

**Dimensions of State Failure: A Comparison of the  
US, Ecuador and Papua New Guinea**

**Kenneth P. Jameson<sup>1</sup>  
Department of Economics  
University of Utah**

**PAPER PRESENTED AT  
Tercer Encuentro de la Sección de Estudios  
Ecuatorianos de la LASA**

**QUITO, ECUADOR**

**June 2006**

Treatments of the failed state in the current world economy abound, coming from the right (Krasner and Pascual, 2005), from the left (Chomsky, 2006) and from everywhere in between (Yannis, 2002). There is even a “failed states index” (Fund for Peace, 2006) that ranks 145 states on their degree of failure in terms of 12 indicators.

This paper traces the origins of the crisis of the state to the free market ideology that became mainstream in the United States and Britain through the Reagan/Thatcher regimes and was then transmitted to much of the rest of the world as the path to development. The market, transnational corporations, and individualism constituted the new recipe for economic and political progress. States in the periphery could only interfere and had to be limited to controlling inflation and maintaining stable international economic relations.

It is apparent that the attack on the state has largely succeeded, but with many consequences unforeseen by its exponents. The vacuum created in many states has threatened not only the well-being of their citizens but of the world as a whole. People in these states have searched for new mechanisms to gain power and to substitute for the inadequacy of the current institutional arrangements. And there is growing evidence that the powerful countries that have been the missionaries of this anti-state gospel have been compromised and are beginning to face many of the same problems as the countries that have been termed “failed states.”

The paper begins by chronicling the attack on the state from Reagan to the present. It then examines the economic indicators of state failure, before turning to three cases of state failure: the US, Papua New Guinea, and Ecuador. The underlying purpose is to broaden the context for considering the problems of the state in Ecuador by contrasting it with two polar cases. The final section attempts to look ahead to what might provide a viable direction to reconstruct both a state and an international system that responds positively to human needs. In that regard, Ecuador provides reason for optimism, justifying a “bias for hope.”

## THE CONTEMPORARY ATTACK ON THE STATE

The “state versus market” debate is a perennial; only the form of argument, the rhetoric, has changed since modern markets were lionized by Adam Smith. Strange as it may seem today, the debate about the compatibility of markets and socialism was as vibrant as that over the role of the market under capitalism. The current form of argument was cast in the early 1980s under the Reagan administration, with its implementation of a particular set of anti-state policies, best termed “conservative economic individualism(CEI)” (Wilber and Jameson, 1990, 94):<sup>2</sup>

At the heart of CEI thought was the idea that New Deal-Keynesian policies had undermined the creativeness of the market economy by blunting incentives through high taxation, over-regulation, and excessively generous social welfare programs. They believed that by reducing these government activities and restoring incentives, the basis for future economic growth would be established. Both the Reagan administration in the US and the Thatcherites in England were quite successful in reducing the role of government and implementing policies they espoused. The policy change was deepened further in the early 1980s by the monetarist stance of the Federal Reserve under Paul Volcker. He attempted to reduce discretionary monetary

policy by targeting the money supply at rates that would bring about disinflation, presuming that the effects on GDP would be minimal. The monetarist experiment was disastrous and was abandoned after only a few years. The CEI program was no great success either, as the uneven and generally mediocre performance of the 1980s exemplified. Peter Peterson (1987, 47-48) summed it up in terms quite relevant to the current situation:

This is, quite simply, the dirty little secret of Reaganomics: behind the pleasurable observation that real U.S. consumption per worker has risen by \$3,100 over the current decade lies the unpleasant reality that only \$950 of this extra annual consumption has been paid for by the growth in what each of us produces; the other \$2,150 has been funded by cuts in domestic investment and by a widening river of foreign debt... This is how we have managed to create a make-believe 1960s-a decade of "feeling good" and "having it all"-without the bother of producing a real one.

US economic performance was mediocre; Latin American performance was disastrous during the lost decade of the 1980s. The unwillingness to adjust during the 1970s oil price hikes had led to rapidly increasing international indebtedness, which was the proximate cause. However, rising real interest rates combined with the success of the US in preventing Latin American debt defaults were important threads in the sad story. In any case, by the end of the decade, Latin American policy makers were anxious to find alternative policies that might be effective domestically and that would lessen the external pressures on domestic policy choices. Enter the "Washington Consensus" (Williamson, 1990), building on the set of policies implemented by the CEI's in the US and England. Nine of the ten points of the Consensus reforms can only be interpreted as reducing the role of the state, particularly in Latin America with its tradition of state encouragement of import substitution industrialization. The only exception is the tax reform proposal to lower rates and broaden the base, which might have given the state added resources. Williamson (nd) claims that the only element of the Consensus that was "neo-liberal" was the argument for privatization, and that elements of Reaganomics such as supply-side economics and monetarism were omitted because they had failed. His defense of the actual set of proposals has some cogency. However, their implementation in most of the countries of Latin America was quite neo-liberal. "Liberalizing interest rates" was operationalized as freeing domestic capital markets and reducing regulation, with resultant bank crises in virtually all countries. "Fiscal discipline" meant reducing the size of the state and its range of operations, aside from military activities. "Liberalization of inward foreign direct investment" meant the denationalization of not only the state owned industries but other nationally owned sectors of the economy, e.g. the banking system of Mexico. The end result was a further attack on the state, particularly in Latin America. Ha-Joon Chang (2003) describes it as the "unholy alliance" of neoclassical economics' treatment of market failure with the Austrian-Libertarian belief that any intervention must be suppressed.

Given the quarter century of attack on the state, combined with the tremendous changes in the international system, it is hardly surprising that many states function less than perfectly. This led to international concern with failed states, states whose weakness could become destabilizing to the entire international system through their domestic turmoil or by exporting disorder. Concern with state failure combined neatly with suggestions that second generation reforms had to be undertaken, given that the

Washington Consensus first generation reforms had been relatively unsuccessful. These reforms seek improvements in institutions and in governance. Williamson's recent book (Kuczynski and Williamson, 2003) is an excellent example. Their only addition is that attention must be paid to income inequality. This is hardly an apt response to the unsatisfactory experience of Latin America with the Washington Consensus. There is an irony here since the attacks on the state from the 1980s on had shown scant regard for institutions, based as they were on an economic model of an ideal market economy. Indeed, the interest in institutions does not stray far from this market orientation. For example, the World Bank privileges "institutions for markets" and explicitly states that "the recognition of the crucial role of institutions, organizations, and political economy restrictions is not tantamount to a rejection of the neoclassical model" (IBRD 1998, xi).

In addition, the approach to governance represents another assault on the state, though in a more subtle form. This can be seen again in the World Bank approach. Kauffmann, Kray and Mastruzzi (2005) have developed six indicators of governance for 209 countries: voice and accountability; political instability and violence; government effectiveness; regulatory burden; rule of law; and control of corruption. They use 37 different sources from 31 different organizations and have 352 variables at the most disaggregated level. But what are these sources? "The data sources consist of surveys of firms and individuals, as well as assessments of commercial risk taking agencies, non-governmental organizations, and a number of multilateral aid agencies." (p. 5) So the state is assessed on its governance ability through the perceptions of external actors, many of whom naturally see a strong state as inimical to their interests. So that state governs best that is most accommodating to the private sector. The attack continues! Reducing governance issues to the perceptions of external actors, most of who come from the corporate sector, simply represents a new assault on the state in developing countries at a time when well-functioning developmental states are ever more important. Critics suggest that the governance focus is part of an effort to create a "global governance model" that finally and successfully marginalizes the state in developing countries (Özçelik and Özveren, 2006).

The end result of this concerted attack on the state and the exercise of state power has been to weaken the state in the degree that countries have adopted the policies proposed. Even in cases where countries have resisted and attempted to maintain a viable central government, the external pressures and reflected internal divisions have often undermined the viability of the state. The title of one recent article on South Korea captures this well: "From East Asian 'Miracle' to Neo-liberal 'Mediocrity'" (Crotty and Lee, 2006). The end result is a spectrum of states on the continuum of failure-success. For example, the failed states index lists Sudan as the most failed state of the 145 ranked, and Sweden as the most successful (Fund for Peace, 2006).

Let us first describe the analytical context that organizes the paper.

## THE CONTEXT OF STATE FAILURE: POLAR CASES AND ECUADOR

Given the complexity of modern societies and economies, state failure necessarily has multiple dimensions. The failed state index uses 12 separate indicators, each of which has been synthesized by combining other measures.<sup>3</sup> Countries are then arrayed on the basis of an index calculated from the underlying indicators. Our approach is different and

complementary. State failure will differ between an advanced capitalist country such as the US, and a newly created country such as Papua New Guinea, and a long independent country such as Ecuador. And thus the indicators will differ as well. We will take each case separately and will suggest different indicators/measures of state failure for each. Our intent is to gain greater insight into the dynamic of state change in Ecuador by situating it between the other two, which are polar opposites. The changes over the last twenty years in the international economy and the set of institutions that were deemed acceptable are the common factors of the state failure in each case. However, their historical experience, economic reality, and role in the world economy have determined the particular direction that each country's state has evolved.

Our framework suggests that the main indicators of failure in the advanced capitalist country will be at the macro level, and so the indicators we will examine are at that level. This is largely because of the withering away of the society's "social capital," i.e. the dense network of civic organizations that allow citizens to interface with the state. Individuals who are "bowling alone" (Putnam, 1995) have few defenses against the state and few weapons to influence it. Nonetheless, even though the US is failing its most marginal citizens, the current controversy over undocumented migration, particularly from Mexico, indicates that at the micro level the relative level of welfare of those citizens is still far from the international levels that signify failure. The state failure will be at the macro level. On the other end of the spectrum is Papua New Guinea, one of the newest "states" (1975). There the main indicators are at the micro level. The state and the macro level never functioned well enough to even be considered viable, and thus the failure is seen most clearly in the lives of individuals and their primary identification, the tribe. Finally, Ecuador, with a much longer experience of independence and of the developmental state, falls in between. There the indicators will be both micro and macro, national and regional, at the level of the population and of ethnic groups. In addition, the result of the failure of the state will be less clear and more fluid.

The differences among the three types of state failure will affect the type of response that people living in those countries exhibit, and the future course of the countries. In the US, there is little to counter the growing concentration of wealth and power and the symbiotic relation of the government and the corporate sectors. The only stabilizing factor is successful macroeconomic performance that undermines efforts to challenge the state policy. So there is little likelihood of a change in direction until macroeconomic performance deteriorates or the imbalances become so large that new organizations form to challenge the state. The resultant instability will be the only factor that will change the relation of citizens and state.

Papua New Guinea is a completely different situation. Events of the 1990s and 2000s dealt the final blow to predictions of modernism, to wit, that the process of globalization would raze indigenous political structures and cultural traditions to producing a homogeneous global village, governed by nation states and guided by principles of capitalism. Cultural institutions and traditions of many forms have persisted or resurged, amongst them "tribalism."

Tribal institutions and sentiments can impact the state at a number of points during its development or during its demise. For states established by colonial powers that became independent when indigenous "tribal" political institutions were still the primary means of local governance, "tribal" institutions and sentiments often penetrate

the state and use its machinery for pursuit of their own ends. In such cases intertribal competition is horizontal with tribes competing for the resources of the post-colonial state and thereby weakening it. This has been the case in Papua New Guinea. In these cases, tribal institutions are weakened, only to resurge when the state weakens and can no longer enforce and order, protect property, uphold contracts and care for the basic needs of citizens. Competition then becomes vertical, with tribal units opposing the state.

By contrast, in states that over time developed a sense of nationhood, central governance, and with citizens immersed in the broader world economy, indigenous society is often colonized by the state and global forces. This has been the case in Latin America and in Ecuador in particular, where local institutions atrophied and homogenization of identity grew. The response to the successful attack on the state is much less definable in this case. It will be determined by the interplay of micro and macro effects. Good macro performance can stabilize the situation and maintain existing structures and relations. On the other hand, mobilization of existing civic organizations or resurgence of traditional ones, such as “tribes,” can alter the direction of evolution and bring about a new relation of state and individual. There is a possibility that this will be the most positive outcome of the failure of the state. But that remains to be determined. Ecuador’s future is both interesting and important.

We turn now to examine three cases along the spectrum of “state failure”: the US, Papua New Guinea, and Ecuador.<sup>4</sup> In each case we will ask how a state fails and will look at the indicators to the extent that we can.

#### VARIANTS OF STATE FAILURE: THE US

Wilber and Jameson (1990) examined the US macro economy at the outset of the attack on the state. They provided an analysis of the Reagan experiment and of its macro performance. The end of the Cold War and the Clinton New Democrats provided a change in the country’s direction. However, the GW Bush administrations has placed the country squarely back on the earlier path and suggests the usefulness of their framework. As a result, we will focus on the following indicators:

1. Macroeconomic imbalance-trade balance and fiscal deficit. These are indicators that the demands on the state cannot be met with the existing resources and thus the short run imperatives dominate, leading in the long run to profound imbalances that will have to be addressed.

2. Saving and Investment Performance. Long term economic viability requires respectable rates of saving and investment as preparations for the future. Failure in this regard suggests that short run gains come at the long run cost of economic performance.

3. Deterioration of infrastructure. It is generally agreed that a well-developed and maintained infrastructure is essential for production and productivity. If the state is unable to maintain that infrastructure, the growth dynamics will be hampered and the possibility of major disruptions of production will become a reality.

4. Deindustrialization. The modern state has played a guiding role in the process of industrialization and in the shift from agriculture to industry. The skills and productivity enhancements that come with industrial advance have always been part of the development process, even if there is a later shift to services and out of industry. But given that production capacity has become a commodity, there are few geographic

boundaries on production and a failing state may be unable to stop the loss of the industrial base of the country.

5. Income distribution and poverty. One of the roles the state has traditionally taken on is to ensure the welfare of the poor and to generate the necessary resources from the wealthier members of the society. This has never been a particularly successful process in Latin America, but to the extent that the trends are in the opposite direction, this will signal state failure, and virtually ensure that it continues.

Analysts in the US have been prime movers in the failed state and governance debates, locating the source of the problems in the peripheral countries themselves. This allows preservation of the economic model and becomes an argument in favor of deepening the policy impositions, rather than changing them. The irony is that the decades old attack on the state has now brought state failure home to the center, particularly to the United States. Noam Chomsky can write a new book about the U.S. entitled Failed States (2006), which examines U.S. foreign policy and its relation to international law. He makes the case that the U.S. is now an outlaw state, endangering international order. More importantly, the case for state failure can be made on macroeconomic grounds as well, a much more fundamental problem for the U.S. Let us examine the indicators of this failure.

First, let us examine macroeconomic imbalances, the trade balance and the fiscal deficit. In the new millennium, the extent that the US is spending beyond its means is astounding. The twin deficits of the 1980s have been repeated and exacerbated. Table 1 shows the continual deterioration in the balance of payments position of the US from 1992 on, reaching an astounding \$668 billion (mil millones) deficit on current account in 2004. In 2005 the deficit rose to \$804 billion, or 6.4% of GDP. Wilber and Jameson

TABLE 1

Year or quarter	Goods <sup>1</sup>			Services		Balance on goods and services	Income receipts and payments			Unilateral current transfers, net <sup>2</sup>	Balance on current account
	Exports	Imports	Balance on goods	Net military transactions <sup>2</sup>	Net travel and transportation		Receipts	Payments	Balance on income		
1990	387,401	-498,438	-111,037	-7,599	7,501	-80,864	171,742	-143,192	28,550	-26,654	-78,968
1991	414,083	-491,020	-76,937	-5,275	16,560	-31,136	149,214	-125,085	24,131	9,904	2,897
1992	439,631	-536,528	-96,897	-1,448	19,969	-39,212	133,767	-109,532	24,235	-35,100	-50,078
1993	456,943	-589,394	-132,451	1,383	19,714	-70,311	136,057	-110,741	25,316	-39,811	-84,805
1994	502,859	-668,690	-165,831	2,570	16,305	-98,493	166,521	-149,375	17,146	-40,265	-121,612
1995	575,204	-749,374	-174,170	4,600	21,772	-96,384	210,244	-189,353	20,891	-38,177	-113,670
1996	612,113	-803,113	-191,000	5,385	25,015	-104,065	226,129	-203,811	22,318	-43,147	-124,894
1997	678,366	-876,470	-198,104	4,968	22,152	-108,310	256,804	-244,195	12,609	-45,205	-140,906
1998	670,416	-917,103	-246,687	5,220	10,210	-165,009	261,819	-257,554	4,265	-53,320	-214,064
1999	683,965	-1,029,980	-346,015	2,593	7,085	-263,394	293,925	-280,037	13,888	-50,554	-300,060
2000	771,994	-1,224,408	-452,414	317	2,486	-378,272	350,918	-329,864	21,054	-58,781	-415,999
2001	718,712	-1,145,900	-427,188	-2,296	-3,254	-362,729	288,303	-263,120	25,183	-51,910	-389,456
2002	682,422	-1,164,720	-482,298	-7,158	-4,245	-421,181	270,792	-260,776	10,016	-64,046	-475,211
2003	713,421	-1,260,717	-547,296	-12,527	-11,736	-494,814	309,830	-263,526	46,304	-71,169	-519,679
2004	807,536	-1,472,926	-665,390	-14,485	-13,304	-617,583	379,527	-349,088	30,439	-80,930	-668,074

Source: Council of Economic Advisors, Economic Report of the President, 2006. Washington, DC: GPO.  
(Table B-103)

(1990) made the case that the deficit was an indicator of failure, and of course the Washington Consensus obligated countries to have “a competitive exchange rate.” Such a deficit is not consistent with that goal. One other important element is the growing imbalance on military transactions. The increasingly negative numbers reflect increasing military transfers as the US attempts to shore up its alliances and to carry out overseas military operations. This was the same pattern in the 1980s. By 2006, the cost of the Iraq invasion reached \$320 billion.

The second deficit, the fiscal deficit, shows a similar pattern of inexorable increase since the new millennium. In this case, the 1990s were a period of improvement because the tax increases of 1992-93, the budget limitations that began in 1994-95, and steady growth, turned the budget performance around so that by the end of the decade, there were predictions of a ten year budget surplus of \$5.8 trillion dollars. That quickly dissipated, as Congress and the Executive adopted the crass strategy of cutting taxes and targeting expenditures to their supporters. In doing so they violated the canons of good governance, creating “uneven economic development along group lines” and allowing

TABLE 2

Fiscal year or period	Total			On-budget			Off-budget			Federal debt (end of period)		Addendum: Gross domestic product
	Receipts	Outlays	Surplus or deficit (-)	Receipts	Outlays	Surplus or deficit (-)	Receipts	Outlays	Surplus or deficit (-)	Gross Federal	Held by the public	
1990	1,032.1	1,253.1	-221.0	750.4	1,028.1	-277.6	281.7	225.1	56.6	3,206.3	2,411.6	5,735.4
1991	1,055.1	1,324.3	-269.2	761.2	1,082.6	-321.4	293.9	241.7	52.2	3,598.2	2,689.0	5,935.1
1992	1,091.3	1,381.6	-290.3	788.9	1,129.3	-340.4	302.4	252.3	50.1	4,001.8	2,999.7	6,239.9
1993	1,154.5	1,409.5	-255.1	842.5	1,142.9	-300.4	311.9	266.6	45.3	4,351.0	3,248.4	6,575.5
1994	1,258.7	1,461.9	-203.2	923.7	1,182.5	-258.8	335.0	279.4	55.7	4,643.3	3,433.1	6,961.3
1995	1,351.9	1,515.9	-164.0	1,000.9	1,227.2	-226.4	351.1	288.7	62.4	4,920.6	3,604.4	7,325.8
1996	1,453.2	1,560.6	-107.4	1,085.7	1,259.7	-174.0	367.5	300.9	66.6	5,181.5	3,734.1	7,694.1
1997	1,579.4	1,601.3	-21.9	1,187.4	1,290.7	-103.2	392.0	310.6	81.4	5,369.2	3,772.3	8,182.4
1998	1,722.0	1,652.7	69.3	1,306.2	1,336.1	-29.9	415.8	316.6	99.2	5,478.2	3,721.1	8,627.9
1999	1,827.6	1,702.0	125.6	1,383.2	1,381.3	1.9	444.5	320.8	123.7	5,605.5	3,632.4	9,125.3
2000	2,025.5	1,789.2	236.2	1,544.9	1,458.5	86.4	480.6	330.8	149.8	5,628.7	3,409.8	9,709.8
2001	1,991.4	1,863.2	128.2	1,483.9	1,516.4	-32.4	507.5	346.8	160.7	5,769.9	3,319.6	10,057.9
2002	1,853.4	2,011.2	-157.8	1,338.1	1,655.5	-317.4	515.3	355.7	159.7	6,198.4	3,540.4	10,377.4
2003	1,782.5	2,160.1	-377.6	1,258.7	1,797.1	-538.4	523.8	363.0	160.8	6,760.0	3,913.4	10,805.5
2004	1,880.3	2,293.0	-412.7	1,345.5	1,913.5	-568.0	534.7	379.5	155.2	7,354.7	4,295.5	11,546.0
2005	2,153.9	2,472.2	-318.3	1,576.4	2,070.0	-493.6	577.5	402.2	175.3	7,905.3	4,592.2	12,290.4
2006 (estimates)	2,285.5	2,708.7	-423.2	1,675.5	2,277.7	-602.1	610.0	431.0	179.0	8,611.5	5,018.9	13,030.2

Source: Council of Economic Advisors, Economic Report of the President, 2006. Washington, DC: GPO.  
(Table B-78)

the “progressive deterioration of public services” seen most clearly in the decimation of an entire city, New Orleans. While one might not to push this too far, the case could be made that there has been a process of “criminalization or delegitimization

of the state,” given the torture scandals and the low approval rating of the President and his administration. In addition, the domestic spying scandals can be taken as indications of the willingness to increase domestic suppression as the macroeconomic adjustments become necessary.

So the conclusion is that the US has taken on this important characteristic of a failed state. As the Latin American countries know, the international system can be quite draconian in forcing countries to reduce their spending in situations of deficit. That the rest of the world has accommodated the US imbalances by absorbing the dollar outflows is a reflection of the international power vacuum after the dismantling of the Soviet Union and the export led model of the East Asian economies. It should not hide the failure of the US state and the likely future adjustments that will be required.

The deterioration of the saving and investment performance of the US is a reflection of the overspending captured in the twin deficits. As can be seen in Table 3, net

TABLE 3

Year or quarter	Gross saving											
	Net saving							Consumption of fixed capital	Total	Net domestic investment	Gross saving as a percent of gross national income	Net saving as a percent of gross national income
	Total net saving	Net private saving			Net government saving							
Total		Personal saving	Undistributed corporate profits <sup>1</sup>	Total	Federal	State and local	Total					
1990	258.0	422.7	299.4	123.3	-164.8	-172.0	7.2	682.5	394.2	16.3	4.5	
1991	238.2	456.1	324.2	131.9	-217.9	-213.7	-4.2	725.9	297.3	16.2	4.0	
1992	196.3	493.0	366.0	142.7	-296.7	-297.4	0.7	751.9	336.0	15.1	3.1	
1993	186.0	458.6	284.0	168.1	-272.6	-273.5	0.9	776.4	395.9	14.7	2.8	
1994	237.1	438.9	249.5	171.8	-201.9	-212.3	10.5	833.7	484.7	15.4	3.4	
1995	306.2	491.1	250.9	223.8	-184.9	-197.0	12.0	878.4	498.4	16.2	4.2	
1996	373.0	489.0	228.4	256.9	-116.0	-141.8	25.8	918.1	567.1	16.6	4.8	
1997	486.6	503.3	218.3	287.9	-16.7	-55.8	39.1	974.4	667.5	17.7	5.9	
1998	568.6	477.8	276.8	201.7	90.8	38.8	52.0	1,030.2	741.3	18.2	6.5	
1999	573.0	419.0	158.6	255.3	154.0	103.6	50.4	1,101.3	811.2	17.9	6.1	
2000	582.7	343.3	168.5	174.8	239.4	189.5	50.0	1,187.8	852.1	17.7	5.8	
2001	376.1	324.6	132.3	192.3	51.5	46.7	4.8	1,281.5	656.9	16.2	3.7	
2002	197.1	479.2	184.7	294.5	-282.1	-247.9	-34.2	1,292.0	634.4	14.2	1.9	
2003	142.7	549.3	172.8	376.5	-406.5	-382.7	-23.8	1,331.3	694.3	13.4	1.3	
2004	136.8	549.1	151.8	397.3	-412.3	-406.5	-5.9	1,435.3	865.3	13.4	1.2	

Source: Council of Economic Advisors, Economic Report of the President, 2006. Washington, DC: GPO. (Table B-32)

saving as a percent of GNI has fallen continually since 1998, from an anemic 6.5 percent to 1.2 percent in 2004. The deterioration continued in 2005 when personal saving became negative in some months. Government saving became negative as well, and only corporate saving grew in recent years. This was a reflection of the change in the functional distribution away from wages and toward profits as will be seen later. The end result was a general stagnation of net domestic investment after its growth in the 1990s. As late as 2003, net investment was still lower than it had been in 1998.

The indicators of deteriorating infrastructure and deindustrialization must be more impressionistic. The example of the levees in New Orleans is certainly a prime indicator of the first. The Water Infrastructure Network indicates that there is a deficit of \$300 billion just in maintaining the nation’s water infrastructure (2006). In addition, further reductions in expenditure on clean water are proposed in the Federal Budget. The deindustrialization issue currently is a reflection of the outsourcing of production and services, as well as the relocation and displacement of industrial plants for production in lower wage countries such as China. For example, Scott (2005) estimated that China’s growing trade surplus led to a net job loss in the US of 1,452,000 jobs between 1989 and 2003. Scott and Ratner (2005) estimated a net loss of 1,015,000 jobs in the first ten years of NAFTA. Groshen, Hobijn and McConnell (2005) found that the net job loss is only 2.4 percent of US employment in 2003. That seems small until one realize that represents 3.6 million jobs lost to the current process of “deindustrialization.”

The final failed state indicator is the deterioration in the income distribution and the increase in poverty. All of the indicators document deteriorating performance in these areas. Poverty rates have risen from 11.3 percent in 2000 to 12.7 percent in 2004, 37.0 million persons compared with 31.6 million in 2000. Table 4 shows the shift in the shares of income groups among quintiles, with a continual decline in the lowest and increases in the highest income groups since 1970.

TABLE 4

DISTRIBUTION OF FAMILY INCOME  
(Percent of Family Income Received by Quintiles)

	1960	1970	1980	1994	1998	2002	Upper Limit, 2002
Lowest Fifth	4.8%	5.4%	5.0%	4.2%	4.2%	3.5%	\$17,916
Second	12.2%	12.2%	11.6%	10.0%	9.9%	8.8%	\$33,377
Middle	17.8%	17.7%	17.6%	15.7%	15.7%	14.8%	\$53,162
Fourth	24.0%	23.8%	24.4%	23.3%	23.0%	23.3%	\$84,016
Highest Fifth	41.3%	40.9%	41.1%	46.9%	47.3%	49.7%	∞
Highest 5%	15.9%	15.6%	14.6%	20.1%	20.7%	21.7%	∞
Income to Be in Top 5%			\$111,337	\$134,947	\$148,406	\$150,002	

Source: Bureau of the Census, Current Population Reports, Series P60-189.

This process began in the 1970s and accelerated in the 1980s as expected. It has continued to today. This understates the concentration of income and wealth. For example, the functional distribution of income has shifted heavily in favor of profits and away from wages. Table 5 documents this shift. As can be seen, from 1980 the share of wages has declined by close to 4 percent by 2004, though it rose in 2005. The share of profits has increased by 5.6 percent and proprietors' income has increased by 2 percent. These are large shifts.

**TABLE 5  
FUNCTIONAL DISTRIBUTION OF INCOME**

<b>INCOME TYPE</b>	1980	1990	1995	2002	2003	2004	2005
Employee Comp.	74.9%	72.6%	72.5%	71.0%	71.6%	71.3%	72.5%
Proprietors Income	7.4%	7.8%	8.3%	9.4%	9.2%	9.5%	9.4%
Rental Income	1.5%	1.3%	2.2%	2%	1.5%	1.4%	-0.1%
Corporate Profits	7.5%	8.2%	10%	10.6%	11.7%	12.4%	13.1%
Net Interest	8.7%	10.1%	7%	6.9%	6.0%	5.4%	5.0%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Economic Report of the President, 2006, Table B-28 (2005 is through QIII)

They underestimate the full shift since there have been a series of tax reductions since 2001, and it is estimated that the top one percent of income receivers will gain 53 percent of the total tax cuts (Citizens for Tax Justice, 2004). Nonetheless, they document the tight relation of the corporate sector with the state and the willingness to use political power for the benefit of the top income earners.

Thus on all the indicators suggested in Wilber and Jameson (1990) and many of the “governance” indicators, the United States would have to be categorized as a failed state. The well-being of its average citizen has deteriorated. For example, the real median wage is still lower than it was in 1973. Moreover, the long term prospect is for major disruption and adjustment until the imbalance between income/production and expenditure/absorption is righted. One can’t predict how the process will occur. But one can be sure that it will occur in the foreseeable future.

Let us turn now to a second mode of failure in a country that had a modern state imposed upon a tribal organization, Papua New Guinea.

#### VARIANTS OF STATE FAILURE: PAPUA NEW GUINEA

Papua New Guinea (PNG) provides a case study of a post-colonial state where indigenous “tribal” institutions and sentiments have persisted and, together with globalization, have had a strong impact on democracy, institutions, and governance. The population of Papua New Guinea is approximately 5.3 million today and is growing at a rate of over 3% per annum. Its 800 different linguistic groups are spread out over islands, coastal regions, and the Highlands of the main island, where the majority of the population lives. The estimated GDP of PNG in 2003 was \$1.3 billion. Mineral resources account for 25% of the GDP and make up 75% of exports; agriculture, timber and fish

make up 30% of the GDP and support 85 % of the population; industry makes up only 9% of the GDP. Eighty-five percent of the population is rural based and only 10% of the population is employed in the formal sector. (Australia, 2006; Bureau of East Asian and Pacific Affairs, 2004).

Papua New Guinea was administered by Australia until 1975 under a UN mandate. Social and economic change accelerated in the 1960s with the expansion of health and educational facilities. Local and district courts were established in the mid 1960s and the first general election for the House of Assembly took place in 1964. Its seats were dominated by official European members. Australia granted Papua New Guinea independence in 1975 in response to growing domestic and international pressures, but without a broad-based anti-colonial movement. The discourse of nationalism, where it existed at all, was to promote “The Melanesian Way,” that is, indigenous forms of social and political development. With independence, opposition between colonizers and colonized was replaced by competition between local divisions (Otto and Thomas 1997). Crime rose rapidly and intertribal fighting resurged in the Highlands.

At independence, Papua New Guinea was not a nation, but a state in the making. Since independence \$25 billion have been invested in PNG by Australia and substantial funds have come into the country from mining and forestry. Nonetheless, PNG is on the verge of economic collapse and government services are much poorer than they were at independence (Stella 2003). A good deal of this can be attributed to the colonization of the emerging state by local “tribes.”

Tribalism is a term wrought with negative connotations today -- primitive sentiments of aggression, intolerance, nepotism, and xenophobia. Nonetheless, indigenous tribes share important positive characteristics. First and foremost they are social institutions defined by descent from a putative common ancestor that are validated and integrated by ritual. Kinship is the social glue that binds members (Salter 2002). The sub-units of tribes, for example, clans, constitute social security systems from the cradle to the grave. Larger units provide defense. Shared norms and values within tribes and obligations of kinship reduce the transaction costs of social and economic exchange by fostering equality, loyalty, and trust. Definition of boundaries between social units lay down the rules that facilitate inter-group interaction (Barth 1969). Relations are largely egalitarian and competition in tribal societies is horizontal, that is to say, it takes place between parallel social units and is often ritualized or rule bound to limit destruction.

Important features of democracy are inherent in most tribal systems. Relations are largely egalitarian, positions of leadership and status are achieved through actions that return benefits to the group. When leaders fail to serve the group, their demise is rapid. Even those holding inherited positions are kept in check and disposed of should they be incompetent or despotic. Transparency and accountability are assured by constant vigilance, gossip, rumor, and application of sanctions. There is usually widespread participation in “policy” decisions involving major problems confronting the group, though men are largely responsible for presiding over public events and decisions while women exert influence in and through private realms

Colonial powers and capitalistic enterprises attempt to break down tribal institutions because their nepotistic foundation demands that wealth be distributed, inhibiting capital accumulation. The void left by the dissolution of local indigenous

political units is to be taken over by the state: education, health, protection of rights, care of the elderly, protection of contracts and rights, law and order, and defense. However, when the state fails to deliver basic goods and services to the population, people have little choice but revert to former tribal institutions to fill the vacuum or to form an opposition to regimes that do not meet their interests and needs. Shared symbols and bonding rituals are revived or reinvented. However, there is really no return to the tribe of old. Emphasis is shifted away from providing social security and facilitating exchange to protection of property, contracts, and interests. In the process, the negative attributes of tribalism or ethnicity are often accentuated -- prejudice, xenophobia, and unrestrained violent action.

This can be well illustrated by the Enga who inhabit the highlands and make up some 8% of the PNG population. Though every province is unique, the Enga case provides a good example of how the state is undermined when its failures spark struggles to gain resources for local distribution.

The social, economic and political situation in Enga at first contact with Europeans in the 1930s was not a long-established one (Wiessner and Tumu 1998). Elaborate ceremonial exchange and religious rituals were developing in response to new potential and problems. Amongst these was the Tee Ceremonial Exchange Cycle, which linked approximately 400 clans and involved the exchange of tens of thousands of pigs and valuables (Wiessner and Tumu 1998). At the heart of the Tee Cycle was the quest to assemble as much wealth as possible in one place and then distribute it in public, bringing fame to both prominent individuals and the clan. Ritual and exchange were orchestrated by "big-men," skilled orators and mediators who achieved their status by mediation, organizing large events, negotiating peace and war reparation payments, and attracting outside wealth to the clan and distributing it to their supporters.

In the 1960s local government councils were established in Enga as part of an effort to install local democracy. Though free elections were held, people did not show great interest in voting; and when they did, they elected respected big-men. There was little interest in council affairs (Gordon and Meggitt 1985), for the Enga felt that they did not depend on the government for anything other than to keep the peace. They had plenty of food in their gardens, substantial warm houses, relatively good health, and clan support for daily problems and life crises. Only a small percentage of those elected were modernizers.

Politics imposed by the Australian regime was not of great interest to the Enga as long as projects were funded by a head tax and budgets were small. This changed dramatically around independence when the provincial government budget increased greatly, with up to 90% provided by the PNG national government (Carrad 1982). The amount of wealth that could be obtained from provincial and national governments was unmatched by any other sources. The government was then seen as a source of wealth for distribution, not an instrument of development. The questions at hand were not what should be developed; but in whose tribe development should take place. Emphasis was on the man and not the issues. The secret ballot was rejected as being contrary to "the Melanesian Way," for how could leaders know to whom they were to return wealth if they did not know who voted for them? The goal of politics was the same as in the former Tee Ceremonial Exchange Cycle: to divert as much wealth as possible into one's own

area. Once elected, representatives were under great pressure to deliver to those who had voted for them.

After independence, one candidate represented people from many clans and people soon found that there was not enough wealth to repay supporters. Jealousy mounted over gifts favoring some individuals and clans and the resulting unequal development. As a result, tribal fighting resurged. Between 1961 and 1970, the Colonial period, 18 tribal fights were recorded in Enga; between 1971 and 1980, 166 tribal fights; and between 1981 and 1990, 130 tribal fights. The fighting razed the infrastructure of modern development as schools, health centres, provincial office buildings and vehicles were burned, leveling the playing field.

By 2002 elections in Enga were out of hand; 156 candidates ran for six provincial seats. On the final day, the full ballot boxes were brought to the police station at Wabag for safe-keeping. At 5 AM a group of 30 heavily armed men stormed the police station and blew up the shipping containers of ballots with two tons of jet fuel. Despite this destruction, twice as many ballots were counted as there were registered voters (Frankham 2003).

Bitterness over the success of some businessmen, the corruption of politicians, and the limited opportunities for youth increased after independence. When guns were adopted into tribal fighting in the late 1980s, businessmen residing in urban areas shipped high-powered weapons to their clans to show loyalty and win status. The younger generation became specialists in their use, modeling their actions on Rambo films and introducing the profession of mercenary to Enga, as they sought to gain recognition as heroes and defenders of the clan. The average number of deaths in tribal fights increased from 3-4 in the 1980s to 41 between 2000 and 2005. Entire valleys became abandoned wastelands as wars raged (Wiessner 2005).

Since political office has become a means of securing wealth for public distribution, there is little interest in political parties and their policies. Aspiring prime ministers must “buy” a majority through offering individual members large “discretionary funds.” Policy making and implementation becomes secondary. Wealth diverted to the slush funds of members greatly reduces the financial capacity of the government to deliver service (Dinner 2001). The national economy is largely maintained by Australian foreign aid and income from the export of gas, oil and minerals. But hand in hand with economic growth comes growth in local competition, for there are no local sources of wealth comparable to that which can be obtained from the state.

Maintaining law and order is perhaps the greatest challenge of the PNG post-colonial state. Starting in the late 1980s, when high-powered weapons entered the population in significant numbers, the police were no longer a match for criminals and warriors. Poorly trained and frightened police often abused their powers. As a result of disorder, the government faces enormous obstacles in delivering services and from the destruction of infrastructure.

Four years ago the Lai Valley of Enga was the home of some 60,000 Enga and was bustling with agricultural enterprise and roadside markets. Now after tribal fighting with high-powered weapons it is an empty wasteland, as the Enga say, “cared for by the birds, rats and snakes.” All agree that everybody has lost and nobody has won.

PNG is a country governed by nepotistic tribal sentiments, not capitalistic orientations. Emphasis remains on distribution rather than accumulation of wealth. Most

businessmen must leave their local areas to amass capital or else succumb to distributing wealth to their local kin. Attempts by the World Bank/IMF to privatize tribal land have been rejected aggressively by the people, creating an unfavorable climate for investment. The current law and order situation discourages investment; if vertical competition becomes common place, this will further undercut foreign investment.

Despite these factors, the post-colonial PNG state remains afloat because the wealth from Australian foreign aid and income from mineral exports. But there is no macroeconomic growth and dynamism that could satisfy the increasing demands of vertically competing tribal groups. It has clearly failed in its basic obligations to its citizens and has forced them back toward tribal forms of organization, distorted though they may be.

And at the macro level, economic performance is not favorable and services are not likely to improve as the 0.7% per capita growth has not matched population growth of over 3.1 % per annum. Ironically if income from foreign sources increases, so will internal competition for the greater pie. At independence Papua New Guinea rejected nationalism and sought to maintain culture and identity. “The Melanesian Way” is a phrase still heard frequently in the political discourse of today, and it reflects the failure of the developmental state. The Melanesian Way resists standard democratic voting procedures, the upscaling of democracy to provincial and national levels, the privatization of tribal land, obedience to law over obligations of kinship, emphasis on accumulation of wealth rather than its distribution, and national interest over local agendas.

Neo-colonial pressures for emerging states to reproduce certain models of governance and economic organization have left little room for emerging states to determine their own courses of development. When they fail, individuals and groups search for alternatives, in this case for the rekindling of tribalism. Indigenous tribal institutions provided reliable social security systems that should be valued and could play a larger role in governance. A state can take many forms and still meet basic democratic ideals. Institutions and sentiments differ from society to society and accordingly strengths must be harnessed in different ways to yield a viable state. Recent history has shown that a “flat world” is unlikely. And Papua New Guinea is a stark reminder of that, as the state failure has led to a return to a distorted tribalism that does not serve the populace at this point.

#### VARIANTS OF STATE FAILURE: ECUADOR

The challenges faced by the Latin America state differ fundamentally from those faced in other areas, and their roots are historical. The failure of the state has both macro and micro dimensions; however, it is their interaction that characterizes both the present and the future. This also offers reason to hope that Ecuador could avoid a macro meltdown as is likely in the US and could find creative response as the micro level that avoid the chaos of PNG.

The isolation of Latin America during the Depression and the boom of WWII, combined with “Latin American structuralism,” to provide the most coherent and successful period of state led development, from the 1930s through the 1960s. Almost without exception, growth rates of GDP in the 1950s were higher than during the 1913-1950 period, and they increased further during the 1960s (Bruton, 1998, Table 1).

Success bred confidence in the developmental state; the centrifugal tendencies that we call tribalism diminished as more of the population was incorporated into the modern economy; domestically driven growth was undertaken on national terms, not primarily globally conditioned; and the creation of the institutions of the modern economy advanced. Unfortunately the problem of governance was less successfully addressed, largely because of the continued high level of inequality that characterized Latin America, including Ecuador. By the 1960s rising expectations and willingness to challenge existing political power spawned repressive military governments across Latin America.

This reflected the loss of momentum of the developmental state. Globalization, particularly the growth of trade and investment, had begun to take hold, and the domestically oriented economic policies were not attuned to those changes. Bruton (1998, 920) describes this as a failure of learning and knowledge accumulation that required a change by the 1970s:

Thus a new approach had to be determined. It became quickly evident that changing basic policies from those in effect for some time is more difficult than making a policy on a virtually clean slate (as had been possible at the time of independence for many countries), simply because new policies may well harm existing interests, including those of some government leaders, who will, where possible, fight any change. The task for the policy makers was thus to move away from import substitution toward an unclear alternative in the context of pressure groups that often supported the status quo.

The day of reckoning was pushed further into the future because Latin America's relative prosperity and degree of modernization made it the most attractive destination in the 1970s for the petro-dollars that were recycled after the oil price shocks. And unpopular governments were more than happy to use these external resources in an effort to extend the era of prosperity and to build legitimacy. The resultant debt became the defining characteristic of how Latin America was inserted into the globalization process. That continues to be the case for most of the countries today.

Let us first examine the macro performance. Table 6 indicates that Ecuador's growth rates remained relatively high during the 1970s, and other indicators were generally favorable, with one major exception. The increasingly rigid domestic economic structure and the institutions of economic policy were unable to respond to the influx of financial resources. As a result, inflation accelerated and became a destabilizing factor through the 1990s.

TABLE 6

**ECUADOR MACRO**

	<u>71-80</u>	<u>81-90</u>	<u>91-97</u>
Per Capita GDP Growth	6.3	-0.6	1.5
Per Capita GDP (US\$)a	1378	1264	1392
Average Inflation	13.8	36.6	34.9
Gr. Dom. Invest. Growth	10.7	-5.1	2.3
Gov't Exp.( % of GDP)	14.2	15.6	18.5
Govt Deficit(% of GDP)	-1.4	-2	-1.3

Sources: IDB, Economic and Social Progress in Latin America, 1998; World Bank, World Development Report, 1984, 1990, 1992, 1994; ECLAC, Statistical Yearbook for Latin America and the Caribbean, 1988, 1999.

The military government of the late 1970s was nationalist in its international policy and developmentalist in its domestic policy. It was able to attain “state participation on the order of 80 percent of all revenues generated by concessionary (oil) companies... (and) to acquire significant portions of the shares belonging to foreign firms operating in the country’s Oriente oilfields” (Hurtado, 1985, 258-9). Its domestic policies were less clear and were unsuccessful in satisfying competing groups. On the one hand were the coastal exporters who had learned by exporting cacao and had later diversified into bananas, shrimp and other agriculture products. The coast had become the economic and financial center of the country. The sierra depended more heavily on the developmental state and on access to revenues from oil exports. The jungle area to the east was gradually being settled but was neglected by the government. Worse, there was little concern about the environmental destruction caused by oil exploitation in the jungle. This tension is best seen in the alternation of Presidents from the coast, e.g. Febres Cordero, Bucarám, Noboa, and from the sierra, Hurtado, Borja, Mahaud. The recently deposed Lucio Gutierrez was the only President with roots in the Oriente of the country.

The story of the “lost decade” of the 1980s has been told numerous times. It represents the macroeconomic failure of the state in Ecuador. While there have been various later efforts to restore macro viability and renew the state’s role, none have succeeded. For our purposes, two aspects of the 1980s are most important, for they were the central mechanisms whereby globalization asserted its dominance over the national state. First was the extensive dollarization, i.e. substitution of the dollar for the domestic currency, which occurred initially as a hedge against inflation and later as a protection against the political and financial instability that characterized these years (Jameson, 1990). Individuals’ access to another currency significantly undermined government’s ability to use monetary and fiscal policy to attain macroeconomic and developmental goals. The second mechanism was the surprising willingness of policy makers to give priority to international debt repayment, even when this forced them to reduce domestic development and social spending. Most remarkable was the common decision to absorb as sovereign debt of the nation most of the private debts that had been contracted. There were some unsuccessful efforts to create a debtor cartel and some countries declared debt moratoria or unilateral restructuring of their external debt. However, repaying the international debt became the central policy commitment and the “primary fiscal surplus” became the measure of their commitment and their reassurance to international finance.

International obligations trumped domestic needs; globalization dominated developmental state goals.<sup>5</sup> This reached absurd levels with Ecuador’s agreement to place up to 90 percent of the increased revenues from the heavy crude pipeline into a fund to pay the external bondholders of the country. This maintained the par value of the bonds above face value until the recent disturbances, and it diverted resources that could have been used to support social services and development

Ecuador entered the neo-liberal era of the 1990s in its usual moderate fashion. There were privatizations and efforts to liberalize the banking system. Foreign investment was made more welcome and the concessions for foreign oil companies were granted on more favorable terms. Price controls were removed from many products. As seen in Table 6, economic performance improved during the 1990s under the market based “Washington Consensus” However, the promise of faster growth and improved overall economic performance, which could have revalidated the state, was realized in very small measure. Table 7 presents the performance in recent years of the decade and the seesaw pattern, which does not represent success in any sense, appears clearly. The results were mediocre at best in terms of growth, unemployment, and international transactions. Only the reduction of inflation to single digits was notable. The inadequate macroeconomic performance was a significant contributor to the crisis of the state and its ability to govern. The failure of the state at the macro level made Ecuador ever more subject to the winds of globalization and undercut the ability of the state to respond to its citizens’ demands through its macro success.

**TABLE 7  
ECUADOR-RECENT MACRO PERFORMANCE**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Average</u>
Per Capita GDP Growth(%)	2.4	0.6	-7.6	1.3	3.6	1.9	1.2	5.4	1.1
Average Inflation(%)	30.6	43.4	60.7	91.0	22.4	9.3	6.1	1.9	33.2
Govt Deficit(% of GDP)	-1.2	-4.1	-2.9	0.1	-1.1	-0.8	-0.4	-1.1	-1.4
Urban Unemployment(%)	9.3	11.5	15.1	14.1	10.4	8.6	9.8	11	11.2
Current Acct. Balance(\$billions)	-427	-2001	877	921	-599	-1398	-472	-166	-408.1
Capital Acct. Balance(\$billions)	745	1378	-1485	-950		1275	591	447	90.8
Net Resource Transfers	-316	467	-2715	-2020	-776	28	-841	-	-906.4
Foreign Investment(\$ millions)	724	870	648	720	1330	1275	1555	1160	875.9
Change in Reserves(==Incr.) (\$billions)	-251	460	492	-307	106	66	-152	-277	8.9

This can be seen in the results of the different presidential regimes. The Durán Ballén government completed its term in 1996 and had pushed “modernization and privatization” quite far. Their financial liberalization program had created the conditions for the later collapse of the banking system; however for the most part they had been able to move their program ahead. The subsequent Bucarám administration was more intent on capturing government revenues for itself and its supporters and provided little ability to confront the increasing pressures globalization. Bucarám was forced to flee after less than one year in office, beginning a period of executive instability. The administration of Fabian Alarcón continued the rudderless governance and increased the fiscal pressures on the country. Jamil Mahuad’s two years as President started with great hopes and he was

able to gain some concessions on international debt, but the internal contradictions he faced led him to the most dramatic repudiation of the independence of the national government—he dollarized the country in January of 2000, abandoning the country’s currency, the sucre, and replacing it with the U.S. dollar. The stabilizing effect on the country allowed his Vice-president, Gustavo Noboa, to serve out the rest of the term. But it did not insulate Lucio Gutierrez who was overthrown less than two years into his term.

Failure at the macroeconomic level was the trigger for the failure of the presently constituted central state in Ecuador. It may provide some insight into the future of the state in the US. The difference is that the failure to consolidate state and corporate power in Ecuador made dynamics at the micro level important as well. Several of these elements stand out. To them we now turn.

The neo-liberal period was characterized by increasing inequality was an important element in weakening the state. As Szekely and Hilgert (1999, 1) indicate “there is no (Latin American) country where we can confidently say that income inequality improved during the 1990s.” There was no dramatic increase in inequality from its already high levels in Ecuador. However, Ecuador’s level of inequality is much higher than would be normal for a country at its income and development level. And rural inequality is more extreme than urban. During the 1990s, the slight decrease in urban inequality was offset by a much larger increase in rural inequality (Szekeley and Hilgert, 1999, 33, Table 2). This provided a reason for the discontent in the country-side that came to be an important factor in the problem of the state. Sánchez (2005) presents a much more detailed and insightful treatment of the micro elements of “social disorder” that correspond with the claims of this paper.

Second, one result of the recent economic turmoil has been an acceleration of emigration to the U.S. and Europe. Over ten percent of the population has left the country since the late 1990s, and they are the largest Latin immigrant group in Spain (ILDIS, 2005). The other side of this coin is that remittances have grown concomitantly and now constitute the second largest source of foreign exchange, exceeded only by oil. From 1994 to 2005, remittances grew from \$273 million to \$1.7 billion (ILDIS 2005). The importance of the migrations and remittances is twofold. First, the remittances provide a source of revenue and support that is independent of the state of the Ecuadorian economy and is outside of the control or influence of the state. They can substitute for transfers from the state and further diminish the importance of the state. One survey of remittance receivers found 74 percent of them were above the median income for Ecuador (Bendixen and Associates, 2003). This is likely to have very specific political implications, providing support for the lower middle class and their political goals. Second, the overseas Ecuadorians are likely to become a political force in their home country, especially to the extent that they maintain a two-country identity. This will be an added complication in the political mix of the country.

Finally, the functioning institutional structure of the country has been transformed. Not only has the executive become barely functional, the effort to create institutions that are familiar in the new globalized world has foundered. Indeed, it was Gutierrez’s ability to replace Supreme Court justices with his supporters that precipitated the demonstrations and his flight. Constitutional reform is a constant. The 1998 Constitution replaced the 1996 Constitution, and one of the current demands is that a

constituent assembly be convened to examine constitutional and other fundamental issues.

In the economic sphere, there is similar institutional instability. The financial liberalization that resulted in the bankruptcy of virtually the entire banking system is an example of a reform that went far ahead of its institutional base. The role and control of economic policy is similarly uncertain. Given dollarization, some sectors have called for dismantling the Central Bank. Conflict between the President, the Minister of Finance and the Central Bank over economic policy was one of the precipitating factors in the 1999 crisis that led to dollarization (Jameson, 2001, 23-26).

The traditional institutions arguably function worse than they had in previous decades. As the developmental state becomes less successful, the very institutions that were central to its functioning attenuate as well. This leaves a vacuum that has been filled by external institutions such as the World Bank and the IMF. It has also made the country less able to resist pressure from the United States on free trade agreements, respect for desires of US multinational enterprises, and the military aspects of the drug war. In addition, the role of Non-governmental Organizations (NGOs) has grown significantly. They have come to play the central role in providing social capital and responding to needs at a local level. In doing so, they further undercut the state. Gutierrez attempted to use them and their funding through US-AID to build a local party apparatus, and this remains a potential further threat to the Ecuadorian state.

Does this suggest that the future of Ecuador will resemble that of Papua New Guinea, that the failure of the state will lead to a reversion to earlier traditional forms, to the counter-productive tribalism that has devastated areas such as the Enga? It does seem apparent that “tribalism,” or the substitution of national identity by a sub-national identity, has become a key factor in Ecuador political and economic life. In Ecuador, this is reflected in the growth of the indigenous political movement, though with very different results thus far. The movement’s trajectory is complex (Selverston-Scher, 2001) though the political context simplified when the Confederación de Nacionalidades Indígenas del Ecuador (CONAIE) was formed in 1986 as an umbrella for existing indigenous organizations. It led the successful 1990 uprising that paralyzed the country and showed the strength of the indigenous movement. The indigenous became king makers through their political party, Pachakutic, and king breakers through demonstrations that overthrew Bucaram and Mahuad.<sup>6</sup> It is not by accident that the movement grew precisely at the time that the developmental state reached its limits and could no longer satisfy the aspirations that had been raised.

In contrast with PNG, the movement has been successful at a national level. More importantly, it has been guided by reclaimed indigenous principles such as family, community, collective work, dialogue, consensus, and environment (Macas, 2001). It is a movement that is both returning to its traditional roots and inventing and adapting them in the process of applying them to the challenges of modern society. Reclaiming and revitalizing the Quichua language has been a fundamental step, facilitated by national recognition of bilingual education in 1988. This has led to important political power and key roles in major events of the last fifteen years, but always with a healthy skepticism about existing structures and processes. For example, the indigenous were central to Gutierrez’s electoral victory in 2002 and received three ministerial positions as a result.

However, when he reneged on his platform promises and reversed his positions, they quickly left the government rather than compromise their principles.

While the indigenous movement has ensured it will be a force to be reckoned with, its current and future role is not clear. The movement split between the evangelicals and the secular groups, and they played little role in the overthrow of Gutierrez, which was a middle class urban insurrection. The positions of CONAIE are clear: rejection of free trade agreements, rejection of the U.S. base in Manta, which is the forward observation point for “Plan Colombia,” rejection of the “neoliberal model and privatizations” (CONAIE, 2005). However, their experiences in the Congress and as coalition partners of Gutierrez have forced a reconsideration of their role in the political life of the country.

## CONCLUSIONS

The concerted attack on the state has been successful, and the three cases examined indicate the dimensions of the state failure. The paper has shown the centrality of deteriorating macro performance in the cases of Ecuador and the US. In the case of Papua New Guinea, the micro or tribal colonization of the state indicated that there was never a functioning state that could fail. The tragedy in that case is the loss of the positive elements of tribalism. In the US, the bowling alone phenomenon long ago removed any possibility that civic organizations could resist the increasingly centralized and controlling coalition of conservative politicians and the corporate sector. However, Ecuador provides reason for optimism at the micro level. While the micro aspects of state failure are present there in terms of inequality and emigration, the resurgence of tribalism in its revitalized form has been quite positive. Rather than adopting a distorted, violent and counterproductive direction, the indigenous movement has found strong positive values to guide it. They have also been careful to avoid compromising their principles to hold onto power. It remains to be seen how far this new tribalism can go toward redefining the relation of the micro and macro and reconstituting a viable state in Ecuador. But its possibilities seem greater than in PNG or the USA.

## REFERENCES

- Australian Government . 2006. "About Papua New Guinea," AusAID (www.ausaid.gov.au/country/png).
- Barth, E. 1969. Ethnic Groups and Boundaries. Boston: Little Brown & Co.
- Bendixon and Associates. 2003. "Receptores de Remesas en Ecuador: Una Investigacion del Mercado. Quito. Typescript.
- Bruton, Henry. 1998. "A Reconsideration of Import Substitution." Journal of Economic Literature XXXVI (June): 903–936.
- Bureau of East Asian and Pacific Affairs. 2004. "Background Note: Papua New Guinea."(September) (www.state.gov/r/pa/ei/bgn/2797.htm#econ).
- Carrad, B. 1981. "The Economy." In Carrad, D. Lea and K. Talyaga , pp. . Armidale: Dept. of Geography, University of New England
- Chang, Ha-Joon. "The Market, the State, and Institutions in Economic Development." In *Rethinking Development Economics*, edited by Ha-Joon Chang, 41–60. London: Anthem Press, 2003.
- Chomsky, Noam. 2006. Failed States: The Abuse of Power and the Assault on Democracy. New York: Metropolitan Books.
- Citizens for Tax Justice. 2004. "Scheduled Changes in the Bush Tax Cuts." Washington, D.C.
- CONAIE. 2005. Home page: <<http://conaie.org>> Accessed July 12, 2005.
- Crotty, James and Kang-Kook Lee. 2006. "From East Asian 'Miracle' to Neo-liberal 'Mediocrity': The Effects of Liberalization and Financial Opening on the Post-crisis Korean Economy." Global Economic Review 34#4 (December): 415-434.
- Dinner, Sinclair. 2001. *Law and Order in a Weak State: Crime and Politics in Papua New Guinea*. Pacific Islands Monograph Series 17. Honolulu: University of Hawai'i Press.
- Frankham, J. 2003. *Tanim*. Aukland: Faraway Pictures
- Fund for Peace. 2006. "The Failed States Index." <http://www.fundforpeace.org/programs/fsi/fsindex2006.php> Accessed May 15, 2006.
- Gordon, Robert J. and Mervyn J. Meggitt. 1985. Law and Order in the New Guinea Highlands: Encounters with Enga.Hanover. N.H.: Published for University of Vermont by University Press of New England.
- Groshen Erica, Bart Hobijn, and Margaret McConnell. 2005. "U.S. Jobs Gained and Lost Through Trade: A New Measure." Current Issues in Economics and Finance. New York: Federal Reserve Bank of New York.
- Hurtado, Osvaldo. 1985. Political Power in Ecuador. Boulder, Colorado: Westview Press.
- ILDIS. 2006. Análisis de Coyuntura Económica: Una Lectura de los Principales Componentes de la Economía Ecuatoriana durante el año 2005. Quito.
- IBRD (World Bank). Evaluation and Development: The Institutional Dimension. New Brunswick, N.J: Transaction Publishers, 1998.
- Jameson, Kenneth P. 1990. "Dollar Bloc Dependency in Latin America Beyond Bretton Woods." International Studies Quarterly 34#4(December): 519-541.

- Jameson, Kenneth P. 2001. "Latin America and the Dollar Bloc in the Twenty-first Century: To Dollarize or Not?" Latin American Politics and Society 43#4 (Winter): 1-36.
- Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi. 2005. "Governance Matters IV: Governance Indicators for 1996-2004." IBRD: <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html> Accessed May 15, 2006.
- Krasner, Stephen and Carlos Pascual. 2005. "Addressing State Failure." Foreign Affairs 84#4 (July/August): 153-163.
- Kuczynski, Pedro Pablo and John Williamson, eds. 2003. After the Washington Consensus: Restarting Growth and Reform in Latin America. Washington, D.C.: Institute for International Economics.
- Macas, Luis. 2001. "Foreward." In Selverston-Scher, Melina. 2001. Ethnopolitics in Ecuador. Miami: North-South Center Press: xi-xx.
- Otto, T. and N, Thomas (eds). 1997. Narratives of Nation in the South Pacific. Studies in Anthropology and History 19. Amsterdam:Harwood Academic Publishers.
- Özçelik, Emre and Eyüp Özveren. "An Institutional Perspective on the Future of the Capitalist World-Economy." Paper presented at the AFEE Meetings, Boston, Mass., January 6, 2006.
- Peterson, Peter. 1987. "The Morning After." The Atlantic Monthly (October): 43-65.
- Putnam, Robert. 1995. "Bowling Alone: America's Declining Social Capital." Journal of Democracy 6#1: 65-78.
- Salter, F. ed. 2002. Risky Transactions: Kinship, Trust and Ethnicity. New York: Berghahn Books.
- Sánchez, Jeannette. 2005. "Inequality, Ethnicity and Social Disorder: The Ecuadorian Case. Quito: Typescript (October).
- Scott, Robert. 2005. "U.S.-China Trade, 1989-2003." EPI Working Paper #270 (January).
- Scott, Robert and David Ratner. 2005. "NAFTA's Cautionary Tale." EPI Issue Brief #214 (July 20).
- Selverston-Scher, Melina. 2001. Ethnopolitics in Ecuador. Miami: North-South Center Press.
- Stella, R. 2003. "PNG in the New Millennium: Some Troubled Homecomings." *In Building a Nation in Papua New Guinea: Views of the Post-Independence Generation*. pp. 11-22 Canberra: Pandanus books.
- Szekely, Miguel and Marianne Hilgert. 1999. "The 1990s in Latin America: Another Decade of Persistent Inequality." ISB, Typescript.
- Water Infrastructure Network. 2006. "FY 2007 Budget Proposal Seeks Deep Cuts to CWSRF." < <http://win-water.org/> >
- Wiessner, P. and A. Tumu. 1998. Historical Vines: Tracing Enga Networks of Exchange, Ritual and Warfare among the Enga of Papua New Guinea. Smithsonian Institution Press, Washington, D.C.
- Wiessner, P. 2005. Report on Enga tribal fighting: from pre-history to the new millennium. Report to the Enga Provincial Government, April 2005.
- Wilber, Charles K. and Kenneth P. Jameson. 1990. Beyond Reaganomics: A Further Inquiry into the Poverty of Economics." Notre Dame, In.: University of Notre Dame Press.

- Williamson, John, ed. 1990. Latin American Adjustment: How Much Has Happened? Washington, D.C.: Institute for International Economics.
- Williamson, John. nd. "The Washington Consensus and Beyond." The Economic and Political Weekly.
- Yannis, Alexandros, "State Collapse and Its Implications for Peace-building and Reconstruction," Development and Change 33#5 (November): 817-836.

## ENDNOTES

---

<sup>1</sup> The material on Papua New Guinea relies entirely on the work of Polly Wiessner of the Department of Anthropology of the University of Utah. It is used with permission. It is abridged by the author who takes full responsibility for any ambiguity or misstatement. The full working paper is “The Impact of Tribalism on the Post-colonial State.” The paper benefited from the work of the “IPIA Working Group on Failed States,” whose members were Wiessner, Jameson, Korkut Erturk, Steven Lobell, and Tony Anghie.

<sup>2</sup> In England the parallel program under Margaret Thatcher was termed “the enterprise culture.” An irony is that both of the programs were facilitated by the earlier and more radical free market reforms imposed by the authoritarian Pinochet government in power in Chile since 1973.

<sup>3</sup> Their indicators are: mounting demographic pressures; massive movement of refugees and IDPs; legacy of vengeance-seeking group grievance; chronic and sustained human flight; uneven economic development along group lines; sharp and/or severe economic decline; criminalization of delegitimization of the state; progressive deterioration of public services; widespread violation of human rights; security apparatus as “state within state”; rise of factionalized elites; intervention of other states or external actors.

<sup>4</sup> The index goes from #1, Sudan, the most failed state, to #145, Sweden, the most successful state. The US ranks 128 out of 145 countries in the failed states index, between Italy and France. Ecuador is number 63, between Cuba and Venezuela. Papua New Guinea is number 49, between Dominican Republic and Belarus.

<sup>5</sup> It was not until 2005 when Argentina forced a 66% haircut on the holders of \$104 billion of its debt that there was a successful effort to place domestic goals ahead of debt repayment.

<sup>6</sup> The Bolivian indigenous, combined with the coca producers, forced the resignation of Pres. Mesa in Bolivia, again on an anti-globalization agenda. They were opposed to granting greater autonomy to the two richer areas of the country, a sub-rosa issue between the coast and sierra in Ecuador. They then elected Evo Morales President and he is clearly attempting to chart a new and different course for the country.