



Developmental states in the 21th century: analytical structure of a new approach

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outline

- Starting point: fall of the classic developmental state paradigm based on North-East Asian heritage
- Renaissance of developmental state (DS) literature
 - ▣ New interpretation of developmental states
 - ▣ New context of the 21st century
- New analytical structure for DS
 - ▣ Socio-economic alliances, political settlements
 - ▣ Institutionalization and policy-making
 - ▣ Content (bias) of related public policies
- Conclusions

Classic DS definition

- Original definition of Chalmers Johnson (1982) related mainly to Japan and North-East Asia
 - ▣ a capitalist, plan-rational state, with a long term commitment to the developmental-oriented approach,
 - ▣ active state interventionism in order to achieve main socio-economic objectives
 - ▣ social consensus regarding the central role of state in development, as well as regarding the main socio-economic objectives
- Definition still valid but... not the model..

Classic model of NEA-DS

1. *Economic nationalism and social mobilization*
2. *Strong, centralized and authoritarian state*
 - *Relative autonomy from influences of social groups.*
 - *Small and determined elite.*
 - *Power of the state to discipline business.*
 - *Developmental dictatorship.*
3. *Wide ranging interventionism and central role of industrial policy (selective and discretionary measures and the practice of picking winners)*
4. *Central (economic, political and social) role of large diversified business groups.*
5. *Meritocratic bureaucracy with embedded autonomy*

6. *Primary role of agricultural sector and land reform*
7. *Export-oriented economic development strategy with state guidance and market-conforming methods*
8. *Financial repression*
 - Based on high domestic savings, fiscal and other incentives by the state, and state direction towards subsidized, strategic industries.
 - Implicit and explicit state guarantees.
 - Bail-out policies (and practices) towards financial institutions as well as the business sector.
 - Limited entrance into financial markets.
 - Closed and subordinated role of capital markets.
9. *Macroeconomic stability, good macroeconomic management.*
10. *Shared and equitable growth*

Global context of the classic DS model

1. The ***global political context*** of the postwar period (national capitalist development concept, economic nationalism).
2. The ***global economic context*** of the postwar period (neo-mercantilist approach, growing protectionism, relatively closed economic systems and models).
3. The ***context of late-development*** (national-based Fordist capitalism, promotion of strategic national industries, and in the context of underdevelopment, mass poverty and infrastructural deficiencies caused by the destructions of the war, economic catching up as first priority supported by wide social consensus).

→ These *permissive global conditions* meant that national economic performance depended to a large degree on competitiveness of large national firms, and created the basis for national dirigiste state-led development policies.

Unique region-specific conditions of the NEA-DS model

1. ***Japan's outstanding role:*** 1. as former colonial ruler (laying down important institutional and other basis); 2. later as important economic donor, providing development aid, and later on capital, and 3. in more general terms, as regional economic leader (providing market and being an economic partner); and 4. last but not least as a role model of economic and development policies to follow.
2. ***Security policy and economic role of the US:*** providing 1. development and military aid based on geopolitical considerations; 2. foreign direct investments; 3. preferential market access. 4. in more general terms, the US commitment to secure the stability of the region „by all means” (as to stop the spread of socialism-communism, and to secure the borderline between the two poles in the Cold war)
3. ***Historic and cultural factors:*** relatively homogenous societies, inheritance of extensive and good quality institutional systems from the colonial period + Asian cultural values

Decline of the classic DS model

1. ***Structural transformation of the economy:*** global, transnational organization of economic production, and growing complexity of economic activities undermine direct state guidance and “picking winner” strategies in industrial sector, whereas domestic subsidies in a globalized production line do not necessarily increase domestic investments and production.
2. ***Significant societal changes:*** a more urbanized and “enlightened” society is less probably accepting authoritarian and repressive regimes, while at the same time might lead to increasing consumerism (as in the case of Latin America).
3. ***Changes in global financial system and capital markets*** leave no or very limited room to development models based on state directed and repressed national finance systems, where resource allocation is subordinated to long term industrial goals rather than any efficiency measures (let alone price signals). Successful integration into the globalized financial system and capital market is however preconditioned on institutional reforms, as relational banking and cosy relations between the state and business sector are not compatible with the new global rules of the game.

4. ***Changes in corporate governance*** are inevitable consequences of the above described trends, as above certain development levels, increases in investments have to be accompanied by better management practices, efficient resource allocation (and well-functioning capital markets) and foreign ownership (and knowledge).
5. ***Changes in state – business relations*** were also forged by the changes in the economic and social context, on the short run the Northeast Asian states could discipline the business sector, however on the longer run with intensifying integration into the world economy and efficiency criteria coming to fore, the capabilities of the state have weakened and crony capitalism emerged (with rent-seeking and corruption becoming the rules and not exceptions).
6. ***Legitimacy of the mostly authoritarian, strong developmental states*** was provided on the one hand by US security considerations during the cold war, on the other hand by exceptional growth performance that equally benefitted different classes of the society in East Asia. Both internal and external legitimacy bases were broken down by the 1990s, showing the fragility of the classic developmental state model.


Renaissance of developmental state (DS) literature

- Fall of classic paradigm of DS (Woo-Cumings, 1999)
- GFC of 2008/9
- New „normal” of global economy

- Fine et al, 2013; Mazzucato, 2013; Evans, 2014
- Wade, 2014
- Fosu et al, 2013; Williams, 2014

New context of the 21st century

- Williams (2014) four challenges + 1
 1. *the new economic restructuring* (shift from manufacturing to the knowledge and service sectors), emergence of the bit-driven or new economy
 2. *changes in domestic politics* – new social modernization, “enlightenment” changing social needs, norms and values – new social contract – moving toward more democratic regimes
 3. *epistemic changes* – expansion of the meaning of *development* (away from growth obsession towards development as freedom) (Sen, 1999)



4. environmental limits to development – including new challenges posed by the climate change and the aspects of environmental justice

+1 **financial globalization** – financial viability of state-induced development, need for innovative forms of financing

New interpretation of developmental states

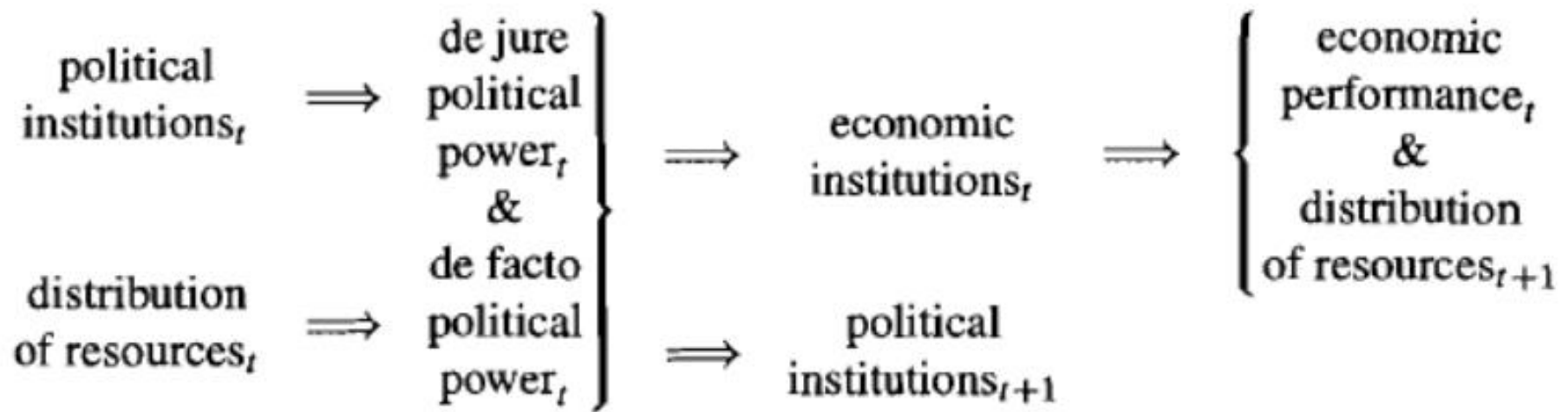
- economic growth → the human-capabilities approach to development
- context of late development (industrialization) → more broad based structural transformation of the economy (new IT-based economy)
- focus on East-Asia → broader geographical relevance
- new DS or entrepreneurial state

New analytical structure for DS

- *development regime theory* (Pempel, 1998, 1999)
 - ▣ time perspective of 5-15 years

 - three levels of analysis:
 1. political settlements and socio-economic alliances
 2. the institutionalization of the development-oriented approach, the process and quality of policy-making
 3. the content and developmentalist bias of related public policies
- strongly interrelated

The AJR model of long term economic development



Source: Acemoglu – Johnson – Robinson, 2005: 392

Political settlements and socio-economic alliances

- Tacit agreement among the most powerful members of the society (elite+non-elite bargain) – resulting in the legitimacy base for DS

Khan's (2010)

- development-oriented political settlements decrease the political pressure to patronize certain interest groups
- balanced socio-economic alliances lessen the role and share of discretionally distributed rents for buying the support/loyalty of certain elite or interest groups
- make a long term development-oriented approach and vision possible



According to Pempel (1999) any (post-)modern developmental regime

- has to support the creation of a socio-economic coalition that is stronger than any other coalition of the opposition;
- has to be able to set the national development agenda;
- has to be able to articulate a legitimate ideology that implicitly presents the interest of its supporters as the nation's common interest;
- must reward its supporters with sufficient benefits, in order to secure the sustainability of their support and thus of the regime itself.



Mazzucato (2013):

- only a developmental (entrepreneurial) state having a clear and well-determined (and well-articulated) developmental vision, can be an equal partner to the private sector, and avoid of getting captured by certain interest groups
- leading, guiding role in the economy,
- symbiotic relationship with the business sphere (while focusing on such activities that are not taken up by the private sector because this latter is too short-termist and risk-averse)

New DS shall be characterized by...

- inclusion of wider sections of the society
- new networks of state and society based on social participation, deliberation and consensus
- a new – inclusive – social contract

Evans (2014)

- most groups of the society share the common interest of expanding human choices and capabilities, the only task of new DS governments is to raise the public awareness on these issues and build up support for related investment decisions

Institutionalization, the process and quality of policy-making

- primacy of pragmatic approach, trial and error principle, “learning-by-doing” process

Andrews et al. (2013)

- problem-driven iterative adaptation (PDIA)

Fosu (2013)

- both orthodox and heterodox policies might be successful
 - but the latter builds upon a broader set of active state interventions, and requires a much more capable government with a much higher quality public bureaucracy

The content of related public policies

- development strategies are environment-specific, and are valid in time and space
- still some guiding principles, a package of economic policies as a general compass if applied flexibly, adapted to local conditions and circumstances
 - financing development and macroeconomic policies
 - human development and social policies
 - actively promoting economic growth
 - outward orientation
 - public sector reform

Macroeconomic policies and financing development

- classic (NEA) DS – different context of financing development
- new DS – much narrower room for maneuver to finance their (much broader) economic growth (development) agenda
- financial globalization → macroeconomic stability becomes central
- role of domestic resources
 - ▣ incentives for domestic savings,
 - ▣ rationalization of government expenditures,
 - ▣ system of national taxes and the government's abilities to collect taxes
 - ▣ innovative forms of financing development

Social policies and investments aiming at expanding human capabilities

- human capabilities became the main driving forces behind development
 - investments in expanding human capabilities remains below the socially optimal level due to the market logic
 - Evans (2014:230): “public investment is the only plausible route to optimal levels of investment in human capabilities”
- **1. raison d'être** of the twenty-first century's developmental state

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- provision of services related to health and education – traditional tasks of the state

Evans (2014) and Mazzucato (2013)

- effective and „aggressive” delivery of capability-expanding services and investments
- shall be at the top of the growth (development) strategy
- public awareness on their immediate distributional and welfare effects has to be raised
- productive inclusion approach
 - Mkandawire (2007) transformative social policies

Actively promoting economic growth: infra-structural investments and industrial policy

- balancing between human and traditional (such as physical, economic and legal) infrastructural investments → improving complementary business environment (and incentives for the relatively mobile human capital to stay)
- „new-old” industrial policy has come back to the development agenda but mainly in the form of science, technological and innovation (STI) policy

- new technologies and the most recent economic structural change → certain stages of industrial modernization can be leapfrogged
- Wade (2014): price changes on the market facilitate gradual, step-by-step development, and might impede larger changes → active state interventions are needed to overcome such traps

→ **2. raison d'être** of the twenty-first century's developmental state

Outward orientation

Fosu (2013)


- outward orientation hand in hand with increasing competition in the domestic market → *building domestic institutional capabilities*
 - ▣ improving macroeconomic stability
 - ▣ strengthening institutional and human infrastructures
 - ▣ economic diversification (and also export diversification – products and markets)
 - ▣ domestic market development

Public sector reform

- appreciation of the role of the capabilities and capacities of *political institutions* to effectively define developmental goals
- new type, bottom up relationship between the state and society
- classic DS: meritocratic, well-educated, competent, well-paid and from political power relatively insulated (but still embedded) bureaucracy (Evans, 1995) - still valid
- new DS: not only technocratic, but also more political qualities
 - to collect, screen and process information in the knowledge economy and society
 - to define collective objectives on a participatory and consultative manner and to reorganize the relations with the business and civil sector

Mazzucato (2013)

- the public sector should not be regarded as the social version or imitator of the private sector
- a proactive (development-oriented) state with entrepreneurial qualities
- new-type cooperative relations between the public and private sector
- the *expected returns* to the state, the *scale of reward* justified by the state interventions is a central issue for all 'to-be-developmental states' to be able to finance their development-oriented activities

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- aggressive, effective and entrepreneurial public institutions are able to secure the optimal level of investments for human capability expansion and to insure the spread of information and knowledge
 - need for DS in the 21st century

Conclusions

- new analytical structure for developmental states
 - ▣ political power structure, political settlements and socio-economic alliances
 - ▣ economic and political institutions
 - ▣ economic policy mix
- some new insights for a new DS concept in the 21st century
 - ▣ state and the market
 - ▣ state and the society
 - ▣ state and the rest of the world



Thank you for your kind attention!

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