

The debate on the developmental state

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1. Introduction

The term - the developmental state - has been used in a variety of meanings. As the state in most Third World countries has been in the forefront of development activities, the developmental state has been used synonymous with the term - the post-colonial state. Here, however, I am going to narrow down the discussion by focusing on the particular type of state found or said to be found in capitalist late comers in East Asia - South Korea and Taiwan. It is well known that these countries since the 1950s have revealed an outstanding economic performance. They have succeeded in creating an integrated and diversified industrial structure, they moreover now have a capacity to compete both in the domestic market and internationally in an increasing amount of products, and they are in the process of 'catching up' or rather 'keeping up' with the advanced industrialized countries. There are reason to believe that this extraordinary economic performance to a substantial degree has something to do with with policy choice - effective state intervention and that effective state intervention only can be explained if we address the political determinants of policy choice, including the organizational requirements for effective state intervention.

The debate on the capitalist developmental state do not focus on the structural features of all capitalist states or all peripheral and post-colonial states. Instead, it aims at developing middle-range theories about states in particular types of Third World countries. To quote Peter Evans " States are not standardized commodities. They come in wide array of sizes, shapes, and styles."⁴¹

⁴¹Peter B. Evans, *Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State*, *Sociological Forum*, Vol.4, No.4, 1989.

My presentation focuses on the state as an actor and the consequences of state action with special emphasis on economic consequences - consequences for capitalist industrial accumulation. Although the state as actor is the point of departure, the capitalist state is looked upon as fundamentally fragmented - as an institutional plurality. Therefore, the unity of the state is far from pre-given but is open for investigation.

1.1. Prescription - statist solutions to development problems

Traditionally, the state has been in the forefront in discussions concerning the economic and social development in less developed countries. Statist solutions to development obstacles have been prevalent in most literature on development issues.

Inside *development economics* in the 1950s, it was almost taken for granted that the state in less developed countries should be the prime mover in economic development. Lack of markets and especially the commonness of market failures in less developed countries meant that the market could not be relied upon to ensure self-sustaining growth. State intervention, dirigism and planning became a necessity in relation to augmenting and marshalling the investable resources. The prime role of the state thus was the role of investment planner. Planning and public sector investments to spur industrialization and policies that supplemented and displaced the price mechanism in allocation of investable resources became part of development policy in most less developed countries.

"Keynesian economics ended the dominance of the idea that the market economy is self-correcting, and developing economics ended the dominance of the idea that the market economy is self-propelling. The resulting professional consensus in that period was that two hands were better than one. The outcome of an unfettered mar-

ket system was generally not optimal, and the visible hand of the state had to help the invisible one out."⁴²

Inside *political science*, strengthening of political institutions was highlighted. Although much discussion centered on the social and economic prerequisites for liberal democracy, political scientists such as Huntington emphasized strong government and political order (refer to Georg Sørensen's presentation).

Inside the dependency tradition in *development studies* a strong state was also seen as part of the solution to the problems of underdevelopment. Peripheral countries generally were considered to have weak domestic social forces - a weak national bourgeoisie and a weak working class. In order to escape from dependence and move towards a more self-reliant development pattern, a strong national state was needed.

During the last decade, there has, however, developed a new and growing emphasis on the virtues of the invisible hand and the magic of the market place. The *neoclassical contra-revolution* has shifted to focus from 'getting policies right' to 'getting prices right'. The central concern of economic development has been reduced to just a technical task of efficient use of resources (refer to John Tøye's presentation)

1.2. Description - statist views of development

However, the important point here is that although these marketeers 'take the state back out' and leave the floor open to the market forces, they also introduce *the state as an independent variable in explaining economic development*, - they introduce a *statist perspective on development (failures)*. In a *neo-liberal perspective* many, if not most, problems in less developed countries are related to state intervention. Most market failures are policy induced and arise from government action or inaction (errors of omission such as

⁴²Wing Thye Woo, The art of economic development: markets, politics and externalities, *International Organization*, 44,3, Summer 1990

failure to establish f.x. capital markets), while inherent market failures are considered to be uncommon. The fundamental problem is too much state. The state is too large and it is irrational - predatory and klepto-patrimonial - in that it represents a withdrawal of resources from productive activities. Starting out from rational individual actors following their perceived interest, we end up in non-market decision-making that is socially wasteful. The invisible hand to guide self-interested individuals to achieve social good is replaced with the 'invisible foot' symbolizing the welfare-reducing effect of competitive self-interested behavior in the political arena over redistribution.

"Instead, the state is seen to be pushed and pulled by lobbies and interests groups that are mostly interested in redistribution rather than growth and development. State interventions intended at best to improve the efficiency of resource allocation and channel it in socially desired directions and at worst creating fairly small dead-weight losses due to distortions may instead end up diverting resources to a significant extent from production to 'rent seeking'"⁴³

Thus among other interpretations, theories on 'rent-seeking' and 'directly unproductive profit seeking' have been developed to explain the mechanisms of government failure- the failures of state-led industrialization.

From a neo-liberal perspective then, state action is the problem not the solution. The state can do no right and supplies public bads instead of public goods ..The least state is the best state'. The solution therefore have to be found in 'marketization' (including outward orientation) and privatization.

The neo-liberal 'too much state' perspective is confronted with a *neo-conservative developmental state perspective*. Here problems of development in many Third World countries are related to the fact that the state is too weak in relation to society. The state is not suf-

⁴³T.N. Srinivasan, Neoclassical Political Economy, the State and Economic Development, *Asian Development Review*, 13(2), p.45.

ficiently autonomous too be able to follow the public interest, and the common good of the nation - the general interest. The state is too responsive to the irrational forces of society. 'Demand overload' is a problem - participation and democracy is a problem. The neo-conservative developmental state perspective can be seen as a follower of both Listian mercantilism and the political order perspective of Huntington mentioned above. Of course, the neo-conservative statist approach also builds on Max Weber who saw the state as essential to growth and to the persistence of German society and who put particular emphasis on competent bureaucracies based upon written documents, with trained staffs, recruited by merit, working full time, following general rules and ordered by super- and subordination. The solution in this perspective is: more state autonomy, more centralized authority/soft authoritarianism and more national control. 'Etatization' rather than 'marketization' is the solution to development problems. In order to obtain rapid economic growth it is necessary to subordinate certain socio-economic interest groups. Benevolent authoritarianism and development paternalism lead to a pattern of development that most people will benefit from and thus solves the effectiveness-legitimacy dilemma.

Chalmers Johnson is a representative of this neo-conservative statist approach⁴⁴. According to Chalmers Johnson, the economic miracle of non-socialist NICs in East Asia can be explained by reference to a certain type of political institutions in these countries -the capitalist developmental state (CDS). East Asian high-growth systems combines soft authoritarianism and capitalism or more precisely, it is that combination that has fostered the dynamic aspects of economic growth in countries such as Japan, South Korea and Taiwan.

⁴⁴ Johnson,Chalmers, MITI and The Japanese Miracle.The Growth of Industrial Policy.1925-75, Stanford University Press, Stanford, California, 1982; Johnson,Chalmers, The nonsocialist NICs:East Asia, International organization, vol.40,no.2, Spring. 1986; Johnson, Chalmers, Political Institutions and Economic performance: The Government-Business Relationship in Japan, South Korea and Taiwan, in Frederic C. Deyo (ed), The Political Economy of the New Asian Industrialism, Cornell University Press, Ithaca and London,1987.

According to Chalmers Johnson, the capitalist developmental state has four fundamental characteristics:

First, a stable rule by a political bureaucratic elite that does not comply with political demands that would undermine economic growth or security.

"A developmental elite creates political stability over the long term, maintains sufficient equality in distribution to prevent class or sectoral exploitation (land reform is critical), sets national goals and standards that are internationally oriented and based on nonideological external referents, creates (or at least recognizes) a bureaucratic elite capable of administering the system, and insulates its bureaucrats from direct political influence so that they can function technocratically. It does not monopolize economic management or decision making, guarantee full employment, allow ideology to confuse its thinking, permit the development of political pluralism that might challenge its goals, or waste valuable resources by suppressing noncritical sectors (it discriminates against them with disincentives and then ignores them.)" 45

A critical aspect of the CDS is the separation of reigning and ruling, that gives bureaucracy autonomy to ensure a long-term industrial policy. The formal (extrinsic) political elite reigns in order to provide space for the technocratic, economically rational, the bureaucracy (intrinsic elite) to rule.

*"Reigning" involves creating genuine political stability, correcting excesses committed by the bureaucracy, promoting entrepreneurship, and avoiding the usual consequences of state intervention in economic affairs - namely, bureaucratism, corruption, and a misallocation of resources."*46

45 Johnson 1987, *op.cit.*, p.142.

46 Johnson 1986, *op.cit.*, p.563.

Ruling, on the other hand, involves actual planning intervening and guiding of the economy. Such ruling is implemented by a powerful, talented and prestige-laden economic bureaucracy. The resulting industrial policy encompasses both industrial rationalization policy at the micro level (state intervention into the detailed operations of the individual enterprises in order to improve these operation) and industrial structure policy, which fundamentally involves selection and nurturing of strategic industries.

Second, a capitalist developmental state is characterized by cooperation between public and private sectors under the overall guidance of a pilot planning agency. The state enjoys a considerable autonomy in relation to societal forces and especially in relation to its major clients, who are the representatives of the big, privately-owned business. In CDS, the role of entrepreneurship is largely preempted by the state, and private capitalists in effect fulfil contracts authorized by the state. A division of labour between public goal setting and private goal execution is established and while the state eschews ownership it exercises control through the manipulation of incentives, rationing of resources and capital, cartels and other guiding activities. Although the state "even in the Asian cases" "cannot directly contradict the interest of big business", the state independently develops national goals

Third, CDSs invest heavily and continuing in education and follow policies to ensure the equitable distribution of wealth. The mechanisms of such egalitarian distribution of the wealth created by high-speed growth are land reforms, more-or-less explicit state policies of redistribution and systems that ensures that gains in productivity automatically are translated into wage increases.

Finally, CDSs have a government that understands the need to use and respect methods of intervention based on the price mechanism. Although state intervention has taken the form of administrative guidance, the state certainly knows the limits of political intervention and has been committed to "market-conforming" interventions rather than market-repressing interventions. The allocation to

and use of discretionary authority by the economic bureaucracy make "tailor-made" solutions to concrete problems possible and thus represents a market-conforming method of intervention.

*"The East Asian NICs appear to have combined the most important features of capitalism and socialism: entrepreneurship and social goal setting."*⁴⁷

Among more radical writers, the state have been put back in order to explain massive economic problems in Africa and the experience of the capitalist success in East Asia. In the African context *radical statism* explains weak and vulnerable states and state failure along different lines of argument. Of particular relevance here is neo-patrimonial approaches. Richard Sandbrook thus argues that the political requirements of regime and personal survival has led to a neo-patrimonial pattern of personal rule based on personal loyalty, patron-client links, and coercion. The implications of personal rule and related personalized and communal ties has not only been political decay but also the incapacity of the state to create and maintain the direct and indirect legal, political and economic conditions for productive investment in most African countries⁴⁸. States are reduced to distribution instruments. The problem is thus not just state policy but the actual functioning of the state. The solution here is less obvious. One possibility is a strong state -statist, top down forms of capitalism or socialism furthering economic development which in the African context takes the form of benevolent rule of far-sighted leaders and relatively effective bureaucracies capable of designing and implementing diverse policies. Another possible solution is to demand less state - to go beyond the state. This might lead in a neo-liberal direction with emphasis on market and a national bourgeoisie (as in the case of Hyden and followers) or it might lead to more emphasis on civil society, local self-reliance and a more communitarian development leading to an increased local capacity for solving economic problems.

⁴⁷ *Ibid.*, p.565.

⁴⁸ Richard Sandbrook, The State and Economic Stagnation in Africa, *World Development*, Vol, 14, No, 3 , pp, 319 - 332, 1986.

In relation to Sandbrook it should be noticed that he describes the strong interventionist state in East Asia and Brazil as

- being able to foster a general socio-political and legal framework conducive to market relationships
- being able to create and maintain a range of economic conditions such as physical and social infrastructure and direct intervention through subsidy or public enterprises
- being able to regulate foreign relations to maximize the local benefits.⁴⁹

In the East Asian context radical statist approaches emphasizes external aspects of the developmental state. We might name them *global statist*. On one hand 'the East Asian NIC states have been able to restrict and manage external capital in ways that support strategic goals' -they have been able to manage foreign capital by way of mediation, screening and regulation. On the other hand external geopolitical ties have strengthened the state elite against oppositional domestic forces and made subordination of the local bourgeoisie possible, but has also strengthened the capacity of these states to manage external economic relations.

Apart from neo-conservative, radical statist and global statist analysis, the present discussion on *the developmental states in East Asia* also includes a *new strategist approach inside development economics* which calls for active and selective state intervention not primarily in order to regulate trade activities but in order to encourage local producers to upgrade their technological capacity and obtain productivity growth. Like the early strategist (inside development economics) focus is on supply side issues and dynamic efficiency, but while they concentrated on accumulation and investment allocation, the new strategists are concerned with meso-level, sector policies - with managing technological change in order to achieve dynamic efficient industrialization in the sense of attaining

⁴⁹ *Ibid.*, p.320.

international competitiveness being able to compete in the domestic as well as in international markets.

"If managing the local acquisition of technological capability, more than factor accumulation or allocation, is the core of industrialization, the catalytic role of strategic and selective intervention is imperative in information gathering, in encountering indivisibilities in effective assimilation of knowledge, in bargaining terms of technology agreements, in underwriting risks and raising credit, in providing marketing infrastructure, in coordinating rationalization in established industries, in minimizing the social costs of dislocation in industrial reorganization, and, in general, in sailing the uncharted waters of potential dynamic comparative advantage, as the recent histories of Japan and South Korea amply demonstrates"⁵⁰

2. Strong and weak state

The discussion on *state strength* or "state power" is often presented as a global antinomy between "strong" and "weak" states. The states are considered strong

- because the country has a large public sector;
- because it is authoritarian;
- because it has strong societal support;
- because there exist no well-organized and articulated social forces in society;
- because civil and military bureaucracies are the only cohesive and organized group in society;
- because it has been able to intervene positively to foster industrialization.;or
- because it has been able to limit external influence

⁵⁰Pranab Bardhan, *Alternative Approaches to Development Economics*, in H. Chenery and T. N. Srinivasan (eds), Handbook of Developing Economics, Vol. 1, 1988, p.62.

Such a variety of interpretations naturally in themselves pose a threat to coherent analysis. Moreover, it is possible to identify some serious pitfalls when a simple strong/weak dichotomy is utilized as an analytical tool.

**First*, there often is a tendency to define state strength by outcomes but then it cannot not be used as an explanatory variable if one wants to avoid being tautological.

**Second*, state strength is often presented as self-reinforcing but such a static view fail to see variations in the role and efficacy over time.

**Third*, the strong state argument tends to assume a uniformity in effectiveness of state intervention across issue areas thus eliminating more disaggregate studies examining the interrelationship between different aspects of the state structure.

**Fourth*, the relational character of the state strength is often overlooked and the state is studied in virtual isolation from societal forces. A study of state strength must take into account also the independent organizational, political and economic resources of social classes and groups and must look at the play of political forces and interests and specify the coalitional structure or pacts of domination behind state intervention.

**Fifth*, many are tempted to identify state strength with "good" policy, while it is not obvious why so-called strong states should follow an efficient, effective or optimal policy. In a third world context, it is easy to find strong states with rather poor economic performance. Strong states can either help to overcome market failures or fall into state failure.

**Finally*, the strong state argument might lead one to idealize the developmental state in the same manner as dependency theory earlier idealized capitalism in the advanced capitalist countries

3. Comparative political economy - state autonomy and state capacity

Central to a discussion on the developmental state are the statist studies of the dynamics of state autonomy, state capacity and state

intervention. *Dietrich Rueschemeyer and Peter B. Evans* have taken up these issues in relation to the experiences in the newly industrializing countries.⁵¹ Starting out from a Weberian definition of the state, R&E argue that the state tends to be: an instrument, an actor, an arena and a guardian of universal interests. An *instrument*, because the state tends to reflect a pact of domination including parts of the state apparatus and powerful classes and class fractions. A *corporate actor*, that possesses interests of its own and with state elites trying to make coherent state action. An *arena of conflict*, in that social groups try to use the state to further their own interests, and finally an entity that presents itself as *guardian of universal interests* including maintaining sovereignty and defending the country. State efficiency then relates to the way in which these contradictory tendencies are combined

In relation to the role of the state as corporate actor R&E for a variety of reasons go along with the assumption that *effective state intervention* is necessary if capitalist economies are to sustain capital accumulation and reach higher levels of productivity. Therefore, they proceed to a discussion of under what conditions it is possible. They claim that the capacity to make effective interventions depends on its internal structure and its relations to society.

The efficacy of the state depends on *the nature of state structures* - on its *organizational capacity*. First and foremost, this implies the existence of a well-organized bureaucratic apparatus in which heterogeneous officials and offices are turned into a coherent organization, and in which the higher administrative elite share a set of fundamental orientations. An effective bureaucratic machinery can not be taken for given but must be constructed in a long term historical process of institution building. Coherence and effective coordination of state policy may be undermined by effective state interven-

⁵¹ Rueschemeyer, Dietrich and Peter B. Evans, *The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention*, in Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol (eds.), *Bringing the State Back In*, New York, Cambridge University Press, 1985.

tion, in that many types of effective interventions often require a certain amount of decentralization which in turn invites attempts to capture these decentralized units. The state apparatus thus become "balkanized" and its arena aspect thus undermines its role as a corporate actor. Even if the construction of such a coherent bureaucratic apparatus often involve serious obstacles, one cannot assume that a well-organized bureaucratic machine can intervene effectively. A sufficient amount of expertise and knowledge- *technical capacity* - is required too

They further argue that in order to undertake effective interventions instrumental to capital accumulation, the state must enjoy a *certain amount of autonomy* from the dominant groups in society. A certain degree of autonomy is necessary not only to formulate but also to implement state policies. It is necessary because it allows a coherence in the state apparatus and because interests of certain segments of capital will have to be sacrificed in the process of sustained capital accumulation. The positive relation between state autonomy and accumulation however, has to be qualified in several aspects. First, state elites might follow their own immediate interests resulting in a state of parasitic or predatory character. Under these circumstances minimized autonomy would make it a more efficient agent of accumulation. Second, autonomy must be considered as a necessary but not a sufficient condition. Autonomy may lead both to successful and disastrous interventions depending upon organizational capacity, expertise and knowledge. Finally, R&E emphasize that autonomy remains very relative, in that the state depends on private capital to promote accumulation and to produce the surplus necessary for state activities

In sum, E. and R. have argued that variations in the structure of the state and in its relation to the social structural conditions, enhance and inhibit the capacity of the state to intervene effectively in relation to capitalist accumulation. A high level of administrative capacity and a certain degree of political autonomy are prerequisites for effective state action. The interaction between autonomy, administrative capacity and intervention however should not only be

considered a process of mutual reinforcement but also a process in which they undermine each other. Deeply penetrating interventions in society thus may undermine both the role of the state as coherent actor and its autonomy.

Peter Evans has elaborated on this framework and argues that as a heuristic device argued one could see states as varying along a continuum from predatory to developmental states. The differential effectiveness of Third World States as agent of transformative capitalist investments then is related to differences in their internal structures/administrative and technical capacity and and external ties/relative autonomy.⁵²

Zaire is taken up as an prototype of a predatory state that lacks both bureaucratic capacity and political autonomy .In fact, this category is similar to Sandbrook's personal rule mentioned earlier. At the other end of the continuum Evans places South Korea which has a historically accumulated bureaucratic capacity. The bureaucracy follows Weberian pronouncements regarding recruitment and operation and informal networks gives the bureaucracy an internal coherence and corporate identity ("reinforced Weberianism").Moreover, the South Korean state are characterized by embedded autonomy- which combines some degree of insulation with close connected to private actors. According to Evans most states in the Third World are intermediate states equipped with a fragmented and unstable bureaucracy which lacks the corporate coherence of the developmental state. Some "pockets of efficiency" exists. Instead of becoming institutionalized, external ties takes the form of ad hoc individualized relationships and the state lacks sufficient autonomy Intermediate states thus only occasionally approximate embedded autonomy. Brazil is an good example of such an intermediate state.

⁵² Evans ,1989,op.cit..

Figure 1

Peter Evans: A comparative Political Economy Perspective on the Third World State

State	Predatory	Inter- mediate	Develop- mental
Example	Zaire	Brazil	South Korea
Internal structure	Lack of bureaucratic capacity: undisciplined internal structure	Fragmented, divided, segmented and unstable bureaucratic apparatus	Stable, well-developed, coherent bureaucratic organization: - "reinforced Weberianism" (Weberian bureaucracy + informal networks)
External ties	Lack of autonomy: - kleptopatri- monia- lism (personalism - individualized ties) - ruled by the invisible hand	Occasionally approximate embedded autonomy (partial embedded autonomy with "pockets of efficiency")	Embedded autonomy: - some degree of insulation and social connectedness (close connections to private actors that can provide useful intelligence and a possibility of decentralized implementation)

Source: Peter Evans, "Predatory, Developmental, and Other Apparatus: A Comparative Political Economy Perspective on the Third World State", *Sociological Forum*, Vol.4, No.4, 1989.

4. The developmental state - South Korea

4.1. Directive and effective state intervention?

*The Korean state must be considered as highly *interventionist*. Jones and Sakong describe the government of Park Chung Hee as "highly interventionist in attempting to influence the microeconomic decisions of productive units either through direct government participation in public enterprise or through stimulating, forcing, or cajoling private enterprises"⁵³

Leudde-Neurath stresses that the Korean government extensively resorted to directive state interventions, that is aiming to achieve predetermined results through conscious interference with the market forces and selective application of incentives and/or controls, rather than just following promotional intervention aiming to restore markets to their proper function.⁵⁴ The Korean state has been highly selective in its intervention, "paying attention to some industries more than others, and paying more attention to capital and technology markets than goods markets, and more to goods markets than to labour markets".⁵⁵

*It has also been *effective* in its policy implementation, succeeding in altering private decisions and private resource allocations. The state has been able to exert *discipline* over firm behavior - over big business. In policy implementation, the state has used a set of *com-*

⁵³Leroy P. Jones and Il Sakong, Government, Business, and Entrepreneurship in Economic Development: The Korean Case, Harvard University Press, Cambridge, Massachusetts and London, 1980, p. 288.

⁵⁴ Richard Luedde-Neurath, State Intervention and Export-oriented Development in South Korea, in Gordon White, Developmental States in East Asia, MacMillan Press, 1988.

⁵⁵ Robert Wade, The role of government in overcoming market failure: Taiwan, Republic of Korea and Japan, in Helen Hughes, Achieving Industrialization in East Asia, Cambridge University Press, Cambridge, New York, etc., 1988, p. 161.

pliance mechanisms in order to get the private decision-makers to act in accordance with the preferences of the state planners. The main disciplining mechanism has been allocation of subsidies according to *the principle of reciprocity*. In order to obtain productivity increases, the state has pushed firms to invest and export. It has made subsidizing dependent on a certain economic performance. In that manner subsidies became allocated more effectively than in most Third World countries.

*"In short, subsidies in Korea (as in Japan and Taiwan) have been allocated to big business according to the principle of reciprocity, in exchange for performance standards, whereas in other late-industrializing countries subsidies have tended to be dispensed as giveaways, in what amounts to a free-for-all. Subsidized firms in Korea have received cheap capital (often at negative real interests, the ultimate 'wrong' relative prices), but they have had to produce, not speculate. They have been allowed to sell in a protected home market, but they have had to raise productivity and quality to increase their share of foreign markets. They have been allowed to import foreign technology. but they have had to begin investing in their own R&D. They have been allowed to exploit Korean labour. but they have had to train it and, in the case of big companies, retain it through economic slumps."*⁵⁶

The role of the government was not just that of generating of certain level of investable resources, the government was also able to control the investment structure - were able to ensure that the limited investable resources were channeled into industrial investments and used effectively.

The financial system in South Korea is credit based in which not securities but loans are the main source of long-term business finance. Generally, debt/equity ratios are high and the money market are dominated by the bank which in turn are controlled by the govern-

⁵⁶Alice Amsden, Third World Industrialization: 'Global Fordism' or a New Model?, New Left Review no.182, July/August 1990, pp. 22-23

ment⁵⁷. State control over investable resources was further enhanced by the relative large ratio of government savings and government control over all foreign loans.

In South Korea, industrial policy has been the main policy area while fiscal and monetary policies and the banking system has been means for implementation. Partly, the pattern of investments was effected by the rather high level of public investments, amounting to 30% of all investments. Partly, and mainly, investments were guided by selective credit policies -low interest loans to favoured firms. Allocation of long term loans were generally characterized by a high level of flexibility, particularity and even handled in a discretionary manner.⁵⁸

*"Discretionary credit allocation is the fulcrum upon which partial mutuality rests. The critical importance of credit to the enterprise, and its vertially complete control by the government, make this a powerful tool for ensuring private compliance with almost any command the government wishes to give. Government control of the banks is thus the single most important economic factor explaining the distinctly subordinate position of the private sector."*⁵⁹

4.2. Impact on economic performance - economic outcome.

It is well-known that Korea has revealed an outstanding economic performance - high growth rates in manufacturing, rapid shifts in the pattern of industrialization and competitiveness both in the do-

⁵⁷ On credit vulnerability, see Jones and Sakong, *op.cit.*,101, Luedde-Neurath 1984, *op.cit.*, p. 75, and Wade 1988, *op.cit.*,p.132. On the continuing role of the curb market, see Larry Westphal, Industrial Policy in an Export-Propelled Economy: Lessons from South Korea's experience, *Journal of Economic Perspectives*, Vol. 4, Number 3, Summer 1990, pp. 52-53

⁵⁸ Jcnes and Sakong, *op.cit.*,pp. 106-109, Wade 1988, *op.cit.*,pp. 137-138,

⁵⁹Jones and Sakong, *op.cit.*,p.296

mestic market as well as in the international markets in an increasing amount of product groups.

To what extent then was successful economic performance dependent on state intervention. Was it necessary to intervene so strongly, so selective and so detailed in industrial accumulation?

First of all the Korean case shows that active and selective state intervention in a market economy is not inimical to and can co-exist with successful industrialization. The implication being that a neutral policy regime is not a necessary condition for such industrialization.

Secondly, the Korean case also seem to support the view that active and selective state intervention is necessary but not a sufficient condition for successful industrialization. Generally it is extremely difficult to show the impact of industrial strategies at both industry level and country level.

4.3 State autonomy and state capacity

4.3.1. State autonomy - external ties

There are reasons to believe that South Korea during the Park period followed a consistent set of policies aiming at maximied long term growth. Economic growth - a sense of economic nationalism - was given top priority among the leadership and that priority was effectively transmitted through the administrative system.

*Generally, the South Korean State must be considered as having a *high level of relative autonomy* from the social forces.

- In relation to peasants and workers opposition was strangulated during the early 60s and these social forces was excluded from politics and subordinated by means of both repressive and centralized corporatist instruments.

- Moreover the traditional agrarian elite was eliminated during the land reform and no capitalist bourgeoisie was allowed to arise

- In relation to the capitalist class and especially the big capitalist class, there existed a harmony of interests, Jones and Sakong describe the relationship between government and business as a partnership in which the government clearly was the dominant partner. The influence of business was mainly structural in that the government relied on private sector activities. Instrumental influence mainly took the form of personal contacts, while the many business associations mainly served as a transmission belt for government policy implementation. As the legislative was of minor overall importance, the state elite depended much less on financial electoral support from large business groups than in Japan. Although such contributions were paid.

Finally, as the industrial elite was undercapitalized and banks were state-owned and as foreign capital was channeled through the state apparatus, the private sector was put in a distinct subordinate position.

4.3.2 State capacity - internal organization

Several features have given the South Korean state a potential for effective decision-making.

Firstly, *the executive branches of the state* have been dominant, while the legislative and judiciary branches were almost irrelevant. Inside the executive, substantial power was centralized around the military backed president.

Secondly, South Korea is furnished with *a centralized economic decision-making hierarchy*. The upper level consists of the "Blue House", the President and his staff. The next level then are made up by the main ministries and governmental organization - the Economic Planning Board (EPB), the Ministry of Finance (MoF) and the Ministry of Commerce and Industry (MCI. According to some

sources, the EPB was particularly powerful in that it controlled the budget, administered price controls, in consultation with other ministries controlled foreign investments, foreign loans, and the foreign technology transfer and organized collection of national statistics. The description of the South Korean decision making as highly hierarchical and centralized has been questioned by Tony Michell, arguing "that the way in which government decisions were often, though not always, reached, involved a wide degree of opinion-taking and modifications, and even formulation of policy from the bottom rather than the top."⁶⁰ Luedde-Neurath argues that top-down decision-making prevailed in new areas of industrial policy and during periods of crisis while a more decentralized pattern could be found in routine policy areas.⁶¹

This leads us to the qualities of the policy-formulation process. Nigel Harris talks about government gambles and pragmatism. Jones and Sakong describe *short-term policy formulation* as being characterized by quick decisions, flexibility in response, pragmatism in selection of instruments and particularism, in that policies are often made with a low level of generality. Rather than rule of law it was rule of men.

Thirdly, due to among other things the general high prestige attached to administrative work in the government, to the high priority on education and to the competitive merit based selection procedure, *the administrative personnel was highly qualified.*

Last, but not least, *widespread abuse and corruption was avoided.* Corruption was quite normal during the Syngman Rhee regime and even during the Park Chung Hee period corruption was certainly not avoided. It remained, however, a modest phenomenon partly due to the strong inculcation of economic nationalism in the go-

⁶⁰Tony Michell, Administrative Traditions and Economic Decision-making in South Korea, IDS Bulletin, Developmental States in East Asia: capitalist and socialist, Vol. 15, No.2, April 1984, p.32

⁶¹Luedde-Neurath, op.cit., p.97

vernmental system, partly, and probably, mainly due to the fear of the Board of Audit and Inspection which report directly to the president. The selective and discretionary character of state intervention implied that state intervention remained highly personalized but it was administered in such a way that it did not impede the overall national priorities. Alice Amsden argues that corruption was more pervasive but get to the same conclusion:

*"No firm could succeed if it openly criticized the government. No firm could flourish if it was not a staunch government supporter. Nevertheless, despite pervasive corruption surrounding the allocation of subsidies to specific companies, discipline has still been effective: generally only good performers have been rewarded and poor performers have been punished."*⁶²

5. The developmental state - some concluding remarks.

The *South Korean* state thus can be placed at the right end of the continuum constructed by Peter Evans. Since the early 1960s, the state has intervened directly - strategic selectively - in industrial accumulation. It has constructed or created shifting sets of dynamic comparative advantages. Such state intervention has been possible mainly because the state have been able to use its financial control which in turn has been of crucial importance because of the dominant role of few undercapitalized conglomerates in the South Korean economy. Apart from having sufficient relative autonomy, the state has also been endowed with a considerable administrative and technical capability. The South Korean case thus shows how directive state intervention has furthered industrial growth, structural transformation and competitiveness. The targeting strategy has been risky and not always successful but the net impact has been instrumental to a process of catching up with the advanced capitalized countries. Concerning equity, redistribution of assets during the land reform, absorption of surplus labour in manufacturing and conti-

⁶²Amsden, 1990, *op.cit.*, p.22.

nually rising real wages (from a low wage base) have other hand, neglect of agriculture, geographic centralization of industry, concentration of capital in a few oligopolistic firms and super-exploitation of female workers have lead to an increase in social inequality (rich/poor, white- collar/blue collar, male/female, urban/rural etc.)

Figure 2. Main characteristics of the developmental state.

The developmental state	Public economic decision-making
<i>State autonomy/External ties:</i> -sufficient autonomy/insulation -organized networks of external ties/ embedded autonomy/relative autonomy	strategic decisions
<i>State capacity/Internal structure</i> (administrative and technical capacity) -stable, well-developed, coherent, -bureaucratic organization -non-bureaucratic bases of internal solidarity/informal networks	formal planning policy-making
<i>Directive intervention-</i> -directly involved in the processes of investment, production and circulation -strategic and selective application of in- centives and/or controls	policy implementation
Economic outcome - growth, efficiency and competitiveness - (equity)	Private economic decision-making

At this stage it could be useful to reformulate the concept - the developmental state as an institutional ensemble of specific forms of political representation/autonomy, of internal organization and of state intervention as shown in figure 2. Limiting the discussion to

economic performance measured in terms of growth and competitiveness, the overall question is then whether the developmental state is a necessary condition for successful economic development.

Moving to the case of *Taiwan*, we find high growth combined with structural changes, international competitiveness and moreover a fairly egalitarian distribution of income.

Concerning the latter point it should not be looked upon as resulting from planned government efforts but must be explained partly by early redistribution of assets (land and labour) and mainly "the trickle down" effect following the spread of labour intensive industrialization aiming first at the domestic market and later also at export. Compared with South Korea, Taiwan's land reform was supplemented by an agricultural revolution leading to a virtuous circle between agriculture and industry. Moreover, the industrial structure has been much more decentralized and deconcentrated. Therefore, apart from gender inequalities, social inequality did not start to increase until the 1980s.

At the general level, the state in Taiwan has enjoyed an unusual degree of autonomy from the social forces, including the dominant business groups. In general, firms became dependent on the state for their survival but there was a lack of extensive web channels between private business and the state. The bourgeoisie was rather fragmented but the few larger business groups had personalized contacts to the state and party apparatus and relied to a substantial degree on capital inputs from the state-owned banks. Moreover it can be shown that the state has had sufficient administrative and technical capacity for coherent state intervention. Directive state intervention has also been a part of the Taiwanese industrial strategy, but detail-oriented intervention to alter or replace market signals has been less prominent than in South Korea but in order to give priority to enterprises that had competitive prospects in the short or long run, the state guided and controlled the market by means of structural (mainly) financial incentives. Due to the proliferation of many small family-owned firms in Taiwan, policy im-

plementation has of course been much more difficult and less effective than in South Korea. Such lower intensity of state intervention, however, seems to have been sufficient to support firms in utilizing their competitive but it was administered in such a way that it did not impede the overall advantage. The Taiwanese industrial accumulation has followed a niche strategy in which small- and medium sized firms entered shifting new emerging markets in product groups where entry barriers were not high, more specifically labour-intensive groups, with well known technology and in which low input prices were crucial for competitiveness. However, one could argue that the present problems in Taiwan concerning the move towards more high quality and high value products will require a more intensive and directive type of intervention.

Among the Southeast Asian late-comers *Thailand* have gone through a period of fast economic growth changing the country's production and export structure towards a stronger role for manufacturing. Moreover, one can observe a significant rise in labour productivity in manufacturing during the 1980s.⁶³ As in the case of Taiwan, Thailand has mainly exploited existing comparative advantages rather than practising dynamic comparative advantages. Concerning equity, Thailand reveals significant and probably increasing inequalities in income distribution between the Bangkok area and the hinterland, reflecting among other things the neglect of peasant agriculture.

The Thai state is no insulated developmentalist state. As far as autonomy is concerned, the state has been linked very narrowly to shifting business interests but one could argue that the state have moved to a more autonomous position - away from the earlier patronage based structure in which political power became the source of licenses and economic opportunity. Moreover, the state has not been overshadowed by a wealthy class of landowners and has demonstra-

⁶³See for example, John P. Lewis and Devesh Kapur, An Updating Country Study: Thailand's Needs and Prospects in the 1990s, World Development, Vol. 18, No.10, 1990, p. 1369.

ted a high level of autonomy in relation to small-scale capitalists, peasants and workers. The financial sector in Thailand is dominated by a dozen or so very large Sino-Thai corporate groups which dominate the industrial sector, too. State autonomy from these groups have probably declined during the last fifteen years. Thailand have not a coherent bureaucratic apparatus, but the civil service are moving towards more Weberian characteristics, including higher levels of professionalism, rationality and predictability in public administration, but decisions still come slowly and government policy are often unclear and unstable. In sum, the Thai state is far from the developmentalist state and probably does not have the political and administrative capacity to develop dynamic comparative advantages through aggressive and directive intervention.

The Taiwanese and Thai cases show that it is not sufficient to distinguish between developmental and non-developmental states. One also have to distinguish between progressive state intervention and regressive state involvement. To go beyond regressive state involvement of the type referred to by the radical statist (state failure in Africa), requires a certain level of state autonomy in order to evade penetration of "private (particular) vested interests, in order to impede private monopolies and private non-productive activities and in order to impede public rent-seeking activities. Finally, in order to establish some general rules of game of the market (and production) it requires certain state capacity.