

# The strategic state

(PRIMERA DE TRES PARTES)

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*"Government is the most precious of human possessions; and no care can be too great to be spent in enabling it to do its work in the best way: a chief condition of which is that it should not be set to work for which it is not specifically qualified, under conditions of time and place."*

Alfred Marshall

*"Our politics are Greek, but our administration is Roman."*

Dwight Waldo

**Abstract.** *Canada, like many industrialized countries, is facing a crisis of the state. At a time when the new demands on the state are increasing, the old social technology appears to be inadequate. This calls for the definition of a new state. The paper identifies the guiding values and the design principles that are likely to underpin the social architecture of this new strategic state. It identifies also one features of the strategic state (meso)forums, network organizations, moral contracts) and the nature leadership in this new strategic state (leader as animateur and use language of citizenship). It is argued that in the new strategic state economy, society and polity must share the organizational task and that the only viable agenda for the strategic state is a modest agenda promoting social learning and finding the path of minimum regret are the only hopes that leaders may reasonably entertain.*

The Canadian state is in crisis, i.e. at a point of decision. On the external front, the ground is in motion. Canada lives in an environment where: 1) knowledge-based and time-based competition have become the determining sources of competitive advantage, 2) as a matter of consequence the mortgage of geography has waned: a dematerialization of economic activity and a deterritorialization of the economic process have ensued, 3) a new regionalism of trading blocks has emerged in which across-border partnering and new forms of government-business collaboration would appear to be required strategies, and 4) growing interdependencies within this transnational world have internationalized domestic firms and governments, so to speak, and made the notions of "domestic firm" and "national

economy" rather fuzzy (Paquet, 1990 and 1991).

On the internal front, 1) the external pressures from this global knowledge-based economy have translated into greater demands on the state to provide standards, a sense of political and social identity, and new forms of public-private risk-sharing arrangements; 2) these demands have come at a time when the ligatures pulling society together have been loosened, old solidarities have been eroded, and Canada's socio-cultural support for the state has weakened in subtle but important ways, 3) the public realm has come to be governed by warring private interests which are either paralyzed by conflicting tensions or swayed by decisions appearing to a majority of citizens as increasingly arbitrary or capricious, and 4) the polity has imploded after the demise of the Westminster model of "club government" (based on parliamentary sovereignty and public service acting as a passive executant) in the face of internal pressures for accommodation which called for power-sharing and negotiated adjustments within an increasingly heterogeneous and diverse society (Dahrendorf, 1988; Marquand, 1988; Reich, 1991).

The tensions between the new demands for strategic state intervention and the old political apparatus have triggered many reactions. One has been an argument for the deliberate downsizing of the state and a plea in favour of the market as the only mechanism capable of constructing a meaningful order in this maelstrom; this has been

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articulated by a neo-liberal ideology that has brought about a vacuum at the heart of the political economy: the public purpose has come to be seen as the sum of private purposes. Another reaction has been an obstinate defense of the old Keynesian state with all its paraphernalia even after it had become clear that it was ineffective, and that it could be maintained only by saddling the country with unprecedented debt. These are the neo-conservative and the neo-socialist routes, respectively. There must be a third way.

In order to uncover what this third way might look like, one must go back to first principles: 1) to prospect anew the boundaries of private and public matters and to understand the coevolutionary nature of the public and private realms, 2) to gauge the extent to which the public infrastructure has become inadequate and why, 3) to identify some of the foundational values and the design principles in the construction of the new state and the process of accommodation required from society, polity and economy, and 4) to examine some of the features of the new state and the sort of leadership it demands.

These are the different tasks tackled in the following sections.

### I. The private and public sectors

The boundaries between the private and the public spheres are neither well-defined conceptually nor well-delineated statistically: this is because they do not correspond to a rigid frontier but rather to a wavering and evolving fracture zone.

Yet whenever the scope of government activities is debated, there is a frantic search for

“technical” characteristics decreeing that an activity should fall in the private or in the public sphere. These attempts to propose more or less “objective” criteria of “publicness” or “private-ness” to apportion responsibilities between spheres have foundered. The degree of publicness is fundamentally as dependent on values and political choices as it is on technical characteristics of goods and services, and any change in prevailing values or any reorientation of public organizations may redefine the boundaries between the public and the private spheres without much reference to the technical features of the particular activities (Pelletiere, 1989).

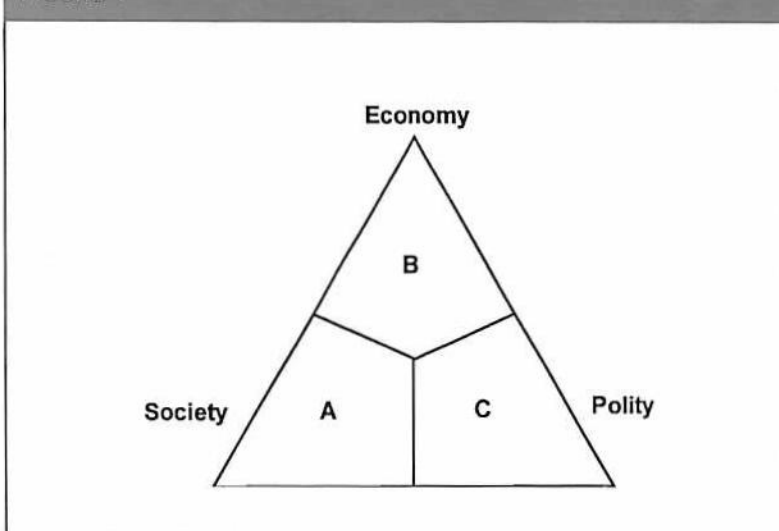
In the language of Karl Popper, the boundaries between the public and the private spheres are evolving as a result of the interaction between the forces of World 1 (the world of material and geo-technical realities) and the forces of World 2 (the subjective world of values, mind, preferences, plans and intentions); this constructed boundary zone constitutes a part of World 3 (the world of objective structures-organizations, laws, institutions, rights, etc.) produced wittingly or not by human beings (Popper, 1972).

The most insightful X-ray of this fuzzy boundary zone has been proposed by François Perroux (and developed independently by Kenneth Boulding a decade later) at a time when humanistic social sciences were still in good currency (Perroux, 1960; Boulding, 1970). Both identified three generic ensembles of organizations more or less dominated by a different mechanism of integration: *quid pro quo exchange*, *coercion*, and *gift or solidarity*. These mechanisms were explored by Karl Polanyi in the 1940s as dominant features of the concrete socio-economies of the past (Polanyi, 1968). To map out this terrain, Boulding used a simple triangle with each of these mechanisms in its purest form at one of the apexes: all the inner territory representing organizations and institutions embodying different mixes of these integrative mechanisms. A slightly modified version of this sort of triangle is presented in figure 1.

### II. A modified Boulding triangle

This approach provides a rough cartography of the organizational terrain into three domains where the rules, arrangements or mechanisms of coordination are based on different principles: the economic/market domain (B) where supply and

FIGURE 1



demand forces, the price mechanism and efficient resources allocation are the norms; the state domain (C) where coercion and redistribution are the rules; the civil society domain (A) where co-operation, reciprocity and solidarity are the integrating principles. This corresponds roughly to the standard partitioning of human organizations into economy, polity and society (Wolfe, 1989).

A careful survey of the Canadian organizational terrain reveals that society (A), economy (B) and polity (C) each occupy roughly one third of the organizational territory. This does not correspond to the statistical portrait emerging from official agencies, mainly because zone A activities are under-reported, and little effort has been made to measure it better. Activities in the home, within not-for-profit associations, and in general beyond the market and the state are poorly recorded and remain largely underground (Paquet, 1989a).

These three sectors have not always had equal valence. A century ago, the state portion was quite limited and the Canadian scene was dominated by the other two sets of organizations. From the late 19th century to the 1970s, government grew in importance to the point where probably half of the *measured* activities now fall into the general ambit of state and state-related activities. The boundaries have been displaced accordingly in time. More recently, there has been a vigorous counter-movement of privatization and deregulation that has caused a reduction of the state sector and a reverse shift of the boundaries.

### III. Coevolution: resilience and social learning

Any shift in boundaries corresponds to a new division of labour among the three sectors, but there is *no necessary hierarchy among those sectors*. Indeed, one of the great weaknesses of most analyses of the scope of government has been to ascribe to the state (and in general to the public sphere) a dependent and somewhat secondary role vis-à-vis the market: the state being required to attend to matters only when neither the market nor civil society are able to take care of it. This is a misleading ideological stand. The relationships among sectors are *heterarchical*: it is not a world of pecking order. Heterarchy introduces "*strange loops*" of authority "under conditions of time and place" very much like the "game of paper, rock, and scissors where paper covers rock, rock crushes scissors, and scissors cut paper" (Ogilvy,

1986-87). *Any sector may at times have a dominium over the others.*

The ecological concept of *coevolution* provides a better way to synthesize the links among these three universes. Coevolution in biology refers to an evolutionary process based on reciprocal responses of closely interacting species. Reference has been made to the coevolution of the beaks of hummingbirds and the shape of the flowers they feed on. The concept can be generalized to encompass feedback processes among interacting systems (social, economic, political) going through a reciprocal process of change. The process of coevolution becomes a form of *organizational learning*, that is, of joint learning and interadjustment of economy, society and state (Norgaard, 1984).

The central characteristics of this jointly evolving process are *resilience* (the capacity for the economy, polity and society to spring back undamaged from pressure or shock), and *learning* (the capacity to improve present performance as a result of experience but also to redefine the organization's objectives and modify behaviour and structures as a result of new circumstances). These *governing relations* are in a somewhat creative tension: resilience calls for preservation while learning means change. These governing relations must be balanced and this does not call for a rigid and strict division of labour among the spheres, but rather for a capacity to switch to a greater or lesser dependence on one family of integrative mechanisms or another as circumstances change.

Ecological studies have shown that animal societies have this capacity to effect a switch in the dominant rules in the face of a changing environment: from myopic *individual* search for efficiency in normal times, to a *collective* search for resilience using very different mechanisms for decision-making in turbulent times, and back to individual search when normal times return (Vertinsky, 1987).

Governments are one of the instruments through which collective concerns are addressed in human societies and governments may choose to exert different degrees of coercion: 1) to enforce changes in the behavior of private agents and in the structure of the economy or society, or 2) at least to resist private demands but be unwilling to enforce changes in behaviors of private actors, or 3) simply to be the instrument of pressure groups. Such a choice may have a determi-

ning impact on the fate and evolution of the overall socio-economic organization. In the same manner, the institutions of civil society (family, associations, etc.) may be more or less developed and accordingly more or less of the collective concerns may be addressed through the mobilization of interpersonal and particularistic resources like status, love and community (Foa, 1971; Bruyn and Meehan, 1987; Marquand, 1988).

One may identify a variety of mixes of political, social and economic mechanisms (and different modes of interaction among government, business and society) in different portions of the world. The Anglo-American system (Canada, U. S. A., U. K., Australia, New Zealand, and South Africa) is prone to giving a dominant valence to the market mechanism to the point of belittling the scope of state and civil society. But this sort of system represents no more than 25% of the world trade, and a lesser percentage of socio-economic transactions. Other portions of the world (Western Europe, Japan, etc.) have chosen to assign a much greater role for the state in their national fabric (and to community, culture, citizenship) and unarguably their own brand of mixed organization would appear to have generated a much more impressive socio-economic performance than our own, greater resilience and faster organizational learning (Choate and Linger, 1988). This resilience has been achieved through a capacity to maintain the right balance between the emphasis on competition and cooperation in the governing appreciative system, and on a learned readiness to adjust the governance of the human organization accordingly –and therefore to change the structures, technologies and theories in good currency in the economy, society and

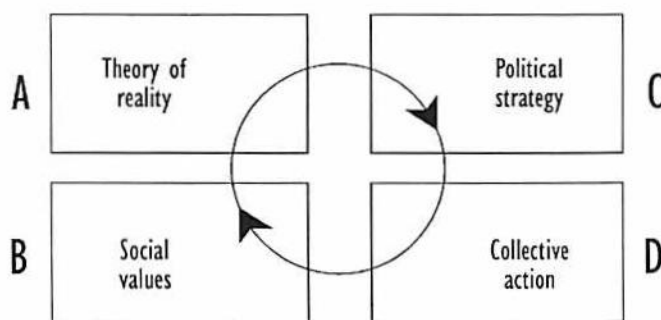
polity. Since these in turn echo more or less accurately the basic underlying values of the members and organizations, their information processing and computing capacities, and their ability to learn and adapt quickly, learning echoes value changes and leads to value changes (Mesthene, 1970).

In this process of coevolution, adjustments are not the result of the workings of some invisible hand. The state has an important role in maintaining healthy communication in the forum and workable competition in the market. The state must maintain an important intelligence function if it is to act as catalyst in an innovative learning process (Wilensky, 1967). Friedmann and Abonyi have proposed an approach to the analysis of state learning, a way to identify the main points to keep in mind in organizational learning. Their approach is based on the analysis of four sub-processes: (1) the construction of appropriate theories of reality, (2) the formation of social values, (3) the gaming that leads to the design of political strategies, and (4) the carrying out of collective action. These four interconnected sub-processes are components of a social learning process summarized in a graph adapted from Friedmann and Abonyi in figure 2 (Friedmann and Abonyi, 1976).

Social values (Block B) provide normative guidance; they define what is *acceptable*. Theory of reality (Block A) is a symbolic representation and explanation of the policy environment; it depicts what is *technically feasible*. Political strategy (Block C) refers to the political action chosen, to what will ensure a *stable* situation, to what is *politically feasible*. Social action (Block D) deals with the practical measures taken to ensure that the policy is carried out and identifies what is *implementable*. Together these four sub-processes come to life in concrete situations (Paquet, 1989b), and pose the four questions that are basic to the requisite social learning by the state.

The basic challenge in organizational learning is to develop innovative competence, for the ability to improve and to innovate is a skill that is vital for survival and resilience (Rugman and D'Cruz, 1991). But organizational learning requires the discipline of *team learning*, a capacity for the different stakeholders to engage in dialogues, in conversations that begin to have a "life of their own", to take all parties in directions that could not have been planned in advance. This sort of conversation enables the stakeholders to discover what is

FIGURE 2



Source: Friedman and Abonyi, 1976, p. 88.

acceptable, technically and politically feasible, and implementable. Such a conversation requires, however, a facilitator capable of carrying the partners beyond the defensive routines (based on pre-suppositions that are supposedly *undiscussable* and therefore preventing learning) toward a willingness to raise the most difficult, subtle and conflictual issues. This leadership is essential if dialogue is to lead to suspending assumptions collectively (Senge, 1990).

Vertinsky has analyzed the internal decision processes in Japanese companies, the way inter-company interactions proceed, and the structure of government decision process and its role in guiding the economy. He has discovered the many ways in which the process of dialogue is being actively promoted at all levels and the manner in which organizational learning would appear to proceed effectively. Vertinsky describes in the following terms the situation he has observed in Japan:

While swift and radical intervention is taken in a crisis to secure the collective survival, it is the market which ultimately prevails. When a crisis dissolves and market forces dominate, government policy retreats to a subsidiary role of keeping options open, disseminating information, and ensuring a smoother transition to the new state dictated by the market (Vertinsky, 1987).

How is this balance maintained between collective control and cooperation and individual com-

petition, and how is the switching mechanism operated—these are central questions. In animal collectivities (*slugs*) and in sophisticated social organizations (Japan), it would appear that the secret is *not size but flexibility*: adjustment is effected through “flexible behavioral mechanisms rather than expensive investment in physiological or morphological adaptations... (in the first case)—and through flexible exercise of controls and influences upon the private sector, rather than the strengthening of a permanent public sector infrastructure and its share in the economy” (in the second case) (Vertinsky, 1987).

Coevolution of polity, society and economy calls for this sort of flexibility and this depends much on an on-going multilogue among partners. This in turn requires a facilitator, a leader capable of acting as a quarterback in the process of organizational learning, in the balancing of the short-term competitive forces and of the long-term cooperative forces, and in ensuring a smooth transition from one regime to the next. Organizational learning is therefore not only *adaptive learning*, i. e., about coping, it is also *generative learning* i. e., about creating, adjusting goals, norms and assumptions as required. In this context, the state itself has to become a learning organization and the leader has to develop new skills and abandon moral agnosticism to be effective, for the leader's new work is building learning organizations, and this is not value-free (Senge, 1990). ♦



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