

# STATE-DIRECTED DEVELOPMENT

*Political Power and Industrialization  
in the Global Periphery*

ATUL KOHLI

*Princeton University*



**CAMBRIDGE**  
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE  
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS  
The Edinburgh Building, Cambridge CB2 2RU, UK  
40 West 20th Street, New York, NY 10011-4211, USA  
477 Williamstown Road, Port Melbourne, VIC 3207, Australia  
Ruiz de Alarcón 13, 28014 Madrid, Spain  
Dock House, The Waterfront, Cape Town 8001, South Africa

<http://www.cambridge.org>

© Atul Kohli 2004

This book is in copyright. Subject to statutory exception  
and to the provisions of relevant collective licensing agreements,  
no reproduction of any part may take place without  
the written permission of Cambridge University Press.

First published 2004

Printed in the United States of America

*Typeface* Sabon 10/12 pt.    *System* L<sup>A</sup>T<sub>E</sub>X 2<sub>ε</sub> [TB]

*A catalog record for this book is available from the British Library.*

*Library of Congress Cataloging in Publication Data*

Kohli, Atul.

State-directed development : political power and industrialization in the  
global periphery / Atul Kohli.

p. cm.

Includes bibliographical references and index.

ISBN 0-521-83670-0 (hb) – ISBN 0-521-54525-0 (pb)

1. Industrial policy – Developing countries. 2. Industrialization – Developing  
countries. 3. Developing countries – Economic policy. 4. Developing  
countries – Politics and government. I. Title.

HD3616.D452.K64 2004

338.9'009172'4-dc22 2003069755

ISBN 0 521 83670 0 hardback

ISBN 0 521 54525 0 paperback

## *Contents*

<i>List of Tables and Figures</i>	<i>page</i> ix
<i>Acknowledgments</i>	xi
Introduction: States and Industrialization in the Global Periphery	1
<b>PART I GALLOPING AHEAD: KOREA</b>	
1 The Colonial Origins of a Modern Political Economy: The Japanese Lineage of Korea's Cohesive-Capitalist State	27
2 The Rhee Interregnum: Saving South Korea for Cohesive Capitalism	62
3 A Cohesive-Capitalist State Reimposed: Park Chung Hee and Rapid Industrialization	84
<b>PART II TWO STEPS FORWARD, ONE STEP BACK: BRAZIL</b>	
4 Invited Dependency: Fragmented State and Foreign Resources in Brazil's Early Industrialization	127
5 Grow Now, Pay Later: State and Indebted Industrialization in Modern Brazil	169
<b>PART III SLOW BUT STEADY: INDIA</b>	
6 Origins of a Fragmented-Multiclass State and a Sluggish Economy: Colonial India	221
7 India's Fragmented-Multiclass State and Protected Industrialization	257

## PART IV DASHED EXPECTATIONS: NIGERIA

8	Colonial Nigeria: Origins of a Neopatrimonial State and a Commodity-Exporting Economy	291
9	Sovereign Nigeria: Neopatrimonialism and Failure of Industrialization	329
	Conclusion: Understanding States and State Intervention in the Global Periphery	367
	<i>Select Bibliography</i>	427
	<i>Index</i>	447

## *List of Tables and Figures*

### Tables

1	Some Relevant Indicators of Korea, Brazil, India, and Nigeria	<i>page</i> 24
2.1	Economic Growth during the Rhee Period	75
3.1	Savings and Investment Ratios, 1961–1980	103
7.1	Some Basic Growth Data, 1950–2000	258
7.2	Patterns of Capital Formation, 1980–1998	282

### Figures

1	Pattern of Per Capita GDP Growth: Korea, Brazil, India, and Nigeria, 1950–2000	24
---	--	----

## *Introduction*

### *States and Industrialization in the Global Periphery*

Legitimate states that govern effectively and dynamic industrial economies are widely regarded today as the defining characteristics of a modern nation-state. Ever since Western countries developed such political economies a few centuries back, those left behind have sought to catch up. Among late developers, countries such as Japan and Russia avoided being colonized by consolidating their respective states and adopting alternative strategies of industrialization, with varying results. The search for development among late-late-industrializers of Asia, Africa, and Latin America intensified mainly after the Second World War, when numerous activist states emerged as sovereign. It is clear from the vantage point of the end of the twentieth century that state-led development efforts have been more successful in some parts of the global periphery than in others. This book looks at the role states have played in fostering different rates and patterns of economic development, especially via deliberate industrialization.

States in most peripheral countries of Asia, Africa, and Latin America are important, active economic actors, engaged in varying patterns of state intervention. In some developing countries the state's economic role has come to be associated with both rapid industrial transformation and enhanced equity. In other cases, by contrast, governments and bureaucrats have pilfered the economic resources of their own societies, failing to stimulate economic growth and facilitating transfer of wealth into the hands of unproductive elites. In yet other cases, state intervention is associated with mixed outcomes: States have helped to solve some important economic problems, while ignoring other problems and creating new ones.

This study undertakes a comparative analysis of the state as an economic actor in developing countries. Why have some of these states been more successful at facilitating industrialization than others? This question really has two components: What features distinguish state intervention in the more successful cases from intervention in the less successful cases? and How does one explain varying state capacities to choose and implement

economic decisions? The first question of patterns of state intervention focuses both on the state's policy choices and on its relationship with such key economic actors as business and labor. By contrast, the second question, concerning state capacities, looks to the institutional character of the state itself, an identity often assumed well before the political elite initiated deliberate industrialization. This book then is about patterns of state construction and patterns of state intervention aimed at promoting industrialization.

It is mainly an inductive study that seeks a general understanding of the state as an economic actor in developing countries via detailed analyses of four major developing countries of the twentieth century: South Korea, Brazil, India, and Nigeria (see Table 1 and Fig. 1, below). These cases provide a range of variation in state capacities to pursue economic transformation, from a fairly effective, growth-promoting state in South Korea to a rather ineffective and corrupt Nigerian state, with Brazil and India providing mixed cases. What helps to explain these variations? Indeed, this is a key puzzle in late-late-development.

The main argument of the book, drawn from comparative historical analysis of these four countries, is that the creation of effective states within the developing world has generally preceded the emergence of industrializing economies. This is because state intervention in support of investor profits has proved to be a precondition for industry to emerge and flourish among late-late-developers. Patterns of state authority, including how the politics of the state are organized and how state power is used, have decisively influenced the economic context within which private economic decisions are made. They are thus important, nay, critical, for understanding varying rates and patterns of industrialization. Patterns of state authority, in turn, often exhibit long-term continuities. Colonialism in the first half of the twentieth century, especially, was defining of the state institutions that emerged in developing countries, and that in turn molded their economies in the second half of the century.

### I. Some Clarifications

The focus of this study requires, if not a justification, at least some preliminary clarifications. Three brief caveats are in order.

First, it is clear that development involves a lot more than economic growth and that variations in economic growth reflect more than underlying variations in industrial growth. Moreover, any study of the role of the state in industrialization must attend to issues of agricultural growth and income distribution. Nevertheless, the primary focus of this study is on the political and policy determinants of industrialization, because industrial growth is a key determinant of any country's overall economic growth,

and economic growth remains a core element of any understanding of development.

Second, a central concern with the economic role of the state in development really does not require any justification. It is more than an idiosyncratic assertion to hold that states are important economic actors in developing countries and thus worthy of serious scholarly interest – even if rates of economic growth reflect a host of other factors. In this regard one can note numerous variables that influence a given country's economic performance over a specific period, including world economic conditions, resource endowments, differing starting points, demographic factors, national price regimes, patterns of savings, levels of technology, and entrepreneurship. For their part, however, historians of economic processes repeatedly emphasize the significance of institutions, especially the role of government. Lloyd Reynolds, for example, concluded his major study of economic growth in the "Third World" by observing that the analysis of underlying economic factors does not fully reveal the "mystery" of "sources of sustained growth." What is missing from the economic models, according to him, "can be labeled as political. Government matters."<sup>1</sup> W. Arthur Lewis similarly noted in a presidential address to the American Economic Association that one building block of any full understanding of "the engine of growth" would be "a theory of government, where government would appear to be as much the problem as the solution."<sup>2</sup> More recently, a number of scholars have gone further, suggesting that an activist state has been a key ingredient of rapid development, especially in parts of East Asia, and that, conversely, malfunctioning states have contributed heavily to developmental failures, say, in sub-Saharan Africa.<sup>3</sup> The prima facie case for a broad focus on state and development is thus strong.

<sup>1</sup> See Lloyd G. Reynolds, *Economic Growth in the Third World, 1850–1980* (New Haven, Conn.: Yale University Press, 1985), 413–14.

<sup>2</sup> W. Arthur Lewis, "The State of Development Theory," *American Economic Review* 5 (March 1984): 8.

<sup>3</sup> See, for example, Peter Evans, *Embedded Autonomy: State and Industrial Transformation* (Princeton, N.J.: Princeton University Press, 1995); Stephen Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Developing Countries* (Ithaca, N.Y.: Cornell University Press, 1990); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, N.J.: Princeton University Press, 1990); and Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989). A recent assessment of this "developmental state" literature is Meredith Woo-Cumings, *The Developmental State* (Ithaca, N.Y.: Cornell University Press, 1999). For the role of the state in African cases, see Richard Sandbrook, *Politics of Africa's Economic Stagnation* (Cambridge: Cambridge University Press, 1985). A recent collection in which a group of economists emphasize the role of institutions in economic growth, including the role of public institutions, is Dani Rodrik, ed., *In Search of Prosperity: Analytic Narratives on Economic Growth* (Princeton, N.J.: Princeton University Press, 2003). This volume came to my attention only as the present study was going to press.



Finally, there is the issue of case selection: Why have Korea, Brazil, India, and Nigeria been chosen?<sup>4</sup> Two brief and preliminary justifications for case selection will suffice for now. First, these four are large and significant developing countries: Nigeria, for example, is the most populous country in sub-Saharan Africa, as is Brazil in South America (see Table 1, below).<sup>5</sup> Any meaningful generalizations about state and development would necessarily have to apply at least to these cases. Moreover, the general ideas developed below are actually examined against more cases than a focus on four countries may suggest. For example, detailed analysis of countries over time provides other cases within a single country, and some further check on propositions will be provided by examining them briefly against other cases, especially within each region. Thus, for example, I return in the conclusion to a consideration of how well the propositions developed with reference, say, to the Korean case apply to other successful East Asian cases or, similarly, the extent to which the propositions developed with reference to Nigeria help to explain other African failures. And second, as already noted, these four cases provide a range of variation – from effective state intervention in Korea to an ineffective state in Nigeria – that helps to frame the analytical puzzle: What explains such variation in developmental efficacy?

## II. The Intellectual Context

As an investigation of both state construction and state intervention in the developing world, this study addresses several interrelated scholarly debates. One of the more heated debates concerns the role of states versus that of markets in the process of late-late-development. A less well developed debate that this study engages concerns how it came about that some parts of the developing world acquired more effective developmental states than did others.

The systematic political and economic study of developing countries began only after the Second World War and grew rapidly thereafter. For some two to three decades the organizing framework was to seek generalizations

<sup>4</sup> Much can be said on this issue, and I return to some related concerns in due course, especially in the conclusion. Some basic development indicators of these four cases are summarized in Table 1.

<sup>5</sup> Other ready candidates for inclusion on the grounds of “large” and “significant” would have been China, Indonesia, Turkey, Egypt, and Mexico. Given its communist past, China was too much of an “outlier”; the Chinese case is nevertheless important for a discussion of “state capacity” and I consider it briefly in the conclusion. Egypt has been so mired in regional conflicts that it is atypical. Indonesia, Turkey, and Mexico, however, were all worthy of inclusion. The main excuse for not including them is limited scholarly energy. One useful comparative analysis that goes over some of the same thematic concerns as this study but with reference to Mexico, Egypt, Turkey, and India is John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey* (Cambridge: Cambridge University Press, 1993).

about the developing world as a whole, with an emphasis on determining how this world, the “Third World,” was distinct from the one composed of the more advanced and industrialized political economies. This approach held as much for political scientists and sociologists associated with the modernization framework as it did for radical dependency critics and for economists trying to carve out a niche for economic development studies within economics. Thus modernization scholars worried about the prospects for stability and democracy in the developing world, dependency scholars examined why dependent political economies were not likely to replicate the dynamism associated with early capitalism, and economic development specialists often argued that market imperfections so prevalent in the developing world necessitated state intervention and import substitution.<sup>6</sup>

But this early development literature seldom asked why some developing economies performed better than others. This is because in an important sense, it was simply too early to ask this question in the 1950s and the 1960s, as only in the 1970s did the dramatic variations in performance across developing countries, especially in rates of industrialization, start to become apparent. Only from then on did these variations become a central concern for development scholars. By contrast, insofar as the earlier literature shed some light on these issues of comparative political economy, it was only indirect: Modernization literature could be construed as suggesting that variation in economic performance may have something to do with the role of regime type: democratic versus authoritarian; dependency literature proposed that the same variations may instead reflect greater or lesser dependency on global capitalism; and it was implicit in the economic development literature that varying economic performance was considered to reflect the relative success of the state’s efforts to rectify market imperfections. These were important insights, some of which are incorporated into the empirical analyses below. We also revisit more specific hypotheses associated with these literatures in the conclusion. Suffice it to note for now that none of these earlier frameworks is up to the task at hand because they were not designed for the explicit purpose of developing sound political economy

<sup>6</sup> These are large bodies of literature and this is no place to discuss them. For one good review of the modernization literature, see Samuel Huntington, “The Change to Change,” *Comparative Politics* 3 (April 1971): 3, 283–322. Dependency literature is well reviewed in Gabriel Palma, “Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?,” *World Development* 6 (1978): 881–924. And the literature on economic development is usefully assessed in Albert O. Hirschman, “Rise and Decline of Development Economics,” in Hirschman, *Essays in Trespassing: Economics to Politics and Beyond* (Cambridge: Cambridge University Press, 1981); and Paul Krugman, “Toward a Counter-Counter-Revolution in Development Theory,” *World Bank Economic Review*, Supplement (Washington, D.C.: Proceedings of the World Bank Annual Conference on Development Economics, 1992, 1993).

explanations of variations in rates and patterns of economic development across the developing world.<sup>7</sup>

The political economy debate on why some parts of the developing world have had faster-growing economies than others polarized in the last two decades of the twentieth century around a more neoliberal, promarket position, on the one hand, and a statist argument, on the other hand. The promarket position emerged nearly hegemonic, especially among some economists and development policy practitioners.<sup>8</sup> For its part, the statist argument, often articulated by interdisciplinary scholars of development, provided a cogent scholarly dissent.<sup>9</sup> This book hopes to advance this debate further yet by developing the existing statist position, though not by adopting an aggressive antimarket position. On the contrary, one of the themes of this study is that state intervention in rapid industrializers was often characterized by market-reinforcing behavior, understood in the sense of supporting profitability for private investors – and not as strengthening competitiveness or openness or, even less, as a state’s self-limiting proclivity. The state versus market mind-set thus is simply not very helpful for understanding how the interaction of states and markets has served to produce a range of economic outcomes.

Two claims at the heart of the promarket position on economic development are examined. First, there is the outward-orientation claim, which suggests that greater openness and greater competitiveness in the economy generate higher rates of production growth via more efficient allocation of scarce resources. And second, the *laissez-faire* claim holds that state intervention in the economy necessarily generates distortions that hurt economic growth. Although the outward-orientation position is the more compelling of the two claims, it nonetheless requires a number of qualifications about the importance of state intervention for export promotion and about the problem of identifying the causal direction between exports and growth. Moreover, the preponderance of the evidence indicates that

<sup>7</sup> I have critiqued the modernization and dependency literatures for their neglect of the autonomous and varying role of the state in development and the development economics literature for assuming that states will play a “welfare maximizing” role without a good understanding of when and how states might take on such a role. See “Introduction,” in Atul Kohli, ed., *The State and Development in Third World* (Princeton, N.J.: Princeton University Press, 1986); Atul Kohli, *The State and Poverty in India: The Politics of Reform* (Cambridge: Cambridge University Press, 1987), chap. 1; and Atul Kohli, “State, Society, and Development,” in Ira Katznelson and Helen Milner, eds., *State of the Discipline* (New York: W. W. Norton, 2002), 84–117.

<sup>8</sup> See, for example, Anne Krueger, “The Political Economy of the Rent Seeking Society,” *American Economic Review* 64 (1974): 291–303; Deepak Lal, *The Poverty of “Development” Economics*, Hobart Paperback no. 16 (London: Institute of Economic Affairs, 1983); and World Bank, *Development Report* (New York: Oxford University Press, 1991).

<sup>9</sup> Among others, see Wade, *Governing the Market*; Amsden, *Asia’s Next Giant*; and Evans, *Embedded Autonomy*.

late-late-industrialization has always commenced under conditions of protection. As to the laissez-faire claim, there is a stunning lack of evidence for the proposition that less government facilitates more rapid industrialization in the developing world. On the contrary, the evidence shows that state intervention aimed at boosting investor profitability is strongly associated with rapid industrialization. This study investigates validity of these claims via detailed case materials, and the main findings – that there are serious doubts about these claims – are summarized in the conclusion.

The main dissent from the promarket position in contemporary development studies is offered by statist scholars who emphasize the constructive role played by state intervention in select, successful cases. This literature has carefully documented how numerous such state interventions – tariffs, subsidies, credit control, manpower training, technology promotion, and bureaucratic cooperation with the private sector and oversight – have contributed to industrialization and rapid growth, especially in East Asia. Other scholars have gone further, asking what sort of states are capable of such interventions and often emphasizing such variables as leadership priorities and/or the quality of bureaucracy.<sup>10</sup> The present study builds on this literature; indeed, it could not have been written without the foundation laid by these bold and original formulations. One argument that is central in this statist literature informs the thinking here as well – that successful state intervention often involves close cooperation between the state and private investors. At a popular level, this idea is often expressed in such characterization of East Asian political economies as “Korea Incorporated” or “Taiwan Incorporated.” At a more scholarly level, the idea is expressed as “embedded autonomy” being a precondition for successful development, an idea that suggests not only close cooperation between the state and business but also a measure of insulation for the bureaucratic elite so as to minimize corruption and “state capture” by private interests.<sup>11</sup>

Although the present study builds on the statist literature, it also departs from that literature in important ways. First, this study is as interested in the question of why some parts of the developing world have acquired more effective states than others as it is in the more widely discussed question of what characterizes effective, developmental states and what exactly such states do to foster rapid industrialization. This shift in focus demands a more

<sup>10</sup> A highly influential early such study, not of a developing country, but on reinterpreting the Japanese experience, was Chalmers A. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford, Calif.: Stanford University Press, 1982). The most significant recent contribution along these lines is Evans, *Embedded Autonomy*. See also the citations in n. 3.

<sup>11</sup> See Evans, *Embedded Autonomy*, passim but esp. chap. 1. There is some striking overlap between Evans’s book and this one. However, as explained immediately below, differences in the questions posed, modes of analysis, and the underlying theoretical orientation also loom large.

historical orientation because the core character of these states was often acquired long before they started intervening in the economy to promote development. A comparative historical analysis, in turn, leads to a consideration of the role of varying types of colonialisms in molding different types of states across the developing world. Second, this study, in examining issues of state effectiveness, is as concerned with the political organization of the state as it is with bureaucratic capabilities. A central concern then is with power, as distinct from competence or information. And finally, when analyzing what exactly interventionist states do to promote rapid industrialization, I focus as much on issues of mobilizing basic factors of production as on improving the efficient use of such factors via upgrading technology or “learning by doing.” This shift, too, leads to a more detailed consideration of such issues as (1) the state’s capacity to collect taxes and thus to make public investments and (2) the state’s role in disciplining the labor force. In sum, the present study, while clearly a part of the scholarly statist dissent from the more neoclassical accounts of development, at the same time departs from many existing statist accounts by providing a more historical and political analysis of the state’s role in both promoting and hindering industrialization.

### III. The Argument

Industrialization involves social change. While its narrow outcome is an increase in industrial production from existing or new factories, a broader set of societal changes have also generally accompanied, if not preceded, industrial development. These include a situation of political stability, the availability of experienced entrepreneurs and of a capable urban work force and mobilizable capital, the emergence of a market for industrial goods, and the presence of a growing body of technical knowledge. It is not surprising that among the earliest, “spontaneous” industrializers, such as England, the process occurred slowly, over centuries, and was “caused” not by any single development but by the merging of several streams of underlying changes. It was Gerschenkron who first argued persuasively that follower countries within Europe did not reproduce England’s “spontaneous” model. Instead, he held, they needed a more organized initiative from banks or states to help to generate “a movement on a broad front” to help industry to take off by mobilizing capital, creating a work force, and facilitating technology transfer.<sup>12</sup> What was true for late-developers within Europe or Japan was, of course, doubly true for late-late-industrializers of the developing world. Since the mid-twentieth century, states have sought to promote industry in most countries of Asia, Africa, and Latin America. What is also clear from

<sup>12</sup> See Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962), esp. chap. 1.

the vantage point of the end of the century, however, is that this half-century of effort has seen considerably more success in some parts of the developing world than in others. Explaining these divergent pathways is the main task of this book.

Based on detailed comparative analysis of four countries that vary from success to failure, I argue that the way state power is organized and used has decisively influenced rates and patterns of industrialization in the global periphery. A core analytical task involves identifying different patterns of state authority and then tracing the impact of those variations on economic outcomes and probing the origins of the varying state types. The role of concentrated political power in helping states to set the agenda for their economies also needs to be understood. No quick summary of the argument can substitute for detailed empirical analysis. This is not only because the devil really is in the details but also because summary arguments may be more persuasive after digesting the empirical details. I return to the big picture again in the conclusion. At this time, it is useful to note four of the arguments underlying the book's comparative analysis.

### *State Types*

Referring to ideal types, I identify three historical patterns of how state authority is organized and used in the developing world, neopatrimonial states, cohesive-capitalist states, and fragmented-multiclass states. Although these labels are less than fully satisfactory, they are better than most others in use. In any case, the focus ought to be more on the patterns described by the categories than on the labels themselves.

In addition to centralized and coercive control over a territory, a defining characteristic of all modern states is a well-established public arena that is both normatively and organizationally distinguishable from private interests and pursuits. Unfortunately, for a variety of historical reasons, this distinction between the public and the private realms was never well established in a number of developing country states, especially African states. As a result, a number of distorted states emerged with weakly centralized and barely legitimate authority structures, personalistic leaders unconstrained by norms or institutions, and bureaucracies of poor quality. These states are labeled here as neopatrimonial because, despite the façade of a modern state, public officeholders tend to treat public resources as their personal patrimony. These are therefore not really modern, rational-legal states. Whether organized as a nominal democracy or as a dictatorship, state-led development under the auspices of neopatrimonial states has often resulted in disaster, mainly because both public goals and capacities to pursue specific tasks in these settings have repeatedly been undermined by personal and narrow group interests. Of the cases analyzed in this study, Nigeria best exemplifies this ideal-typical tendency.

Cohesive-capitalist and fragmented-multiclass states are two of the other ideal-typical states to be found in the contemporary developing world. The more effective modern rational-legal states in the developing world tend to vary mainly along two dimensions: cohesion of state authority and the state's class commitments. Cohesion of authority is manifest at both the intraclass and the elite-mass levels, and variations in patterns of authority demarcate the more cohesive states from the more fragmented ones. Developing country states may also be narrowly committed to working with capitalists or may rest their power and goals on a more multiclass base.<sup>13</sup>

The cohesive-capitalist states, sometimes called developmental states, are situated opposite neopatrimonial states on the political effectiveness continuum.<sup>14</sup> These states are characterized by cohesive politics, that is, by centralized and purposive authority structures that often penetrate deep into the society. For a variety of historical reasons these states have tended to equate rapid economic growth with national security and thus defined it as a priority. In their pursuit of rapid growth, cohesive-capitalist states have carved out a number of identifiable links with society's major economic groups and devised efficacious political instruments. Especially notable among the social links is a close alliance with producer or capitalist groups. An important corollary of this political arrangement is a tight control over labor. The main political instrument of these states is, of course, a competent bureaucracy. Since a narrow elite alliance between the state and capital is difficult to hold together, politics within these units has often been repressive and authoritarian, with leaders often using ideological mobilization (e.g., nationalism and/or anticommunism) to win acceptance in the society. Cohesive-capitalist states in developing countries, such as in South Korea under Park Chung Hee and in Brazil during both *Estado Novo* and the military dictatorship, thus share some organizational and class characteristics with fascist states of interwar Europe and Japan.<sup>15</sup> (Obviously, however,

<sup>13</sup> Careful readers may wonder whether such other combinations as cohesive-multiclass and fragmented-capitalist are also possible. The short answer is yes, but generally not in the developing world. A well-organized social democracy, such as Sweden, may illustrate the cohesive-multiclass category, and the United States may be a good example of a fragmented-capitalist state. A fuller discussion of these state types is beyond the scope of this study, though some such issues are discussed in due course, especially in the conclusion.

<sup>14</sup> It will become clear in due course, especially in the section on Korea, why I prefer the concept of cohesive-capitalist states over "developmental states." Suffice it to note here that the idea that developmental states facilitate development strikes me as too obvious for both analytical and normative comfort. A label such as cohesive-capitalist states (in an earlier draft, I had used the term "neofascist states") instead both captures better a state's independent political characteristics – by which I mean the ideology, organization, and the underlying class alliances – and cautions observers to take note of the costs incurred by the type of "development" these states promote.

<sup>15</sup> Generalizing about "fascist-style regimes" during the interwar years, Claudio Segre notes that "within wide national variations, fascist states had certain characteristics and aspirations in

these states do not draw explicit comparisons with discredited fascism, and they tend to shy away from the politics of mass mobilization and ethnic cleansing.) For better or for worse, these states have also proved to be the most successful agents of deliberate state-led industrialization in peripheral countries.

In between the two extremes of political effectiveness defined by neopatrimonial states on the one end and cohesive-capitalist states on the other lie fragmented-multiclass states. Unlike neopatrimonial states, fragmented-multiclass states are real modern states. They command authority, and a public arena within them is often well enough established that leaders are held accountable for poor public policies and performance. Unlike in cohesive-capitalist states, however, public authority in these states tends to be more fragmented and to rest on a broader class alliance – meaning that these states are not in a position to define their goals as narrowly or to pursue them as effectively as are cohesive-capitalist states. Leaders of fragmented-multiclass states thus need to worry more about political support than do leaders of other types of developing country states. For example, they must typically pursue several goals simultaneously, as they seek to satisfy multiple constituencies. Industrialization and economic growth may be an important state goal, but it is only one among others: agricultural development, economic redistribution, welfare provision, and maintaining national sovereignty. Policy formulation and implementation, moreover, is often politicized, either because of intraelite conflicts or because state authority does not penetrate deep enough down in the society to incorporate and control the lower classes. When confronted by mobilized opposition, fragmented-multiclass states typically become obsessed with issues of legitimacy and often find themselves promising more than they can deliver. While not all fragmented-multiclass states are necessarily democracies, all developing country democracies with plebiscitarian politics and weak institutions constitute a special subset of fragmented-multiclass states. The cases of India and Brazil in several periods exemplify this type of state. Attempting to pursue a complex state-led agenda with limited state capacities, then, fragmented-multiclass states tend to be middling performers on numerous dimensions, including the promotion of industrialization and growth.

common. In their political systems, they created police states, one party systems led by a charismatic dictator. Their economic systems aimed to develop some form of national socialism. The government was to play an active role in controlling the economy, but unlike Marxian socialism, the state was not to take over the means of production. Fascist socialism was directed at the interests of the nation. . . . Fascism also aspired to some form of the corporatist state. . . . Fascist regimes mobilized and disciplined societies to transform themselves far more rapidly than would have been the case under a laissez-faire system.” See his entry on “fascism” in *The Oxford Companion to Politics of the World* (New York: Oxford University Press, 2001), 274–76.



Neopatrimonial states and the two more modern, rational-legal types of states, namely, cohesive-capitalist and fragmented-multiclass states, are ideal types of developing country states and are not found in a pure form in any of the countries discussed below. Instead, countries in specific periods exhibit more of one tendency than another. When comparing and analyzing state types empirically, one generally needs to focus on some such state characteristics as leadership goals, degree of centralization of public authority, downward penetration of public authority, political organization of the mobilized political society, scope of state intervention in economy, and quality of the economic bureaucracy. It may be easy in an abstract fashion to suggest, as I have, that cohesive-capitalist states are characterized by the top leadership equating rapid economic growth with national security, a highly centralized and penetrating public authority, state-controlled political society (though in close alliance with capitalist groups), and a highly interventionist state, with a good quality economic bureaucracy. Neopatrimonial and fragmented-multiclass states have been similarly characterized in their pure form. Real historical records of actual countries, however, seldom reveal state types in their ideal-typical form; states instead tend more toward one set of characteristics than another, opening the way for more complex analyses.

#### *State Types and Patterns of Industrialization*

If authority structures in the developing world can be variously categorized as neopatrimonial, cohesive-capitalist, and fragmented-multiclass states, the first relevant question for this study concerns how these states influence economic outcomes. The nearly exclusive focus in the literature on appropriate policy choices is incomplete, even misleading. Policy choices matter, of course, but these choices must be explained. More important, the impact of the same policy applied in two different settings may vary because of the contextual differences, some of the more obvious being varying global conditions and different initial conditions of an economy. The import of these issues will become clear in due course, but now the contextual difference that deserves emphasis – because it is significant and generalizable across cases – concerns the varying political and institutional conditions in which economic policies are chosen and pursued.

More specifically, identifying variations in how states are organized and in the institutionalized relationship of the state to the private sector is key to understanding the relative effectiveness of state intervention in the economy. In the cases examined in this study, this relationship varies along a continuum stretching from considerable convergence in goals to mutual hostility between the state and the private sector. I argue that, other things being equal, the setting that has proved to be most conducive (i.e., serves as a necessary but not a sufficient condition) to rapid industrial growth in the developing world is one in which the state's near-exclusive commitment

to high growth coincided with the profit-maximizing needs of private entrepreneurs. The narrow ruling coalition in these cases was a marriage of repression and profits, aimed at economic growth in the name of the nation. Cohesive-capitalist states have generally created such political economies. Turning their countries into state-guided corporations of sorts, they have tended to be the fastest growers in the developing world.

Growth-oriented cohesive-capitalist states pursued their commitment to high growth by developing trade and industry with well-designed, consistent, and thoroughly implemented state intervention. Specific policy measures varied but were generally aimed at easing supply-and-demand constraints faced by private entrepreneurs. Some of these interventions were direct, and others, indirect. On the supply side, for example, we find that cohesive-capitalist states helped to facilitate the availability of capital, labor, technology, and even entrepreneurship. Thus supply of capital was boosted at times by superior tax collection and public investment, at other times by using publicly controlled banks to direct credit to preferred private firms and sectors, and at yet other times by allowing inflation to shift resources from both agriculture and urban labor to private industrialists. Repression was also a key component in enabling private investors to have a ready supply of cheap, "flexible," and disciplined labor. Examples of less-direct interventions on the supply side include promotion of technology by investing in education and research and development and/or by bargaining with foreign firms to enable technology transfer.

On the demand side, too, cohesive-capitalist states have pursued a variety of policies to promote their growth commitment. These have included expansionist monetary and fiscal policies, and tariffs and exchange-rate policies aimed at boosting domestic demand. And when domestic demand was not sufficient, these states have just as readily adopted newer policies that shift the incentives in favor of export promotion or, more likely, that help to promote production for both domestic and foreign consumption.

There was thus significant variation in the specific policy measures undertaken by cohesive-capitalist states. Only some policies, such as labor discipline, necessitated a repressive state. But what most policies adopted by cohesive-capitalist states reflected instead was a single-minded and unyielding political commitment to growth, combined with a political realization that maximizing production requires assuring the profitability of efficient producers but not of inefficient ones. Sometimes this required getting prices right, but just as often it required "price distortions," such as undervaluing exchange rates, subsidizing exports, and holding wages back behind productivity gains. The central issue concerned the state's goals and capacities, expressed in the institutionalized relationship between the state and the private sector. Cohesive-capitalist states in successful industrializers have thus been pragmatically – and often ruthlessly – procapitalist, much more than they have been purely and ideologically promarket. Among the

cases in this study, South Korea under Park Chung Hee and Brazil during Estado Novo and under military rule most clearly fit this political economy model.

Perfect coincidence between the goals of the state and those of private elites has been rare in the developing world, depending as it does on the difficult-to-acquire political precondition of cohesive state power and a narrow alliance between the state and the capital-owning elites. Instead, many ruling elites governed states with fragmented political institutions and defined the public good more broadly. The elites pursued (or, at least, debated) several crucial goals simultaneously: economic growth, redistribution, legitimacy, and national sovereignty. Policy intervention in these fragmented-multiclass states was aimed not only at promoting growth but also at enhancing legitimacy and short-term welfare provision.

Mixed political goals of fragmented-multiclass states had several consequences for choosing and pursuing development policies. First, ruling elites were less focused in these cases on assessing state intervention strictly from the vantage point of growth consequences. Diffuse goals, in turn, enabled various groups and individuals to capture state resources for short-term, consumption-oriented benefits. Second, the relationship of the state to the private sector in such contexts was considerably more complex than in cohesive-capitalist states, sometimes cooperative but just as often conflictual. And third, both policy making and implementation were more politicized, diluting their unidirectional effectiveness.

Fragmented-multiclass states are thus actually more “normal” than the other two ideal-typical cases being discussed here. But because the choice of economic strategy and of policy tools in these cases reflected the logic of both growth and politics, the institutional setting of fragmented-multiclass states was seldom conducive to achieving hypergrowth in industry. The case of India supports such a general contention, as do the cases of Brazil and South Korea in select periods.

Let us consider specific examples of the political economy dynamics of fragmented-multiclass states. Fragmented-multiclass states were neither more nor less interventionist than cohesive-capitalist states, but they were generally less effective at alleviating the supply-and-demand constraints faced by their investors. Again, for example, when it came to mobilizing capital in many fragmented-multiclass states, tax-collecting capacities were limited, public-spending priorities included numerous goals other than growth promotion, attempts to direct credit easily evolved into cronyism, and inflation as a tool of resource transfer could readily become a liability for political leaders concerned about their legitimacy. Periodic hostility on the part of the state elite toward private investors made the latter, both domestic and foreign, reluctant to invest. Repression of labor was also not a ready alternative in fragmented-multiclass states, thus making it difficult for investors to mobilize a cheap and docile labor force.

On the demand side, monetary and fiscal policies seldom reflected a consistent growth commitment but fluctuated instead with political cycles characterized by greater or lesser legitimacy. And finally, tariff and exchange-rate policies adopted to protect the national economy, and thus to promote demand for indigenous goods, often created powerful interest groups. As these groups were difficult to dislodge, fragmented-multiclass states found themselves more rigidly committed to a particular development path. In sum, fragmented-multiclass states, like cohesive-capitalist states, sought to promote industrialization, but they did so less effectively because their goals were more plural and their political capacities less developed. In other words, varying patterns of state authority decisively influenced developmental trajectories.

According to this line of argument, the worst setting for industrialization on the periphery was the states that had no clear public goals and whose leaders reduced the state to an arena for personal aggrandizement. These neopatrimonial states have unfortunately constituted a significant subset of the developing world. State intervention in these cases has often been motivated either by the need to build short-term political support via patronage or by personal greed – or sometimes by both. The relationship of the state and the private sector in such contexts has just as often been mutually corrupt: Political instability, inconsistent policies, and pilfering of public resources for personal and sectional gains have all hurt state-led efforts to promote industry and growth. The case of Nigeria provides a striking instance of such a development path, though elements of the same are also evident elsewhere.

We will see that neopatrimonial states, like cohesive-capitalist and fragmented-multiclass states, have also intervened heavily in their economies, but with disastrous results. Neopatrimonial states have often emerged in societies with weak private sectors, but instead of strengthening the private sector, these states have appropriated scarce economic resources and diverted them everywhere but toward productive investment. Inconsistent economic policies, failure to support indigenous capitalists, poor-quality but activist labor, and political instability have all reinforced the existing weakness of the national private sector in manufacturing and industry.

Given this profound weakness of domestic capitalism, neopatrimonial states have sought to undertake economic activities directly or invited foreign goods and producers to fill the vacuum. Given the states' nondevelopmental proclivities and organizational weakness, efforts to produce goods in the public sector have generally failed. The remaining alternative of importing goods or attracting foreign investment makes sense only if there are alternative sources of income and demand. For a country such as Nigeria, oil exports provided a ready source of income and demand, which was met by foreign goods and producers; this is less true for other neopatrimonial states. Commodity booms, however, seldom last forever. The political incapacity to