

# Chapter 1

## States via Markets and Markets via States: Symbiosis and Change, Not Conflict

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### **ABSTRACT**

*Theories that the state and market are in a conflictual and binary relationship read the history of the past 30 years as a triumph of the market and a withering of the state. The underlying alleged conflict between state and market misrepresents history and reality. States and markets are commingled forms of power; each cannot exist without the other. States and markets operate on different logics and constantly mutate in response to changes in their environment. States constantly face competitive threats and need markets to generate revenue in efficient ways; market actors face competitive threats and need states to stabilize production and exchange relationships. States and market actors both need each other as a place to externalize threats to their legitimacy.*

### **STATES VIA MARKETS; MARKETS VIA STATES**

What does the future hold for the relationship between states and markets? What does this relationship mean for public administration? The usual theories, including and especially public choice theory, see the state and market in a conflictual and binary relationship. These theories tend to polarize the state-market relationship by opposing equity and efficiency, rigidity/fairness and flexibility/customization, or stasis and innovation. They read the history of the past 30 years as a triumph of the market and a withering of the state, regardless of whether they celebrate or mourn this apparent phenomenon. These oppositions, and the underlying alleged conflict between state and market, misrepresent history and reality. States and markets not only are commingled forms of power, but also cannot exist without the other. While states and markets operate on different logics, neither can stand alone. Like all forms of social power, states and markets are constantly mutating in response to changes in their environment

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and the kinds of resources available to them. Each constantly develops new technologies of power and adopts and adapts them from each other. This makes pronouncements about the timeless superiority of one form over the other seem silly (Hibou, 2004). States constantly face competitive threats and need markets to generate revenue in efficient ways; market actors face competitive threats and need states to stabilize production and exchange relationships. States and market actors both need each other as a place to externalize threats to their legitimacy.

*Pace* Woodrow Wilson, a true separation of politics and a (neutral) administration is not possible. *Pace* Hayek, spontaneous social organization cannot stabilize what are now globally integrated commodity chains generating products based on years of state funded research, and whose profitability requires novel property rights created and enforced by the state. And consistent with Dwight Waldo, efficient administration of both public and private sector organizations cannot be assessed without also asking the question, efficient for whom? Indeed, Hayek's own work on markets suggests why a non-partisan, value-free, and non-discretionary public administration is impossible. This chapter thus does three things. It shows the essential hybridity and synergy of state and market as forms of social power, dismissing views that see them as inherently separate spheres of social organization. It argues that the apparently massive shift from state to market from 1980 forward was in fact a great transformation, but one that involved a change from rule *over* markets to rule *through* markets. And it links this transformation to the permanent conflicts over ethical choices in public administration that Dwight Waldo highlighted over 60 years ago.

1. States and markets are different faces of the same form of social power that emerged after the industrial and national revolutions of the nineteenth century. The problems of public administration reflect the nature of this new system of social power. Social power is the ability to organize people to work collectively towards some common purpose determined by elites who themselves may be pursuing goals in a not fully autonomous way. Traditional societies mobilized collective efforts via overt coercion, appeals to tradition, charismatic authority, and, in very small groups at the village level a collective identity armored with social coercion. Relative to the efforts of hunter gatherer societies, or the efforts of isolated villages, a few ancient societies were capable of mobilizing considerable energy towards the kind of monumental objects that capture the modern imagination: pyramids, Great Walls, coliseums, the Louvre. Behind these monuments lay equally momentous but often invisible monuments: literacy and numeracy, record keeping, moderately complex bureaucracies, meritocratic appointment of officials. At root though, both sorts of monument rested on a foundation of overt coercion of slaves and/or peasants, which is to say that top down political power directed people's production decisions (Weber, 1998). Traditional polities fused political and economic power into the household of the priestly caste, or the ruler's military retinue, or much less often a coherent group of merchants. Even there, though, trade was more highly militarized than modern exchange, as a consideration of Venetian galleys shows.

These societies could be highly commercialized, as the Chinese, Athenian, and Roman empires show (Weber, 1998). Yet commercialization of the economy was no evidence of a separation of 'politics' and the 'market,' as state-administered grain and luxury flows comprised the bulk of trade. Taxation either simply recycled local grain production as payments for state employees, or shifted a smaller flow of grain to imperial capitals to feed an ever-restless urban population (Fox, 1971).<sup>1</sup> On the other side, much 'private' enterprise involved procurement for the state, most notably in the case of 'tax farmers.'

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