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The Capability State: Delivering Beyond 2030

Road-to-2030 Series



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The accountability trap and its black holes

The shortfall in achieving the Sustainable Development Goals (SDGs) is often seen as a financing and/or delivery problem. And rightly so: in many ways, the shortfall indeed results from asking hollowed-out states to deliver on transformative goals using instruments designed to constrain them (think of fiscal deficit rules in the European Union). As the great Swiss historian Jakob Burckhardt quipped a century and a half ago, the modern state is expected to be capable of everything yet permitted to do nothing. This paradox is now the fundamental condition of most governments and the structural reason we mostly fail to achieve the SDGs.

The paradox Burckhardt so eloquently articulated has deepened over the past decades and has created what can be called the accountability trap. Over 4 decades, successive waves of reform—such as New Public Management, performance management, value-for-money auditing, and the proliferation of indicators and dashboards—have built an architecture intended to make the state more responsible to its public. While the intention was reasonable, the results have often been perverse. Each new layer of accountability narrowed the space in which public organizations could act. Each promised to mitigate government failure by importing market discipline. However, each ended up multiplying transaction costs, fragmenting agencies, hollowing out in-house expertise, and producing what scholars have come to call the audit explosion (Power, 1997; Mazzucato and Collington, 2023). The state has been asked to do more—on climate, demographic change, artificial intelligence (AI), pandemic preparedness, and security—while, in operational terms, being permitted to do less. So, governments and public leaders are caught in a trap: an increasing need to strengthen accountability mechanisms to show the public that money is being used effectively, while these very mechanisms constrain the space to act more effectively. We can also phrase it slightly differently: governments are pushed to err on the side of stability and, in doing so, lose almost all the agility needed to tackle the SDGs (Kattel, Drechsler, and Karo, 2022).

The cumulative effect is what we might call capability black holes: places in the state where authority formally exists but the capability to act has all but disappeared. Strategies are written by consultants who hold the institutional memory the state itself has lost. The civil service is asked to deliver an industrial strategy after 30 years during which industrial policy was forbidden. The health ministry is asked to absorb AI safely after a decade of outsourcing its digital functions. The central bank is asked to support a green transition under rules

that treat such support as outside its mandate. In each case, the accountability architecture remains intact, yet the capability has been lost.

A Beyond 2030 agenda that does not begin from this diagnosis will repeat the SDG experience. New goals layered over the same accountability-capability architecture will produce the same shortfall. The starting point cannot be a fresh inventory of ambitions. It has to be the deliberate tackling of the accountability trap and the deliberate construction of a different kind of state: one whose accountability is to outcomes and to capability, rather than compliance alone.

Two reasons we are stuck

The accountability trap is powerful for two reinforcing reasons. The first is political and ideological: a generation of reformers, schooled in public choice theory, treated the public sector as inherently prone to rent-seeking, capture, and bloat. The government came to epitomize, even for those serving it, a form of moral weakness: for all its good intentions, the public sector grew ever larger. The cure was to bind government to procedural rules, performance targets, and contracted-out delivery.

The second reason is economic, and perhaps deeper, as it shapes what reformers and ministries today believe the state is for (Mazzucato and Kattel, 2026). And this is the assumption of the neutral, market-failure-fixing state (Mazzucato, 2018). Market failure theory has done extraordinary intellectual work in the last half-century. By framing the legitimate role of government as the correction of identifiable failures—such as public goods, externalities, and information asymmetries—it casts every other public action as suspect, and hence the push for more accountability mechanisms. It makes the evaluation of government interventions a test of efficiency at the margin, not of direction or of public value over time. It produces a vocabulary in which industrial policy is a distortion, public investment is crowding out, and public services are a redistributive cost. And it produces a profile of the state that is, by design, technocratic and minimal: more of a referee than a player.

Ironically, the market-failure-fixing state requires, as a precondition, a functional public sphere—comprising background institutions, norms, courts, regulators, civil services, public universities, and democratic deliberation that produce the very neutrality on which *intervene-to-fix* logic depends. Four decades of neoliberal reform have systematically undermined that precondition. The public sphere has been financialized,

polarized, captured by digital platforms, and starved of capability. We are left with a theory of government that presupposes a public sphere it can no longer call upon. The neutral state is asked to fix markets while standing on a public infrastructure that the same reforms hollowed out.

Arguably, this is the deepest reason the SDGs are underperforming and why the Beyond 2030 agenda will, if framed in the same way, face a similar fate. The reform model assumed a state and a public sphere that no longer exist, despite the illusion that governments work on the SDGs day in and day out. Hence, we should not insist more on neutrality; rather, we should seek to update the theory of the state itself.

Toward a new theory: the capability state

When we start with the Polanyian assumption that *all markets are co-created* by public, private, and civic actors operating together (Polanyi, 1944), then we must view the state not as a fixer of market failure, but as a *shaper of markets* and a co-creator of public value (Mazzucato, 2018). In this view, value is produced collectively, through interactions across sectors. The role of government is to ensure that these interactions—and the markets it produces—serve public purposes. Thus, the focus of government activity shifts to direction setting and continuous legitimacy creation, replacing the efficiency of public money use as the central normative foundation.

This market-shaping theory of the state has three immediate consequences for how we think about Beyond 2030 state capabilities. First, it makes *directionality* a legitimate question of politics and public policy (Stirling, 2024). What pathways the state should pursue in the green transition, the care economy, or AI sovereignty is a political and policy choice the state is structurally empowered to make—not an external goal to be achieved through neutral instruments. Second, it legitimizes risk-taking and experimentation as public activities. The state must invest in uncertain technologies, support unproven sectors, and absorb experimental losses, as that is what shaping markets requires. Third, it makes *capability* the central object of public administration. If government is to shape markets, it must be capable of doing so—consequently, this capability must be deliberately built.

However, one of the core challenges for building a capability state involves how we understand innovation. The dominant Schumpeterian view, inherited from 20th-century science, technology, and innovation policy, is increasingly shortsighted in light of the structure of contemporary societies. Schumpeter (1942) described inno-

vation as a process of “creative destruction” in which new technologies and firms—or technology systems in today’s parlance—displace older ones. This view often, if not always, directs the attention of investors, innovators, and policymakers alike toward the new. Perhaps the most famous expression of this view of innovation is the fabled Facebook motto of “move fast and break things”.

However, the majority of public spending in most countries—and in most regions and cities—is allocated to public services. Health, social care, education, social protection, housing, public transport, water, sanitation, energy access, justice, and security together absorb the bulk of state budgets. These are often viewed as absorbing rather than driving technological change; they are the bits of public policy that deal with the consequences of Schumpeterian “destruction”.

The science, technology, and innovation policies of the past century have been developed primarily around *socio-technical systems*—industries, energy, medicine, and food—and treat these as the legitimate sites for transformation, investment, and directionality. Public services, in parallel, have been governed by a different logic: cost efficiency and ever-tighter measurement of throughput. We have inherited a dual regime: investment-driven innovation in technical domains, and efficiency-driven management in social domains. The state spends most of its money on public services, while most of its innovative imagination lies elsewhere. Yet, public services are where states and societies meet daily, where legitimacy is built or eroded, where the lived experience of governance is produced.

This bifurcation is incoherent and increasingly contributing to the erosion of capabilities. It is incoherent because public services and socio-technical systems do not run on parallel tracks; they nearly always co-evolve. Education systems are platforms for the diffusion of new technologies and the formation of human capability; healthcare systems shape, and are shaped by, biotechnology, AI, and digital infrastructure; care infrastructures determine whether socio-technical transitions are just and inclusive or generate backlash. The bifurcation contributes to the erosion of capabilities by leaving the most politically consequential domain of state action—the one most people experience—outside the innovation imagination. AI, climate, defense, and digital sovereignty matter, but the everyday systems of health, education, housing, and care are where democratic legitimacy is produced or lost. If the state cannot innovate in those areas, it does not matter how strategically autonomous its semiconductor policy becomes, as the United States (U.S.) and many European countries have been learning over the past decade or so. The Beyond 2030 agenda needs an innovation

framework that mainstreams public services within the innovation economy, based on the same investment logic as socio-technical systems, not as a residual cost but as a platform for capability formation, technological change, and democratic co-creation.

This requires that we revise what we mean by *innovation* itself. In public services, innovation is rarely the Schumpeterian story of creative destruction. It is, more often, the patient work of *ordering*, which entails integrating socio-technical systems to ensure coherence across professions, institutions, and technologies; *developing*, by incrementally adjusting and improving them as conditions, evidence, and citizens' needs evolve; and *maintaining*, i.e., sustaining the institutional, technical, and human infrastructures on which they depend (Arthur, 2009). A hospital absorbing AI-assisted diagnostics, a school redesigning around new pedagogies, or a transport authority reconfiguring around electrification are all simultaneous acts of ordering, developing, and maintaining. Treating innovation only as disruption misreads where most public value is actually produced, and devalues the capabilities most needed to produce it.

The capability state in action

If the theory of the state has to change, and the view of innovation has to change with it, then the question of state capabilities changes too. A market-shaping state is, by definition, a capability state: it cannot do what it claims to do without sustained, deliberate investment in its own ability to act.

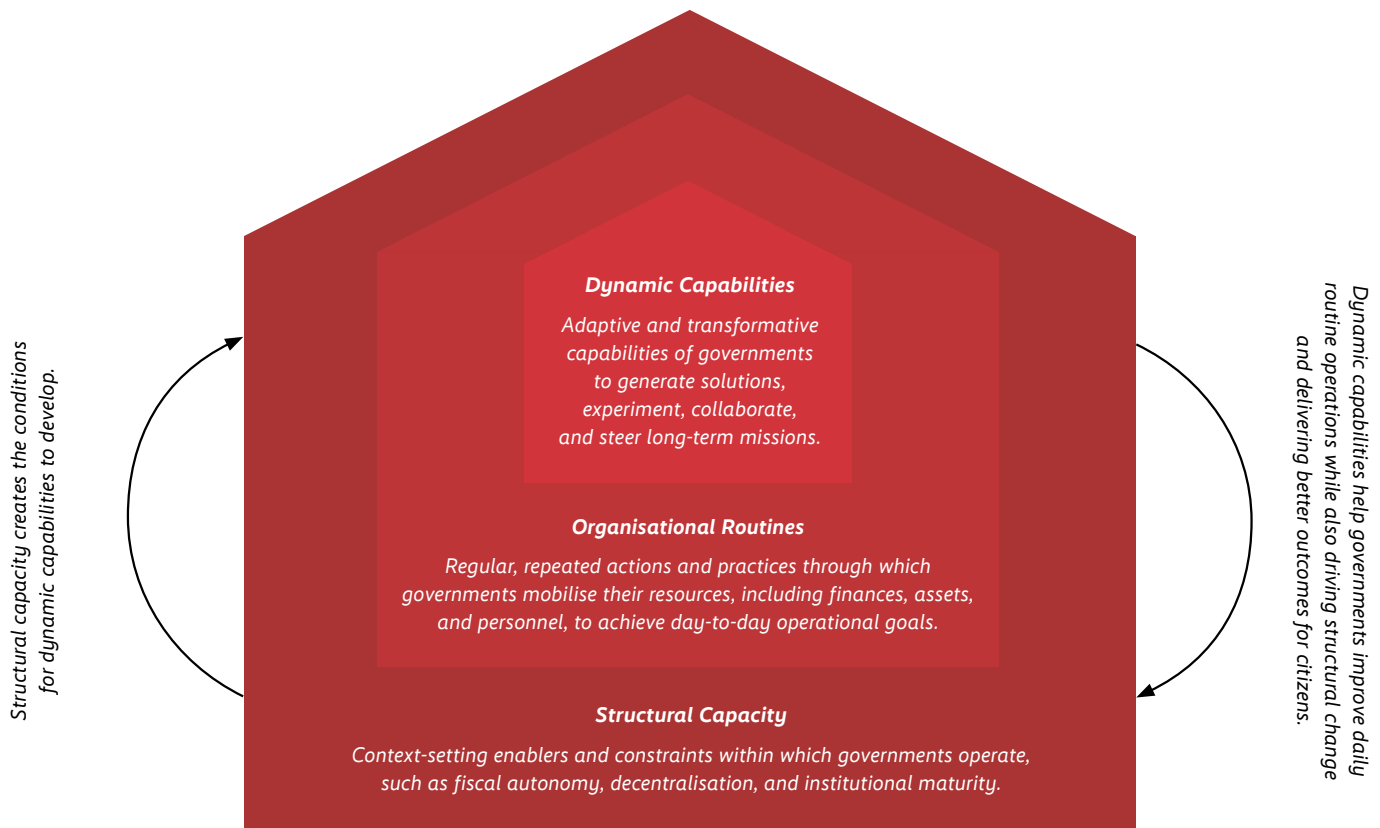
Capability, in this view, has three layers (Kattel, 2022; Mazzucato and Kattel, 2026; see figure below). **Structural capabilities** are the institutional and legal foundations of action, such as legal mandates, financing mechanisms and fiscal rules, coordinating bodies, professional civil service systems, public investment banks, and long-term planning instruments. Structural capacities are what allow a polity to set direction, sustain commitment, and absorb risk over the multi-decade horizons that real transformation requires. They are also the layer of the public sector that is most difficult to change, and where change is often a slow, painstaking process of reform. The U.S. Department of Defense's long-standing procurement and research infrastructure, which enabled decades of patient investment in technologies from computing to materials science, is one example. Estonia's legal and technological foundations for digital identity and interoperability, which created system-wide alignment under severe fiscal limitations, constitute another.

Organizational routines are the formal and informal rules for everyday activities: the day-to-day administrative, managerial, and professional practices through which structural mandates are translated into action. Routines are neither neutral nor purely bureaucratic; they embody how problems are framed, how priorities are negotiated, and how value is produced. The rotating program managers and milestone-based portfolio reviews of the U.S. Defense Advanced Research Projects Agency (DARPA) are routines that embed experimentation and learning into procurement. Mission-oriented procurement frameworks (which use public purchasing power to steer suppliers and markets toward defined societal goals), investment portfolio governance structures, foresight units, policy labs, and policy-scaling practices are all examples. Without these routines, structural capacities stay on paper.

Dynamic capabilities are the muscles of adaptation: the ability of public organizations to sense emerging change, connect across silos, seize opportunity, shape resources, and learn from delivery. There are bundles of such capabilities, ranging from strategic awareness, adjusting priorities, building coalitions, learning and experimentation, to reconfiguring delivery (Kattel et al., 2025). These are the capabilities that allow a state to act under deep uncertainty: to revise strategies when confronted with failure, mobilize coalitions across the public-private-civic boundaries, experiment with new forms of coordination, and reconfigure delivery as the world changes.

The crucial insight is that these three layers are not autonomous; rather, they interact. Structural capacities provide the authorizing environment for routines; routines determine whether mandates are translated into action; dynamic capabilities draw on both elements and, when they generate new learning, prompt revisions to routines as well as to structural mandates. The interactions also run in reverse: when budgets, staffing, or political authorization erode, routines weaken and learning becomes episodic, producing cumulative capability loss. The result is not merely a smaller state but a state less able to learn, adapt, and respond when crises or transformations demand.

Three implications follow for how progressives should think about strengthening state capacity in the Beyond 2030 era: how we view public leadership; how we invest in public services; and how we measure public capabilities. These can be framed as system design questions rather than program proposals because the lesson of the SDG decade is that programs built on weak architecture produce weak results.



Source: Kattel et al. (2025).

Leadership: from power brokers to market shapers

The capability state needs a different theory of public leadership. The dominant cultural figure of public leadership—what one might call the power broker, in Robert Caro’s sense of Robert Moses (Caro, 1974), a highly influential and powerful public official in New York City—has been the default for most of the modern era. This figure is typified by a charismatic individual who breaks bureaucratic gridlock through personal authority, political deal-making, and force of will. Power brokers can open authority space and unstick stuck routines. But the capability they build is fragile and often dissolves upon their departure. We can call it a founder’s syndrome at the organizational level: the unit dissolves, ossifies, or is dismantled when the charismatic founder leaves.

A market-shaping state requires a different figure: the *market shaper*, whose distinctive task is to build capability as a deliberate, durable output of leadership. Market-shaping leadership is distributed rather than personalized, coalition

building rather than coalition bypassing, mission driven rather than crisis driven, and capability codifying rather than capability personalizing. It is leadership that works *with* structural and political constraints rather than around them, as those constraints are the source of the state’s legitimacy and its purchase on collective action.

Critically, market-shaping leadership does not reside exclusively within any single role. It is distributed across the three roles that collectively constitute public action: **elected** leaders, who establish vision and direction within electoral cycles; **appointed** officials, who translate vision into policy and programs during their appointed terms; and **career** civil servants, who co-design and implement policy over career-long horizons, maintaining institutional memory. Each role faces distinct mandates, time horizons, constraints, and reach. Capability emerges from their interaction, rather than any one of them acting alone. Career roles are particularly important: they represent the context in which institutional learning compounds across political cycles, and where the extended time frame on which durable capability depends is realized.

The market shaper's distinctive contribution is the *conversion work* between leadership skill and organizational routine. Each of the five dynamic capabilities described above (the ability of public organizations to sense emerging change, connect across silos, seize opportunity, shape resources, and learn from delivery) can be enacted as a skill by an individual leader and as a routine institutionalized in the organization. When a capability exists only as a leader's skill, it leaves with the leader; when it exists only as a routine, it ossifies into compliance. Conversion mechanisms—such as codification of tacit practice into protocols and playbooks, professionalization by creating teams and rotating staff, mission-oriented agencies serving as institutionalized arenas for coalition building, and protection of capability during political change through legal anchoring and budgetary independence—are what make capability durable. This is the most underdeveloped element in current public sector reform thinking and the most decisive in practice.

Investment logic of public services

The single most consequential reorientation a Beyond 2030 agenda can promote is to apply the same investment logic to public services that we already apply to socio-technical systems. Health, care, education, housing, and social protection should be reframed as platforms for capability formation, market shaping, and innovation, not as residual costs to be minimized.

Public services are where the state shapes the markets that surround them: the procurement of medical devices, educational technology, energy retrofits, and care technology shapes whole sectors. They are where new technologies meet real complexity and either prove useful or fail. They are where the human capabilities of citizens—in Amartya Sen's sense of capabilities (Sen, 1999)—are formed, sustained, or denied. They are where democratic legitimacy is produced through daily experience.

Reorientation in practice entails several specific changes, such as:

- **Procurement as the first buyer**—public services as the demand side of innovation, shaping markets toward solutions that actually work within the complexity of real-world service delivery.
- **Test beds and sandboxes inside services**—not as marketing exercises but as learning infrastructure where technology, routines, and governance can be adjusted together.
- **Long-horizon public investment in service modernization**—staff development, digital infrastructure, and evidence systems, funded using the same investment logic applied to physical infrastructure.
- **Re-embedding capability**—within services that have been hollowed out through outsourcing, by insourcing critical digital, evaluation, and design functions.
- And, perhaps most importantly, **reframing the public services workforce as a capability asset**—not a wage bill to be controlled.

Public services are also where the most consequential progressive politics of the next decade lie. In most regions and cities, the public services budget encompasses the strategic autonomy budget, the climate budget, and the AI governance budget rolled into one. Reinventing the welfare state along these lines is not nostalgia for the 20th century but rather the practical infrastructure on which any progressive Beyond 2030 agenda will succeed or fail.

Measurement: the missing metric

The accountability trap reproduces itself, ultimately, through measurement. As long as the only question we ask of public action is “did it hit the Key Performance Indicators (KPIs)”, the system will continue to reward narrow attribution, short horizons, and the suppression of complexity (Kattel, 2026). KPIs are, at heart, promises of clean causation: do X, expect Y, attribute the change. That promise breaks down the moment one steps into real public problems—such as housing, health, climate, and the cost of living—which are not single-actor systems and rarely deliver attributable impacts within a single electoral cycle.

What is often overlooked is the most important question: *Did we become more capable?* Did the project leave the organization better able to respond next time? Did it build partnerships that will be reused? Did it generate learning that travels beyond the project team? Did it change a routine, template, or rule so that future change is easier? These are the questions that distinguish innovation that compounds from innovation that resets.

A Beyond 2030 measurement architecture should make this a routine practice. Every significant public initiative should include, alongside its outcome metrics, a *capabilities assessment* comprising a small set of questions about partnerships built, lessons codified,

and routines changed. The Public Sector Capabilities Index (<https://www.ucl.ac.uk/bartlett/research-projects/2023/jan/public-sector-capabilities-index-city-edition>), developed by the University College London Institute for Innovation and Public Purpose (UCL IIPP) with city governments around the world, is one practical tool designed to assess governments not only by what they deliver but also by their capacity to mobilize, learn, adapt, and shape (Kattel et al., 2025). Embedding such tools into Beyond 2030 monitoring would shift the global agenda from a model that measures outcomes alone to one that measures whether outcomes are reinforcing or eroding the capability state that produced them.

Global implications for the Beyond 2030 framework

Translating this diagnosis into a global agenda implies at least five changes. They are designed not to add new goals to an already crowded landscape but to rebuild the architecture on which all goal setting depends.

- **Pair every Beyond 2030 goal with a state capacity dimension.** Just as the SDGs paired outcome targets with indicators, a Beyond 2030 framework should pair them with a parallel architecture of state capacity benchmarks: fiscal and monetary space, mission-oriented procurement shares, public research and development (R&D) investment, public service modernization, and public sector capability indices. What gets measured can be built. The table below illustrates what such pairing could look like across six emblematic Beyond 2030 goals.
- **Move from investable development to capability-building development in the financing architecture.** Multilateral development finance, climate finance, and concessional lending should be reoriented to fund the construction of state capacity itself—central bank capability, public investment institutions, public service modernization, civil service training, and public digital infrastructure—not only the projects that flow from it. De-risking private investment cannot remain the default response to financing gaps.

Illustrative State Capacity Pairings for Six Beyond 2030 Goals

Table 1

Beyond 2030 goal	Structural capacities	Organizational routines	Dynamic capabilities
Universal health coverage	Universal financing and entitlements; integrated health system mandates; workforce planning institutions	Mission-oriented procurement of medicines and devices; clinical learning systems; co-production with patients and frontline staff	Absorbing AI diagnostics; redesigning care around prevention and aging; coalitions on social determinants of health
Just energy transition	Public investment banks; central bank mandates that recognize transition risk; long-term planning bodies	Mission-oriented procurement for grids and renewables; portfolio governance; just-transition labor-market routines	Coalition building across industry, unions, and regions; reconfiguring delivery as cost curves and geopolitics shift
Care economy	Public care financing and quality standards; legal recognition of care work; integrated commissioning mandates	Workforce pipelines; place-based commissioning; routines for relational, neighborhood-scale services	Co-designing with users and communities; learning across diverse local models; scaling without flattening
AI governance and digital sovereignty	Public digital infrastructure; sectoral regulators with technical depth; sovereign compute and data commons	Procurement and certification standards; audit and red-teaming routines; cross-regulator coordination	Sensing the technical frontier; rapid learning across sectors; reconfiguring rules as capabilities evolve
Debt sustainability and development finance	Sovereign-debt restructuring mechanisms; central bank mandates; pragmatic capital-controls tool kit; public investment banks	Productive investment-friendly fiscal rules; debt-transparency routines; public investment management practices	Coalition building with creditors, IFIs, and peer governments; cross-crisis learning; reconfiguring rules under shock
Inequality	Progressive tax administration; universal social protection floors; labor market institutions and minimum standards	Place-based delivery; integrated case management; co-production routines across services	Redesigning services and protections in response to AI- and automation-driven displacement; building cross-sector coalitions

- **Reform the multilateral system to enable state capacity, not constrain it.** This includes International Monetary Fund (IMF) surveillance and conditionality, debt restructuring, trade and investment treaties, and the rules governing capital flows. The Beyond 2030 framework should make explicit that the right to build state capacity for transformation is a development right. Without this, the accountability trap is locked in at the international level.
- **Build cross-border learning networks for the capability state.** Civil servants in Nairobi, Bogotá, Berlin, Jakarta, and Seoul face structurally similar challenges and have much to teach each other. Funding should be provided to peer-to-peer institutional learning networks, public sector academies with global mobility, and shared methodologies—such as capability indices, portfolio governance tool kits, and the capabilities assessment approach to evaluation—that are transferable across contexts without reducing their complexity. The capability state should be a global project.
- **Make the welfare state the strategic global infrastructure of Beyond 2030.** In most of the Global South, the welfare state is still being constructed; in much of the Global North, it is being eroded. The Beyond 2030 framework should identify the strengthening, modernization, and global construction of welfare state capacity—care systems, public health, education, and social protection—as the foundational infrastructure on which decarbonization, digital sovereignty, AI governance, and security will succeed or fail.

and that recognizes innovation as ordering, developing, and maintaining as much as creating anew. It needs a different theory of public leadership, of distributed market shapers rather than charismatic power brokers. It needs an explicit architecture of structural capacities, organizational routines, and dynamic capabilities that work together. It needs investment in the public services that absorb most public spending, recognized as platforms for capability and market shaping. And it needs accountability designed for capability, not for compliance: measurement that asks not only whether we delivered but also whether we became more capable in the process.

The SDGs taught us that the world can rally around a shared purpose. The Beyond 2030 task is to give that purpose the architecture it deserves.

Conclusion: accountability for capability

The deepest reform task of the next decade is to redesign accountability. The accountability frameworks built over the past 40 years were intended to make the public sector responsible. In practice, they made it incapable. They produced black holes where capability used to be, and we are continually surprised when ambitious transformative agendas could not be delivered. Burckhardt's paradox now takes a contemporary form: progressive movements ask the state to do everything, while the accountability architecture inherited from neoliberalism allows it to do almost nothing.

A progressive Beyond 2030 agenda must resolve this paradox. It needs a different theory of the state—the market-shaping, capability state. It needs a different view of innovation, one that treats public services as the principal terrain of state action, not its residual,

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The Capability State: Delivering Beyond 2030



The SDG shortfall is not mainly a financing problem. Four decades of targets, audits and outsourcing built an accountability architecture that left states formally responsible for everything and capable of almost nothing.



The alternative – this paper argues – is the capability state: a market shaper rather than a market fixer, built from structural capacities, organizational routines and dynamic capabilities, and led by distributed public leadership rather than charismatic power brokers.



A Beyond 2030 framework should pair each goal with a state capacity dimension, fund the building of capable states rather than only the projects they deliver, and measure capability alongside outcomes.

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