

PO230 States and Markets: An Introduction to International Political Economy Seminar Week 11. The Developmental State

Tutor: Saadia Gardezi
Saadia.Gardezi@warwick.ac.uk

The many faces of Economic Interventionism...

Scale and scope of Public provision	Logic of state action	
	Market directing	Market conforming
High / expanding	Developmental state	Keynesian welfare state
Low / reducing	Regulatory state	19th-century liberal state 21st-century competition state/consolidation stat

Figure 8.1 State forms and characteristics

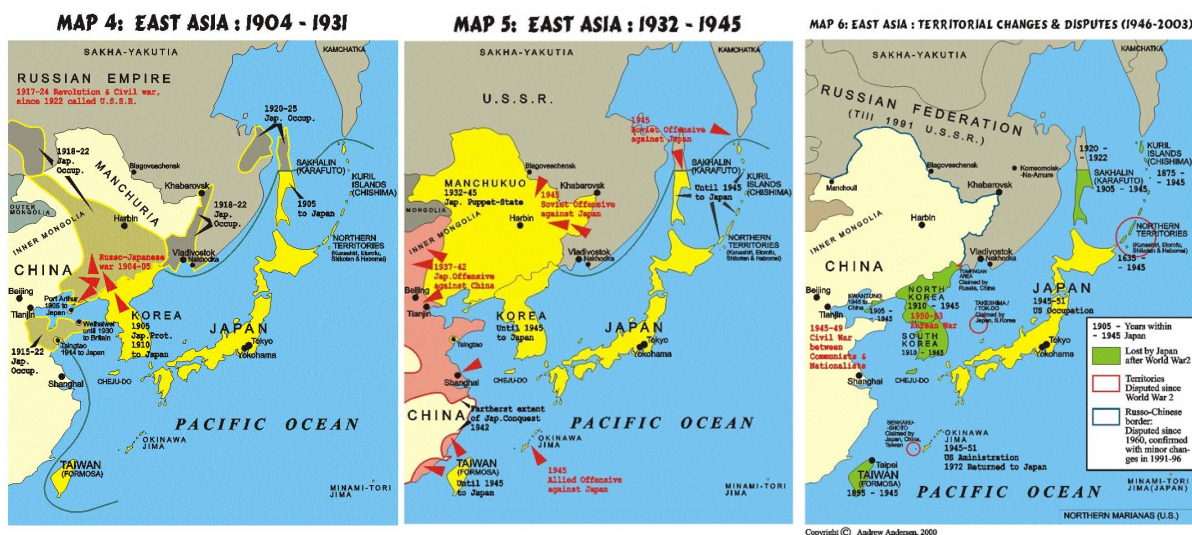
(Clift 2021, 153)

Neo-liberalism - Rolling back the state = Expansion of state?

“Yet the state transformations have not turned out as anticipated by the neo-liberal thinkers who inspired them (Crouch 2017). There are two ironies here. Firstly, the ‘rolling back’ of the state, pursued vigorously by Thatcher and Reagan in the 1980s, actually expanded and extended state activity. The New Right’s ability to reduce the state’s size or scope proved limited, partly because state intervention remains integral to neo-liberal state/market relations. Secondly, after decades of marketization, it is not competitive markets, or small-scale firms making local decisions, which have been the beneficiaries of neo-liberalizing reforms. Rather, the beneficiaries have been huge global corporations, operating in oligopolistic markets” (Clift 2021, 153).

How is Japan a “developmental state”?

War, Colonialism, and Economic Nationalism: What is the link?



How nationalist impulses incited Chinese peasants or MITI bureaucrats to correct “status inconsistency” vis-a-vis the United States is not well understood but is central to understating Japan. Johnson conveyed the truth that the Japanese state was, like the Korean or the Chinese states, a hard-bitten one that chose **economic development as the means to combat Western imperialism and ensure national survival**: for most of the twentieth century, economic development was a recipe for “overcoming depression, war preparations, war fighting, postwar reconstruction, and independence from U.S. aid,” as Johnson notes.” (Woo-Cumings 1996, 6)

“War and colonialism as the deep background for the Korean developmental state was an idea first advanced by Bruce Cumings in *The Origins of the Korean War*. In that book he argued **that the Japanese created a kind of developmentalism in Korea that was profoundly predatory** but one that also achieved rapid industrial growth; in other words, the early 1960s was not the first time for such growth in South Korea. He also argued that massive social mobilization and dislocation caused by the Pacific War (1931-45) and war-related industrialization led to popular rebellion and civil war after 1945.” (Woo-Cumings 1996, 9)

The downside?

“The state can achieve its goal by manipulating the financial structure, but once it does so, it has to socialize risk, either through inflationary refinancing (monetary means) of the nonperforming loans to bail the firms out, or through expansion of the state equity share of the banks (essentially fiscal means) so as to write off the bad loans. The former is indirect taxation on the populace, and the latter, direct. This sort of financial system was what enabled industrial policy in South Korea and in Japan; the downside was the **problem of moral hazard** (that is, brining out firms in trouble) and socialization of the risk. Such dilemmas of the developmental state were dramatically illustrated in **1997-98 crisis**” (Woo-Cumings 1999, 13)

What was the Asian Financial crisis? Was rooted in the model of the developmental state?

What other downsides can you think of? Refer to Woo-Cumings chapter 1 for detailed examination of developmental states where she lists its negative consequences and risks.

Only Asia?

“Austria, Finland, South Korea, and Taiwan shared **attributes of successful state intervention**, two of which were related to their external positions in the world system. First, old bureaucratic traditions existed that were capable of providing competent administration (this is unquestionably true of all four). Second, again in all four, the outcome of the wars they suffered shook up the prewar power blocs and rearranged the previous distribution of power among domestic elites, paving the way toward a more developmental “embeddedness.”

Lastly, in spite of their positioning between two major international power blocs, all four maintained a basic commitment to the bourgeois legal order and respected private property. In the end, all four adopted major policy tools that were remarkably similar: investment subsidies, price controls, credit rationing, and maintenance of interest rates at artificially low levels.

The genius of South Korea, Taiwan, Finland, and Austria was in harnessing very real fears of war and instability toward a remarkable developmental energy, which in turn could become a binding agent for growth.” (Woo-Cumings 1999, 13)