PANOECONOMICUS, 2014, 4, pp. 517-526
Received: 04 June 2014. Book review

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The End of the Developmental State?

edited by **Michelle Williams**

Routledge, 2014.

Is it the end for the developmental state? One can take several positions to answer this question, ranging from the extreme market economy perspective to the extreme developmental state one. Each of these stances has its nuanced understanding of the issue and envisages a different type of balance between the state and the market in enhancing development.

The edited volume of *The End of the Developmental State?* speaks to this broad literature. The book brings together ten influential scholars to examine the relevance of the developmental state in the twenty-first century. The chapters cover South Korea, Taiwan, Ireland, the United Kingdom, China, South Africa, Brazil and India and evaluate them from various angles.

The editor of the volume, Michelle Williams, illustrates the main propositions of the book in the introduction and explores them in the opening chapter. The book has at least three substantial arguments at the broad level, all of which are explicitly stated and elaborated by Williams.

The fundamental message of the book is that it is *not* the end of the developmental state. It still plays a crucial role in enhancing development. However, the goals of development and the capacities that states need to develop have shifted considerably as the developmental states have to account for the constantly evolving socio-economic conditions. In this regard, being one of the most important arguments of the book, Williams demonstrates the new facet of the twenty-first century developmental state by referring to the four new conditions that it has to face: economic restructuring, domestic politics, epistemic shifts and ecological limits.

Economic restructuring refers to the structural change from manufacturing to knowledge and the service sector. The economic structure with reference to which the classical developmental state writers (Alexander Gerschenkron, Alice Amsden, Chalmers Johnson and Peter Evans) conceptualized their arguments has evolved and there is a need for a new conceptualization of the developmental state. The states have new roles in the knowledge economy, as knowledge is a commodity that has its peculiar traits defying the normal workings of market mechanisms.

Domestic politics, as a new condition, captures democratization and questions the connection between authoritarianism, democracy and the developmental state. Being one of their distinguished characteristics, twentieth-century developmental states operated within a political system where the executive was able to take the initiative over the legislative and judiciary. They also had "embedded autonomy", an alliance between political and economic elites. However, development brought about demands for democratic participation. These demands, in turn, called for an "expanded embeddedness" on the part of the developmental state. The previously excluded civil society has become crucial in state-society relations. As the chapters demonstrate: "the relationship between the type of political regime and the developmental state is complex and multifaceted" (p. 17). Contrary to stances that see autocracy as the only form of system in which developmental states can function, democracy and the developmental state can be complementary.

The third condition, epistemic shifts, refers to the broad understanding of development in the twenty-first century. Contrary to the narrow, growth-oriented perspective of the previous century, the new agenda puts much emphasis on human development, social justice, rule of law and poverty and inequality.

The last condition, ecological limits, effectively attracts our attention to sustainable growth. Today, we are in a position where we should take environmental problems seriously and worry about the very sustainability of life on earth. Problems of oil shortages, destructive levels of pollution, climate change, etc. should all be taken into account.

The four new dimensions of the developmental state being the first one; the second substantial argument of the book concerns methodology. As Williams indicates: "the diverse perspectives … in [the] volume demonstrate that the era of models of state action and structures is over and that new forms of country-specific developmental states must be forged" (p. xxi). Accordingly: "the plurality of views represented in [the] volume … sets it apart from earlier writings on the developmental state that sought to define models to emulate" (p. 2).

The third argument is somewhat unexpected: the developmental state is not only a subject-matter for the developing world, but also a concern for the developed one. Concerning the fact that many scholars even question the relevance of the developmental state for the developing world today, this counter claim is interesting.

The four conditions that are said to transform the developmental state opens up new research agenda within development economics as the chapters illustrate. The chapter by Vivek Chibber emphasizes the role of business in a developmentalist project in the context of South Korea and India. The chapters by Seán Ó Riain and Jenn-Hwan Wang take up the issue of economic restructuring in Ireland and Taiwan, respectively. Ching-Kwan Lee investigates the "hybrid" development path of China. The subsequent two chapters by Vishwas Satgar and Barbara Harriss-White focus on the ecological dimension, in the context of South Africa and the United Kingdom, respectively. Celia Lessa Kerstenetzky elaborates the "social developmental state" of Brazil and Thomas Isaac investigates "politics of democratic decentralization" in Kerala. The last chapter by Peter Evans provides a broad evaluation of the twenty-first century developmental state. Besides their main focuses, the chapters also touch upon the other new dimensions of the developmental state.

Chibber raises the broad question why some nations managed to build successful developmental states in the twentieth-century while some others failed. Then, he compares the South Korean and Indian experiences to provide an answer. For

Chibber, one of the peculiar traits of the twentieth-century developmental state was its use of subsidies as a tool to discipline capital. What made the difference in terms of success was the way that subsidies were used: as gifts or as contracts. In the former case, once subsidies were appropriated, industrialists defied the broad development agenda to pursue their private interests. In the latter case, they used subsidies by also following the broad agenda. While India was an example of subsidies-as-gifts state, South Korea was an example of subsidies-as-contracts state.

Why did South Korea manage to use subsides-as-contracts, whereas in India they were utilized as gifts? Chibber firstly puts forward the common answer in literature. South Korea had the necessary institutional infrastructure (extractive capacity, bureaucratic integrity, etc.) on top of which subsidies were used in an efficient manner. The Indian developmental state lacked these institutions. For Chibber, this explanation misses one important dimension: business. In general, politicians and bureaucrats are the ones to blame in a failed attempt at building a developmental state. However, one should also take interests and motivations of business into account as: "businessmen's support for state involvement in industrialization did not necessarily extend to the full gamut of planners' ambitions" (p. 36). Chibber elaborates this dimension with reference to the two sides of state intervention: subsidy and discipline. As he elaborates, subsidies are "double edge swords" for capitalists. Disciplining of capital and subsidies increase profitability, but loss of freedom on investment decisions and potential dangers of over-obedience to state motivate capitalists to resist central planning goals. As Chibber puts forward, it was rational for capitalists in South Korea to "obey" a strong state that provided the required support to compete in the world market. In India, however, capitalists undermined state power in the absence of a rational motivation to "obey".

In this background, the key lesson is: "in a developmentalist project, the national bourgeoisie is not necessarily a stable partner for state-led industrialization" (p. 45). Chibber underlines the need for mechanisms where firms perceive state support as a precondition for their success. Two possible strategies are put forward: state-capital alliance based on competition in export markets and in domestic markets.

With his emphasis on business, Chibber follows a line of literature that reminds us that state structure is not the only variable that affects the outcome. Be that as it may, there are some questions that have to be answered in a more detailed way if we are to be convinced that it was business' motivation that made the difference between South Korea and India. As Chibber highlights, it was rational for capitalists in South Korea to give up their autonomy *under the conditions of export orientation*. But why did capitalists not resist export orientation to begin with? Wouldn't it be rational for them to opt for an easier strategy and turn their attention to the domestic market? Once there is export orientation, Chibber's explanation is reasonable. But how come South Korea managed to launch export orientation? Likewise, would it alter the choices of capitalists in India if the Indian state were to impose export orientation at the initial stages of import substitution industrialization? Would that be enough on its own to discipline capital to compensate the weaknesses of Indian developmental state? These are some questions that can be taken up based on the fruitful analysis of Chibber.

Chibber also invites us to consider a broad research question that might be approached from various different angles: under which conditions do business resist to the broad developmental state agenda? Following Jeffry A. Frieden (1991), one way of answering this question is to take capital as a heterogeneous entity and add one more dimension to the analysis that affects capital's preferences: intensity of labor conflict. In a nutshell, while fixed-asset-owners are more inclined to press for interventionist policies, liquid-asset-owners are more likely to demand free-market ones. Both capitalists tend to give more autonomy to government if capital-labor relations are intense. This kind of an approach can open up new research avenues.

In his chapter, Riain takes up the issue of economic restructuring and focuses on the Irish developmental network state (DNS). For Riain, the developmental state is crucial as it not only plays a central role in transforming the individual and collective capabilities of society, but it also promotes markets by supporting the actors and penetrating into areas where the market fails to foster capability upgrading.

Riain perceives Amartya Sen's capabilities approach as a good starting point of analysis. Then, Riain suggests extending Sen's approach in two directions: (i) "include not only capabilities of individuals that are constituted and supported by social institutions … but also capabilities that are themselves intrinsically social; (ii) place greater emphasis on the role of the broader political-economic conditions within which capabilities can be created, mobilized, rewarded and reproduced" (p. 56). As Riain demonstrates, building of a developmental state, which in turn enhances capabilities, is not a technical but a social and political issue.

Having adopted this kind of a stance, Riain elaborates on the rise and demise of DNS in Ireland in the post-1990 era. In a nutshell, DNS emerged in the 1990s in a network of semiautonomous development agencies. These agencies gained power in the aftermath of the 1980s crisis, which created opportunities for institutional change. They turned their attention on indigenous development (active industrial policy, national innovation system, etc.) under favorable circumstances (EU research programs, heavy government investment in education, etc.).

However, in the absence of a political coalition that is broad enough to sustain and institutionalize the semiautonomous-agency-oriented development project, DNS came to a halt. Over the 2000s, the structure of state support changed from public supports for diverse research activity to more hierarchical discipline. Moreover, DNS had further been undermined as government put more emphasis on marketization.

Overall, Riain's chapter is an analysis of institutional change. Although Riain does not link his investigation to theories of institutional change, this kind of a link can be established. For instance, Riain's elaboration provides support for Bruno Amable's argument on the pace of change: "the areas where institutional change will be implemented more easily are those where the dominant bloc has little interest", Bruno Amable (2003, p. 11). As Riain illustrates, the functions of DNS: "were enabled by emerging semiautonomous institutional spaces where private capital and party politicians were often disinterested and resources were often found from external resources, in particular the EU" (p. 81). However: "as science and innovation came to the center of government policy, [over the 2000s] the FDI model was transposed to science and research policy and the network of institutions that had supported innovation in the 1990s was once again marginalized" (pp. 70-71). From this perspective, Riain's chapter is interesting for those who are interested in institutional change.

Wang focuses on Taiwan and furthers the issue of economic restructuring. The chapter investigates the transformation of the Taiwanese developmental state in supporting biotechnology industry in general and biopharmaceutical industry in particular. Like Riain, one of Wang's fundamental messages is that it is not authoritarian leadership but the networking power of the state that enhances its ability to steer the economy.

Wang outlines two major factors that influenced the success of the Taiwanese state in supporting the biopharmaceutical industry. On the one hand, the structure of the global pharmaceutical industry affected the policy options that the state had at its disposal. While previously the pharmaceutical industry was vertically integrated; firms had to take part in all stages of new drug development, this structure changed since 1990s as the overall process diversified into segments and many parts of it became available for outsourcing.

On the other hand, the type of intervention also determined the effectiveness of the Taiwanese state in developing the biopharmaceutical industry. The top-down approach of the 1980s, where the state decided the policy, allocated the resources, etc. failed. This agenda was too much for the state as it did not have frontier knowledge and did not have the option of winner-picking as there were no winners to pick from. In the post-1995 period, however, the state shifted its role from being a leader in the industry to being a network builder. It brought together various actors of the industry and supported them in a complementary fashion. Contrary to the top-down agenda, this approach paid off.

Why did the state change its stance? The answer is the democratization process. Both lawmakers' activity and localities' resistance to the central state's agenda reduced the leadership role of planning agencies. Although the process damaged industry's progress somewhat (lack of policy consistency / coordination), scientists' networks and efforts pushed the state to pursue effective policies. Moreover, the regime change along the process also contributed to the shift in the state's stance.

Wang's article is especially interesting for who are interested in global value chains. The chapter shows how structural changes in global value chains can create opportunities for developmental states, which can exploit these opportunities by striking the right balance between the state and the market.

Lee focuses on China. As Lee demonstrates, neither developmental state, nor neoliberal models can adequately explain the "hybrid" development path of the country. The former falls short as the developmentalist attitude of the state was mostly a mirage. The projects that led some to label China a developmentalist state were mostly exercises of rent distribution and the Chinese state did not have "embedded autonomy" to direct development. Moreover, the role of "township and village enterprises" has mostly been exaggerated. As a consequence: "state authoritarianism and robust economic growth do not add up to a developmental state in China" (p. 108).

As Lee puts forward, neoliberal explanations touched upon rural decollectivization, privatization of state industries, fiscal decentralization, commodification of welfare services, creation of labor market, etc. However, they miss one important dimension: China has not privatized land ownership. Furthermore, these explanations did not take the political realm into account. Consequently, they failed to provide a comprehensive investigation of the Chinese political economy.

To go beyond the developmentalist and neoclassical arguments, Lee convincingly turns her attention to "politics of development". Lee defines politics as: "contestations among the elites at the top, between the central and local governments, between the state and different social classes, and the backlashes from society in the forms of popular resistance and claims-making activism" (p. 103). Then, Lee elaborates the three reform periods in China since the 1980s and concludes that the Chinese experience with capitalism: "involves a layered mixture of accumulation strategies by the state, which at times has liberalized targeted sectors while tightening state control on others, and initiated policies that bankrupt the countryside and dispossess workers in one period but boost famers' and laborers' consumption power in another" (pp. 103-104).

Alongside scholars who are interested in China, elite theory scholars will also find Lee's chapter intriguing. For instance, Lee's focus on social movements as a factor influencing "politics of development" resonates very well with new elite theory (Lowell G. Field, John Higley, and Michael G. Burton 1990), which aims to conceptualize the role of mass support in elite-mass publics relationship.

By having adopted an international political economy (IPE) perspective, Satgar demonstrates the limits of the twenty-first century developmental state by focusing on the South African emergent "green developmental state". As Satgar puts forward, an IPE approach can help us to go beyond the classical developmental state paradigm by paying attention to the impact of global restructuring on national state forms and to the ecological limits of catching-up industrialization.

As Satgar demonstrates, South Africa is one of the very first countries to adopt a green economy discourse. This is evident in the various programs of governmental agencies. However, the discourse is acquired within the international power structure. As: "green capitalism is shot through with the destructive principles of neoliberalism", "South Africa's green developmental state is structurally locked into a globalized developmental path and unwilling to consider the deeper ecological commitments required to achieve a genuinely green society and state" (pp. 133-137). The coal-fired energy path is maintained and minor progress is achieved in renewable energy.

Harriss-White also focuses on the ecological dimension, but this time in the context of a developed country; the United Kingdom. As put forward, the United Kingdom is an exemplar country with its engagement with neoliberalism; an experience that is being forced upon other countries and several lessons can be derived from a "neoliberal" state experience, in terms of transition to a developmental state.

The main argument of the chapter is that: "obstacles caused by market-driven politics block the coordination and implementation of developmental models that will be necessary to address climate change in the public interest" (p. 157). Markets are defined as: "arenas of power with their own distinctive kinds of politics that involve and penetrate the state" (p. 159). Five dimensions of politics are associated with markets, interactions of which are said to generate a complexity that reveals the peculiar institutional traits of markets: direct state participation, market regulation, institutional structure and organization, collective action and social embeddedness.

As Harriss-White elaborates, continual re-labeling and re-scoping of departments, creation of new departments and regular deployment of expert civil servants led to learning costs and loss of institutional memory in the British state. Moreover, bureaucratic capacity is weakened by conflicts of interest. Thus, the British state does not have the core traits of a developmental state in energy governance.

As Harriss-White demonstrates, there is a need for enforced regulations, financial instruments (carbon tax and disincentives on carbon emission), increase in carbon price to reflect social cost (20 to 50 times) and infrastructure investment. More broadly, there is a need to foster public discussion on crucial matters, like fiscal reform. The public discussion is also necessary to legitimize the required state autonomy. Moreover, there is a need for just distribution of costs, associated with impacts of waste gas and materials.

The chapter also touches upon the issue of democracy. As Harriss-White claims, open processes (funding of political parties, publicly acknowledged sponsorship of think-tank reports, etc.) and hidden processes (revolving door between party politics and industrial interests, etc.) undermine the developmental state. As concluded: "'hidden' politics that are market-driven rather than state-driven, are serious threat to open, formally democratic politics" (p. 165).

The chapter by Kerstenetzky focuses on the "Brazilian social developmental state". As Kerstenetzky demonstrates, 2000s have been the years of "redistributive growth", where a pro-poor development agenda is pursued - decent rates of growth and employment, rising average earnings, more formal employment and greater social protection for the population, less inequality in income and wages, reduction in poverty and improved social indicators.

One of Kerstenetzky's crucial claims is that both the developmentalist agenda and market-dominated development model failed on their own in the pre-2000 period. In the former case, the state was captured by influential economic groups, some section of civil servants enjoyed differential protection and the system was inefficient in delivering various services. In the latter case, the: "public agenda's capture by large economic interests and (market) inefficiencies were reintroduced by the back door" (p. 178). Fear of losing market confidence influenced public agenda and led to the state's refraining from essential developmental activities. Having revisited the capabilities approach, Kerstenetzky further elaborates the two models' failure in delivering growth and equity at the same time. Then, she evaluates how the social development model achieved redistributive growth: emphasis on labor market policy, expansion of social programs and adequate state capacity.

As Kerstenetzky elaborates, the social development model is not yet complete. For instance, limited progress in social services and highly selective income transfer programs maintain the segmentation of social opportunities. Moreover, social and political inequalities can still hinder adequate deliberation and participation that is needed for the vitality of "expanded embeddedness" and necessary policies' implementation (such as progressive taxation and effective social programs).

Kerstenetzky underlines the role of the democratization process in the attainment of the redistributive growth in Brazil. For Kerstenetzky, the 1988 Constitution was remarkably progressive, reflecting the long-repressed demand for social and political changes in Brazil. The Constitution not only put emphasis on guaranteeing social rights and democratizing public policies, but also: "accompanied by greater financial commitments from the central and subnational governments to public policies and by increased participation by interest groups under the regulatory umbrella of the central government" (p. 174). Thus, "expanded autonomy" was achieved in a positive way.

By having visited the Kerala experience, one of the southern states in India, Isaac focuses on: "politics of democratic decentralization and the developmental state". As noted, democratic decentralization (empowering of local governments), increases petty production sectors' productivity and services' delivery, fosters participation and reduces corruption, etc.

Isaac focuses on Kerala as the state defies the well-known development paths of the East Asian countries and the Indian developmental state. Kerala is an: "extreme case of the failure of the Indian developmental state during the ISI phase" (p. 200), with its inferior industrialization performance. However, the government managed to achieve astonishing levels of human development *via* intervention, as it prioritized its citizens' needs while aiming for economic growth. In a nutshell, the redistributive development strategy included land reform, extension of credit to rural areas, investments in social infrastructure and expansion of social security system coverage. Kerala is a counter example to the mainstream perspective of development, as high levels of quality of life was achieved despite low levels of income.

Isaac also underlines the problems that have to be dealt with to complete the transition to a new development path. In brief, while traditional sectors have to be protected, as a significant part of the population is employed in these sectors, new growth sectors (knowledge, service and skill-based industries) have to be promoted as Kerala has comparative advantage in these, thanks to its highly-skilled labor force. Moreover, the state has to invest in infrastructure and find create ways to raise financial resources. Lastly, all of these undertakings have to be pursued under external limitations; within a federal neoliberal framework and under global market pressures.

As Isaac elaborates, Kerala is the ideal place to launch participatory democracy due to its widespread literacy and associational life. Powerful class and mass organizations enhance local democracy. It is due to these traits that democratic decentralization and "expanded embeddedness" is successfully pursued. In this respect, the Kerala experience shows how "coordinated-market-economy" (CME) type relationships can be fostered by state-hand, which is a rather unexpected situation. As Peter A. Hall and David Soskice (2001) claim, CME's institutional structure evolves over time, which brings with it a certain common cultural understanding. All actors reflexively inherit the common knowledge; informal by virtue of its nature. Therefore, without the prior existence of the common knowledge, the institutional structure of CMEs cannot be launched. The Kerala experience confirms this argument. What might be interesting, however, is that it indicates how the state can actively foster coordination when the traditional mode of development is reversed (first human development, then economic growth). It is true that Kerala also had strong mass organizations beforehand to enhance coordination. However, it is still interesting to see how a reversed development pattern might be utilized by state to foster coordination among actors.

In the final chapter, Evans broadly outlines the advances in development economics, in relation to their effects on the developmental state. As Evans elaborates, understanding of the developmental state has changed as development theory and the historical context of development has changed. Evans argues quite confidently: "if state transformation depended only on the logic of theory and maximizing the opportunities available in new historical circumstances, capability-expanding twenty-first century states would be springing up around the world" (p. 235). This statement is mostly based on new growth theory, institutional approaches to growth and capabilities approach. In a nutshell, after providing the traits of the knowledge economy, Evans elaborates how investment in human capital and quality of institutions provides the basis of development in the twenty-first century. On the one hand, socio-economic transformations depend on the generation of intangible assets (ideas, skills and networks), rather than investments in tangible goods (physical assets). This immediately reveals the significance of human capital. On the other hand, development depends on the quality of institutions, which are needed to set collective goals, provide collective goods and sustain general rules and norms.

In this background, Evans highlights the ever increasing importance of "expanded embeddedness". To be able to actualize the above agenda, the twenty-first century developmental state has to go beyond the twentieth-century one, where civil society as a whole was excluded from the process of "state-society synergy".

What are the real prospects of building the twenty-first century developmental state? By having underlined the political obstacles and global power politics that may hinder the emergence and development of the twenty-first century developmental state, Evans concludes that: "no state is likely to fully achieve the level of transformation required to become a twenty-first century developmental state … partial accomplishments are the most that can be expected in a reasonable time frame" (p. 236).

The End of the Developmental State? is a must-read for the students of political economy in general and development economics in particular. The book demonstrates the relevance of the developmental state for the contemporary political economy, by contextualizing it in the evolved socio-economic conditions of the twenty-first century. The chapters undertake in-depth analysis of the cases at hand and offer valuable ideas and insights for further research.

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