)
52	Quality of Workforce Index (QWI)
53	Responsible Competitiveness Index
54	Science and Technology Rankings
55	Sovereign Credit rating (by Capital Intelligence)
56	Sovereign Credit rating (by FitchIBCA Duff&Phelps)
57	Sovereign Credit rating (by Moody's)
58	Sovereign Credit rating (by Standard and Poor's)
59	Sovereign Risk rating (by WMRC)
60	Stability Index
61	Technological Achievement Index (TAI)
62	Tourism Competitiveness Monitor
63	Transnationality Index of host economies
64	World Competitiveness Scoreboard

Indices measuring aspects of development and security

1	Ageing Vulnerability Index
2	AIDS Program Effort Index (API)
3	Alternative country risk rating (IRPA)
4	APESMA Big Mac Index
5	Assessing the achievement of the Millennium Development Goals (MDGs)
6	Bertelsmann Transformation Index
7	BIC3D Index
8	Big Mac Index
9	Climate Analysis Indicators Tool (CAIT)
10	Commitment to Development Index (DI)
11	Country Indicators for Foreign Policy (CIFP)
12	Country Policy and Institutional Assessment (CPIA) and IDA Country Performance Ratings (ICP)
13	Dashboard of Sustainability
14	Democracy Score - Nations in Transit Ratings
15	Disaster Risk Index (DRI)
16	Early Motherhood Risk Ranking
17	Ecological Footprint
18	Economic Vulnerability Index
19	Education for All Development Index (EDI) and Gender related EFA Index (GEI)
20	EIU Worldwide Cost of Living Index
21	Environmental Performance Index (EPI)
22	Environmental Sustainability Index (ESI)
23	Environmental Vulnerability Index (EVI)
24	Ethno-linguistic and religious fractionalization Index and Political Instability Index
25	Food Insecurity
26	Gender Empowerment Measure (GEM)
27	Gender Equity
28	Gender Gaps
29	Gender Gap Scores (in Education)
30	Gender-related Development Index (GRI)
31	Global Civil Society Index (GCSI)
32	Global Natural Disasters Risks Hotspots
33	Global Quality of Living
34	Global Terrorism Index
35	Happiness Index
36	Human Development Index (HDI)
37	Human Poverty Index (HPI)
38	Human Rights Commitment Index
39	Index of Human Insecurity
40	Index of Human Progress
41	Index of Social Vulnerability to Climate Change (Africa)
42	International Index of Social Progress (ISP) and Weighted Index of Social Progress (WISP)
43	Living Planet Index
44	Major Military Spenders
45	Millennium Challenge Account country rankings
46	Mother's Index
47	National Biodiversity Index (NBI)
48	Official Development Assistance (ODA) Rankings
49	Overall Health System Achievement Index
50	Overall Health System Performance Index
51	Oxfam Survey of Donor Practice
52	Political Rights and Civil Liberties Ratings

53	Pollution Sensitive Human Development Index
54	Press Freedom Index
55	Programme for International Student Assessment (PISA)
56	Progress in International Reading Literacy Study (PIRLS)
57	Pro-Poor Policy (PPP) Index
58	Quality of Life Index (EIU)
59	Quality of Life Index (Social Watch)
60	Reproductive Risk Index
61	Social Watch Scorecard
62	Sustainability Index
63	The Observer Human Rights Index
64	Trends in International Mathematics and Science Study (TIMSS)
65	Under 5 Mortality Rank - U5MR (Child Welfare)
66	Water Poverty Index (WPI)
67	Welfare Index
68	Wellbeing Indices
69	World City Network - Global network connectivity rankings
70	World Military Expenditures and Arms transfers rankings
71	World Press Freedom Ranking

About the book

The New Public Finance: Responding to Global Challenges is published by Oxford University Press for the United Nations Development Programme (UNDP).

For more background information visit: www.thenewpublicfinance.org

The Overview of the book is available in Arabic, Chinese, English, French, German, Portuguese, Russian, and Spanish on the website above or, for hard copies, from:

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 ISBN 0-19-517997-8 Paperback
 ISBN 0-19-517996-X Cloth