Constructing the 21st-century developmental state

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potentialities and pitfalls

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History and development theory support the proposition "no developmental state, no development". Unfortunately, translating this basic insight into concrete proposals for the construction of effective state institutions is anything but simple. There is no fixed, universal model for how to build a developmental state. A cookie-cutter, one-size-fits-all approach to the construction of developmental states will fail in the same way that neo-liberal cookie-cutter approaches to building effective markets have failed. Only a flexible creative process of exploration and experimentation that pays careful attention to local institutional starting points will succeed.

My aim here is to contribute to the kind of debate that is the foundation of creative experimentation. I will start with some provocative analyses of the South African case. Giovanni Arrighi's Marxist diagnosis of the dilemmas of development in contemporary South Africa sets out the problems that a 21st-century developmental state must tackle in order to respond to historical legacies of dispossession. Charlotte du Toit, starting from a more mainstream economic perspective and relying on more standard analytic tools, converges with Arrighi's conclusions.

The paper then shifts to three strands of leading-edge development theory – new growth theory, institutionalism and capability expansion – which raise again the same issues. The bottom line is simple: in order to be "developmental", a 21st-century developmental state must be a capability-enhancing state. Expanding the capabilities of the citizenry is not just a "welfare" goal. It is the inescapable foundation for sustained growth in overall GDP.

Capability expansion depends on the efficient provision of collective goods, and thus a specific set of state capacities comes to the fore. Health and educational services are the most crucial. Infrastructure such as water delivery is closely connected to health. Other infrastructure, like efficient, inexpensive public transportation, can be key to increasing access to education and jobs. However, the administrative capacity to efficiently deliver collective goods and infrastructure has political foundations. Without accurate knowledge of what collective goods the citizenry needs and wants, states can invest vast resources but fail to enhance capabilities. Active democratic structures are necessary for effective economic action.

The fourth and fifth sections of the paper examine state structures and state-society relations in the key East Asian 20th-century developmental states. Although reconstructing administrative apparatuses is a path-dependent political process, learning from the experiences of others and thinking creatively about how to take advantage of apparent lessons is a start. My argument is that a successful 21st-century developmental state will have to have all the capacities of the 20th-century version and more.

The concluding section of the paper sums up the potentialities and pitfalls of trying to build a 21st-century developmental state. The current dilemmas of South Africa put both in a concrete historical context.

DEVELOPMENT AND DISPOSSESSION

In "Labour supplies in comparative perspective: The Southern African paradigm revisited", Arrighi and his co-authors argue against the long-standing consensus among Marxists and traditional economists that dispossessing workers and putting the resulting assets into the hands of capitalist elites leads to successful accumulation. Instead, they make the case that "such dispossession has in fact become the source of major developmental handicaps for at least some and possibly many countries of the global South" (Arrighi et al, 2008:1).

Two prongs of their argument are particularly relevant. First, they argue that the dispossession of black Africans reduces the resources available to ordinary workers by preventing the possibility of hybrid rural-urban family strategies to complement wages with subsistence production. Second, and even more germane, they focus on the effects of the deterioration of access to public services for Africans under apartheid and the difficulty that the ANC regime has had in rebuilding such collective services.

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> – **Amartya Sen**

They argue that the successful development strategies of both China and Taiwan were grounded in the absence of dispossession, and the redistributive agrarian transformations were marked by rapid, decentralised industrial accumulation without dispossession from the land. For Arrighi and colleagues (2008:11), China's developmental advantage "must stem from differences in public transport, education, health and social security facilities, policies and investments" (ibid: 11).

The policy implications are clearly stated: "without structural reforms that re-invent the welfare state on foundations that can be generalised to the vast majority of the population, the economic and social performance of the South African state will continue to deteriorate" (ibid:41). Therefore, "the contention that massive investments in the welfare of the population may be a safer developmental bet than concessions to capital is particularly compelling in the case of South Africa, where apartheid has left a legacy of narrow markets and a huge surplus of labour in poor health, with little formal education and with limited or costly access to markets".

For Arrighi et al, the barriers are more political than economic. They point to signs of "an incipient historic reversal in the terms of trade between manufacturing and natural resource-based production" and note that "[s]hould it materialise, such a reversal would provide natural resource-rich South Africa with unique opportunities both to generate jobs, incomes and taxable surpluses, as well as preferential market arrangements". Resource rents could be "used to promote and generate activities capable of reinventing the welfare state… And from this point of view, knowledge-based industries rather than manufacturing may well hold the greatest promise" (ibid:41–42).

> Allowing capture to masquerade as "a developmental alliance" is a tempting pitfall: states that fall into the trap will be applauded by local private elites and by global policy makers (as long as they avoid the most blatant and obvious forms of corruption). States that try to avoid the trap will be condemned by the same groups as not understanding the importance of "partnering with private enterprise".

Realising these economically promising possibilities is, however, contingent on avoiding the diversion of these rents to less developmentally productive purposes: being "appropriated by foreign capital… squandered in expanding activities of little social or economic value [or] used to consolidate the exclusive welfare state inherited from apartheid for the benefit of a multiracial minority" (ibid:42).

Charlotte du Toit's (2008) interpretation of the impediments to sustained growth in contemporary South Africa parallels key features of the Arrighi analysis. She suggests that the major key to growth is enhancing the capabilities of ordinary citizens, enabling them to make a productive contribution instead of being excluded by unemployment:

> The most important challenge for government is a redesign and redirection of its budget allocation priorities away from operational expenses towards investment in human capital and the socio-economic environment, which will improve productivity levels, increase the labour absorption capacity of the economy, and raise its growth potential to ensure higher sustainable output growth and shared income.

Before considering the implications of the Arrighi/Du Toit perspective for the structures and strategies of the developmental state, it makes sense to broaden the theoretical foundation by reviewing some contemporary development theory.

THREE STRANDS OF MODERN DEVELOPMENT THEORY

Modern development theory has come a long way from the ahistorical and ethnocentric mid 20th-century models of "modernisation". Three current streams are particularly relevant to constructing a 21st-century developmental state: the new growth theory; the institutionalist approach; and the capability approach. As with Arrighi and Du Toit, these have different starting points and travel down different methodological and empirical roads, but end up with a surprisingly similar agenda.

In the late 1980s, the "new growth theory" focused on the importance of ideas and human capital as keys to growth. This simple conceptual shift made intuitive sense and was backed up by empirical analysis. In the United States, for example, "between 1950 and 1993, improvements in educational attainments, which amounted to an increase of four years of schooling on average, explain 30 percent of the growth in output per hour. The remaining 70 percent is attributable to the rise in the stock of ideas" (Jones, 2002, cited in Helpman, 2004:48).

The new growth theory also provided a useful perspective on the structure of employment as job growth moved to the service sector and manufacturing was no longer the best place to grow good jobs. This makes sense in the new growth theory, as the service sector produces ideas and, even more clearly, human capabilities. Increased wellbeing depends on the service sector becoming a source of well-paying, good jobs that reflect the real productivity of its workers.

The "institutional turn" in development theory showed that institutions are the "fundamental determinants of long-run growth" (Acemoglu, Johnson and Robinson, 2005), and that the ensemble of societal institutions that fosters investment and innovation "trumps" both resource endowments and the accumulation of capital in explaining national differences in the growth of incomes (Rodrik, Subramanian and Trebbi, 2004).

If we put the new growth theory and the institutional turn together, the central question for growth becomes: "What kind of institutional arrangements will best enable societies to build the organisations and networks needed to generate new skills, new knowledge and ideas, and to diffuse and take advantage of these intangible assets?"

Converging nicely with the arguments of Arrighi and Du Toit, institutional theorists agree that dispossession has been historically detrimental to growth. "Extractive institutions" that dispossess local populations in order to extract resource rents don't produce long-run growth. In a study of Latin American coffee producers, Nugent and Robinson (2002) illustrate how insuring the property rights of a broad cross-section of society promotes growth. When extractive elites monopolise the land and force the rest of the population into the role of landless labourers, neither landowners nor workers have incentives to invest in human capital. The results are exactly what the new growth theory would predict: diminished economic dynamism and lower overall growth rates.

The arguments of the institutionalists are in turn congruent with the "capability approach", best known for Amartya Sen's proposition that growth of GDP per capita is not an end in itself, but a proxy for improvements in human wellbeing. Two other aspects are, however, more important for its convergence with other strands of development theory.

First, a political affinity with the institutionalists flows from Sen's insistence that, if development is about wellbeing, development policy cannot be formulated by technocrats, but must be derived from democratically organised public deliberation. Dani Rodrik, a prominent institutionalist, argues that democracy is a "meta-institution" promoting the "high-quality institutions" that promote growth (Rodrik, 1999). The capability approach goes further to claim that democracy – putting political institutions and civil society at the centre of developmental goal-setting – is also the only analytically defensible means of defining specific developmental goals. The fact that capabilities cannot be reduced to "one homogeneous good thing" (Sen, 1999:77) makes democratic deliberation even more fundamental.

The convergence of these three strands of development theory produces a clear agenda for the 21st-century developmental state. Accelerating economic growth requires expanding access to the existing stock of ideas, increasing effective utilisation of this stock and generating of new ideas suited to a country's specific circumstances. All of this depends on the expansion of human capabilities.

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To be developmental, a state must perform at least two general roles. It must support a distribution of basic rights that gives individuals incentives to invest in their own capabilities. Captured by an elite with an agenda of dispossession, the state becomes the instrument for wiping out those incentives, the antithesis of a developmental state. At the same time, the state must offer "a programme of skilful social support for healthcare, education and other relevant social arrangements" (Sen, 1999:46). Developmental states must be vehicles for socially defining and choosing societal goals, in addition to being instruments to achieve them. It is this function that puts effective participation in democratic deliberation at the top of the list of the capabilities the developmental state must foster.

WHAT LESSONS FROM THE TIGERS?

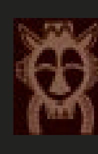
What kind of state structures would be required to fulfil this agenda? What sorts of ties between the state and private interest groups, communities and other political actors would be necessary/needed to make it work politically? Twentieth-century developmental states offer a starting point for the problem of institutional construction.

The East Asian Tigers moved from "underdeveloped" to "developed" in the course of two generations. They transformed their economies into sophisticated combinations of highly productive agriculture and industry and, more recently, high value-added services. They expanded capabilities, moving up dramatically in terms of the Human Development Index (HDI). Their success is incontestable and unprecedented and analysts agree overwhelmingly that the state was one of its institutional keystones. (By the 1990s, even the World Bank had joined the consensus.)

Following the perspective that I laid out a dozen years ago in Embedded Autonomy (Evans, 1995), I will highlight two facets of the 20th-century developmental state: bureaucratic capacity and "embeddedness".

To focus on the East Asian developmental states is to focus first of all on the capacity of public bureaucracies. Meritocratic recruitment to public service, and public service careers offering long-term rewards commensurate with those obtainable in the private sector, were institutional cornerstones of the East Asian economic miracle. A simple analysis of cross-national data confirms the importance of bureaucratic capacity (Evans and Rauch, 1999). In a sample of developing countries, the results from investment in bureaucratic capacity were large. The positive developmental effect of competent cohesive bureaucracies seems to be a transferable lesson.

The East Asian successes must also be set in socio-political context. First, their agrarian class structures stand in contrast to other would-be developmental states, such as contemporary South Africa or Brazil in the 1970s. The absence of dispossession stressed by Arrighi and Hart is



one side of the equation, but the political absence of agrarian elites was equally important. The chaotic geopolitics and revolutionary violence of the mid 20th-century wiped out landed elites as politically effective class actors in national politics. In both Korea and Taiwan, exceptionally thorough land reforms and effective state support for peasant agriculture not only created the positive spread of property rights, but also relieved the state of having to deal with the kind of economically powerful, politically reactionary landed class that has plagued so many development efforts.

The position of the state vis-à-vis industrial elites was equally propitious for the construction of a developmental state. Local industrialists were economically weak. Concentrated in technologically backward sectors focused on domestic consumption goods, local capital knew that, without state support, it could be crushed by global competition and had little chance of becoming competitive in global markets. Local industrialists also lacked alliances with Northern capital. European and American capital had never had a presence in Korea and Taiwan, and neither country was attractive to foreign investors in the 1960s. The absence of a powerful agrarian elite left local industrial capital with no promising ally except the state.

This allowed the state to orchestrate a concrete national project of development, built on a dense set of interpersonal ties that enabled specific agencies and enterprises to construct joint projects at the sectoral level. This "embeddedness" was as central to the success of the 20th-century developmental state as bureaucratic capacity.

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In *Embedded Autonomy*, I define embeddedness as "a concrete set of social ties that binds the state to society and provides institutionalised channels for continual negotiation and renegotiation of goals and policies", adding that "[d]ense connecting networks without a robust internal structure would leave the state incapable of resolving 'collective action' problems... Only when embeddedness and autonomy are joined together can a state be called developmental" (Evans, 1995:12).

Embeddedness was never a tension-free symbiosis. Based on prior performance, the private sector's "natural" strategy seemed to be "rent-seeking", looking for officially sanctioned niches that would allow them to avoid entry into newer, more risky sectors. In order to keep local capital oriented towards national projects of accumulation rather than their own individual consumption, state officials had to avoid "political capture" by their private partners. Avoiding capture and being able to discipline entrepreneurial elites is a defining feature of the "embedded autonomy" of East Asian development states, distinguishing them from less successful states in Asia and Africa (see Amsden, 1989; Kohli, 2004).

Despite being ostensibly socialist (indeed, in part precisely because of its socialist legacies), China's late 20th-century success bears a surprising resemblance to the East Asian Tigers. The Chinese state was also nested in a favourable class structure, having eliminated its landlord class and without a politically powerful capitalist class, as local industrialists were only beginning to emerge and transnational capital had not become powerful. The Chinese bureaucracy had substantially more capacity than its counterparts elsewhere in the global South. It also made massive, broad-based, capability expanding investments in health and education, laying the foundation for its subsequent ability to exploit industrial opportunities.

How do these developmental successes jibe with the three strands of development theory discussed above? History helped these states avoid the dispossession route and remain consistent with the prescriptions of the institutionalists (and Arrighi), despite their authoritarian politics and penchant for repression. They were also pioneers in capability expansion, renowned for their levels of investment in human capital. They also fit the new growth theory more than the standard narrative suggests. "Industrial policy" was never restricted to subsidising investments in plant and equipment; it always focused on increasing local firms' access to productive ideas and creating incentives to push entrepreneurs towards the production of new knowledge. In addition, by transplanting and exploiting the stock of knowledge that was ostensibly the property of Northern corporations, the East Asian Tigers resisted the latter's efforts to enforce their monopoly control of intangible assets, leading to cries of "piracy" from the North, but expanding the access of East Asian citizens to productive ideas. (In this respect, 20th-century developmental states followed the earlier historical practice of Northern states (Chang, 2002).

The correspondences between the successful strategies and development theory reinforce the usefulness of general theoretical guideposts. At the same time, would-be developmental states must recognise the powerful contextual advantages that history conferred on their 20th-century counterparts, which allowed them greater autonomy and forms of embeddedness consistent with a transformative project.

BUILDING A 21ST-CENTURY DEVELOPMENTAL STATE

All modern states play a central role in the provision of healthcare and education. The question is whether they

undertake the task in the aggressive entrepreneurial fashion warranted by its central drive for both growth and wellbeing. Without competent, coherent public bureaucracies, capability expanding public services will not be delivered. Building organisational capacities comparable to those of 20th-century developmental states is, therefore, crucial to the success of a 21st version. But a 21st-century developmental state requires new kinds of capacity as well – most crucially, the ability to promote a more encompassing form of embeddedness.

In the 20th-century developmental state, embeddedness was important both as a source of information and because the implementation of shared projects depended on private actors. For industrialisation projects, the logic was comparatively straightforward. The key information involved feasibility and incentives to engage the relevant firms. The "culture" of leading firms had to be reshaped so that competition was seen more in terms of innovation and risk taking. The primary cast of partners was a small industrial elite with relatively well-defined interests.

> The bottom line is simple: in order to be "developmental", a 21st-century developmental state must be a capability-enhancing state.

For a 21st-century developmental state focused on capability expansion, the need for information and engagement from societal partners is even greater, but the interlocutors and the character of the networks are more complicated. Information must be gathered from constituencies that are more numerous and less organised. The value of a project cannot be assessed on the basis of a simple technocratic measure such as rate of return on investment or projected market share. Whether a project is worthwhile depends on how well its results correspond to the collective preferences of the communities being served. Accurate information on collective priorities at the community level is the *sine qua non* of a successful 21st-century developmental state. Without multiple channels getting accurate information, the developmental state will end up investing inefficiently and wasting precious public resources.

Engaging societal actors in implementation is as crucial to capability expanding strategies as engaging firms is to industrial strategies. As Ostrom (1996) has emphasised, capability enhancing services are always co-produced by their "recipients". Education is co-produced by students and their families; healthcare by patients, their families and communities. The state needs their active engagement in the delivery of those services. Delivery to passive recipients produces results that are sub-optimal at best, and sometimes counter-productive. The skills and organisational capacities required to stimulate this kind of engagement are harder to construct, because they are complex and more political than technocratic.

To create effective state-society linkages, the state must facilitate the organisation of civil society. The 20th-century development state's interaction with industrial elites gave these elites a reason to become a more collectively coherent class. The 21st-century developmental state must do the same for a much broader cross-section of society. It won't be easy. Shared interests in capability expansion are broad and deep, but articulating them is a very demanding task. Civil society is a complicated beast, full of conflicting particular interests and rife with individuals and organisations claiming to represent the general interest.

In short, the biggest challenge to building a more encompassing embeddedness is enabling communities to construct shared coherent goals whose concrete implementation can then be "co-produced" by public agencies and the communities themselves. The central importance of this is what makes democratic dialogue so crucial to the 21st-century developmental state. Sen's argument that democratic deliberation is the only way of adequately defining desired economic ends is compelling.

In addition, earlier forms of embeddedness focused on industrial elites have become increasingly problematic. With the growth of global capital and local capital's integration into transnational networks, state capture is more likely and the developmental state's essential balance between autonomy and embeddedness harder to sustain.

Productive alliances with private capital are less easily constructed, precisely because of the large "collective goods" element in capability expansion. The logic of private profit maximisation is harder to harness for these projects than for those designed to increase production of tangible goods. Since social returns from capability enhancement are substantially higher than private returns, private markets consistently and perennially underinvest in human capabilities. Compensating private capital for the persistent gap between social and private returns is a bigger challenge than getting industrialists to face risks and think long term.

Since more efficient administrative structures ultimately depend on new forms of embeddedness, state-society ties are the crux of the problem of constructing a 21st-century developmental state.

POTENTIAL PITFALLS

Schemes to "improve the human condition" can easily end up worsening it, especially when they involve a massive and powerful apparatus like the state. Planning for a developmental state is no exception. The temptation will be to build an institutional frame that is politically expedient but ducks the difficulties of delivering capability expansion – resulting in a state that calls itself developmental but undermines both growth and wellbeing. Some cautionary notes are in order.

Trying to import the 20th-century model without taking into account local historical legacies is the most obvious trap. Alliances possible in post-World War II East Asia cannot be replicated today in Africa or Latin America. Capital cannot be brought into a state-directed national project in the same way it was in East Asian states four decades ago. Pretending it could is an invitation to local capital and its transnational allies to deflect state policy in directions that will allow them to capture resources and subsidise profits without contributing to capability expansion.

Allowing capture to masquerade as "a developmental alliance" is the biggest pitfall in the construction of the 21st-century developmental state. It is a tempting pitfall: states that fall into the trap will be applauded by local private elites and by global policy makers (as long as they avoid the most blatant and obvious forms of corruption). States that try to avoid the trap will be condemned by the same groups as not understanding the importance of "partnering with private enterprise".

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In the South African case, Arrighi's (2008:39) triple suspicions of a state-capital alliance have already been discussed. First, there is his general admonition that "investments in the welfare of the population may be a safer developmental bet than concessions to capital". Then he criticises the ANC's early turn to capital:

> By 'betting' on capital to solve the crisis, it forfeited the kind of investments in the welfare of the population (housing, public transport, health and, above all, mass lower and higher education) that would have been key developmental objectives in themselves and may well be the most essential, though by no means sufficient, condition of renewed economic expansion (ibid).

Finally, Arrighi worries that the state will allow new resource rents to be "appropriated by foreign capital" rather than used to "generate activities capable of reinventing the welfare state on foundations that can be generalised to the vast majority of the population".

The other obvious pitfall, which mirrors the first, is a single-minded focus on the "autonomy/bureaucratic capacity" lessons from the 20th-century developmental states. Neglecting the key role of the constituencies who must make use of services would be fatal to the 21st-century developmental state's project, but even the best bureaucrats may fall into this trap. Deliberative procedures that deprive "experts" of their privilege are hard for technocrats to accept. The "new public management", with its quasi-market measures of success, makes matters worse. Sen (1999:79) anticipates this problem, noting, "a democratic search for agreement or a consensus can be extremely messy and many technocrats are sufficiently disgusted by its messiness to pine for some wonderful formula that would simply give us ready-made weights that are 'just right'".

Ironically (and ominously) these two apparently opposed pitfalls may actually reinforce each other. Technocrats are likely to feel more comfortable dealing with managers than with unruly community leaders. Alliances with capital become correspondingly more comfortable than engagement with civil society, and the real threat of private capture by capital is easily masked as an apparently shared project – to the actual detriment of national development. The developmental state project that falls into these twin pitfalls of blind, top-down relations with communities coupled with capture by capital could appear to replicate both an effective "Weberian" bureaucracy and earlier versions of "embeddedness", while being in reality the antithesis of a developmental state.

POTENTIAL GAINS

Why not then just give up on the 21st-century development state? Because the dictum "no developmental state, no development" still applies, and the movement of history has cut off the possibility of returning to 20th-century models. The rewards accruing to nations that succeed in constructing a 21st-century development state are worth an uphill political and institutional struggle.

Three components of the potential returns from the 21st-century developmental state are worth underlining in conclusion. First, its developmental strategy is not a welfare strategy that neglects growth; it is a high-growth strategy. The new growth theory tells us why: *Investing in the capacity to take advantage of the existing stock of ideas and create new ideas is the best way to raise growth rates*. The provision of capability expanding services is the foundation of a country's ability to take advantage of high-growth opportunities. Expenditures on health and education are much more likely to produce sustained high rates of growth than subsidising capital to build plants or buy machinery. Of course, high-growth outcomes depend on efficient allocations of investment, which is why bureaucratic capacity linked to encompassing embeddedness is so crucial.

Second, the structural features of the 21st-century developmental state link high growth with broadly shared returns – in part because it is a naturally "labour-intensive" strategy, simultaneously creating twin routes to employment expansion. First, as Du Toit's "supply side" growth

paradigm emphasises, capability expansion is unrivalled for transforming discouraged and unqualified potential workers into productive members of the labour force. Even more important, the delivery of capability expanding services is in itself the most labour-intensive investment strategy possible. The demand for teachers and healthcare workers is essentially unlimited and (again assuming an efficiently organised system of delivery) there is no reason to believe in diminishing returns. From the perspective of employment creation, there is no comparison between a 21st-century capacity enhancement investment strategy and one that focuses on subsidising imported machinery.

Finally, in an era when many growth strategies carry with them environmental degradation, positive ecological outcomes may, in the long run, be even more important than economic growth and employment expansion. Fortunately, these can be counted among the potential benefits of successful construction of a 21st-century development state. To begin with, capable public institutions are as essential to reducing environmental degradation as they are to expanding capabilities. Only when consequences are judged from a long-term collective perspective do ecological considerations get their due. Individual economic actors can almost always benefit from ignoring negative environmental "externalities".

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The shift in the pattern of embeddedness also gives the 21st-century development strategy an advantage over its predecessors. Because communities have long-run (if complex) interests in sustainability, embeddedness that focuses there is much more likely to produce ecologically sound policies. Making public interchange and deliberative goal setting fundamental increases the likelihood that communities will be able to articulate and pursue their environmental interests. In addition, unlike the growth strategy that relies on expanding the production of tangible goods, a strategy of investing in human capabilities, more effective use of existing knowledge and generating new ideas only tangentially entails consuming non-renewable resources or generating dangerous waste products.

If a 21st-century developmental state can promise a combination of high growth, broad-based employment expansion and a lighter ecological footprint, it is worth the prodigious effort required to create it. To be sure, taking on the task in no way ensures success. Building new institutions is always a perilous project and the pitfalls surrounding this particular piece of institutional construction are deep and hard to avoid. But declining the challenge risks consignment to an unsustainable future in which low growth and diminished wellbeing are joined together like Siamese twins. Given the stakes, refusing to confront the daunting task of trying to construct a 21st-century developmental state is not a real choice.

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