

The Minimalist State or the Developmental State?

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Feature

What does a state do? What should a state do? Our answer to the second question very much depends on our answer to the first. Our answers also depend on our further assessment of the consequences of the different patterns of functioning of states. States, being human institutions, have been moulded by the particular ways in which human beings have sought to construct them.

Our answer to the 'should' question has been that states should prevent the eruption and persistence of war of man against man. I am stressing here 'man' because most of the authoritative conceptualisations of the emergence or necessity of a state have been male-centred. But whether or not we take violent strife to be primarily a male preoccupation, all will agree that the prevention of civil strife is a minimal state function. Suppose we define the conception of a minimalist state to be the preservation of 'law and order' in society, and nothing more. Does that characterisation give us enough information even about a minimalist state? Does such a state simply rely on instruments of coercion for preserving law and order?

In fact, a credible minimalist state even in this sense has to rely on the consent of the ruled, a consent which arises out of fear but also out of respect. A minimalist state often builds on the foundations of a developmental state, a state which has helped in the building up of the standard of living of the people, including their health and education through interventionist policies. A minimalist state without such functions is likely to be faced with civil strife which may break out into secessionism and terrorism.

Such strife may also break out when a developmental state abandons its agenda midway and switches over to a minimalist stance without building up the resources of a substantial section of the people to continue on their expected trajectory of human development.

Defining the contours of a developmental state can be a difficult task, because the tasks of development have been varied over time and space. I have attempted to provide a brief sketch of some major developmental states and failed developmental states in history (Bagchi, 2000). For that purpose, I sketched its contours as follows:

It is a state that puts economic development as the top priority of governmental policy and is able to design effective instruments to promote such a goal. The instruments would include the forging of new formal institutions, the weaving of formal and informal networks of collaboration among the citizens and officials, and utilising new opportunities for trade and profitable production. Whether the state governs the market or exploits new opportunities thrown up by the market depends on particular historical conjunctures. One feature of a successful developmental state is its ability to switch gears from market-directed to state-directed growth or vice versa, depending on geopolitical circumstances, and combine both market and state-direction in a synergistic manner, when opportunity beckons.

Thus the degree and the nature of involvement of a developmental state in economic activity are likely to vary over time, and neither undiluted statism nor a dogmatic commitment to the free market is likely to characterise a suc-

cessful developmental state (Bagchi, 2000, 298-9).

This formulation should make it clear that a developmental state is not an autarchic state by design. However, autarchy and selective de-linking from foreign countries may be forced on the state by geopolitical circumstances. The People's Republic of China until the late 1970s followed a largely autarchic policy because of economic blockade by Western powers (and the Soviet Union as well, after the Sino-Soviet rift of 1960). But the leadership strategically used Hong Kong as a window on the rest of the world. 'A successful developmental state encourages learning from foreigners, adaptation of technologies and organisations to local conditions and introduction of productive innovations' (ibid., p.417).

The foundations of a developmental state

A developmental state aims at improving the rate of economic growth. For an economy which has most of its population engaged in the primary sector, this almost automatically means industrialisation, that is, increasing the share of secondary industry in national income and employment. But this does not imply always increasing the share of large-scale industry in employment or national income.

For, a society starting from low levels of per capita income, nutrition, etc., the instruments of rapid economic growth have to be those that raise levels of human development of ordinary people. That means that the levels of nutrition, health, longevity, education and engagement in socially recognised, and in a market economy, remunerated, work have to go up. That means also that people should be reasonably free to choose their occupation and should be reasonably able to exercise that choice. To use a contrast favoured by Amartya Sen, before everybody can pursue freedom as a constitutive element in their well-being, freedom has to be

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embedded as an instrumentality in their lives. This also implies that people's lives are not bounded by the exercise of coercive power by private individuals or corporate bodies. That is to say, landlordism of individuals, families, caste groups or corporate bodies has to vanish. This necessarily means the abolition of individual, familial, corporate, or clanor caste-based serfdom in a society. So in a modern society, pro-peasant, thoroughgoing land reforms are a necessary condition for the institution of a developmental state.

A second condition for the emergence of a developmental state is that it should universalize education. That is to say, it has to provide elementary education to everybody, and recognise learning as every child's right. It should also keep doors open for children so willing to go on to higher studies in technology, medicine, sciences and the arts. These ladders at higher levels should be connected to actual productive work whenever that is feasible. Thus learning how to go on learning in actual pursuits of life should also be a part of the instituted educational system. The German educational system perhaps best exemplifies the kind of system. I have in mind, and in some ways, the Japanese have also instituted a system with similar attributes. One of the major failures of educational systems constructed in ex-colonies in imitation of the systems of the imperialist powers is the lack of provision for osmosis between factories, farms and laboratories, and between shop-floors and class rooms. Learning as an activity to be enjoyed can only be sustained if learning can be shown to be an effective agent of that sustenance.

A third foundation for a developmental state is a sense of social solidarity which goes beyond the family, the caste, the clan, or the community of religious affiliation. This overarching sense of social solidarity has been styled as nationalism, but not all streams of nationalism yield that ac-

tive sense of social solidarity, that stitching in the sense of a collective good in the conceptualisation of a good life in the average citizen's consciousness. I know that I am treading on a mine-filled ground when I talk about such things. Nationalism has often meant the adulation of a sense of superiority based on a racist or a sectarian ideology, and a fantasized history. But in actual history of successful development, sectarian ideology has yielded to a reasoned and then deeply ingrained feeling of tolerance as both an instrument for bringing everybody under the umbrella of solidary consciousness and as a value-yielding attribute in itself. Value is attached to diversity since it allows the collective consciousness in its full pageantry of variations in religious feeling, cultural practices, and literacy and linguistic traditions. Market processes all the time involve competitiveness, rivalry and the potential for inflicting uncompensated external costs on others. The solidary consciousness is a way of mitigating these conflicts, but even more importantly, of signaling of areas in which deliberate laying down of norms or regulation by the state or some other collective organ may be necessary.

Some of the goals of human development for all could hardly be pursued in any country before the second half of the nineteenth century. This applies particularly to nutrition and health. Before the formulation and validation of the germ theory of disease, pure water, or unpolluted air could not be established as a universal good. Even when this knowledge became accessible, the relation between nutrition, absorption and resistance to disease was not well understood. Finally, before the advent of sulphur drugs and antibiotics, allopathic medicine had no proven superiority over many of the traditional cures prescribed in China, South Asia, Iran or the Arab lands. However, even before these tiers of knowledge laid the foundation of western style health care systems, Jennerian vaccination (that derived from variolation practiced by the Turks and other eastern peoples) was adopted as a state-enforced prophylactic against small-pox by England, Sweden, other

west European countries, and by Japan under the late Tokugawa rulers. The motives in many of these cases were not always humanitarian. They stretched from military compulsions such as protecting the health of soldiers, or men of military age to acquiring legitimacy among the ruled by saving their lives. But in the twentieth century, a developmental state was always characterised by the institution of a healthcare system under the auspices of the state, or under a system in which employers looked after most of the needs of health care or old age security. (The latter seems to have been the model prevailing in east Asia outside the People's Republic of China and Vietnam. But even in the latter countries employees of state enterprises enjoy better social security than the other).

The necessity of a framework of decision-making within which conflicting interests are reconciled, and a sectoral and regional focus of investment is provided can be demonstrated examining the elements of what has been called by Lancaster (1973) 'the dynamic inconsistency of capitalism'. Workers and capitalists want a share of the same cake. So at any moment of time, they have directly conflicting interests. However, if capitalists invest a part of the profit in the enterprise and workers wait for that investment to yield higher productivity per person, and/or if that investment leads to more employment, then existing workers and new workers will benefit. We can at once see that here there is a further conflict between more wages for incumbent employees and more employment at the same wage. Now suppose for consideration of higher wages and/or more employment later, workers forego any rise in wages at the moment, and the capitalists reap target profits. The capitalists, however, may not keep their part of the bargain but simply distribute the profit as dividends and consume it or send it away to some other country. An institutional mechanism which may take the form of government supervision or

some other form may be needed to see that the capitalists keep their part of the bargain.

Take now the contrary possibility of a breach of contract or commitment on the workers' part. Capitalists may invest a substantial part of the profits in the enterprise or related enterprises. After the investment has taken place and is looked in, workers insist on taking a larger share of the profits than what would leave the capitalists with a normal rate of profit. In this case, capitalists' propensity to invest further would be affected. Again some kind of social commitment and supervision would be needed to see that capitalists (who may in fact be public enterprises) are remunerated at the normal rate so that growth of productivity and employment is sustained in the long run.

Of course, honouring such commitments would also require designing appropriate norms for the functioning of capitalist institutions. If, for example, owners and managers of enterprises indulge in competitive shelling out of dividends, then commitment given by particular enterprises to reinvest their profits may land them in trouble. This can happen, for example, when enterprises are controlled by family or clan networks, or when the prices of firms are marked up according to the valuation of shares in the equity market, and equities are the main source of financing. If along with such styles of financing of firms, unrestricted mobility of capital between countries is allowed, then it becomes virtually impossible for governments or self-regulating institutions of capitalists and workers to enter into credible commitments and honour them. All this again points to the necessity of an ideology of collective solidarity pervading a people inhabiting a well-defined territory and governed by a legitimate state. This kind of solidarity can be described as nationalism, to be distinguished from several other styles of nationalism – especially those which define them-

selves by excluding particular sections of the citizenry of a state.

The elements of the agenda of a developmental state

From the way we have sketched the relevant issues, it should be clear that the agenda of a developmental state will vary from epoch, and from one geopolitical location to another. Let me first state one of the prime requirements for construction of a developmental stage. Such a state or its government cannot be dependent on external aid or inflow of external capital for conducting its basic developmental activities. That means that in the long run, the state must get rid of both a fiscal deficit and a balance of payments deficit. In a world of mobile capital and fragile exchange rates, it must build up a bulwark of foreign exchange reserves that can reasonably insulate it against sudden shocks to its balance of payments.

The states of East Asia, apart from Japan and the People's Republic of China, of course, had tremendous support from flows of external aid, and less importantly, inflows of external capital. Hong Kong and Singapore were city states, and acted more as entrepôts and export platforms than as full-fledged industrialised economies catering to their own needs. These can be treated as special cases and their replicas are unlikely to be found elsewhere. Taiwan and South Korea emerged as major manufacturing economies, and both had received critical inflows of aid from the U.S.A. and other countries of the western block. However, once the Guomindang government of Taiwan realised that the U.S.A. would not support it in its plan to re-conquer mainland China from the communists, it started a programme that would render it independent of American aid. It has succeeded in doing so by the beginning of the 1970s, and it has emerged as a major source of foreign investment for other countries. In the case of South Korea, the transition from dependence on western aid to self-reliance took longer. But by the latter half of the

1980s, it had begun to generate surpluses on its balance of payment account. Some of its *chaebol* had also emerged as significant players in foreign investment flows to other countries. As we shall see, this proved to be one of the major factors behind the Korean financial crisis of 1997 and the twilight of that developmental state.

With the crection of buffers against external shocks, a developmental state can try and stimulate industrial and agricultural growth through measures of public investment in infrastructure, and where private initiative is lacking, through direct state investment, it has, of course, to choose areas of stimulation carefully. It not only has to see that the right technologies are imported at the right prices but that they are absorbed by the domestic players so that they can smoothly move on to later vintages. For this purpose, the state can organise what has been called 'tournaments' and back the winners for effective competition in foreign markets. The institutional structure has to be put in place for allowing a continual learning process to take place. This implies not only that labour has to make sacrifices in the short run in return for gains in the long run but that the owners and managers of firms have also to be disciplined. They have to pay their taxes so as to avoid fiscal deficits in normal times, they have to use loans for the purposes stated, and they have to regularly service those loans. They also have to respect their commitments with respect to exports and absorption of imported technology.

Since many areas of operation and technology are characterised by significant economies of scale, it is much easier for a developmental state to stimulate human development and economic growth in a large economy than a small one. However, the examples of, say, Sweden or Denmark in western Europe and Taiwan in East Asia demonstrate that small econo-

mies can emerge as successful industrialisers and developers of the human capabilities under favourable circumstances. In all these cases, the foundations of a developmental state had been laid before accelerated economic growth began and economic growth itself strengthened those foundations. But there is little doubt that latching on to the expanding markets provided by Britain and later, France, Germany and the U.S.A. helped economic growth in Scandinavia, and from the later part of the nineteenth century, mass migration to the U.S.A. helped raise the standards of living in those countries (Senghaass, 1985; Massey, 1988). Similarly, Taiwan and South Korea benefited from a much freer access to the markets of the OECD countries, and later on, the ASEAN economies that was enjoyed by most other developing countries. However, the enormous increase in the infra-regional trade in East and South-east Asia as contrasted with sluggish movements of infra-regional trade among the SAARC countries indicates that the pursuit of infra-regional integration can benefit both small and large countries aiming to emerge as successful developmental states.

Can developmental states survive?

There are a number of factors which can damage the continuance of the developmental activities of the state which had been pursuing them so far. Some of these are endogenous, and some exogenous. First, the social pact between capitalists and workers may break down if either side feels that the other party is grabbing too much of the cake. Historically, this has happened more on the capitalists' side than on the workers'. The main reasons for this are that the number of developmental states has always been a minority. Aggrieved capitalists may feel that they will do better in the long run by breaking the pact, and beating the workers' challenge than by sticking to the social bargain. They may move to countries or regions where

workers' wages are lower and/or they do not enjoy as much freedom of bargaining. The capitalists are in a better position to do it than workers anyway because under the capitalist order, capital has generally been licensed to move freely but not workers. This strategy succeeds better in countries in which the shareholders' stake overrides everybody else's, that is, in countries with the Jensen-Meckling structure of firms such as the U.S.A. and the U.K. (Bagchi, 1997).

Secondly, a successful developmental state may give rise to finance capital, by generating a high level of surplus and concentrating it in a few hands. This can lead to a situation in which financiers perceive better profit opportunities in the business of making foreign loans and financing operations of governments rather than of productive enterprises at home. This tendency will, of course, become stronger in two rather contradictory situations: the real wages in sectors generating the staple exports of the country may be high in comparison with those prevailing in competing countries. In that case capitalists expect to make higher profits by moving their operations abroad. Contrariwise, if owing to various social and regional factors, major sectors of the population (such as agricultural labourers in Victorian England) remain locked inflow incomes, and the domestic demand growth remains sluggish, then investor confidence in the economy may suffer, and capital seeks outlets overseas.

If a developmental state, fails to discipline the capitalists and managers, and runs up large fiscal and balance of payments deficits it will be subjected to demands by foreign creditors to dismantle the buffers protecting domestic production and learning processes. Some of the would-be developmental states such as Brazil and India have undergone such externally imposed (but also supported internally by dominant sections of the ruling class) adjustment, and developmental states are there only as ghosts to haunt the memories of analysis.

Troubles of developmental states in difficulty cannot be neatly separated into endogenous and exogenous factors. This is best seen in the case of South Korea. The South Korean economy was generating balance of payments surpluses by the late 1980s, and there was a significant flow outward of foreign investment from that country. The government also generated decent surpluses in the budget. Many of the controls such as those on inward investment by foreign enterprises, and on borrowing or foreign investment by domestic firms remained. However, from 1993 most of these controls began to be dismantled. There was pressure from the U.S.A. the biggest trading partner and the guarantor of the military security of South Korea. The *chaebol* wanted a freer hand to borrow and invest abroad. The intended host governments in turn demanded that foreign capital should be allowed to enter the Korean economy and operate in the Korean stock markets more freely. Finally, the South Korean government wanted the country to join the rich country's club of OECD. These factors together ultimately led to the removal of capital account convertibility and a rather badly regulated borrowing spree by South Korean enterprises from foreign sources. Then there was a major slowdown in 1996 of the market for semiconductors, which had emerged as a major export from South Korea. All these factors combined to cause the financial crisis of 1997. It has been suggested by some analysis (such as James Crotty) that the meek acceptance by South Korea of the IMF conditionalities attached to the bail out package was partly motivated by the desire of the government and the *chaebol* to discipline a work force they deemed to be unreasonably militant. South Korea has recovered smartly, but it will not be a developmental state in a full-fledged sense in the future.

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For a poor country, is there an alternative to a developmental state?

If there were any doubts earlier about the answer to this question, the experience of the 1980s and 1990s has shown that it should be a resounding 'No'. Dismantling the explicit state measures of controls and patronage has not led to a quickening of economic growth or development of human capabilities in any major country. Nor has that dismantling led to the emergence of a less repressive state apparatus or to less rent-seeking by people in positions of vantage. The state has adopted more and more repressive methods to curb mounting popular discontent with unemployment, poverty and displacement. The state apparatus itself has been put up for sale. Whole governments have

mortgaged their future to transnational corporations and banks with the IMF, World Bank and WTO overseeing that the mortgager does not escape from their clutches easily. Corruption has become endemic among the ruling classes of neo liberal regimes. A difficult road back to constructing a socially sustainable developmental state under the umbrella of a more egalitarian international economic order would seem to be the only future promising better things for the poor all over the world.

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