Cambridge Elements

Developmental States

Stephan Haggard

Abstract: *The concept of the developmental state emerged to explain the rapid growth of a number of countries in East Asia in the postwar period. Yet the developmental state literature also offered a theoretical approach to growth that was heterodox with respect to prevailing approaches in both economics and political science. Arguing for the distinctive features of developmental states, its proponents emphasized the role of government intervention and industrial policy as well as the significance of strong states and particular social coalitions. This literature blossomed into a wider approach, firmly planted in a much longer heterodox tradition. Comparative analysis explored the East Asian developmental states to countries that were decidedly not developmentalist, thus contributing to our historical understanding of long-run growth. This Element provides a critical but sympathetic overview of this literature and ends with its revival and a look forward at the possibilities for developmentalist approaches, in both the advanced industrial states and developing world.*

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1 Introduction

The concept of the developmental state entered the social science lexicon at quite a precise point in time: with the publication of Chalmers Johnson's *MITI and the Japanese Miracle* (1982).[1] This magisterial book was agenda-setting, and its insights were quickly extended to understand developments elsewhere in Asia. What might be called the "high" developmental state era encompassed the 1950s and 1960s in Japan and the 1960s and 1970s in Korea and Taiwan. Singapore and even apparently laissez-faire Hong Kong were included in these comparisons as well. Somewhat more cautiously, the concept was deployed to understand Southeast Asian cases such as Thailand and Malaysia in the 1970s and 1980s, although with some significant debate about whether they fit the developmental state model or not.

Yet as will be seen, the developmental state literature widens out in a variety of important ways: to a longer history of heterodox thinking about the role of the state in the development process; to comparisons between countries that grew rapidly and those that didn't; and ultimately to the economics and politics of growth itself. The developmental state concept challenged received wisdom about the appropriate policies for achieving rapid economic growth and the institutions – and politics – for getting there. As a result, the concept has seen a surprising revival. Even if the East Asian growth model appeared *sui generis*, could elements of it be replicated elsewhere? Could states learn to be "developmental" in at least some respects?

Initial proponents of the concept had two intellectual purposes. The first was to challenge orthodox explanations of economic development that focused primarily on market forces. They targeted an emergent body of neoclassical thinking that East Asia's

[1] For other reviews of the developmental state approach, see Öniş 1991; Henderson 1993, Moon and Prasad 1997; Leftwich 1995; Woo-Cumings 1999; Haggard 2004 and 2015; Routley 2012.

growth was caused by the adoption of market-conforming policies, most particularly with respect to the external sector. Johnson's central claim was that Japan's high postwar growth could be traced to industrial policies that differed from both the "plan ideological" systems of state socialism and the "regulatory state" of Anglo-Saxon capitalism. This branch of the research program focused on the relationship between economic policy and growth and attracted the broadest attention because it directly challenged liberal orthodoxy in the academy and development policy community. Led by intellectual outsiders – Chalmers Johnson, Alice Amsden (1989), Robert Wade (White and Wade 1984; Wade 1990/2004), and Ha-Joon Chang (1994) – this line of thinking was picked up by a number of sociologists (Appelebaum and Henderson 1992; Evans 1995) and subsequently adopted by economists with a heterodox bent (Rodrik 1995; Stiglitz 2001).

A second research agenda probed the *political* foundations of rapid growth. Industrial policy in the developing world was ubiquitous, but not ubiquitously successful. What was the political economy of successful industrial policy? And where did the institutions capable of conducting such policies come from in the first place? As with its economic face, the political theory of the developmental state also implicitly challenged an emerging orthodoxy. The developmental state literature took an institutionalist approach to politics, but not one focusing on the rule of law and property rights that characterized the so-called new institutionalist economics, nor on formal political institutions that preoccupied most political scientists. Rather, the initial emphasis was on the autonomy or insulation of the government from rent-seeking private interests, delegation to lead agencies, and coherent bureaucracies.

Johnson was also acutely aware of the centrality of business–government relations to the Japanese model, however. Subsequent contributions by Peter Evans (1989; 1995) and others refocused debate on the social foundations of rapid growth, and particularly the relationship between the state, the private sector, and labor organizations that appeared politically subordinated and tightly controlled.

In addition to these substantive contributions, the methodological approach of the developmental state literature was also distinctive. Components of the developmental state approach have been formalized, including those related to the idea of increasing returns and a variety of market failures and externalities. Efforts have been made to formalize the political economy of successful developmental states as well. There has also been a handful of efforts to test developmental state claims econometrically, either through cross-national quantitative designs or through studies of the effects of intervention on particular industries.

Yet much of the developmental state research agenda – as well as important progenitors – took a comparative historical approach that treated a small number of country and industry cases in great depth. Although Johnson offers a summary statement of the concept of the developmental state in the conclusion to *MITI* (315–324), he saw that effort largely as a characterization of the Japanese case, the elaboration of an historically grounded ideal type. He was cautious about generalization and explicitly warned that while "it may be possible for another state to adopt Japan's priorities and its high-growth system without duplicating Japan's history . . . the dangers of institutional abstraction are as great as the potential advantages" (307). Rather than seeking to isolate the influence of discrete causal variables, Johnson and his followers took an historical and configurational approach to explanation. They showed how some common features of these countries combined to promote economic growth, but left ample room for variation and nuance.

This method was closely related to theoretical priors. A strong theme in Johnson's book is that historical analysis was required because successful strategies only emerged through a process of trial and error and learning by doing that were always to some extent *sui generis*. Alice Amsden (2003), Dani Rodrik (2008), and Peter Evans (2010; Evans and Heller 2015) elevated these observations about learning into a virtual dictum about successful development more generally: that governments, societies, and firms need to learn and expand the capabilities of their citizens and workers in order to grow.

This short introduction to developmental states is divided into four main substantive sections and a brief conclusion. The first looks at progenitors and what Erik Reinert (2007) refers to as "the Other Canon." Although the developmental state concept emerged at a particular time, the underlying ideas associated with it have very much longer lineage. These approaches were grounded in the premise that industrialization in late developers differed fundamentally from the process in first movers, in large part because of the international context. Backwardness dictated that the state would play a quite different role in the growth process, substituting for the weakness of private institutions. Yet despite a number of commonalities in these approaches – foreshadowed in Alexander Gerschenkron's classic "Economic Backwardness in Historical Perspective" – a distinct Japanese tradition of thinking about late development bears close scrutiny as well. Akamatsu Kaname's flying geese theory shared some commonalities with developmentalist thinking elsewhere in the postwar world, but differed in the emphasis it placed on industrializing through exports.

Section 3 looks more closely at the relationship between intervention and growth, considering both Johnson's contribution and the analysis of the other paradigmatic East Asian cases. This discussion situates the developmental state literature in the context of the neoclassical revival in development economics, itself spurred by analysis of the newly industrializing countries of East Asia. An overarching theoretical theme is the idea that growth is hampered by a range of market failures and coordination problems that are only overcome through state action: in moving into new industrial activities, in financial market failures, and in questions surrounding technology transfer, adoption, and learning. A review of some exemplary cases shows clearly that these interventions need to be understood not simply in terms of policies undertaken by a welfare-maximizing state but in terms of institutions that elicited information and permitted coordination between the state and private sector.

Section 4 considers the political economy of developmental states, including the question of their origins. As noted, the developmental states implicitly challenged an existing orthodoxy in political economy. In contrast to the property rights and "rule of law" approach, the developmental state literature emphasized strong – and even authoritarian – executives and coherent, meritocratic, or "Weberian" bureaucracies. Proponents of the developmental state approach gradually widened their purview from institutional factors to the social underpinnings of growth in the close but controlled relations between the state and the private sector and the subordination of labor. These strands of work on the social foundations of the developmental state culminated in a deep historical discussion of origins, including comparisons with states that were decidedly not "developmental." An important feature of this literature was a focus on international context, particularly in providing mechanisms that constrained potentially predatory state elites.

Section 5 looks forward and considers the apparent decline and subsequent rebirth of the developmental state concept. A number of developments in the late twentieth century seemed to fundamentally undercut the classic developmental state model. The first was international. The high-growth Asian countries emerged at a propitious moment, tied by alliances to an American hegemon that was leading a liberalization of the world economy on which they could free ride. Yet the very success of these latecomers triggered the so-called new protectionism and internal as well as external pressures forced them to gradually liberalize. Political change also appeared to undercut the classic developmental state approach. Democratization called into question the autonomy of the state and the close business–government alliances and subordination of labor that constituted the social underpinnings of the model.

Yet developmentalist ideas proved resilient and adaptive, and in the second decade of the twenty-first century the developmental state witnessed a surprising revival. The neoliberal moment of the immediate post–Cold War period did not prove enduring, particularly in the wake of the global financial crisis of 2008. Across the developing world, concerns about premature deindustrialization and broader middle-income traps led to a quest for a new, open-economy industrial policy. The rapid growth of China, Vietnam, and India appeared to usher in a new generation of heterodox success cases. Nor did political change dampen the demand for developmentalist thinking. To the contrary, democratization generated a quest for new growth strategies, and a wide-ranging debate ensued about what a "democratic developmental state" might look like.

In the concluding section, I summarize the enduring contribution of the developmental state approach. The tradition is very much alive because it reflects a persistent, contested, and unresolved debate about the appropriate relationship among states, publics, and markets in the growth process. It is also alive because it reflects a way of thinking about development that retains methodological appeal, namely an approach grounded in comparative historical analysis and an acknowledgment of the enduring variety of capitalist systems.

2 Progenitors and Parallels: The Heterodox Lineage

Although the developmental state literature emerged to explain a very particular problem – the rapid growth of Japan and the newly industrializing countries of Asia – the ideas undergirding the concept have a much longer lineage, and one that is likely to persist. This tradition constitutes an alternative approach to economic growth that is self-consciously opposed to dominant liberal models and favorably disposed to state intervention: in mobilizing savings and investment and in influencing the sectoral allocation of resources through planning, trade, and industrial policies, and strategic use of the financial system.

When did this alternative canon first appear? Some, including particularly Reinert (2007), reach back to very early examples of state support for manufacturing by Europe's absolutist monarchs. However, these appear tied largely to prestige projects and were not linked to what we would now call a growth strategy. Nor is the classic mercantilist system – roughly from 1650 to 1780 – described in such rich detail by Hecksher (1931/1994) – relevant. Early mercantilism referred to the economic-cum-political systems of competing great powers, not latecomers, and predated the spread of the Industrial Revolution and the particular forms of international specialization that accompanied it.

We only see the emergence of developmentalist ideas and practice as defined here in the period of British dominance of the world economy – from the onset of the Industrial Revolution through World War I – and in the interwar period and subsequent rise of American hegemony. Advocacy of support for industry in the context of an emerging international division of labor can be seen quite clearly in Alexander Hamilton's remarkable *Report on Manufactures* (1791/1892) and on the continent in a tradition of German political economy running from Friedrich List's (1841) *National System of Political Economy* to the work of Gustav Schmoller (1884/1902), among others. The problematic was theorized with particular clarity by Gerschenkron (1962) in his essay on "Economic Backwardness in Historical Perspective," which raises many of the fundamental political as well economic issues of late industrialization. Since Gerschenkron is frequently invoked in developmental state work, the essay deserves careful dissection.

2.1 *Gerschenkron on Late Development: The Nineteenth-Century European Experience*

In the preface to *Das Kapital*, Marx defends his focus on England by stating boldly that "the country that is more developed industrially only shows, to the less developed, the image of its own future." Gerschenkron (1962) begged to differ. Industrialization in backward countries and regions "showed considerable differences . . . not only with regard to the speed of development but also with regard to the productive and organizational structures of industry which emerge from those processes" (7).

Gerschenkron followed Veblen's intuitions about the critical role of technology transfer in late industrialization, including with respect to Japan (1915a) and Germany (1915b). He argues that the larger the backlog of technologies that can be absorbed from the industrial leaders, the greater the opportunities for industrialization.[2] Yet many activities based on these technologies, most notably iron and steel production, are characterized by significant economies of scale. Gerschenkron also notes the imperative for latecomers of initiating many lines of economic activity at once due to the existence of complementarities and indivisibilities among them. Moving manufactured goods to market requires railroads, railroads require steel, steel requires coal, and so on. Missing linkages do not simply impose costs; they threaten the entire industrial enterprise.

If "catching up" places particular demands on follower countries, the question turns to the institutions required for overcoming particular barriers to growth: absorbing technologies, realizing economies of scale, and exploiting externalities. Unlike other progenitors – including Hamilton, List, and postwar heterodox accounts – Gerschenkron did not see protectionism as a central feature of European catch-up. Yet he argues that in the absence of industrial banking institutions such as Credit Mobilier in France, capital would not have been mobilized and takeoff would not have occurred. Drawing on the German case, he sees the evolution of distinctive systems of bank–industry relationships – in effect, varieties of capitalism to use a later moniker (Hall and Soskice 2001) – as a direct result of the imperatives of backwardness.

What about the role of the state? Gerschenkron is often misread on this point, as he does not see a strong interventionist state role in the more immediate followers such as Italy, Switzerland, or France. Rather, Gerschenkron argues that the extent of state intervention is correlated with the degree of backwardness. He uses a natural experiment between the more- and less-developed western and eastern parts of the Austro-Hungarian empire to make the point and puts particular emphasis on the Russian case. The banking

2 He also explicitly notes that low wages are *not* an advantage since they typically reflect the predominance of rural employment and inadequate skills; Amsden (1991) returns to this point as well.

revolution and new forms of bank–industry relations that drove industrialization in the early followers did not emerge in Russia, nor could they have. In an example of the functionalist logic visible in some strands of the developmental state literature as well, Gerschenkron argues that the task of forcing and financing industrialization fell more centrally to the state as a result. Gerschenkron claims that preferential orders to domestic producers of railway materials, and subsidies, credits, and profit guarantees to new industrial enterprises were all central to the spurt of industrial growth Russia experienced up until the revolution.

It is hard to overstate the prescience of the Gerschenkron essay vis-à-vis the subsequent developmental state literature: the most basic idea that industrialization is crucial to catch-up; that development strategies must be seen in an international context; that specialization might be inimical to growth; that technology, increasing returns, and externalities are central features of industrialization; that capitalism is not of a single piece but shows important variation in latecomers; and that institutions – including the state – play crucial roles in the growth process.

But in one important regard noted, Gerschenkron is at variance with the heterodox canon, and that is in his failure to consider how the international economic context shapes the interests of latecomers, and with respect to trade policy in particular. In his *Report on Manufacturers* (1791/1892), Hamilton foreshadows later heterodox arguments by arguing for protection as an instrument for avoiding an unfavorable position in the international division of labor.[3] But Hamilton went farther: he argued that the first movers *themselves* had benefited from "bounties, premiums

[3] Were the world system characterized by free trade, Hamilton argued, promotion of manufactures would not be necessary and countries would gravitate toward their "natural" comparative advantage. But the United States in fact faced "numerous and very injurious impediments to the emission and vent of their own commodities. In such a position of things, the United States cannot exchange with Europe on equal terms; and the want of reciprocity would render them the victim of a system which would induce them to confine their views to agriculture and refrain from manufactures" (24).