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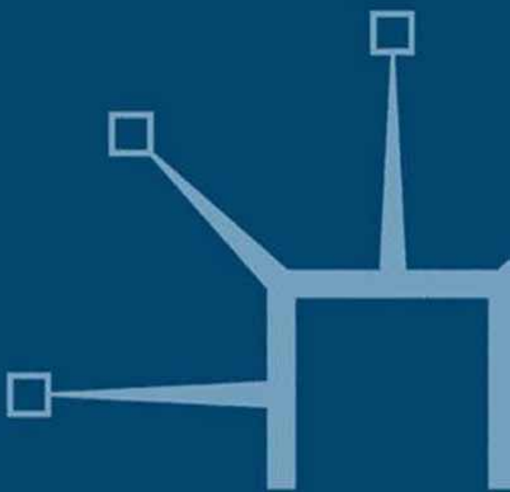
Developmental Politics in Transition

The Neoliberal Era and Beyond

Chang Kyung-Sup
Ben Fine
Linda Weiss



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Developmental Politics in Transition

The Neoliberal Era and Beyond

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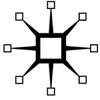

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Acronyms and Abbreviations

AIG	American International Group
AUSFTA	Australia-US Free Trade Agreement
AUSGPA	Australia-US Government Procurement Agreement
BPLR	benchmark prime lending rate
CCP	Chinese Communist Party
CDS	capitalist developmental state
CEPD	Council for Economic Planning and Development (Taiwan)
CFSA	Committee on Financial Sector Assessment (India)
DNS	developmental network state
DSP	developmental state paradigm
EADWS	East Asian Developmental Welfare State
EMU	Economic and Monetary Union
EPB	Economic Planning Board (South Korea)
FDI	foreign direct investment
FF	Fianna Fáil (Irish political party)
FG	Fine Gael (Irish political party)
FSI	Fonds stratégique d'investissement ("strategic investment fund")
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services (WTO)
GATT	General Agreement on Tariff and Trade
GFC	global financial crisis
GPA	Government Procurement Agreement (WTO)
IBRD	International Bank for Reconstruction and Development
ICT	information and communication technology
ICTU	Irish Congress of Trade Unions
IFIs	international financial institutions
IMF	International Monetary Fund
ISI	import substitution industrialisation
IWG-SWF	International Working Group of Sovereign Wealth Funds
LADWS	Latin American Developmental Welfare State
M&As	mergers and acquisitions
MDG	Millennium Development Goal (UN)
METI	Ministry for Economy and Trade and Industry (Japan)
MITI	Ministry of International Trade and Industry (Japan)
MNCs	multinational corporations
MPM	mass production model
NICs	newly industrialising countries

NIEs	newly industrialising economies
NPC	National People's Congress (China)
NPOs	non-profit organisations
ODA	Overseas Development Aid
OECD	Organisation for Economic Co-operation and Development
OMC	Open method of coordination
OPEC	Organization of the Petroleum Exporting Countries
PAPSCA	Program for the Alleviation of Poverty and the Social Cost of Adjustment (Uganda)
PEAP	Poverty Eradication Action Plan (Uganda)
PfD	partnerships for development
PFI	private finance initiative
PPP	public–private partnerships
PRGF	Poverty Reduction and Growth Facilty (IMF)
PRSPs	Poverty Reduction Strategy Papers (World Bank)
QMP	quality mass production
R&D	research and development
S&L	savings and loan
S&T	science and technology
SEC	Securities and Exchange Commission (USA)
SEZs	special economic zones
SLR	statutory liquidity ratio
SOEs	state-owned enterprises
SWFs	sovereign wealth funds
TNCs	transnational corporations
TRIMs	trade-related investment measures
TRIPS	trade-related intellectual property rights
TVEs	township and village enterprises
UDC	Uganda Development Corporation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
UNRISD	United Nations Research Institute for Social Development
UPE	Universal Primary Education (UN)
WTO	World Trade Organization

Acknowledgements

We present this collective work as a sober intellectual reaction to the recurrent global and regional socioeconomic crises associated with the neoliberalisation of national political economies all over the globe. During the cross-Atlantic economic crisis of 2008 in particular, Western leaders wasted no time in adopting rescue measures that are flatly opposed to their earlier neoliberal advice and directives (reflecting the Washington Consensus) to the troubled developing economies. However, the West's apparent rejection of neoliberalism in its own affairs did not grow into serious regret (tantamount to a sort of 'Washington repentance'?) or a rethinking of its neoliberal influence under which the developmental conditions of so many developing countries had been distorted and jeopardised.

In the face of these contradictory or hypocritical circumstances, a group of concerned economists, political scientists, and sociologists from various regions of the world gathered in October 2009 at an international conference on Developmental Politics in the Neoliberal Era and Beyond, organised by the Center for Social Sciences (CSS) and the Institute for Social Development and Policy Research (ISDPR) at Seoul National University. Some of them gathered again, along with other participants, at two companion seminars held in December 2009 and April 2010. The aim of these gatherings was to scrutinise collectively the developmental conditions of the world as influenced or distorted by neoliberal ideas, interests, and powers. The fruits of their debates and discussions, along with contributions from a few like-minded scholars (Chang Ha-Joon, Alvin So, Yin-wah Chu, and Julius Kiiza), have been assembled to create this book.

In the winter of 2011–12, as we complete this collective volume, the world faces the possibility of another global economic crisis – one that vindicates our intellectual project's urgency. The initial culprit has again been the USA, but fear has spread to the European Union, many of whose member states appear flatly unable to deal with their own near-bankruptcy situations. Now both expert and public apprehensions are much clearer about the shaky industrial fundamentals and economically disenfranchised populations of many supposedly advanced economies. Paradoxically, global neoliberalism seems to have homogenised both developed and less-developed countries as extremely stressed developmental entities.

Exactly such a developmental reawakening is what this volume advances as an intellectual project. In this regard, we have been quite fortunate to acquire a publication option in Palgrave Macmillan's celebrated International Political Economy Series, edited by Timothy Shaw, who shares this

intellectual spirit. As his great enthusiasm for this book has been combined with dedicated support from the editorial staff at Palgrave Macmillan and the production team at Newgen Knowledge Works, we have been able to complete it in a very comfortable and confident manner.

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Finally, for his intellectual leadership and collegial dedication, deep respect is extended to Kim Se-Kyun. Both as the former CSS director and conference host and as an enlightened scholar-intellectual, he has devoted many years to promoting transdisciplinary reconstruction of the social sciences and humanities. It is the common wish of all the authors and editors that this volume makes a meaningful contribution in that direction.

April 2012
Chang Kyung-Sup
on behalf of
the coeditors and contributors

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Introduction: Neoliberalism and Developmental Politics in Perspective

Chang Kyung-Sup, Linda Weiss and Ben Fine

1 The purpose

This book is a result of interdisciplinary reflection on the conditions, processes and outcomes of neoliberal-era developmental politics. Its aim is to probe collectively and debate the developmental conditions of the world as enmeshed with neoliberal ideas, interests and powers. While national development was for decades a focal subject of research in political science, sociology, political economy as well as development economics, the global neoliberal hegemony since the 1980s – often summarised in terms of "the Washington Consensus" – has critically dampened the ideology, politics and scholarship of national development. In the neoliberal era, macro-prudential economic measures have been prioritised as the most imperative task of each state, global financial flows have been liberalised behind corresponding regulatory pressure on individual countries and, not least importantly, many developing (and even developed) countries have been institutionally and politically incapacitated in their mercantilist developmental efforts. With the birth of the twenty-first century, the disastrous outcomes of national and global neoliberal transitions have engulfed virtually every nation in the form of regional or global (financial) crises. In the latest manifestation of the destructive force of neoliberalism, its hegemonic centre in the Euro-American economies has become the main source of recurrent global financial crises. Paradoxically, the emergency remedies for the Euro-American crises – involving Keynesian, developmental and even "socialist" elements – have been bluntly different from what had been recommended for or imposed upon developing countries under similar situations. The authors in this volume argue collectively, if from diverse analytical and aspirational perspectives, that such developmental reawakening should become a universal focus of research and policy for the twenty-first century world.

Some retrospection is necessary here. In the 1980s, Latin American countries took turns in national financial insolvency after decades of foreign debt-based import substitution industrialisation (ISI), and the

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Washington-coordinated creditors group relentlessly forced them to divert from nationally coordinated development and, instead, to focus on "structural adjustments" designed to make them *responsible debtors* rather than dynamic developmental entities. From the late 1980s, former socialist states one after another embarked on systemic economic transitions under various forms of neoliberal guidance, including the most expressively neoliberal "Big Bang" approach, which created economic and social mayhem in Russia and many Eastern European nations in both economic and social terms. By the late 1990s, even many of the model developmental economies in East Asia had been subjected to the neoliberal directives from global financial capital, and their instant financial meltdown ironically accelerated neoliberalisation of economic and social management. By the latter part of the first decade of the twenty-first century, the deindustrialisation and financialisation of many advanced economies under both conservative and progressive types of neoliberal governments have created "card-house economies" that survive and falter on financial bubbles.[1] During each of these crisis-ridden periods, scholars and activists critically addressed the neoliberal ideology and policies and called for the strengthening of politically coordinated programs for economic development and social protection.[2]

These critical voices, however, were not seriously heard until the recent wholesale financial crisis of the neoliberal West itself. The US-triggered global financial crisis of 2008 even brought back a form of "socialism" in the West, particularly in the USA, as it required nationalisation of major banks and firms (see Fine's Chapter 3 in this volume). This totally contradicted the neoliberal ideology of reliance upon market forces, dramatically revealed as flawed in both theory and practice in the previously favoured terrain of finance. Similarly, President Obama's call for American industrial revitalisation has been ridiculed by no one, at least in its spirit. Obama, who was elected to office as the troubleshooter, instantly engendered himself a "second Roosevelt" by declaring an apparently neo-Keynesian project for creating two and a half million new jobs within a few years on the basis of public investment in physical and social infrastructure.[3] He went further on to call for *developmental regeneration* of American industries and people – for instance, through public speeches in which he has repeatedly referred to South Korea as a model for the United States.[4] Other Western leaders were not as explicit in expressing their developmental ambitions but were nonetheless impressed by the rise of China (to the status of G-2), among other regional and global giants of the developing world, as their own economies sputtered. Nonetheless, after the tax-based bailout of national financial systems, Euro-America – the USA and the United Kingdom in particular – rapidly witnessed something akin to business as (ab)normal although accompanied by much sharper trade-offs across the conflicting goals of restoring the financial system, radically descaling social welfare, and sustaining economic and social stability.[5]

By early 2012, no clear signal has been detected of developmental regeneration in Western economies. Nor has any clear political will emerged, notably in the USA, for fair or fairer sharing of national debt services accruing to debt-financed state work and social protection. This has led to an abrupt, generalised crisis of confidence, sacking the stock markets around the globe and presaging yet a second round of financial meltdowns and prolonged economic contraction. Financial-market experts and academic specialists from different disciplines now concur that the dramatic and interconnected decline of consumer demand, productive investment, employment- and income-generating activities, and ultimately the revenue base is prolonging economic stagnation across the globe, not least in neoliberalism's Anglo-American homeland.

Many authors in this volume have argued that the same has been the case for many less developed countries. While the apparent developmental reawakening of the Western nations stemming from their own crises may not deliver immediate economic regeneration for them, their discouragement and distortion of the developmental efforts of less developed countries have rapidly become untenable on their own turf even if they were ever tenable in foreign territories. In fact, international economic (developmental) agencies – including some that used to function as the spearheading arms of global neoliberalism – have recently begun to take turns in professing the necessity of return to serious developmentalism in the wake of the recent financial crises. In a most recent publication, the World Bank states:

> Is there a need to rethink development? This is a big question. First, we need to take stock of where we are, especially in light of the recent financial crisis and what we have learned from past crises. As was the case with previous crises, the most recent one calls for short-term policy responses. The experience with this in the 1970s and 1980s was a focus on stabilization policies. Against this background, the long-term objectives of development economies were cast to the side. It is important this time around not to renege on development. What are the questions we should be asking at this point? (Nallari et al. [2011], *Frontiers in Development Policy: A Premier on Emerging Issues*, p. 118)

This repentant sentiment or reawakening about national development is increasingly shared by other international economic agencies and regional communities.[6]

While sharing such developmental reawakening, this volume goes further by demonstrating that national troubles in the neoliberalising world are multifaceted and overlapping beyond the purely economic. The structural relationships across economic, political, social and cultural conditions of national development have been distorted and displaced under the forceful pressures and ideologies of global neoliberalism.[7] In numerous

late-developing countries, for example, neoliberalism as a form of economic governance regime arrived at a time when their arduously won democracy had to be tested by improving social welfare and economic equity as fruits of national development (see Chapters 4 and 6 in this volume). Furthermore, even those countries that have developmentally benefited from active participation in the neoliberal global economy have experienced chronic material disparities and destitution among deep pockets of their population (see Chapters 6–10). Regardless of its developmental impact and macroeconomic utility, neoliberalism has been associated with severe worsening of income inequality and constraints upon welfare programs. Such socially disintegrative economic trends in turn have continued to weaken and destabilise the politico-cultural basis of nascent democratic institutions, raising questions about the nature and benefits of formal democracy.

In many parts of the world, nevertheless, neoliberalism has not replaced but interacted with national developmentalism in complex and diverse ways.[8] Indeed, the neoliberal era has added new groups of serious developmental political economies – namely, socialist market economies in East Asia (e.g., China and Vietnam in this volume) and economically revitalised regional giants (e.g., India and Brazil in this volume) and smaller economies (e.g., Uganda in this volume), as well as developmentally motivated Western peripheries (e.g., Ireland and Australia in this volume), among others. Further, the paradigmatic cases of developmental political economy (such as South Korea in this volume) have not shifted from developmentalism to neoliberalism but neoliberally restructured their developmental system through globalised arrangements of finance, production and labour. With new constituencies of developmentalism emerging across the globe and with classic developmental political economies themselves restructuring beyond national boundaries, the socio-political conditions, processes and consequences of national development have turned out to be much more diverse and complex than previously acknowledged under the supposedly, if increasingly challenged, homogenising umbrella of neoliberalism and globalisation. Concomitantly, the structural incongruity across various goals of national progress – that is, among democracy, social equity and integration, and economic development – has become a prevalent phenomenon around the globe.

Accordingly, we consider it essential to examine critically various national configurations of *developmental politics* in the neoliberal era with particular attention paid to the nature of the interrelationships of political, social and economic processes. Our emphasis on developmental politics does not purport to replace the existing scholarship on the *political economy of development*. The two lines of scholarly interest have many intersecting and overlapping elements, but the former seeks more specifically to highlight the national and global significance of political, social and historical conditions and consequences of economic development. Such emphasis is deemed necessary especially because neoliberal offensives at the national and global

scales have often involved a pervasive denial of the sovereign status of political and social life, which in turn has ironically, if variously, helped to reawaken the essential role of the state and civil society in pursuing popularly and historically justifiable national goals. Achieving this scholarly purpose inevitably requires cross-fertilisation of economic, political, sociological and historical inquiries – an intellectual practice shared by every participant in this volume.

Both theoretically and empirically, this volume seeks to identify the essential defining and distinguishing features of two of the most influential (political) economic paradigms of our time, developmentalism and neoliberalism, and to illuminate the nature, scope and significance of the differences and interfaces between them. Accordingly, it grapples with the following questions: how are developmental and neoliberal institutions and practices best defined and distinguished; what kinds of ideas, organisational arrangements and policies might appropriately be classified as developmental or neoliberal; what kinds of interrelations, interactions and influences have ramified between developmentalism and (global and national) neoliberalism; how have political conditions and consequences of national development changed along the complex and dynamic interfaces of developmentalism and neoliberalism; and how has the systemic relationship between economic and social policies been transformed along such interfaces. In the fact that addressing these questions requires genuine interdisciplinary and transdisciplinary scholarly efforts lies the rationale for this collective volume.

We believe our interdisciplinary and transdisciplinary reflection on the realities of developmental politics at this critical juncture of global neoliberalism is a highly meaningful endeavour in historical, scientific and political aspects. Historically, the once exultantly declared global triumph of (neoliberal) capitalism after the wholesale dismissal of socialist systems is now solemnly rethought with regard to the systemic instabilities and developmental predicaments of capitalist countries (including advanced capitalist countries) themselves. Scientifically, the gross inability or inappropriateness of conventional social sciences in predicting, diagnosing and tackling such systemic instabilities and developmental predicaments necessitates seriously strengthened interdisciplinary, transdisciplinary and heterodoxical analyses of the concerned phenomena. Politically, the current world is in desperate need of paradigmatic changes in national and global economic management, changes in which dialectical interdisciplinary or even transdisciplinary efforts by experts on genuine developmental issues can and should play a critical role. These fundamental intellectual necessities cannot be met overnight by a small group of social scientists, but our current collective work is presented as a critical step forward in this regard.[9]

This book is organised in three parts, which deal with (1) critical theoretical and historical aspects of developmental politics in the neoliberal

era, (2) developmental politics of developing political economies, and (3) developmental politics of developed political economies. In the first part, the state's economic role in the neoliberal historical context is reappraised (Linda Weiss); the international "underdevelopmental" and financialising characteristics of global neoliberalism are critically examined (Chang Ha-Joon; Ben Fine); the socio-political conditions and objectives of national development as challenged by neoliberal policies are systematically discussed (Chang Kyung-Sup); and the shifting conditions of European welfare states are appraised in the light of neoliberal retrenchment, developmental reinforcement, or internal diversification (Peter Abrahamson). The second part presents case studies of developmental politics in five developing countries – Brazil (Alfredo Saad-Filho), India (C. P. Chandrasekhar), China (Alvin So and Yin-wah Chu), Vietnam (Pietro Masina), and Uganda (Julius Kiiza); whereas the third part introduces case studies of developmental politics in three developed countries – South Korea (Tat Yan Kong), Ireland (Kwon Hyeong-ki), and Australia (Elizabeth Thurbon). While the country cases covered in this volume may overrepresent the relatively dynamic political economies (especially within the less developed world), their analytical value and practical implications for understanding the relationship between neoliberalism and developmental politics are considerable.

Key substances of the individual chapters are summarised in the following section. This volume begins with the five chapters that deal with theoretical and historical issues before moving to the case studies. These eight substantive chapters (five on developing political economies and three on developed political economies) cover, on the one hand, post-ISI, post-socialist, post-developmental statist, and post-liberal instances of developmental politics during the ascendancy of neoliberalism and, on the other hand, East and South Asian, Latin American, African, European, and Australian experiences of neoliberal-era developmental politics.

2 Theoretical and historical debates

The extremely diverse and often mutually contradictory understandings of neoliberalism are in many cases due to the highly varied contexts and conditions under which neoliberal interests and offensives have shaped economic and social life. Neoliberalism is not a coherent economic or social theory in which human life is logically and constructively envisioned as evolving towards an alternative future. It is rather an aggregation of accusative liberal claims against socially organised or politically initiated programs for proactive economic and social management. Not surprisingly, developmental and welfare state policies have been subjected to particularly aggressive neoliberal assaults. Where industrial and social policies are deactivated or pre-emptively blocked, both national governance and private livelihoods

have often been increasingly dictated by immediate financial concerns (or "financialised"). Such neoliberal offensives, however, have often induced many governments into overtly illiberal practices and even reinforced developmental functions.

In the reappraisal by Linda Weiss (Chapter 1 of this volume), the global ascent of the "neoliberal state" – and conversely, the demise of the economically active state – is a "fiction". To begin with, she concurs with John Gray on the well-recognised point that the neoliberal project of injecting markets into all aspects of social life requires considerable regulatory effort on the part of the state. She also points out that regardless of the actual extent of marketisation, a majority of the advanced capitalist countries have ended up expanding public expenditure as a percentage of GDP (also see Chapter 5, by Peter Abrahamson). But her analytical target is a different or new one that seldom receives discussion in the literature. Weiss seeks to push the discussion in a different direction, away from the concentration on regulatory and social policies, to refocus the empirics on the state's deepening involvement in economic and "quasi-developmental" activities. She argues not only empirically that the state is active in the economy but also theoretically that "the state's economic involvement is *valorised* in the wake of "globalizing" reforms that we currently associate with neoliberalism" (p. 29). Empirically, she draws attention to three core areas in which the state's economic activism has either maintained or attained increasing significance – namely, high-technology promotion, investment in the form of sovereign wealth funds, and finance-sector involvement. First, perceiving knowledge-intensive sectors as their new "infant industries", the advanced capitalist countries have successfully framed (distorted?) the ostensibly free trade regime of the World Trade Organization (WTO) such that they can actively promote priority sectors by deploying a wide variety of instruments, including "R&D infrastructure, subsidies, and cost-shared partnerships; intellectual property licensing and protection; innovation-led procurement targeting new technologies; standard setting; and public sponsorship of Venture Capital funds" (p. 31). Second, the mushrooming of sovereign wealth funds, particularly since the 1997–98 Asian currency crisis, attests to the determination and capacity of many states to act as financial stabiliser against global economic turbulence and, potentially at least, as developmental financier for nationally important or economically promising industries. Third, several centuries of government intervention in the financial sector to rescue the credit system with "public bailouts, nationalisations, and other stabilising interventions" (p. 35), most notably following bouts of financial liberalisation, indicates that "the financier state" is a staple of modern financial capitalism. In the USA in particular (and in the United Kingdom to a lesser extent), the financial sector is even considered the core of national economic strength, inducing the enormous rescue packages after the sub-prime financial crisis (i.e., bailout loans, guarantees and equity

injections worth US$5 trillion). These recent instances of state economic activism reveals that neoliberalism and its global economic impacts have economically valorised, institutionally reinforced and diversified the late modern state.

In an updated essay on his influential "kicking away the ladder" argument (in Chapter 2), Chang Ha-Joon frontally criticises the Western neoliberal bloc in respect to their protective economic policies and institutional conditions of economic development. He examines the historical record of Western countries *as developing economies* in which protectionist and developmentalist voices prevailed and tariffs, subsidies and capital controls were pervasive. In particular, the American War of Independence was a political manifestation of mercantilist nationalism against the then hegemonic Britain. Many European countries, including Frederick List's Germany, became students of American developmental protectionism. Chang moves on to refute the more recent neoliberal accusation that various institutional defects of developing economies are to blame for their chronic economic difficulties. Concerning "democracy, bureaucracy, intellectual property rights, institutions of corporate governance, financial institutions (including public finance institutions), and welfare and labour institutions" (p. 46), most of today's developing countries are institutionally more advanced than Western countries during their initial stage of capitalist economic development. Thus, the laissez-faire economic policies and "global standards" institutions currently advocated by Western neoliberals to developing countries are effectively a means of "kicking away the ladder". Little wonder, then, that the developing countries remained economically sluggish during the high neoliberal period of the 1980s and 1990s. Furthermore, socio-economic polarisation has seriously worsened during this period. This "double standard" of Western countries has been conversely revealed in the aftermath of the recent cross-Atlantic financial crisis as the USA and the United Kingdom "deployed policies that are the exact opposite of what they have preached to – and often imposed upon – the developing countries in similar situations" (p. 49). The comprehensive rescue packages – including financial boosting of the economy (through expanded public spending, lower interest rates, and even "quantitative easing"), nationalisation of ailing industrial and financial megafirms, and increased industrial subsidies – indicate that neoliberalism offers no prescription for their own economic malaise.

In Chapter 3, Ben Fine considers neoliberalism the "financialised stage" of capitalism as it is "underpinned by financialisation as the key defining characteristic of the world economy over the past thirty years" (p. 59). During this period, the ratio of global financial assets to global GDP tripled, from 1.5 to 4.5. Other accompanying tendencies of financialisation include: expansion of speculative assets at the expense of investment for real economic activities; proliferation of new financial instruments and services – sometimes incomprehensible to finance experts themselves; formation of a new

hegemonic class of superrich financial managers; increased profitability of corporations derived from their financial as opposed to productive activities; disproportionate amassing of productivity gains (and income in general) by the top 5 per cent of earners (and by a class of rentiers in particular); maintenance of middle-class and mass consumption via credit (including housing loans), from which banks have reaped extremely high levels of profits. Summing up these tendencies, Fine (p. 59) argues that "the expansion of markets in general (for which read "private capital") under neoliberalism (as with all aspects of privatisation and commodification) has been associate with and driven by the expansion of finance in particular". What is most critical from the standpoint of the economic system is "the heavy subordination of economic and social policy more generally to the promotion of markets in general and especially of finance" (p. 59). Such policy redeployment reflects the active role of the state, not its withdrawal. To the extent that financialisation has involved a shift of the productive economy to the financial economy under the state's regulatory auspices, this can be seen as an instance of transformative activity in which the government supports and encourages the political dominance of the financial sector. This may be considered an instance of transformative statism, no matter whether this shift has mainly reflected the increasing political economic dominance of the financial rentier class or a sort of finance-sector-centred developmentalism (as found in Iceland and, arguably, in the USA and the United Kingdom). However, as financialisation is deemed centrally responsible for the economic and developmental slowdown during the last few decades of neoliberalism (given its direct and indirect impact on the economic and social restructuring of capitalism), the financialiser role of the state cannot but be subjected to economic and political controversy. The recent (financial) rescue packages in the wake of the 2008 cross-Atlantic financial crisis (in terms of unprecedented amounts and scopes of governmental financial commitment) attest to the extent to which financialisation reinforces itself through the state, which in turn incurs an increasing risk of becoming financially insolvent and developmentally incapable in the same process.

The subsequent two chapters (Chapter 4, by Chang Kyung-Sup, and Chapter 5, by Peter Abrahamson), respectively analyse the contexts, processes and consequences of neoliberal adjustments and transformations in the social policy regimes of developmental and welfare states. In Chapter 4, Chang Kyung-Sup places neoliberalism in the context of post-developmental transition and analyses its social and political ramifications, using South Korea as an exemplary case. He characterises the social policy regime of the (South Korean) developmental state as *developmental liberalism* and analyses how it has transformed interactively with neoliberal economic and social policies. While the liberal orientation of the developmental state to social policy is frequently discussed in the literature, scant attention has been paid to many distinctively developmental characteristics of the supposedly liberal social

policy regime. That the developmental state has been developmentally liberal is substantiated in terms of (1) depoliticisation, technocratisation and developmental obfuscation of social policy in general; (2) developmental cooptation of social policy constituencies; (3) state-business entrepreneurial merge and direct state engagement in labour relations; (4) familial reconstitution of social citizenship; (5) welfare pluralism and demobilisation of civil society. While these features of the developmental state's social policy were largely functional to national economic development, they still had to be buttressed by political authoritarianism. In South Korea, the full-scale democratic transition in the late 1980s undercut the political sustainability of developmental liberalism, but the globally spreading neoliberal propaganda and policies came to be embraced as a counter-democratic instrument for resurrecting the conservative social policy regime. However, the neoliberal economic and social changes in turn have undermined the basic conditions for a *developmentally effective* social policy regime. The destructive impacts of economic and social neoliberalism appear particularly problematic in the post-developmental liberal context of South Korea (and a host of other developmental political economies).

Peter Abrahamson presents a comprehensive appraisal of the adjustments and transformations of various European welfare states during the putatively neoliberal era. Based upon a detailed examination of the five different welfare regimes (Central and Eastern Europe, Continental Europe, Atlantic Europe, Southern Europe, Scandinavia) with respect to broad political tenets, specific policy areas, and longitudinal shifts, he offers the broad conclusion that social resilience, productive reinforcement and expanded protection – rather than neoliberal retrenchment – have shaped the European social policy landscape. Despite the wide interregional differences in the levels and scopes of social protection, most countries have at least doubled social spending since 1980 and strengthened family and health-protection policies in particular. The supposedly neoliberal situation of Atlantic Europe is particularly revealing. Ireland has increased its social spending three times since the early 1980s, now matching the British level. The United Kingdom under New Labour pursued a productivist reformulation of the welfare state in order to become an economically dynamic nation on the basis of the best educated and economically active population, but neither Blair nor even Thatcher seriously reduced the overall volume of the British welfare regime. Even more noticeable adjustments have been made by Continental European countries, whose work-centred social security systems had to be seriously reworked as deindustrialisation and labour-market flexibility (along with aging) spawned increasing pockets of unemployed, underemployed and marginalised social groups. They have tried to harmonise economic and social policies under the rubrics of "flexicurity" and "active citizen", but such productivist adjustment, in spite of their middle-class bias, is no testament to neoliberal retrenchment. Southern Europe's recent

welfare has been shaped more crucially by the democratic call for social citizenship than by neoliberalism. While their regional traditional characteristics of welfare (such as kin-based care and weak social services) have failed to improve in accordance with new social and economic demands (such as women's increasing labour participation), the social spending of each Southern European state in absolute and relative terms has expanded to such an extent that addressing them as "welfare laggards" is increasingly inappropriate. However, their common fiscal crisis (resulting from increased social spending) and economic slump may soon drive them developmentally or productively to recast their welfare systems. On the other hand, despite some "Europeanising" tendencies (such as emphasis on familial care, contracted services, fee contribution, labour market rules), Scandinavian countries have not shed in any meaningful sense their political identity as model welfare states. However, their careful efforts to adjust the welfare systems to the post-industrial socio-economic situation predates those of all other countries. While they, too, had to compromise on full employment, their policies for enhancing the economic motivation and employability (i.e., skill level) of unemployed people are most proactive. At the other end of the welfare spectrum, most of the former state socialist countries in Central and Eastern Europe have been struggling with the dual challenges of (chaotic) economic transition and (threatened) social stability. Taken separately, the welfare situation of the so-called Visegrad countries (Czech Republic, Hungary, Poland, Slovakia) appears much more organised and affluent than the rest, converging gradually towards developed Europe. But the economic developmental requirements embedded in their socialist-to-capitalist-system transition continue to constrain the levels, scopes and conditions of social welfare. In sum, most European states have tried to adjust their welfare systems to augment economic competitiveness as well as social integration. But such developmental reinforcement is no testimony to neoliberal retrenchment.

3 Neoliberalism and developmental politics in developing political economies

While the developing world in general has suffered economic slowdown, widespread poverty and gaping inequalities since the 1980s, a handful of regional economies have risen as globally significant economic and political forces with which the advanced capitalist bloc, at least symbolically, now has to share international leadership. Brazil, India and China have helped buttress the basic dynamism of the global economy, while numerous advanced capitalist economies and newly industrialised economies have struggled with industrial slowdown and financial instability. Also, though less distinct, a group of smaller yet still sizable developing economies have been able to soar economically and differentiate themselves from their

sluggish neighbours – for instance, Vietnam and Uganda, as analysed in this volume. Recently, all these countries have commonly shared political stability (whether under democracy or dictatorship) and robust long-term economic growth. More importantly, all of them have actively tried to integrate into the increasingly liberalised global economy under clearly professed national developmental aims. The neoliberal economic world seems to have been developmentally reinterpreted and accommodated by these countries. Their economic achievements, however, have been variously compromised by prevailing domestic conditions in a path-dependent manner.

In Chapter 6, Alfredo Saad-Filho presents a dispassionate reappraisal of Brazil's recent developmental performance and its political and social conditions. Brazil's seemingly unprecedented combination of sustained economic growth and democracy needs to be reassessed against the economic and social structural conditions dictated by what is dubbed "new liberalism" – a locally manifested paradigm of neoliberal political economy. The chronic industrial stagnation and financial vulnerability ensuing from decades of ISI induced the fledgling democratic regime to accommodate global (in particular, American) industrial and financial interests and to reorganise local industries as partners of transnational capital. This has "transferred state capacity to allocate resources intertemporally (the balance between investment and consumption), intersectorally (the distribution of investment, employment and output) and internationally to an increasingly integrated and US-led financial sector"; has "led to the privatization of the most productive and financial SOEs"; and has "promoted the alliance between foreign and domestic capital at the firm level and the denationalisation of industry and infrastructure" (p. 134). As a result, "Brazil's productive base has shifted away from the long-term requirements of national accumulation, towards the short-term imperatives of global accumulation" (p. 134). At the same time, the working class has been disciplined "through contractionary fiscal and monetary policies, higher unemployment and labour turnover, personal debt, and the continuing threat of inflationary or balance of payment crises should the distributive conflicts get out of hand" (p. 136). In Saad-Filho's sober reappraisal of the seemingly rosy Brazilian situation, the marriage between democracy and neoliberalism has been responsible for the politically peaceful yet socially costly transition to a new developmental regime characterised by globally fuelled economic growth and local social disenfranchisement.

India, as analysed by C. P. Chandrasekhar in Chapter 7, tends to show a largely similar picture of a developmental regime shift and its political and social conditions. India's immediate post-Independence economy was governed by a democratic but effectively interventionist state with mercantilist (and somewhat socialist) developmental goals, including augmentation of local industrial capacity (particularly in basic and heavy industries), autonomous construction of infrastructure, control of import and foreign

capital and interregionally balanced industrialisation. Even without fundamentally altering the highly divisive class structure and extreme economic inequalities and developmentally disciplining the entrenched and monopolistic local economic elites, the Indian economy enjoyed respectable growth until the mid-1960s. Like many other developing countries, India began to face economic stagnation in conjunction with its ISI strategy until the trend was briefly halted in the 1980s by state deficit spending, international commercial borrowing and import liberalisation (for luxury goods in particular). In the 1990s, India drastically changed its approach to economic development, entailing "a regime of "liberal imports", substantial dilution of regulations governing foreign investment, a progressive removal of administrative controls, a strictly limited role for public investment, the privatisation of publicly owned assets over a wide field, the easing of capital controls, and domestic financial liberalization" (p. 142). These policies served to integrate India within the global economy and to trigger rapid economic growth well into the twenty-first century. However, despite some notable growth of new export industries (automobile parts, chemicals, pharmaceuticals etc.), India's recent economic performance has by and large been fuelled by deficit public spending and credit-based consumption (in conjunction with the financialised global accumulation regime). On the other hand, the majority of India's population – poverty-stricken and land-poor peasants – continues to remain disenfranchised from the mainstream economy, whereas the capital and technology intensity of newly booming industries tends to dampen employment creation in urban areas.

While the economic revitalisation of India and Brazil has served as a significant factor in global economic growth, their performance is far overshadowed by that of post-Mao China. The 2008 financial crisis helped formalise China's status as the USA's chief political economic rival (in terms of the G-2), and even led the US government to thank China for stabilising the global (and, in particular, American) credit system with injections of capital. China, in turn, is followed closely by Vietnam in rapid development and post-socialist transition. Despite important differences in the timing and scope of reform, China and Vietnam have many aspects in common that tend to induce a convergence of reform trajectories on *state-supervised yet pragmatically liberal developmentalism*: the initial economic and social conditions of post-socialist reform (in particular, the stagnation of state industries, the chiefly agrarian economy, economic overpopulation, and widespread poverty); the ideological dilemma of socialist-led capitalist development; the political requisite of party-state dictatorship in an increasingly liberal economic and social environment; the international relations complexities (in particular, economic integration with the former politico-ideological adversary, the USA); pragmatic regional economic integration with Japan, South Korea, and other states; and embrace of the global economic order as the international environment of reform. These common conditions and

environments have produced in China and Vietnam a distinctive developmental regime under which socialist ideological concerns are woven together with developmental institutional necessities and the global liberal economic environment.

Alvin Y. So and Yin-wah Chu, in Chapter 8, present a new concept of "state neoliberalism" in order to pinpoint the recently revised nature of China's largely (neo)liberal reform policy. While China's initial systemic transition was situationally (rather than theoretically or ideologically) driven, the long-term reform package of agricultural decollectivisation, relaxed control of population mobility, marketisation of labour relations, commoditisation of social services, privatisation and corporatisation of state enterprises, decentralisation of economic decision making, and liberalisation for foreign capital and trade has undoubtedly catered to the wishes of global neoliberals. So, broadly speaking, China can be said to have pursued a neoliberal development strategy, albeit with much caution and patience. While the liberalisation of the Chinese economy and society under Deng Xiaoping quickly produced highly tangible economic outcomes (beginning with agricultural gains and spreading to rural industrialisation and coastal FDI-led industrialisation), there was also a downside in terms of agricultural stagnation, rural-urban disparity, exploitation of migrant workers, unemployment and underemployment of urban youth, dissolution of communal social services, environmental degradation, and so forth. As the Tiananmen uprising of 1989 was assessed against these social problems, the socialist party-state enacted a brief period of institutional and financial retrenchment as well as political suppression. However, Deng's worry about possible loss of economic momentum and the growing liberal interest of the "cadre-capitalist class" (p. 174) soon led the party-state to deepen and widen liberal economic reform. While China's economy kept growing at a rapid pace, discontent surfaced among impoverished and alienated peasants, unemployed and underemployed urban workers, exploited and abused peasant migrants (known as *mingong*), and politically disenchanted middle-class citizens, among others. As the political survival of the party-state itself was at stake, the new Hu-Wen leadership proposed to "rebalancing the emphasis on economic growth with greater attention to social development" (p. 177), spawning a revised governance regime that So and Chu call here "state neoliberalism". This governance regime amalgamates an ideological basis of developmental and cultural nationalism, a policy priority for social inclusionary measures (financial support for rural population in particular), disciplinary paternalism for labour, and institutional reinforcement of state economic guidance. The political essence of state neoliberalism appears to rest with direct state intervention to ensure that its policies produce socially desired outcomes through politically acceptable processes. It remains to be seen whether and how long this state-directed (neo)liberal system can serve as a doctrinal substitute in the still formally socialist polity of China.

In the East Asian context, Vietnam is a latecomer both as a transition economy (vis-à-vis China) and as a case of state-led industrialisation (vis-à-vis Japan, South Korea and Taiwan). Given Vietnam's conscious effort to emulate the successful experiences of its industrialised neighbours, the institutional and economic trajectory of Vietnam's *doi moi* can be roughly inferred from such a dual latecomer status. Pietro Masina, in Chapter 9, systematically shows the conditions, processes, and (tentative) results of Vietnam's state-led navigation through post-socialist systemic transition. Like China, Vietnam has adopted a gradualist approach to agricultural reform, state sector reform, and finance and trade liberalisation, and has achieved similarly positive economic and social outcomes. Like East Asia's early capitalist industrialisers, Vietnam has sought to drive industrialisation, technological progress and developmental mobilisation of its population under the authoritative (and authoritarian) role of the state. While Vietnam's impressive economic success (in terms of both economic growth and poverty alleviation) has been enabled through its active integration into the liberal global economic order, the social and political sustainability of such outwardly liberal economic development seems to have been ensured precisely because the Vietnamese government has successfully resisted the pressure (and seduction) of global neoliberal advisors and financiers for across-the-board liberalisation. Vietnam's pragmatic position, however, does not constitute a sufficient condition for an effective developmental state, which is characterised by transformative economic planning, finely targeted financial support and coordination of strategic sectors and firms, technological acquisition and upgrading, and the like. In particular, Vietnam's position as a subcontractor economy in the Asian regional economic division of labour does not necessarily assure its progress toward high-end industrialism. Besides, serious urban-rural inequalities and the stagnant rural economy, for which no immediate solutions are envisioned, continue to baffle the socialist state. These limits are more likely to intensify the developmentalist will of the Hanoi government, although such will does not necessarily preclude Vietnam's greater openness to liberal suggestions and interests.

Africa, in spite of the generally depressive economic and socio-political conditions in the region, has been no exception to the intricate enmeshing of developmental and neoliberal aspects of economic policy. As Julius Kiiza shows in Chapter 10, Uganda is an extremely interesting case in this regard. The country has recently "rediscover developmentalism" in terms of development plans, state activism in infrastructural provision and technological promotion, and institutional (re)building of development-related public organs (p. 211), but this developmentalist turn of Uganda came without shedding its long-standing commitment to neoliberal rules and interests. The first developmentalist economic regime in Uganda was initiated by and for the British during the post-World War II phase of colonial rule. Giving

up its early policy of arresting Uganda as an agrarian base for British industrialism, the financially troubled empire decided to "increase production in dollar earning and dollar saving industries" in the colonial territory (p. 214). The colonial state thereby "acquired developmental credentials comparable to those of the capitalist developmental states of Northeast Asia" – namely, development planning, state institutions for entrepreneurial promotion (the Uganda Development Corporation in particular), state-foreign capital alliance in major industries, and so on. The initial post-colonial government under Milton Obote (1962–71) unsurprisingly took on developmental nationalism as its ruling ideology to succeed the developmentalist governance of the colonial state. But the fruits of developmentalism had not fully ripened before Uganda entered a period of political instability under the Amin regime in the 1970s and the post-Amin governments of 1979–86. After charging into power in 1986, the current ruler, Yoweri Museveni has had "a politically rare chance to flirt with Marxism (1986–9), embrace orthodox neoliberalism (1989–97), and eventually, rediscover developmentalism" (p. 211). Since its neoliberal turn, Uganda has enjoyed a rapid and sustained economic growth (an average GDP growth rate of 7.3 per cent between 1992 and 2009), but such " "impressive" outcomes arguably conceal more than they reveal" (p. 212). Uganda's economic expansion has been tarnished by "jobless growth", high and persistent income inequality, regional imbalances (in part due to civil conflict) and, most crucially, structural inertia – that is, about 85 per cent of its 31 million population still remaining "small holder agriculturalists using a primitive technology – the hand hoe" (p. 217). Such socio-economic discontents of the neoliberal era led Museveni to turn back to his predecessors' developmentalist rule. Given that the majority of its population is structurally disenfranchised from the mainstream economy, the new developmental drive appears rightly to be targeting poverty eradication through economic activation (through the Poverty Eradication Action Plan), educational enhancement (through pro-poor primary education and cost-shared higher education), and the like. However, the political, economic and intellectual hegemony of neoliberalism as embedded in the loose alliance of Museveni's technocracy, international supervisors, domestic cronies and global capital tends to "constrain the degree to which "new" developmentalism is able to work" (p. 227).

4 Neoliberalism and developmental politics in developed political economies

The political and economic manifestations of neoliberalism have mostly been observed as to the liberal integration or subordination of developing economies to globalised capitalist interests and the liberal reforming of counter-capitalist institutions, policies and forces within developed economies. However, some developed economies have tried to harness the

neoliberal ideology and environment for national developmental purposes whether successfully or unsuccessfully. For instance, South Korea's industrial conglomerates (called *chaebol*) tried actively to tap both abundant international financial flows and expanding overseas markets by urging the government to liberalise the national economy in exchange for greater access to global capital and markets. In the wake of a severe national financial crisis, Ireland's government, business, and labour reached a landmark social partnership agreement that helped to refashion the Irish economy as a widely liberalised industrial and financial hub for cross-Atlantic investment. Australia's post-war desire to ameliorate its industrial productive capacity was in several respects upheld even by the neoliberal government of John Howard, whereas its recent economic surge has been closely linked to the expanded demand for its natural resources, above all from China. The neoliberalisation of the global economy has meant not only increasingly unconstrained business opportunities for private capital but also additional developmental resources and opportunities for activist national governments and their business allies. The economic regulatory and contractionary impacts of neoliberalism do not necessarily offset such developmental implications, but its social displacement impacts on inferior categories of labour and business tend to threaten the long-term sustainability of the developmental neoliberal regimes.

Tat Yan Kong, in Chapter 11, presents a highly elaborate picture of South Korea's neoliberal transition in which neither the developmental will of the state (and *chaebol*) nor the political and managerial legacies of the early developmentalist era have been fundamentally altered amid the rapid post-crisis economic recovery. Instead of directly finding fault with the policies for financial liberalisation, deregulation and privatisation, Kong argues that some of the potentially rational policy shifts have been kept from producing meaningful adjustment effects due to the entrenched interests of *chaebol*, technocratic and political inertia, and even the collusive turn of global capital. To Kong, the *chaebol* system has been particularly problematic in the neoliberal era due to its overdiversification and overexpansion tendencies, which have distorted the policy shift "from government credit rationing to financial liberalisation" (p. 240). Also, the *chaebol*'s propensity to avoid productive negotiation with labour and fair dealings with minor enterprises blocks South Korea's smooth transition to a flexible and innovative liberal economy. Given the tenacious anti-labour orientation of the state, in addition to the *chaebol*'s tenacious refusal to acknowledge labour as an equal partner for social and developmental goals, South Korea's smooth evolution towards a relatively consensual political economy (as found in Continental and Scandinavian Europe, or even Japan) is not very likely. During the national financial crisis, nevertheless, the developmental state's robust managerial capacity, built through decades of successful economic intervention, helped channel the IMF's neoliberal reform demands into the

much-needed sectoral specialisation and financial restructuring of *chaebol*. The successful reshuffling of *chaebol* (and labour) was immediately accompanied by their enhanced international competitiveness and, concomitantly, by the impressive recovery of the national economy. Foreign investors and financiers soon returned with much stronger enthusiasm for numerous steadily profitable firms and for the South Korean economy in general. However, such economic recovery and foreign confidence proved a mixed blessing because both the government and *chaebol* were no longer under pressure either to reform the *chaebol*'s highly problematic corporate control structure or to forge a more inclusionary economic system accommodating small and medium-sized enterprises, workers and farmers. As the *chaebol*'s economic domination, under the state's tacit endorsement, became more conspicuous than ever, many South Koreans began to derogatorily call their country “the *chaebol* republic”.

Kwon Hyeong-ki, in Chapter 12, discusses Ireland's rise from Europe's economic backwater to Europe's new developmental model through a neo-corporatist social alliance. As a typical Anglo-Saxon liberal political economy, Ireland remained open to foreign trade and investment and, until the 1980s, was subject to little regulation and coordination in labour relations. For a while, the Irish economy enjoyed the arrival of numerous multinational companies (in particular, from the USA). While some Irish workers benefited from the relatively high wages acquired through bargaining with individual multinational firms, the overall economic situation was tarnished by high unemployment, high inflation, fiscal crisis, soaring taxes, falling profits and even mass emigration. This vicious circle was dramatically halted in 1987, when the threat of national bankruptcy led political leadership, trade unions, and business to reach a historic pact (the Programme for National Recovery) that would nourish national economic competitiveness through wage concessions, fiscal and monetary reforms, and other productivist measures. Ironically, the neoliberal assault on British labour under Thatcher exerted a “scare effect” on Irish unions in their compromise with the government and business. The Irish social partnership was a developmental initiative for reviving corporate and national economic competitiveness rather than a redistributive or social democratic one for augmenting social rights and security. The social partnership – by “keeping wage costs low, enabling fiscal consolidation and a stable exchange rate, and attracting FDI inflows by political stability and industrial peace” (p. 259) – not only allowed Ireland to escape from the financial crisis but also helped to elevate it developmentally as “the Celtic Tiger” with Europe's most robust indicators of economic and social improvement between 1995 and 2002. (In this respect, the Irish case supports Elizabeth Thurbon's argument, in Chapter 13, that what often pass for “neoliberal” policies have on closer analysis been motivated less by neoliberal ideology than by developmental desire.) However, Ireland's heavy dependence on FDI implied the relatively

weak productive capacity of domestic capital and its vulnerability to global market fluctuations. While the sustained high economic growth rapidly augmented the tax base and, thereby, enabled the state to expand social expenditure and to strengthen social protection programs, the enriched population failed to found an alternative or autonomous industrial system for long-term national development. Instead, speculative investment in housing and construction prevailed, often financed by foreign borrowings, and fuelled a bubble economy in the new century. Even the competitiveness of Ireland-based multinational companies was threatened due to the substantially raised wages. Ireland had to confront another national financial crisis in 2009 and, not surprisingly, formulated another crisis-management social pact (The Framework for a Pact for Stabilization and Economic Renewal). The Irish social partnership for national economic recovery and competitiveness appears to have been renewed precisely because of the national financial crisis.

In Chapter 13, Elizabeth Thurbon questions some popular myths about the influence of neoliberal ideology in Australia, arguing that the significant shift towards liberalisation, deregulation and privatisation during the 1980s and early 1990s did not reflect a neoliberal transformation of the Australian state. Rather, the embrace of openness during this period coincided with the *intensification* (as opposed to dilution) of the developmental ambition and activity of the Australian industrial policymaking elite. During this period, this elite drew consciously on East Asian and European experiences in designing Australia's plans for industrial renewal. On this basis, Thurbon argues that "general shifts towards liberalisation, deregulation and privatisation" are not "useful indicators of a state's tendencies, given that states with both orientations have vigorously pursued all three since the 1980s, albeit from different motivations" (p. 281). In a situation describable as "developmental openness", Thurbon argues that Australia's "decision to pursue economic openness was motivated less by neoliberal ideology than by developmental desire", and thus "liberalisation and deregulation were combined with the development and implementation of a relatively coherent industrial adjustment and upgrading strategy in a variety of existing and emerging industrial sectors" (p. 286). While the developmental efforts of the 1980s and early 1990s suffered serious setbacks under the long reign of Liberal Prime Minister John Howard, Thurbon questions the popular claim that "developmentalism Australian-style was sacrificed on the altar of neoliberalism" (p. 288), presenting evidence that calls into question the Howard government's neoliberal credentials. Following three terms of John Howard as prime minister, Australians voted in Kevin Rudd of the Labour Party, a more explicitly developmentalist (as well as socially progressive) prime minister, whose ambitiously activist industrial policy would be tested by the unfortunate environment of the global financial crisis of 2008 and reworked by Julia Gillard from 2010. However, Australia's

developmentally inspired policymakers of today face similar obstacles to the developmental pioneers of the 1980s, for Australia remains far from qualifying as a coherent and sustained developmental state. In particular, the long-standing obstacles to Australia's developmental march to a fully advanced industrial economy – "an entrenched preference for foreign goods, problems of coordination between government departments, a local manufacturing sector dominated by foreign firms, fragmentation of local manufacturing interests, and a general scepticism amongst the business community of the government's interest in and capacity meaningfully to coordinate a coherent national development plan" (p. 292) – all remain to be reconciled.

5 About the scope

The experiences of the eight countries analysed in this volume commonly elucidate that neoliberal transitions at the global and the national levels have ramified extremely complicated consequences for their developmental conditions. Although development as the premier national(ist) project has not lost its political primacy, the social constituencies and political environments of *development as national politics* have fundamentally changed. Under neoliberalism, even the archetypical developmental states, such as South Korea, have had to compromise their national public attribute and instead ally with the domestic and global business interests that demand (neoliberal) policies and laws with systematic sacrificial effects on various minor actors in the economy and society. In those countries where national developmental dependence on neoliberal forces has taken place before full industrial or developmental take-off, economic disenfranchisement and social deprivation have chronically marred the national aggregate performance in economic growth. Conversely, such economic and social displacement often appears as much a condition as a consequence of neoliberally framed development. Brazil, India and Uganda, as analysed in this volume, appear symptomatic of such a dilemma. As formerly socialist China and Vietnam have confronted the same dilemma, they have had to adjust the speed and nature of their neoliberally framed development seriously, constituting the so-called gradualist approach to post-socialist transition. It is interesting to note that even Ireland and Australia, while not among the most industrialised group in the West, have had to approach the global neoliberal order developmentally, with fairly mixed economic and social outcomes. The two countries show that such developmental accommodation of neoliberalism has been no exclusive territory for either conservative or progressive political leadership.

Although these countries reveal in common that developmental politics under neoliberalism is an extremely complex phenomenon often accompanied by mutually contradictory economic, political and social consequences,

they somehow overrepresent the relatively dynamic political economies (in particular, within the less developed world). That is, the developmental conditions of the majority of the less developed countries are much worse than those of the case-studied countries here. Of course, the latter's neoliberal-era experiences of development as a national project can be usefully examined by their less fortunate counterparts that have only been abused and exploited by global neoliberal forces. In a sense, their complex experiences could be much more useful than those of the prototypical developmental states or periods because the neoliberal environment in which today's less developed countries are situated fundamentally differs from the earlier global political economic order often more conducive to mercantilist developmentalism. However, it should be pointed out that the global neoliberal order cannot allow the simultaneous or universal development of all less developed countries. For a majority of less developed countries, the political utility of developmental learning at the national level should always be appraised against that of global collective action for a much fairer world economic order. This political necessity is more obvious now than ever before precisely because of the globalised nature of neoliberal ideas, interests and powers. In sum, under all circumstances, developmental politics at the national and the global levels should be practiced simultaneously.

Notes

1. For financialisation, see Fine's Chapter 3 in this volume.
2. A number of the contributors to this volume have been internationally active in such whistle-blowing, and their contributions here are made in the same spirit.
3. Obama (*CNN*, 22 Nov 2008), addressing the American people, said "We'll put people back to work rebuilding our crumbling roads and bridges; modernizing schools that are failing our children; and building wind farms and solar panels, fuel-efficient cars and the alternative energy technology that can free us from our dependence on foreign oil and keep our economy competitive in the years ahead."
4. During the first four months of 2011 alone, Obama lauded South Korea's developmental energy, human capital, and IT infrastructure on four different occasions (*Korea Herald*, 26 January 2011, "Obama says S. Korea's education, internet outperforming U.S."; 9 March 2011, "Obama lauds S. Korea's education system"; 14 April 2011, "Obama lauds Korean students outpacing American students in science, math"; 20 April 2011, "Obama calls for more investment in broadband to catch up with Korea"). See K. Chang (2010) for a comprehensive account of the developmental nature of South Koreans' social and familial relations that Obama envies so strongly.
5. The violent riot of British youth in summer 2011 is a testament to this dilemma.
6. For instance, not unusually, the United Nation Economic Commission for Africa (UNECA), along with African Union, has more expressly argued for national development as conditioned upon developmental state intervention. See UNECA and African Union (2011), *Economic Report on Africa 2011: Governing Development in Africa – the Role of the State in Economic Transformation*.

7. See Leys (2001), *Market-Driven Politics: Neoliberal Democracy and the Public Interest*.
8. As Thurbon suggests, it may be helpful "to define developmentalism in the negative to be clear about what it is *not*", particularly in the neoliberal context. According to Thurbon, developmentalism (or politics embodying national developmental purposes) is *not*: *"an inherently 'protectionist' philosophy"*; *"incompatible with economic openness or 'globalisation'"*; *"defined by a concrete set of policy instruments*, such as high tariffs, sectoral FDI restrictions, discriminatory procurement policies or differential interest rates for strategic industries"; *"unique to 'developing' countries or limited to early or mid-stages of industrial development"*; *"synonymous with a top-down model of industrial governance"*; *"incongruous with distributive goals"* (Chapter 13, pp. 276–7).
9. Some contributors to this volume have written or edited elsewhere numerous significant books in the same spirit. See Bayliss, Fine and Van Waeyenberge, eds (2011), *The Political Economy of Development: The World Bank, Neo-Liberalism and Development Research*; H. Chang (2003), *Globalisation, Economic Development and the Role of the State*; K. Chang (2012), *Developmental Politics in South Korea: From Developmental Liberalism to Neoliberalism*; Fine, Lapavitsas, and Pincus, eds (2001), *Development Policy in the Twenty-First Century: Beyond the Post-Washington Consensus*; Fine, Saraswati and Tavasci, eds (2012), *Beyond the Developmental State: Industrial Policy into the 21st Century*; Ghosh and Chandrasekhar, eds (2009), *After Crisis: Adjustment, Recovery and Fragility in East Asia*; Ghosh and Chandrasekhar (2001), *Crisis as Conquest: Learning from East Asia*; Masina, ed. (2002), *Rethinking Development in East Asia: From Illusory Miracle to Economic Crisis*; Weiss (1998), *The Myth of the Powerless State: Governing the Economy in a Global Era*; Weiss, ed. (2003), *States in the Global Economy: Bringing the Domestic Institutions Back In*. In addition, the following works are useful in the same regard: Amsden (2004), *The Rise of "The Rest": Challenges to the West from Late Industrializing Economies*; Colclough and Manor, eds (1993), *States or Markets?: Neo-liberalism and the Development Policy Debate*; MacEwan, ed. (1999), *Neo-Liberalism or Democracy? Economic Strategy, Markets, and Alternatives for the 21st Century*; Stiglitz (2003), *Globalization and Its Discontents*; Stiglitz (2006), *Making Globalization Work*.

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Part I

Developmental Politics and Neoliberalism: Critical Issues

1
The Myth of the Neoliberal State

Linda Weiss

1 Introduction

This chapter discusses how and why the state – well before the financial crisis and in spite of expectations fostered by debates on globalisation and neoliberalism – remains at the core of economic governance. It examines three areas of state activism in the economy – two long-standing (in industry and finance), one more recent (sovereign investment funds) – and proposes (as the counterpoint to the globaliser-cum-neoliberal argument) that the state's role as an economic and developmental actor has been valorised rather than diminished by the pressures of economic integration.

As descriptors of the state's actions and orientations, the terms "developmental" and "neoliberal" have been widely applied as polar opposites, with each occupying a different end of the political economy spectrum. Polarisation has been repeatedly reinforced in the voluminous literature on globalisation's impact on state capacity and in the related discussions of the effects of neoliberal reforms on the state's economic role. In these stories, it is most often the *rise* of the *neoliberal* state – set against the *demise* of the *developmental* state – that forms a central chapter.

Dissenting stories that challenge this rise and decline (or convergence) view of recent history have not been lacking. Even so, it has taken a global financial crisis to move the idea of the triumphant neoliberal state from the status of received wisdom to that of central question. Prompted by government responses to the financial meltdown, many state retreatists (or transformationalists)[1] have hit the pause button; accordingly, the state is now enjoying a moment of reappraisal. Indeed, for many observers in both the research and the wider communities, it would appear that the state is suddenly back in business.

In this chapter, I take a different tack. On both empirical and theoretical grounds I seek to show that the state was never out of business and that the neoliberal state is a fiction – though perhaps a necessary one. Others have come to conclusions not dissimilar – though for the most part arguing on

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Polanyian grounds that are by now well recognised in the literature. Thus, John Gray, writing in *New Statesman*, in a sympathetic view of Raymond Plant's recent book, *The Neoliberal State*, writes that

> Neoliberals wanted to limit government, but the upshot of their policies has been a huge expansion in the power of the state…. An increase in state power has always been the inner logic of neoliberalism, because, in order to inject markets into every corner of social life, a government needs to be highly invasive…. Health, education and the arts are now more controlled by the state than they were in the era of Labour collectivism. Once-autonomous institutions are entangled in an apparatus of government targets and incentives. The consequence of reshaping society on a market model has been to make the state omnipresent. (Gray 2010)

Health, education, and the arts, indeed – but what of the state as an economic actor or one that seeks to do more than "regulate" – perhaps even to influence the direction of activity in the industrial or financial economy?

In this omission, Gray's observation resonates with a much larger literature. Although the literature on the developmental impact of neoliberalism disagrees about many things, there has been broad agreement that the state has undergone some fundamental *transformation* as economic actor. Whole new labels have been invented as a result – ranging from the *neoliberal* state and the hollow state, to the *competition* state and the *regulatory* state. Behind each of these labels lies the common perception that the state's economic role had been drastically curtailed – limited to setting the rules of the economic game and promoting the expansion of competition. For many, then, it appears that the state has long abandoned a developmental role and become instead a (socially invasive) regulator.

Focusing on *non-regulatory* areas of activity, I indicate three ways in which states are as occupied as ever in efforts to govern the market and influence economic outcomes. Further, I propose that this activism is not in spite of, but often *because of* economic integration. Although the worldwide diffusion of "neoliberal" policy reforms is real enough, the idea of a "neoliberal state" has limited analytical value. As a much-used label in our times for a developmentally inert state, a state that is either structurally constrained by global markets or ideologically committed to playing the minimalist role of market facilitator-cum-competition regulator – this kind of state I shall argue, both empirically and theoretically, was *always* a fiction.

Let it be clear that the issue is not one of definitions. It is true that the term *neoliberal* – used right across the social sciences, often pejoratively, to encompass diverse ideologies, policies, and practices – has become one of those giant omnibus words that threaten to capsize with overstretched capacity. One consequence is its diminishing appeal as an analytical tool. But this is the story of many such concepts – globalisation included.

When applied to the state, the neoliberal ideal – in the "transformationalist" sense often intended in the literature – is an approximation of the kind of state envisioned by neoliberal thinkers who maintained that its economic role should be limited to facilitating and preserving the free market (albeit while providing a basic social safety net against poverty). As is well known, this "minimal state" ideal was one that Margaret Thatcher and Ronald Reagan sought to establish with a swathe of reforms in the 1980s. But as Raymond Plant's (2010) authoritative account of the "neoliberal state" reminds us, this Anglo-American project did not achieve its objectives.

On the spending front, for example, the OECD data leave little doubt that state spending relative to the size of the overall economy has continued to grow, not only in the Anglo-American crucible of neoliberal reforms but in the OECD countries as a whole. Over a 40-year period (1965–2006), social expenditure in the OECD countries as a percentage of GDP increased from 16 to 20.6 per cent (OECD 2007), while state spending overall remained relatively robust, averaging 40 per cent of GDP – up from 25 per cent in 1965 (World Bank 2004). Looking beyond the rhetoric of the "rolling back of government", some writers suggest instead that what has changed, is that "the *growth* of the size of the state has been halted" (Prasad 2006, 6). The long-term effects of the GFC will add a new twist to the story, but this should not be confused with a neoliberal project.[2]

If spending patterns have by and large contradicted the neoliberal project of rolling back the state, so too do regulatory trends, which have significantly expanded the domain of state intervention. For as David Levi-Faur (2007) has observed, rather than removing the state from the market, the neoliberal drive has required national authorities to set new rules of the economic game – devising competition policy for telecommunications and other recently privatised utilities, setting prudential norms for deregulated financial institutions, and so forth. Freer markets require more rules (if markets are not to implode). No surprises here, others would say, for this market-state entwinement is the bedrock contradiction (or paradox) at the core of the neoliberal project.[3]

Why the neoliberal state is a fiction – even in the arena of development (and finance) – is the question I address. My argument is in two parts: In the first section, I erect empirical scaffolding for the first strand of the argument, touching on three aspects of the state's economic role. I call these developmental, investor, and financial activism, to describe three major ways in which the state's economic involvement is valorised in the wake of "globalising" reforms that we currently associate with neoliberalism. To round off the argument, in the final section I inject some theory to make sense of the empirics, to explain why the idea of a neoliberal state – conceived as the polar opposite of a developmental state – is of little analytical value.

2 State activism – past, present, future

2.1 The technology state: perpetual ladder climbing

Under the technology label, we find industrialised states promoting new infant industries and governance structures central to the so-called knowledge and information economy but doing so often under new labels that can be accommodated by the global trade rules. Having set the multilateral trade rules to give them scope for this project, the industrialised nation states are currently embarked on a high-technology race – a race to sustain international competitiveness, energy security, and standards of living in a world with many new competitors.

Technology activism is a form of industry policy for the knowledge economy. It upsets that tenet of the "neoliberal state argument" which claims that national governments do not engage in industrial policy (e.g., by selecting, or "targeting", particular sectors for resource allocation), chiefly because this would involve interventions in the market that are no longer acceptable under the multilateral trade regime. In this connection, the creation of the WTO – which has overseen extensive trade liberalisation – has often been posited as a key pillar of the neoliberal order.

Where developing countries are concerned, for example, it has been powerfully argued that the WTO has been "kicking away the ladder" by prohibiting the very policy tools – tariffs, subsidies and capital controls, the imposition of local content requirements on foreign companies – that industrialised countries once used to grow their own economies (H. Chang 2002).

From another perspective, however, the rules of the international trade regime are not so much neoliberal in orientation as double-edged (or as some would say, "biased" towards advanced economy needs). The rules are framed in a way that enables developmental activism for those at the top of the technology ladder, while rendering more difficult developmental initiatives by those seeking to ascend. In short, the WTO effectively prohibits a number of policy tools once used by all the industrialised countries to climb the ladder of development, while at the same time preserving policy space for the advanced economies to grow their (technology-intensive) infant industries.

As in earlier periods, the already industrialised states have been encouraging the development of new infant industries. The major difference is that, this time, the infant industries lie in the knowledge-intensive rather than labour- or capital-intensive sectors. To mesh with their higher technology profile – in biotechnology and robotics, new materials and nanotechnology, microelectronics and communications, information and new energy – new kinds of subsidy rules have been created under the rubric of Science and Technology Policy within the multilateral framework.

The point about these new infant industries is that they do not need old-style tariff protection or even export subsidies to encourage production. More important for the new sectors is R&D infrastructure, subsidies, and cost-shared partnerships; intellectual property licensing and protection; innovation-led procurement targeting new technologies; standard setting; and public sponsorship of venture capital funds. In the United States, for example, the world's biggest venture capital fund for start-ups is run by the federal government, providing some $2.5 billion of investment annually to American start-up companies and innovative firms. Moreover, the use of technology-procurement programs to drive innovation and create high-technology demand (as perfected in the United States), is one of the most powerful and understudied areas of state activism – and one attracting the serious attention of European authorities.[4]

The more general point to emphasise is that *states in the industrialised (and emerging) economies are doing a good deal more than simply shaping the macroeconomic environment*, as the neoliberal argument would have it. They are targeting technologies and products for development, setting funding priorities for R&D, initiating or coordinating standards setting, creating markets for new products through procurement programs, and spinning off companies and intellectual property to the private sector. A new road ahead for state activism is already being traced by the current race to develop and implement low-carbon technologies. While there is considerable variation in the combination and extent of these developmental efforts across the OECD, one must nevertheless agree that they involve states in more complex and proactive forms of economic governance with the private sector than the passive setting of tariffs that typically obtained in the past.[5]

With a slight shift in perspective, it is not too difficult to see such activities as a distinctive form of infant-industry promotion – with a renewed role for a developmental form of activism. The careful relabeling of this activity as S&T policy under the WTO is important – because language matters. But it does not hide the fact that it is effectively "open-economy industry policy" for the high-technology economies.

The implication is not that all states are "developmental", in the classical sense of the term that Chalmers Johnson applied to the Northeast Asian experience (Johnson 1982, 1999). Nor does it imply that little has changed in erstwhile developmental states. It means that we need to treat these categories with the *contextual* care that they deserve. In this vein, it should be emphasised that industrial catch-up was the motivating force that propelled state actors in the original East Asian three to engage in the strategising and institution building necessary to carry out their ambitions. Having largely succeeded in closing that gap – especially in the technological realm which underpins national prosperity and security – different state arrangements, goals, and methods have come into play.

Developmental states are best understood as those in which the use of state power for achieving national economic outcomes (especially "catching up") is perceived as legitimate and widely supported. But the specific outcomes to be pursued necessarily change as a country achieves industrial development and approaches the technology frontier. Job-creating growth (the East Asian recipe for sharing in the fruits of growth) becomes progressively more difficult nearer the top of the technology ladder, as Chang Kyung-Sup suggests (Chapter 4 in this volume). But developmental ambitions do not disappear, as exemplified by the new strategic industry policy of South Korea's Ministry of Knowledge Economy for the renewable energy sector and the role of its former Ministry of Information and Communication in Korea's rapid rise in mobile communications (Kim 2012). When catch-up is no longer the preeminent concern, "developmental" states shed their "fast follower" structures to tackle new tasks – regardless of the extent to which they may also embrace neoliberal reforms.

2.2 The investor state: sovereign funds rising

Moving to the second major form of state activism, a relatively new type, manifested in the growth of sovereign wealth funds and the rise of the investor state, can be observed. Sovereign wealth funds (SWFs) are state-owned institutions which invest in a variety of financial assets.[6] These institutions are commonly funded by foreign exchange reserves, which are derived either from the rapid growth of commodity prices (mainly oil and gas) or from large trade surpluses in manufactured goods. Accordingly, the growth of sovereign funds has been strongest in oil-rich nations (such as Norway, Saudi Arabia, and the UAE) and in such large exporters as the East Asian nations (China, Singapore).

Two aspects of sovereign fund development underline the impact of globalisation on their growth and operation. These have to do with the timing and circumstances of their rise. Although a few sovereign funds have been around for almost half a century, their rapid growth is much more recent. Most SWFs have emerged in the past two decades, in tandem with the expansion of the global economy, the growth of global imbalances, and increasing volatility in commodity prices and financial markets.[7] Worldwide, there are now some 40 to 50 SWFs (depending on one's definition), with most growth concentrated in the past two decades. In 1990, according to the former IMF economist Simon Johnson, sovereign funds "probably held, at most, $500 billion" in assets;[8] the current total is just over $4.0 trillion and, based on several projections, could reach $10–12 trillion by 2015. To put this into perspective, U.S. GDP in 2009 was $14.3 trillion, while total assets under management worldwide was approximately $1.4 trillion for hedge funds and $16 trillion and $21 trillion, respectively, for insurance and investment companies.[9]

In other words, despite their heterogeneity of form, purpose, and focus,[10] the majority of sovereign funds appear to have something in common, which is evident in the timing of their rapid growth: Consistent with deepening international integration, the funds can be seen as efforts by national governments to create a domestic cushion against turbulence in global markets. Some were set up to stabilise fluctuating revenues from the volatile pricing of commodities.[11] Many others were created in the aftermath of the 1997–98 Asian currency crisis, while still others have emerged in the wake of the 2007 global financial crash – in each case as a hedge against increased economic uncertainty (the French fund being a prime example in Europe). In this respect, sovereign funds represent one of the most important ways in which nation states – in both developed and emerging economies – seek to cope with the vulnerability created by volatility in international markets.

It has also been observed that, because of their dependence on exports, East Asian economies are more exposed than most developing economies to financial volatility. According to a Deutsche Bank Research report, "SWFs located in Asian economies are the most active investors, contributing 66% of the funds of the transactions which have been reported globally since 1995 and which amounted to US$178 billion in total".[12] In such settings, SWFs may serve the important role of "insurers of last resort in underwriting domestic economic growth and consumption".[13] Thus, Taiwan's Stabilisation Fund (in addition to its reserves of $256 billion) – a legacy of the 1998 regional crisis – is reportedly invested chiefly in local assets and employed to influence the stock market. In many if not most cases, national investment funds represent one of most important ways in which nation states (in both developed and emerging economies) have begun to hedge against uncertainty. In this context, globalisation valorises the state by creating incentives for sovereign hedging against market volatility.

The second point to emphasise relates to the evolving role of sovereign funds. Although the existence of these government-owned funds has generated concerns that such investment activities might be politically rather than commercially motivated, this fear quickly subsided during the 2007–8 crisis.[14] Far from sucking up strategic assets, Asian and Middle Eastern funds helped to stabilise the financial system with much needed liquidity, injecting capital into ailing banks at a time when global credit was drying up.[15] Due to their actions at the height of the global financial turmoil, SWFs have thereby come to be seen as exercising a vital stabilising role in the financial system. As one commentator remarks,

> The initial stages of the credit crunch in 2007 were managed so apparently painlessly because sovereign wealth funds from the Middle East, but above all from China, were willing to step in and recapitalize the debt of American and European institutions. (James 2008)

In this connection, it is interesting to note that earlier perceptions of SWFs as strategic threats that might set about targeting sectors like defence, energy, and finance soon gave way to more positive assessments that welcomed their stabilising influence in financial markets.

But in addition to their stabilising role in the financial system, there is potentially also a *developmental* dimension to sovereign funds. Norway, the world's second largest fund after the UAE, with some $600 billion in assets (greater than its GDP), has been targeting at least some of its investment in new growth and high-impact areas such as renewable and clean energy companies. The Norwegian move indicates the potential of SWFs to become major actors in catalysing new industry sectors should they so choose.

The 2008 crisis has made the SWF more broadly desirable, provoking leaders from Europe to Asia to propose setting up similar funds. Thus, at the end of 2008, the French government launched France's own sovereign fund – *Fonds stratégique d'investissement* ("strategic investment fund"), or FSI – stipulating that the fund would "invest in companies with the potential to drive the competitiveness and growth of the French economy." Since its formation, FSI has helped kick-start or has bought stakes in companies making everything from car parts, electric-car batteries, and digital computers to a Web video rival of YouTube.[16] Further afield, Japan's ruling party is also proposing to create a sovereign fund with its $1.07 trillion in foreign reserves in order to obtain greater returns on Japan's overseas investments.[17]

In short, global turbulence has created a boom in sovereign funds and may well open a new developmental chapter in the state's investment activities. More generally, whether or not one accepts the emerging view of SWFs as "a special, but highly visible, manifestation of the government as entrepreneur" (Lerner 2009), it is hard to escape the conclusion that the growth of SWF investment, both at home and abroad, has made these state-owned entities major players of the twenty-first century (see also Johnson 2007).

2.3 The financier state: rescuing the credit system

The third area of economic activism concerns the interventions of the "financier state", referring to the public sector's intermittent yet critical role in rescuing, reviving, and sustaining financial institutions and credit markets. Arguably, this role has become increasingly important in so far as the global expansion of capital flows (usually following bursts of liberalisation) increases the incidence and intensity of financial crises.

Three points can be made in this connection.[18] First, financial crises have been a familiar and regular feature of global capitalism for over 200 years. Financial globalisation and financial crises have gone hand in hand. As Reinhart and Rogoff argue on the basis of a broad historical analysis,

> Periods of high international capital mobility have repeatedly produced international banking crises, not only famously as they did in the 1990s, but historically (Reinhart and Rogoff 2009, 155)

The related finding, documented by Kaminsky and Reinhart (1999), is that the majority of historical financial crises are *preceded* by bouts of financial *liberalisation*. In the case of the US subprime meltdown, significant de facto liberalisation took the form of a shadow banking sector in which new unregulated financial products – for example, derivatives, including credit default swaps – came to play a larger role in the financial system (Reinhart and Rogoff 2008, 10). In the same vein, other regulations, such as those designed to protect against excessive risk, were dismantled (this situation is discussed below).

Second, government intervention in the financial market has been the rule, not the exception. While some authorities – notably Michael Glos, former German Minister for Economics and Technology – have been quick to declare that government interventions for the banking and insurance sector are "an indispensable exception" (cited in Bennhold 2008) to general free-market policies, there is in fact nothing exceptional about government intervention to secure the banking system following a financial crisis. On the contrary, public bailouts, nationalisations, and other stabilising interventions have been the historical norm, often entailing a massive role for the state as primary investor, financier or lender of last resort.

The United States, for example – widely perceived as the model of non-intervention in the market – has a lengthy experience engineering bank bailouts, experience that runs from Alexander Hamilton's purchase of securities during the panic of 1792 (the first Wall Street crash), to the investments made by the Reconstruction Finance Corporation (RFC) in the 1930s, to the more recent takeover of about half the nation's savings and loan (S&L) institutions in the 1980s and early 1990s.[19]

More generally, in the developed countries alone there were 18 major bank-centred financial crises between 1945 and 2000. Involving 16 industrialised countries over the 1977–95 period alone, these crisis episodes produced major declines in economic performance and required interventions over a protracted period. Major interventions included guaranteeing deposits, providing loans, and nationalising banks with injections of capital with a view to eventual reprivatisation. In some cases, this could take up to a decade. Moreover, the fiscal costs of bank rescues can be enormous, ranging from 3.2 per cent of GDP in the U.S. S&L crisis of 1984 to an estimated 20 per cent in the case of Japan (Reinhart and Rogoff 2008, 4). As merely the latest in this series, the 2008 global crisis is perhaps unprecedented only in the eventual scale of the public interventions – now in the trillions of dollars – that will be required to repair and restabilise the financial system.

The October 2008 financial rescue package for American and European financial institutions – a mixture of bailout loans, guarantees, and equity injections – was estimated to exceed $7 trillion, $5 trillion of which was the U.S. share alone. In the light of this massive financial commitment, a *New York Times* editorial remarked that "the U.S. government now owns stakes in the nation's biggest banks. It controls one of the biggest insurance companies

in the world. It guarantees more than half the mortgages in the country."[20] As the editorial continued, "Finance – the lifeblood of capitalism – has to a substantial degree been taken over by the state."

Similar actions have been undertaken in Britain, Europe, and Asia, where public institutions, in preparation for further turbulence, have effectively taken over large swathes of the financial system with massive injections of capital and loans, as well as bank guarantees – simply because credit markets seized up (Hutton 2008). As of November 2010, the entire banking system of Ireland looked set to be a candidate for the next round of nationalisations. No matter their political differences, the financial meltdown has forced a consensus among leaders of the world's top economies that aggressive and concerted action is necessary to help ease the global crisis.

My third point on the financier state is that what these episodes reveal is not simply that the state is a necessary or visible actor in the (financial) market (which it is, at least for now). More theoretically, these episodes draw attention to the enduring entwinement of the global economy with the nation state. Two hundred years of financial crashes, manias, and panics – carefully charted by Charles Kindleberger (2000) – have demonstrated the extent to which the stability and functioning of the financial system is closely intertwined with the state's regulatory and financial powers.

Even more than the historical record effectively demonstrates, the global financial meltdown is itself a textbook story of the state's disentwinement from financial regulation. As indicated above, the United States "threw away a critical core of the regulatory rule book" – effectively disentwining itself from the financial market and in the process fostering a giant shadow banking sector by acts of omission and commission. First, in 1999 Congress *removed a crucial firewall* (repeal of the Glass-Steagall Act) that separated commercial and investment banks and protected savings from being used for risky investments. Then, a year later, Congress passed legislation that *exempted derivatives from regulation*. Finally, in 2004 the SEC and Treasury informally *eliminated the prudential requirement* for investment banks originating mortgages to maintain adequate capital reserves to cover their lending and borrowing activities. This "self-regulatory" environment gave financial institutions the green light to engage in massive credit expansion, ultimately unleashing a tidal wave of debt geared towards increasingly dodgy investments. However, according to the more astute observers, this was no "neoliberal experiment" gone haywire. Simon Johnson, former chief economist at the IMF and one of the most respected analysts of the crisis, has noted that the deregulatory motives were anything but ideological. U.S. authorities abdicated their regulatory role, not because of a dedication to market fundamentalist beliefs, but because they shared the view of the financial elite that what was good for Wall Street was good for American

power – an ethos evident in the tenor of congressional financial committee hearings. Indeed, observes Johnson, "A whole generation of policy makers has been mesmerized by Wall Street, always and utterly convinced that whatever the banks said was true." Rather than having to buy influence, "it benefited from the fact that Washington insiders already believed that large financial institutions and free-flowing capital markets were crucial to America's position in the world" (Johnson 2009). Whereas some attribute this mindset to a mix of cronyism and campaign financing, Johnson adds depth with historical and political perspective, likening the overarching power of America's financial elite to that of an entrenched oligarchy commanding special privileges similar to those meted out under the pre-Napoleonic institutions of the Ancien Régime.

On the surface, these developments could be read as indications that – after a long interval and as a result of systemic breakdown – the state is now suddenly back in favour – that it is not only *able* but also *willing* to exercise investor leverage and shape market outcomes when the chips are down. At another level, however, all three areas of state activism – whether in technology or in trade, investment, and finance – tell us something more significant. Namely, the idea of a neoliberal state, a developmentally inert state confined to the role of market facilitator or competition regulator, was always a fiction. That is the thrust of my argument: globalisation, even in the neoliberal era, valorises the state. Phrased differently, economic integration and state activism go hand in hand – and they do so not only for the empirical reasons discussed above but also for theoretical reasons, which are briefly elaborated next.

3 Why (also theoretically) the "neoliberal" state is a fiction

There are three strands to the argument. Respectively, these relate to the state's enablement, entwinement, and polymorphousness.

Enablement. From a theoretical perspective, the posited state-restricting effects of globalisation may not exist because the effects of international integration are *ambiguous*. Ambiguity is reflected in the degree to which there is not just a constraining side to globalisation (the one that has attracted most attention) but also a politically enabling logic. The latter, as I have argued elsewhere, *valorises* state power (Weiss 2003). With some notable exceptions, this aspect of globalization has been poorly studied.

One can see these enabling effects being played out today in the varied state responses to economic uncertainty set in motion by continued turbulence in financial markets, by intense competition in trade and technology, and by volatility in commodity pricing. Whether states respond to these pressures with renewed social spending or with infrastructural support for technological innovation in the private sector or with the creation of

sovereign investment funds or with domestic incentives to rebuild and stabilise financial power, the result is to centrally mobilise and coordinate the necessary resources. In this respect, globalisation enlists governments in multifaceted efforts to cope with economic turbulence and national vulnerability.

The main theoretical point is that rather than shrinking policy space, economic integration produces the uncertainty that creates new domestic pressures, as well as political incentives and economic opportunities for state involvement in the economy. Such involvement may take the form of corporate bailouts, social insurance, a developmental drive for new technology, the creation of sovereign investment funds, or any of several other forms.

Entwinement. Another strand to the argument draws on the idea of global-national entwinement. Structural entwinement implies that global networks – from multinational corporations to credit markets – are not purely self-constituting; rather, they depend on the help of national-territorially based networks – among which the most important include the regulatory, financial, and infrastructural powers of the state.

In many critical areas – such as securing the credit market and establishing the intellectual property, educational, and R&D base of the knowledge economy – "global" capital remains structurally entwined with the nation state. As has been seen, recent interventions catalysed by the global financial crisis are far from novel. Rather, engineering political rescues of the credit system has many precedents, in the U.S. case reaching back as far as the eighteenth century. As discussed above, more than two centuries of financial crises (well documented by Reinhart and Rogoff among others) have underlined how the state's regulatory and financial powers play a pivotal role in stabilising and supporting the financial system.

Polymorphousness. The third strand of theoretical argument as to why the neoliberal state is a fiction draws attention to the state's "polymorphous" character, an idea originally elaborated by Michael Mann (1993). The basic idea is that the state is internally a non-unitary configuration whose various components have crystallised at different points in time, obeyed different rationales, experienced often separate histories, and become linked to different constituencies, domestic and international.

The state's polymorphous nature means that the state may well be *neoliberal* in one sphere (like trade unionism) yet *developmental* in another (like technology), a promoter of *free trade* in some sectors (financial services) yet *mercantilist* in others (agriculture or textiles). The United States – mercantilist in agriculture, neoliberal in labour markets, but quasi-developmental in techno-innovation – is the exemplary case: polymorphous, non-unitary, generating multiple tendencies – hence, exhibiting a complexity absent in discussions of the so-called neoliberal state.[21]

So if some theory is sought for the empirical patterns observed earlier, for why the neoliberal state is a fiction, a starting point can be found in global-national entwinement, state enablement, and polymorphousness.

4 Concluding remarks

Empirically, I have shown that states remain developmentally active in the technological, investment, and financial arenas and are likely to continue performing these roles in the decades ahead. Theoretically, I have argued that this makes sense because global integration increases the uncertainty and vulnerability that valorises rather than constrains state activism. At best, the "neoliberal state" was a useful fiction, a way of singling out certain tendencies that were often abstracted from a specific case – chiefly the United States. As a general construct, however, the concept has limited application.

Do we need a new label (post-neoliberal, perhaps?) for the twenty-first century state? Coining new terms to indicate shifts in state behaviour – regulatory state, neoliberal state, competition state, and so on – is a useful if risky endeavour, not least because the state is polymorphous, not a unitary creature. Apart from the need, the desire to invent new categories may well prove irresistible – simply because of the innovation-hungry restlessness that distinguishes our civilisation and drives the cultural quest for the next new thing. If we should succumb to that restlessness and feel the urge to come up with new labels, then all such conceptual innovations (like financial innovations!) should come with a complexity warning, a reminder to the reader that the part is not the whole and that whenever we fix a monodimensional label on a polymorphous institution like the state, we may well achieve telescopic clarity but often at the expense of the bigger picture. Since the state is here to stay in all its complexity, it would pay to put more analytical effort into understanding how the state may become more effective and responsive than into how to make it appear to disappear from the developmental landscape.

Notes

This chapter draws in part on "Back in Business: The 21st Century State", inaugural lecture presented at Aarhus University, Denmark, 18 November 2008.

1. Whichever term one prefers, I refer in this context to the many proponents of and subscribers to the idea that neoliberal reforms plus economic integration have "transformed" the state into a facilitator of competition and regulator of market activity, thus narrowly confining its economic-cum-developmental role.
2. For discussion of trends in the composition of state spending, together with references, see Weiss (2010).
3. This idea finds its most authoritative expression in Steven Vogel's (2006) comparative study of deregulation.

4. For further discussion of federal venture capital funding and technology procurement, see Weiss (2010a, 2010b).
5. This and the following paragraph are based on Weiss (2005).
6. Because of differences in aims, rationale, and sources of funding, there is some debate as to which entities can be called SWFs. For example, although Norway's $500 billion SWF is a pension fund, it is conventionally counted as an SWF, while Japan's $500 billion pension fund is not. This is presumably because Norway's fund, unlike Japan's, is derived from oil revenues. The International Working Group of Sovereign Wealth Funds (IWG-SWF) defines them as "special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets." See IWG-SWF (2008).
7. For dates and size of funds, see SWF Institute, Fund Rankings: http://www.swfinstitute.org/fund-rankings/. The number varies according to whether public pension funds and other state investment entities are also counted as active investors at home and abroad.
8. See Johnson (2007).
9. See Paulson (2009).
10. An IMF report lists five potential overlapping roles of an SWF ranging from stabilisation to development of infrastructure. These purposes are not exhaustive, as the recent French fund makes clear; see IMF (2008). For a different approach to classifying and explaining the SWF phenomenon, see Herman Schwartz (2010).
11. Kuwait's Investment Authority was one of the first such entities; it was set up in 1953 to invest surplus oil revenues.
12. Deutsche Bank Research, "SWFs and Foreign Investment Policies – an update", 22 October (2008, 5).
13. See Clark and Monk (2010, 431).
14. For a discussion of strategic and non-national security issues associated with the potential increase in SWF investment in foreign firms, see Kimmett (2008), who concludes that "The evidence so far suggests that SWFs are seeking to generate higher investment returns without generating political controversy."
15. From November 2007 onwards, SWFs took stakes in struggling companies throughout the U.S. and UK banking system, including Citigroup, the Carlyle Group, Merrill Lynch, Morgan Stanley, Barclays, Blackstone, and others.
16. See the websites of FSI (www.caissedesdepots.fr) and SWF Institute (http://www.swfinstitute.org/fund/france.php).
17. As the plan's chief architect, former trade minister Masayuki Naoshima stated, "We are thinking of how we can better employ Japan's foreign reserves" (Nakamichi 2010).
18. For the most comprehensive research in support of the following points, I draw on the recent work of Reinhart and Rogoff (2008, 2009) and Kaminsky and Reinhart (1999).
19. In the case of the RFC, the federal government acquired stock in 6,000 banks at a total cost of around $3 billion (estimated at $500 billion in today's figures).
20. "Rescuing Capitalism", *New York Times* editorial, 25 October 2008.
21. Also see Chang Kyung-Sup's discussion of the South Korean state's social-policy liberalism and industrial developmentalism in Chapter 4 of this volume.

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2
Kicking Away the Ladder: Neoliberalism and the 'Real' History of Capitalism

Chang Ha-Joon

1 Introduction

As is well known, since the 1980s, developing countries have been put under great pressure to adopt a set of "good policies", including liberalisation of trade and investment and privatisation of state-owned enterprises. In the first decade of the twenty-first century, they began being put under pressure to adopt a set of "good institutions" – including an independent central bank and strong patent law – to foster their economic development.

When some developing countries show reluctance to adopt these measures, the proponents of this recipe often find it difficult to understand those countries' stupidity in not accepting such a tried and tested recipe for development. After all, they argue, these are the policies and the institutions that the developed countries used in the past in order to become rich. Their belief in their own recommendations is so absolute that, in their view, they must be imposed on the developing countries through strong bilateral and multilateral external pressures, even when those countries don't want them. Naturally, there have been heated debates on whether the recommended policies and institutions are appropriate for developing countries. However, curiously, even many of those who are sceptical of the applicability of these policies and institutions to the developing countries take it for granted that these were the policies and the institutions that were used by the developed countries when they themselves were developing nations.

Contrary to the conventional wisdom, the historical fact is that the rich countries did not develop on the basis of the policies and institutions they now recommend to, and often force upon, the developing countries. This fact is little known these days because the "official" historians of capitalism have been very successful in rewriting its history.

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2 Widespread use of tariffs and subsidies

Almost all of today's rich countries used tariff protection and subsidies to develop their industries in the earlier stage of their development. It is particularly important to note that Britain and the USA, the two countries that are supposed to have reached the summit of the world economy through free-market, free-trade policies, are actually the ones that most aggressively used protection and subsidies (Bairoch 1993).

Contrary to the popular myth, Britain was an aggressive user and, in certain areas, a pioneer of activist policies intended to promote its industries. Such policies, although limited in scope, date back to the fourteenth century (Edward III) and the fifteenth (Henry VII) in relation to woollen manufacturing, the leading industry of the time. England was then an exporter of raw wool to the Low Countries, and Henry VII, for example, tried to change this by protecting woollen textile producers, taxing raw wool exports, and poaching skilled workers from the Low Countries.

Particularly between the trade-policy reform of its first prime minister, Robert Walpole, in 1721 and its adoption of free trade around 1860, Britain used very dirigiste trade and industrial policies, involving measures very similar to what such countries as Japan and Korea later used in order to develop their economies (on Walpole's policies, see Brisco 1907). During this period, it protected its industries a lot more heavily than did France, the supposed dirigiste counterpoint to its free-trade, free-market system. According to a study by Joseph Nye (1991), France's average tariff rate was significantly lower Britain's throughout the first half of the nineteenth century. Germany, another country frequently associated with state interventionism, had much lower tariffs than Britain during this period, although the German states tended to use other means of economic intervention more actively. Given this history, argued Friedrich List, the leading German economist of the mid-nineteenth century, Britain's preaching free trade to less advanced countries like Germany and the USA was like someone trying to "kick away the ladder" with which he had climbed to the top (List 1885).

The USA, today's supposed champion of free trade, was even more protectionist than Britain throughout most of its history before the Second World War. According to the authoritative study by Paul Bairoch (1993), between the Civil War and the Second World War, it was literally the most heavily protected economy in the world.

In this context, it is important to note that the American Civil War was fought on the issue of tariffs as much as, if not more than, on the issue of slavery. Of the two major issues that divided the North and the South, the South had actually more to fear on the tariff front than on the slavery front. Abraham Lincoln was a well-known protectionist; he had cut his political teeth under the charismatic politician Henry Clay in the Whig Party, which advocated the so-called American System, based on infrastructural development and protectionism (thus named in recognition that free trade was in

the British interest). On the other hand, Lincoln thought that blacks were racially inferior and slave emancipation was an idealistic proposal with no prospect of immediate implementation. Indeed, he is said to have emancipated the slaves in 1862 as a strategic move to win the War rather than out of moral conviction.

The USA was also the intellectual home of protectionism throughout the nineteenth century. It was in fact American thinkers like Alexander Hamilton, the first treasury secretary of the USA, and the economist Daniel Raymond who first systematically developed the so-called infant industry argument to justify the protection of manufacturing industries in a less developed economy. Indeed, List, who is commonly known as the father of the infant industry argument, started out as a free trader (he was an ardent supporter of the German free-trade customs union, the *Zollverein*) and learnt about the Hamiltonian infant industry argument during his exile in the USA during the 1820s.

In heavily protecting their industries, the Americans were going against the advice of such prominent economists as Adam Smith and Jean-Baptiste Say, who saw America's future in agriculture. However, they knew exactly what the game was. They knew that Britain had reached the top through protection and subsidies and therefore that they needed to do the same if they were going to get anywhere. Criticising the British preaching of free trade to his country, Ulysses Grant, the Civil War hero and the U.S. president between 1869 and 1877, retorted that "within 200 years, when America has gotten out of protection all that it can offer, it too will adopt free trade". When his country later reached the top after the Second World War, it too started "kicking away the ladder" by preaching free trade and even forcing it on less developed countries.

The United Kingdom and the USA may be the most extreme examples, but almost all the rest of today's developed countries used tariffs, subsidies, and other means to promote their industries in the earlier stages of their development. The cases of Germany, Japan, and Korea are well known in this respect. But even Sweden, which later came to epitomise the "small open economy" to many economists, also strategically used tariffs, subsidies, cartels, and state support for R&D to develop key industries, especially textile, steel, and engineering.

There are some exceptions – the Netherlands and Switzerland, for example – that have maintained free trade since the late eighteenth century. However, these were countries that were already then on the frontier of technological development and therefore did not need much protection. Also, it should be noted that the Netherlands had deployed an impressive range of interventionist measures up till the seventeenth century in order to build up its maritime and commercial supremacy. Moreover, Switzerland did not have a patent law until 1907, flying directly against the emphasis that today's orthodoxy puts on the protection of intellectual property rights (see below). More interestingly, the Netherlands abolished its 1817 patent

law in 1869 on the ground that patents were politically created monopolies inconsistent with free-market principles – a position that seems to elude most of today's free-market economists – and did not introduce a patent law until 1912.

3 The long and winding road to institutional development

The story is similar in relation to institutional development. Contrary to what is assumed by today's orthodoxy, most of the institutions that are regarded as prerequisites for economic development emerged after, not before, a significant degree of economic development in the now-developed countries. Without claiming to be exhaustive, let us examine the six categories of institutions that are widely believed to be prerequisites of development: democracy, bureaucracy, intellectual property rights, institutions of corporate governance, financial institutions (including public finance institutions), and welfare and labour institutions.

Whatever one's position is on the relationship between democracy and economic growth in today's world, it is indisputable that today's developed countries did not develop under democracy. Until the 1920s even universal male suffrage was a rarity. It was not until the late twentieth century that all developed countries became truly democratic. Spain and Portugal were dictatorships until the 1970s, votes were given to all ethnic minorities in Australia and the USA only in 1962 and 1965, respectively, and women in many countries were given suffrage only after the Second World War and in Switzerland as late as 1971. Until the Second World War, even when democracy formally existed, its quality was extremely poor. Secret balloting was introduced only in the early twentieth century even in France and Germany, and corrupt electoral practices, such as vote buying, electoral fraud, and legislative corruption, lasted in most of today's developed countries well into the twentieth century.

In terms of bureaucracy, sale of offices, the spoils system, and nepotism abounded in most countries until the early twentieth century. Modern professional bureaucracies emerged first in Prussia in the early nineteenth century, but only much later in other countries – even Britain got a modern bureaucracy only in the mid-nineteenth century. Until the Pendleton Act (1883), U.S. federal bureaucrats were not competitively recruited, and even at the end of the nineteenth century, fewer than half of them were.

A similar story emerges in terms of intellectual property rights institutions, which have become a key issue following the recent WTO controversy surrounding the TRIPS (trade-related intellectual property rights) agreement. Until the late nineteenth century, many countries allowed patenting of imported inventions (Penrose 1951). As mentioned earlier, Switzerland and the Netherlands refused to protect patents until the early twentieth century. The United States did not recognise foreign citizens' copyrights until 1891. And throughout the nineteenth century, there was a widespread

violation of British trademark laws by German firms producing fake "made in England" goods.

Even in the most developed countries (the United Kingdom and the United States), many key institutions of what is these days regarded as a "modern corporate governance" system emerged after, rather than before, their industrial development. Until the 1870s, in most countries limited liability, without which there would be no modern corporations based on joint-stock ownership, was something that was granted as a privilege to high-risk projects with good government connections (e.g., the British East India Company), not as a standard provision. Until the 1930s there was virtually no regulation on company audit and information disclosure. Until the late nineteenth century, bankruptcy laws were geared towards punishing bankrupt businessmen (with debtors' prison being a key element) rather than giving them a second chance. Competition law did not really exist in any country until the 1914 Clayton Act in the USA.

As for financial institutions, it would be fair to say that modern financial systems with widespread and well-supervised banking, a central bank, and a well-regulated securities market did not come into being even in the most developed countries until the mid-twentieth century (Kindleberger 1984). In particular, until the early twentieth century, Sweden, Germany, Italy, Switzerland, and the United States, among other countries, lacked a central bank.

Much the same goes for public finance. The fiscal capacity of the state remained highly inadequate in most now-developed countries until the mid-twentieth century, when most of them still did not have income tax. Even in Britain, which introduced the first permanent income tax in 1842, Gladstone was fighting his 1874 election campaign with a pledge to abolish income tax. With limited taxation capability, local government finance in particular was in a mess. A most telling example is an episode documented in Cochran and Miller (1942), where the British financiers put pressure in vain on the U.S. federal government to assume the liabilities of a number of U.S. state governments after their defaults on British loans in 1842 – a story that reminds us of the events in Brazil following the default of the state of Minas Gerais in 1999.

Social security institutions (e.g., industrial accident insurance, health insurance, state pensions, unemployment insurance) did not emerge until the last few decades of the nineteenth century, although once introduced they diffused quite quickly. Germany was a pioneer in this respect. Effective labour institutions (regulations on child labour, working hours, workplace safety, etc.) did not emerge until around the same time even in the most advanced countries. Child-labour regulations started emerging in the late eighteenth century, but until the early twentieth century most of these regulations were extremely mild and poorly enforced. Until the same period, in most countries regulation of working hours or conditions for adult male workers was considered unthinkable. For example, in 1905 the U.S. Supreme

Court declared in a famous case that a ten-hour working limit for bakers enacted by New York State was unconstitutional because “it deprived the baker of the liberty of working as long as he wished”.

One important conclusion that emerges from historical examination is that it took the developed countries a long time to construct institutions in their earlier days of development. Institutions typically took decades, sometimes generations, to develop. Just to give one example, the need for central banking was perceived at least in some circles from at least the seventeenth century, but the first “real” central bank, the Bank of England (founded in 1694), was instituted only by the Bank Charter Act of 1844, some two centuries later.

Another important point emerges from historical comparison of the levels of institutional sophistication in today’s developed countries in their earlier periods with those in today’s developing countries. For example, measured by the per capita national income level (admittedly a highly imperfect standard), in 1820 the United Kingdom was at a similar level of development as that of India's today, but the former did not have many of the most “basic” institutions that India has had for decades. The United Kingdom did not have universal suffrage (it did not even have universal *male* suffrage), a central bank, income tax, generalised limited liability, a generalised bankruptcy law, a professional bureaucracy, meaningful securities regulations, and even basic labour regulations (except for minimal and hardly enforced child-labour regulations).

For still another example, in 1913 the United States was at a level of economic development similar to that of today’s Mexico, but at the level of institutional sophistication, the former was then well behind what we see now in the latter. Women were still formally disenfranchised, and blacks and other ethnic minorities were de facto disenfranchised in many parts of the country. It had been just over a decade since a federal bankruptcy law was legislated (1898) and it had been barely two decades since the country recognised foreigners’ copyrights (1891). A (highly incomplete) central banking system and income tax had literally only just come into being (1913), and the establishment of a meaningful competition law (the Clayton Act) had to wait another year (1914). Also, there was no federal regulation on securities trading or child labour, and what few state-level laws that existed in these areas were of low quality and were very poorly enforced.

These comparisons could go on, but the point is that the developed countries in earlier times were institutionally *less* advanced than today’s developing countries at similar stages of development. Needless to say, the quality of their institutions fell well short of the “global standards” institutions that today’s developing countries are expected to install.

4 Kicking away the ladder

If the policies and institutions that rich countries recommend to poor countries are not those they themselves used when they were developing, what

is going on? One might well conclude that the rich countries are trying to kick away the ladder that allowed them to climb to where they are. It is no coincidence that economic development has become more difficult during the last three decades, precisely when the developing countries were forced to adopt "good" (read "neoliberal") policies and institutions.

At the height of neoliberalism (between 1980 and 2000), the average annual per capita income growth rate for the developing countries was half of the 3 per cent achieved in the previous two decades (1960–80). Growth picked up in the 2000s; so the growth rate for the period between 1980 and 2009 was 2.6 per cent, largely due to the rapid growth of China and India, two giants that, while liberalising, did *not* fully adopt neoliberal policies. Even including the 2000s, the growth performance of Latin America and sub-Saharan Africa – two regions that have faithfully followed the neoliberal recipe – has been much inferior to what they had in the ISI period. Per capita income in Latin America grew at 3.1 per cent per annum between 1960 and 1980, while it remained at 1.1 per cent between 1980 and 2009. Per capita income growth in sub-Saharan Africa in the former period was 1.6 per cent, while in the latter 0.2 per cent. Economic instability has increased markedly, as is manifested in the dozens of financial crises witnessed over the last decade and half alone, culminating in the 2008 global financial crisis. Income inequality has been growing in the majority of developing countries, and poverty has increased rather than decreased in a significant number of them.

The double standard of the rich countries has become even more evident since the outbreak of the 2008 crisis. When they were faced with a crisis situation, the rich countries deployed policies that were the exact opposite of what they have preached to – and often imposed upon – developing countries in similar situations. Following the crisis, the rich countries did not adopt the contractionary macroeconomic policies that they recommend to developing countries in financial crises; rather, they maintained or even boosted demands by way of unprecedented budget deficits, lowest-ever interest rates, and even "quantitative easing". Instead of shutting down failed industrial firms and financial institutions, as they make developing countries in crises do, they have bailed out or even nationalised key firms and banks. Rather than cut subsidies – a standard recommendation to crisis-stricken developing countries – they have increased them, especially to the automobile industry, under the guise of "green subsidies".

5 What can be done?

What can be done to change this iniquitous situation? First, the facts about the historical experiences of the developed countries should be more widely publicised. Some of this has happened in recent years but nowhere near enough. This is a matter not just of "getting history right" but of allowing developing countries to make more informed choices.

Second, the conditions attached to bilateral and multilateral financial assistance to developing countries should be radically changed. It should be accepted that the orthodox recipe is not working and also that there can be no "best practice" policies that everyone should use.

Third, the WTO rules should be rewritten so that developing countries can more actively use tariffs and subsidies for industrial development. These countries should also be allowed to have less stringent patent and other intellectual property rights laws.

Fourth, improvements in institutions should be encouraged, but encouragement should not be equated with imposition of a fixed set of institutions on all countries. Special care has to be taken not to demand excessively rapid upgrading of institutions by developing countries, especially given that they already have more developed institutions than today's developed countries had at comparable stages of their own development and given that establishing and running new institutions is costly.

By being allowed to adopt policies and institutions that are more suitable to their conditions, developing countries will be able to develop faster. This will also benefit developed countries in the long run, as it will increase their trade and investment opportunities. That the developed countries cannot see this is the tragedy of our time.

Note

This chapter is updated and expanded from the related materials in my book *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002). An earlier, shorter version appeared as "Kicking Away the Ladder: Neoliberals Rewrite History", in *Monthly Review* 54, no. 8 (2003).

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3
Neoliberalism in Retrospect? It's Financialisation, Stupid

Ben Fine

1 Introduction

The current global crisis has, unsurprisingly, brought comparisons with other such episodes in the past, not least the collapse of the post-war boom and the Great Depression of the 1930s. Beyond competition for degree of severity, comparative analysis has not preceded much further, not least because differences between eras tend to dominate shared characteristics. The thirties heralded the emergence of Keynesianism (undoubtedly propelled by wartime interventions), while the stagflation of the 1970s witnessed the blossoming of the monetarist counter-revolution, the most extreme forms of perfect market economics, and the period of neoliberalism.

Of course, what all three periods highlighted share in common is turbulence in financial markets – the Great Crash of 1929, the breakdown of Bretton Woods in 1971 as the U.S. dollar came off the gold standard, and the sub-prime crisis of the late noughties (i.e., 2000–9). In this light, how are we to situate the role of finance in the current crisis: as something unique or uniquely extensive or as more of the same? One of the remarkable features of the current crisis is that no one is blaming the poor or other "usual suspects" for the crash and its aftermath. Far from it, unlike other instances of economic malfunction in my own lifetime and earlier, excessive wages (money or social) have not been targeted as causal, as has occurred in the past, not least in legitimising the shifting of the burden of adjustment upon working people and the poor. Instead, finance and its excesses are to blame, but it must be rescued in order to prevent an even worse impact upon the rest of us. We have to restore sound finance, reluctantly or otherwise, to pre-empt even more dire outcomes. It's not your fault or mine, but the milk is spilt, and the pitcher is broken, and so we have to work together to fix it, with less to go around in the meantime.

In addition, the current crisis marks the closing phase of a longer thirty-year period of slowdown in accumulation, certainly relative to the Keynesian

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period that preceded it. Whatever the rhythm of short-term volatility over the past decade or more, the crash and its severity are not the simple result of some manic, overstretched phase of accumulation whose contradictions, tensions, and conflicts have induced a corresponding reaction in the opposite direction. Indeed, conditions would appear to have been as favourable as they could be to capital accumulation in light of low levels of economic and social wages, weakness of labour and progressive movements at national and international levels, expansion and "flexibility" of the workforce through China and female participation in the workforce, and neoliberal hegemony in policy, politics, and ideology.

As a result, particularly in view of the opprobrium, with whatever depth, effect and duration, that attached itself to financiers as the current crisis broke, I draw attention to the following quote from Sir Josiah Stamp, reputedly the second richest man in the United Kingdom in the 1930s, a manager for Nobel industries, head of the British chemical company ICI, a member of the board of the Bank of England, and even head of the British Inland Revenue Service:[1]

> Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with the flick of the pen they will create enough deposits to buy it back again. However, take it away from them, and all the great fortunes like mine will disappear and they ought to disappear, for this would be a happier and better world to live in. But, if you wish to remain the slaves of bankers and pay the cost of your own slavery, let them continue to create money.

This is a most wonderful exposé of the power of money and its corresponding ethos of subjecting the earth to slave-like subordination.[2] And how is that power to be understood, addressed, and overcome so that the meek might inherit the earth in place of the bankers?

Answers are more difficult to find than the imagery evoked by the metaphor, one also limited in a number of ways. First, it focuses exclusively on *distributional* issues – who gets what rather than how much there is to get – and without specifying the mechanisms by which this is done other than through the flick of a pen. Indeed, as will be suggested here, not only does financialisation draw upon ever greater rewards, but it does so by reducing those available to others. Second, Stamp only structures power and privilege by reference to the bankers versus the rest of us. Is this the central structure and conflict of contemporary capitalism (or of the thirties), given the presence of others such as those that divide capital and labour, race, ethnicity, gender, and nation states? Third, how and whether the flick of the pen or some other more closely specified mechanism reproduces inequalities that go beyond fortunes at one extreme and slavery at the other is itself highly

differentiated across different aspects, from the restructuring of the economy and labour markets through to the separate elements of economic and social provision attached to housing, health, education, and so on. Such differentiation in practice both by process and constituency (employed/unemployed, etc.) is itself a source of fragmentation to be acknowledged and overcome in order to sustain progressive advance, both to secure and make secure alternative policies and outcomes rather than simply bring finance to its knees.

In short, it is necessary to go beyond finance, both analytically and strategically, however large it looms in the wake of the crisis. One way of doing so, however explicitly, has been by appeal to the notion of neoliberalism as the way to characterise the distinctiveness of the current period. But is this itself anything more than a grand metaphor for casually and pejoratively explaining developments over the past thirty years that have dismayed progressives? Moreover, the crisis seems to have witnessed a dramatic increase in state intervention (not least to rescue finance) albeit otherwise with neoliberal features in terms of fiscal austerity and cuts in real and social wages and conditions of work.

Such questions around the nature of neoliberalism are raised in Section 2. They can be addressed, even resolved, by appeal to three aspects of neoliberalism that render it a reality (rather than an ideological device of more or less efficacy) and a diverse descriptor of considerable potential for analytical and strategic purchase. First, and brought sharply into relief by the current crisis and the responses to it, neoliberalism and its counterpart in globalisation are heavily underpinned by an extraordinary expansion and promotion of financial activity. This will be discussed in Section 3, where it will be argued that the nature of neoliberalism, its persistence and its analytical usefulness as a descriptor of the last few decades, is a consequence of financialisation. Indeed, we can view neoliberalism as a period of capitalism dominated by financialisation.

This is, however, not to reduce neoliberalism to finance. As is argued in Section 4, neoliberalism offers a complex, shifting, and contradictory amalgam of ideology, scholarship, and policy in practice. That such contradictions exist should scarcely surprise; addressing them offers an opportunity to explore the diversity associated with the term *neoliberalism* rather than to reject the notion altogether as a consequence of complex and diverse forms. Further, this diversity of referents is itself variously distributed across time, place, and issue. In particular, I will argue that neoliberalism has gone through two broadly delineated phases, with the passage from one to the other explaining the illusion that neoliberalism is ephemeral. Instead, the second phase has primarily been associated with sustaining financialisation, the key characteristic of neoliberalism. In the concluding remarks, I return to the nature of neoliberalism, especially as far as its scholarship is concerned, with specific reference to the shifting posture of what is taken to be one of its leading proponents and facilitators, the World Bank.

2 The neoliberal dilemma

Initial response to the current crisis seemed to have delivered a death blow to neoliberalism. The extent of state intervention, even if primarily to rescue the financial system (and the economy more broadly) from further collapse, is simply astonishing. I can do no better to indicate both the scale and the priorities involved than by quoting Hall:[3]

- the total value of the renationalisations of banks and insurance companies in the USA, UK and the rest of Europe is approximately equivalent to reversing about half of all the privatisations in the entire world over the last 30 years.
- the USA renationalisation of the insurance company AIG is by itself equivalent to reversing all the privatisations that have taken place in the former communist states of Central and Eastern Europe since the collapse of communism.
- the UK government liability for the debts of Northern Rock alone is greater than the combined total value of all the private finance provided through PFI and PPP schemes in the UK and the rest of the EU over the last 17 years.
- Another way of seeing the scale of the rescue is to note that the total cost of constructing sewers and water systems throughout the world's cities, to provide household connections for water and sewerage for over three-quarters of the urban population in developing countries, would require only about €280 billion – about 5% of the guarantees already given to the banks. (2008, 6)

It should also be added that these measures were initiated in the closing days of Bush's presidency. How could the world's leading neoliberal, as it were, be so interventionist or, as some have put it, introduce socialism for the bankers and capitalism for the rest of us? Over the passage of the crisis itself, state interventionism has remained extensive, albeit with the target of sustaining or restoring sound finance to the fore.

Equally, however, the policy response within national economies worst hit by the crisis and by conditionalities imposed externally, is heavily imbued with what are taken to be the hallmarks of neoliberal policymaking and to a severe degree – in terms of cuts in government expenditure and budgets and worsening of employment and working conditions on an unprecedented scale across wages and pensions. In short, in the wake of the crisis, we now have the paradox of what would be generally characterised as the adoption of neoliberal austerity measures to cut the fiscal deficits that have been incurred by state support to private (financial) markets.

But significantly, questions over the nature of neoliberalism, even whether it is a legitimate category of analysis, had already been raised prior to the

current crisis. As Noel Castree (2006, 6), a leading Marxist geographer, concludes, "I suspect 'neoliberalism' will remain a necessary illusion for those on the ... left: something we know does not exist as such, but the idea of whose existence allows our 'local' research finding to connect to a much bigger and apparently important conversation." One major reason for the scepticism over neoliberalism concerns its diversity and complexity (and so vagaries if not inconsistencies) across time, place, and issue. This problem has been explicitly addressed by Ferguson (2007) in the context of social policy, for he appropriately charts the extent to which the rationale for a basic income grant (BIG) in South Africa has often been provided by progressives through deploying arguments that are borrowed from the neoliberal portfolio – not least the idea that a BIG would help households get their members back to work and out of welfare dependency. He concludes, "We will also need a fresh analytic approach that is not trapped within the tired 'neoliberalism versus welfare state' frame that has until now obscured many of the key issues from view" (Ferguson 2007, 84).[4]

There are two separate although closely related issues involved here. One is whether neoliberalism is too heterogeneous to allow, let alone warrant, an acceptable characterisation. No one can doubt the diversity of issues, situations, and entities to which it is often attached, and yet it also seems to capture the grander, possibly illusory, character of the past thirty years or more, not least by comparison with the putative Keynesian era that preceded it.[5] Are we in danger of throwing out the neoliberal baby (even as it has grown up) with its mucky and murky bathwater? Second, though, is the strategic thrust and advantage to be made by opponents of neoliberalism. Should it be contested or rejected as a descriptor of our reality, not least in the attempts to replace it with something else (even if it can only be vaguely defined)? Answers to these questions may be found by first interrogating the notion of financialisation.

3 Financialisation ...

Over the past decade (but not much previously), the notion of financialisation has unsurprisingly and appropriately come to the fore, increasingly rapidly so in the wake of the crisis (Goldstein, 2009). For Epstein (2005, 1):

> current usage of the term "financialization" owes much to the work of Kevin Phillips, who employed it in his *Boiling Point* (New York: Random House, 1993) and a year later devoted a major chapter of his *Arrogant Capital* to the "Financialization of America," defining financialization as "a *prolonged* split between the divergent real and financial economies" (1994). In the same year Giovanni Arrighi used the concept in an analysis of international hegemonic transition in *The Long Twentieth Century* (New York: Verso, 1994).

It is then a relatively new term and has its roots primarily in heterodox economics and Marxist political economy.[6] It has also been understood in a number of different ways. First, at the most casual level it refers to the meteoric expansion and proliferation of financial markets over the past thirty years, during which the ratio of global financial assets to global GDP has risen three times, from 1.5 to 4.5 (Palma 2009).[7] That this might be indicative of dysfunction – why do you need three times as many financial services proportionate to the real economy as previously? – has been much overlooked precisely because of the market success of financialisation in terms of growth and rewards. As Larry Summers, the former U.S. Treasury Secretary, Chief Economist at the World Bank, head of Harvard, and currently Obama's chief economic adviser has described the efficient market hypothesis:

> The ultimate social functions are spreading risks, guiding investment of scarce capital, and processing and disseminating the information possessed by diverse traders ... *prices always reflect fundamental values*. ... The logic of efficient markets is compelling. (cited in Davidson 2008)

Indeed, it is only because financial services became seen as constituting a component part of and counted as contributing to national income (as opposed to being an "unproductive" drain) that their expansion could be viewed so positively. Trading in, if not creating, risk is rendered "productive" (Christophers 2011).

Second, financialisation has then also been associated with the expansion of speculative assets at the expense of mobilising and allocating investment for real activity. This is most notable in the ex post recognition of the lax regulation of the financial sector and corresponding calls to put the speculative milk cow back in the barn and reduce the contamination between speculative and real investments. That real investment itself is subject to uncertainty of future returns has opened it to hedging and trading in risk. As such trading expands and is allowed to expand by deregulation, competition in financing depends upon increasing exposure to systemic risk by potential contagion across levels and layers of individual risk.

Third, what with financialisation being understood as both the expansion and the proliferation of financial instruments and services, it has given birth to a whole range of financial institutions and markets and to corresponding acronyms that are simply bewildering, quite apart from futures markets for trading in commodities yet to be produced (for which carbon is the most fetishised) and, most infamously of all, sub-prime mortgages.

Fourth, at a systemic level financialisation has been located in terms of the dominance of finance over industry. Empirically, this is not a matter of finance telling industry what to do, as recent trends have witnessed corporations relying less rather than more upon the financial system to fund its

operations. Yet especially in the United States, even non-financial corporations have necessarily been caught up in the process of financialisation, as they have increasingly derived profitability from their financial (as opposed to their productive) activities.[8] Indeed, as the *Financial Times* journalist Martin Wolf has put it:[9]

> The United States itself looks almost like a giant hedge fund. The profits of financial companies jumped from below 5 per cent of total corporate profits, after tax, in 1982 to 41 per cent in 2007.

The corresponding implications for the level, pace, and efficacy of productive activity have been highlighted by Rossman and Greenfield (2006, 2) from a labour-movement perspective:

> What is new is the drive for profit through the elimination of productive capacity and employment. ... This reflects the way in which financialization has driven the management of non-financial companies to "act more like financial market players."

More generally, Stockhammer (2004) has been at the forefront in arguing that financialisation has been at the expense of real investment.[10]

Fifth, for some, not least as a defining characteristic of neoliberalism itself, financialisation is perceived to be a strategy for redistributing income to a class of rentiers (Palma 2009).[11] Certainly, as is only too well known, the rewards to finance systemically and individually have been astronomical, not least in the United States, where real incomes for the vast majority of the population have stagnated over the last thirty years and any productivity gains have accrued to the top 1 per cent of earners, whose share in GDP had risen from less than 10 per cent to more than double this.

Sixth, though, again with the United States in the lead, consumption has been sustained by the extension of credit, not least through the use of capital gains in housing as collateral. For some, this has been part and parcel of the leading role played by financialisation in exploiting workers through provision of financial services at abnormally high levels of banking profits (Lapavitsas, 2009; dos Santos, 2009).[12] This is, however, a single element in the much broader system of financial arrangements at the global level, one that has witnessed huge balance of trade and payments deficits for the United States, matched by a corresponding holding of U.S. dollars as reserves by other countries (with dramatic increases for China in particular). This is a consequence of neoliberal policies to relax if not eliminate exchange controls, opening economies to vulnerability to capital movements, and thereby requiring high levels of reserves as a safeguard. The paradox is that with all its deficits and minimal interest rates, the U.S. dollar has not suffered a collapse despite failing to follow the neoliberal policy advice on such matters that it

has sought to impose on other countries through the World Bank and IMF when they were similarly afflicted by deficits of lesser magnitudes. Previous crises elsewhere have been used to facilitate financialisation by opening up financial markets to international, especially U.S., participation.

However financialisation is defined and used, it points to a complex amalgam of developments within global finance and in its interactions with and consequences for economic and social life more generally. Further, it is not merely the expansion and proliferation of financial markets that are striking but also the penetration of such financing into a widening range of both economic and social reproduction – housing, pensions, health, and so on. While different approaches and contributions to financialisation may offer different emphases, there is equally a need to locate it within a theory of finance. My own approach is to deploy and develop, both logically and historically, Marx's theory of accumulation and base this upon the categories of analysis offered by him throughout the three volumes of *Capital* (Fine and Saad-Filho, 2010). More specifically, Marx's theory addresses accumulation as the quantitative expansion of productive capital through its restructuring – generally into larger units variously organised in the modern world through multinational corporations, for example. Crucially, though, the pace and rhythm of the restructuring of capital is dependent upon agencies other than industrial capitalists themselves, and the restructuring of other forms of capital in markets and finance, as well as through more general restructuring – or reproduction and transformation – of economic and social life. Each of these elements may be more or less conducive to accumulation by restructuring as well as uneven in effects; their impact is contingent upon configurations of economic, political, and ideological interests and conflicts within the bounds set by their location within the global system of accumulation as a whole. In particular, the role of the state as agent of restructuring is paramount across all of the constituent factors involved, including the exercise of force and legitimisation through other means of the dysfunction, inequities, and iniquities of contemporary capitalism.

For financialisation itself, the role of finance in economic and social restructuring has become paramount both directly (financial restructuring) and indirectly through other agencies, such as the state, and through consultancies, policy influence, and other mechanisms. In addition, Marx's theory of finance draws the distinction between two types of capital in exchange. One facilitates the functioning of exchange, including credit relations in general, at a rate of return that tends to equalise with the rate of profit on enterprise more generally. The other, termed interest-bearing capital by Marx, is advanced to promote or appropriate surplus value through competitive accumulation. As such, it is subject to less severe forms of competitive entry and is not necessarily subject to an equalised rate of return with other capitals that operate in industry or exchange more generally (after all, although a bank would not finance the setting up of a rival, this does not mean that there is no competition at all in banking or finance).

Further, the accumulation of interest-bearing capital corresponds to the accumulation of fictitious capital, paper claims to surplus value which circulate at prices that are at least nominally independent of the accumulation of productive capital and can float entirely free of it, as in speculative booms of shorter or longer duration and spread of assets. Further, as the process of financialisation has gathered strength, it has witnessed the corresponding shift of the command of productive and other commercial capital to the imperatives of interest-bearing capital at a systemic level.

To put it pithily, the expansion of markets in general (for which read "private capital") under neoliberalism (as with all aspects of privatisation and commodification) has been associated with and driven by the expansion of finance in particular. Further, financialisation, as the key distinguishing feature of the neoliberal era, is what justifies the latter term, both in itself and in its effects, by marking the contrast with and even the reversal of the previous Keynesian period. This is not a matter of simply macroeconomic policy but of the heavy subordination of economic and social policy more generally to the promotion of markets in general and especially of finance. Irrespective of the theory of finance to which it is tied, the critical literature reveals from a variety of perspectives that, by definition or association, financialisation[13]

1. reduces overall levels of accumulation of real capital as financial instruments and activities expand at its expense;
2. prioritises shareholder value, or financial worth, over other economic and social values;
3. pushes policies towards fiscal austerity and commercialisation in all respects;
4. extends influence more broadly, both directly and indirectly, over economic *and* social policy;
5. places more aspects of economic and social life at the risk of volatility from financial instability and, conversely, places the economy at risk of crisis from triggers within particular markets.[14]

Thus, first and foremost, neoliberalism is underpinned by financialisation as the key defining characteristic of the world economy over the past thirty years. This both explains and to some degree conceals its significance through appeal to a state-market dualism that does not fit the neoliberal age comfortably, as the concept's critics correctly observe.

4 ... as neoliberalism

Thus, the extreme nature and extent of state intervention in the current crisis should not blind us to the extent to which the state has continued to intervene over the entire period of neoliberalism, albeit under the ideology of non-intervention or, paradoxically, as intervention to free the market or

to make it work. What marks out the current crisis is both its depth and its origins – especially from within the most financialised and developed economies, with the United States in the lead, closely followed by the United Kingdom. But it is not as if there had been a previous absence of (financial) crises (see Weiss, Chapter 1 of this volume). Significantly, for the IMF, Laeven and Valencia (2008, 5) are able to "identify 124 systemic banking crises over the period 1970 to 2007". They further report on "the data collected on crisis containment and resolution policies for a subset of 42 systemic banking crises. The list of crisis countries consists of: Argentina (four times), Bolivia, Brazil (twice), Bulgaria, Chile, Colombia (twice), Côte d'Ivoire, Croatia, the Czech Republic, the Dominican Republic, Ecuador, Estonia, Finland, Ghana, Indonesia, Jamaica, Japan, Korea, Latvia, Lithuania, Malaysia, Mexico, Nicaragua, Norway, Paraguay, the Philippines, Russia, Sri Lanka, Sweden, Thailand, Turkey, Ukraine, the United Kingdom, the United States, Uruguay, Venezuela, and Vietnam." They go on to add, as if only a matter of time is involved, "that the financial crisis in the United Kingdom and United States is still ongoing at the time of writing of this paper, so the analysis of crisis containment and resolution policies for these two countries is preliminary and incomplete" (Laeven and Valencia, 2008, 18).[15] In other words, despite the severity of the crisis, it looks very much like (abnormal) business as usual without any sense that the world economy and global order might be undergoing a major transformation.

What is striking in this list of countries (except the Scandinavian countries, the United States, and the United Kingdom) is that they are developing or transitional. Their own hundred or more crises in the past do not appear to have precipitated a loss of legitimacy of neoliberalism. Indeed, policy responses to financial crises since 1970 (the more so as we move towards the present) have been dominated by neoliberal prescriptions, with the IMF to the fore. Significantly and totally unreasonably, at least in some respects, Laeven and Valencia draw the conclusion that "[f]uture research should also review and draw lessons going forward from policy responses to the current financial turmoil in the US and UK. Our preliminary assessment is that these policy responses have much in common with those employed in previous crisis episodes, though it is too early to draw any conclusions on the effectiveness of these responses given that the crisis is still ongoing" (Laeven and Valencia 2008, 31). This is a total rewriting of the history of financial crises and the responses to them. It is as if the extremes of intervention now being deployed to shore up the financial system of the developed world – including its corresponding breach with neoliberalism, especially as it was previously espoused by the IMF both as ideology and in policy practice – had been the common response in the past. In more detail, to quote at length, we find neoliberal prescriptions proposed in parallel with the ones that are now being deployed in response to the current financial crisis (Laeven and Valencia 2008, 30):

> Policy responses to financial crises normally depend on the nature of the crises and some unsettled issues remain. First, fiscal tightening may be needed when unsustainable fiscal policies are the trigger of the crises, though crises are typically attacked with expansionary fiscal policies. Second, tight monetary policy could help contain financial market pressures. However, in crises characterised by liquidity and solvency problems, the central bank should stand ready to provide liquidity support to illiquid banks. In the event of systemic bank runs, liquidity support may need to be complemented with depositor protection (including through a blanket government guarantee) to restore depositor confidence, although such accommodative policies tend to be very costly and need not necessarily speed up economic recovery. All too often, intervention is delayed because regulatory capital forbearance and liquidity support are used for too long to deal with insolvent financial institutions in the hope that they will recover, ultimately increasing the stress on the financial system and the real economy. Our preliminary analysis based on partial correlations indicates that some resolution measures are more effective than others in restoring the banking system to health and containing the fallout on the real economy. Above all, speed appears of the essence. As soon as a large part of the financial system is deemed insolvent and has reached systemic crisis proportions, bank losses should be recognized, the scale of the problem should be established, and steps should be taken to ensure that financial institutions are adequately capitalized.

In short, it is as if the interventions now being undertaken are perceived to be consistent, at least contingent on outcomes yet to be realised in the USA and the United Kingdom, with the best practice that can be gleaned from the past. It is to be suspected that there are a large numbers of bankers with experience of those earlier crises who will find little comfort or realism in the more interventionist interpretation of their treatment at the hands of the IMF. As always, one rule for the rich and powerful, another for the poor and dependent.

But the purpose here is not primarily to mount a polemical assault upon the IMF as it is expansively endowed and reinvented (or not) in order for it to be able to assume a more prominent role in the world of global finance. Rather, it is to emphasise first, just how much intervention there has been in the past to keep the financial system going with some degree of success, at least in terms of containment, of knock-on effects from crises; and second, how such measures have now failed despite their weight and, as previously observed, a significant degree of solidarity with the dollar.

This is, in turn, suggestive of a periodisation of neoliberalism into two phases, however roughly they will need to be delineated across different aspects. The first might be dubbed the phase of shock therapy; it runs from the early 1980s to the early 1990s, originating much earlier and much more

widely than with the transition economies of Eastern Europe, not least with "adjustment" in Latin America under the Washington Consensus. It is concerned to release the role of financial markets to the fullest extent; with it goes the release of "market forces", or conditions conducive to private capital accumulation more generally, as with privatisation and deregulation in all of their forms and across a widening range of activities. For wherever there are markets and payments, there is the opportunity for finance to prosper, whether directly or indirectly.

The second phase of neoliberalism, which runs to the present day (2012), has two aspects. On the one hand is the need to respond to the dysfunction and conflict that has resulted from the first phase, most dramatic in the case of Eastern Europe.[16] On the other hand, as has been most dramatically revealed by the current financial crisis, is the imperative of sustaining (not just ameliorating) the process of financialisation. Symbolic of this is the level of state funding being made available to sustain the financial system in circumstances of extreme crisis when, in better times, such funding could not be made available for health, education, and welfare. In other words, the second phase of neoliberalism has been more overtly and extensively interventionist in order to sustain the process of financialisation both (and primarily) on its own terms and through soliciting a modicum of acceptability, given the extreme inequalities and iniquities to which it has given rise. Paradoxically and ironically, it is precisely the interventionism associated with the second phase of neoliberalism that has sown academic doubts about whether it does exist and is a legitimate category of analysis. Meanwhile, within the political arena, those associated with "third wayism" and the social market, for example, present themselves as critics of (and departing from) neoliberalism.

This is all indicative of dissonance between the ideology and the policy of neoliberalism, although the nature of that dissonance is different across the two phases. First and foremost, as Panitch and Konings (2009) have effectively argued, the process of financialisation has been the consequence of the role of the state, not a function of its withdrawal. Second, in addition, this has been reflected in corresponding contradictions across ideology, policy, and scholarship, with economics to the fore in this respect. The first phase of neoliberalism was marked by the extraordinary rise to prominence of the "new classical economics", based on the notion that markets work perfectly and the state is ineffective other than in potentially distorting efficient microeconomic outcomes. Significantly, it has been taken as the point of departure for the new microfoundations of everything, the economic as well as the non-economic, with market and institutional imperfections to be corrected on a piecemeal basis. As Stiglitz (2008, 2) puts it, defining the Left precisely in these terms:

> The left now understands markets, and the role they can and should play in the economy ... the new left is trying to make markets work.

But where we see "markets", we should read "capital in general", and where we see "capital in general", we should read "finance in particular".

Thus, for all the rhetoric and scholarship in favour of reintroducing the state into a greater role, one that preceded the current crisis as well as being accelerated with it, policies in practice often reflect a greater commitment to using the state to support the role of the private sector in general and that of finance in particular. This is true, for example, of supposed rethinks over privatisation and pension reform, the more so now that the crisis has struck.[17] As it were, the shock therapy got as much privatisation and private financial participation as possible, and now the state must both pick up the debris and push the process much more fully through its own effort.

5 Concluding remarks

In a content analysis drawn from political science journals from 1990 to 2004, Boas and Gans-Morse find extensive use of the term "neoliberalism" but often no definition, let alone a consistently used meaning, of what it is. They also find that the term is used pejoratively, with only 3 per cent of authors declaring themselves neoliberals. They point to the breach with traditional meanings of the terms associated with liberalism. And they conclude by suggesting that neoliberalism might be put on a sounder footing with substantive meaning by defining it as a particular stage of capitalism, as a process of expansion of markets across developed and developing worlds, or as a way of distinguishing varieties of national capitals.

In this chapter I have sought to meet and, to some extent, to sidestep these suggestions by defining neoliberalism in terms of its attachment to financialisation, something that does not appear in their account at all. This is not to reduce neoliberalism to finance but to insist that both its resilience and its diverse forms and outcomes, within and at national and global levels, have been and continue to be heavily conditioned and underpinned by the growth and proliferation of financial markets – although this allows for exceptions of sorts, most notably in the case of China.

By this account, then, neoliberalism has not been about withdrawal by the state from interventionism but has involved a mix of ideology, scholarship, and policy in practice that has not been necessarily mutually consistent across time, place, and aspect. Indeed, over the second phase of neoliberalism, interventions to address its dysfunctions and to sustain its peculiarly financialised form of capital accumulation have been more overt. Accordingly, this helps to explain why from the 1990s onwards, especially with the passing of its first shock phase, neoliberalism should be so bereft of self-confessed neoliberals.

These points are well illustrated by the shifting positions of the IMF and the World Bank in their responses to the crisis and are of increasing relevance to the developed world, as it is forced to adjust under their increasing

influence. Have they abandoned neoliberalism or merely modified it in response to changing circumstances? In scholarship, the IMF has gone through something of a rethink, so much so that it has been described in the dramatic terms of a revolution in stance by many commentators, including former critics.[18] This is because of its acceptance in principle of the possibility of allowing for capital controls – but only as far as capital imports and only under the most stringent conditions. This is no revolution in practice but a pragmatic prop to continuing discretionary intervention in support of global finance. Perhaps the IMF leopard *has* changed its policy spots, but those at the rough or sharp end of its claws, as exercised in Greece and Portugal, for example, might not be convinced of it.

At least the IMF, unlike the World Bank, does not have pretensions to be a knowledge bank (Bayliss et al. 2011). Significantly, its chief economist, Justin Lin, like Joe Stiglitz before him, is energetically broadcasting a new paradigm for development economics.[19] He is offering and taking the opportunity to engage in debate with those that have been critical of the bank, including Chang, Wade, Amdsen, and Rodrik, all of whom seem to welcome his initiative as some sort of progress at the bank, if critically from what are generally their own weakened perspectives relative to those previously adopted in opposition to the Washington Consensus.[20] The post-consensus seems to have tempered criticism and allowed for engagement of the World Bank with select critics.

But what exactly does Lin say? For him, development concerns changes in economic *structure*. This is more or less reduced, despite claimed resonances to the old or classic development economics, to changes in the composition of output. Such changes reflect and promote changes in comparative advantage, changes that policy should target for developmental success, with corresponding shift and evolution of institutional support. As a result, it is claimed that the historical record reveals that successful development can be shown to have been the consequence of policies that have promoted "latent" comparative advantage – those that are waiting in the wings, as it were, along the institutional or structural path of development.

The attraction of this approach to erstwhile opponents of the Washington Consensus is its explicit acceptance of the role of the state in promoting development and (institutional and) structural change on a piecemeal basis in support of private enterprise (although this is little more than a new way of expressing the theoretical underpinnings of the post–Washington Consensus, with explicit reliance upon neoclassical economics as foundation). But it is much more appropriate to see the new structure or development economics of the World Bank, along with its agenda for research as promoted by Lin, as a step back of twenty years to the postures made in response to the developmental state critique of the Washington Consensus in light of the East Asian miracle (World Bank 1993; for a critique see Wade 1996). For the response, then, was to accept the undoubted and indisputable empirical evidence of heavy intervention by the state but to interpret it

as merely the state intervening in a way to do what the market would have done had it been working properly.

This stance is both vacuous and incapable of being refuted, and exactly the same is true of the "latent" comparative advantage of Lin. If policy was successful, of necessity the latent would have revealed itself; the opposite would occur in the case of failure. Indeed, there are two different but closely related ways to interpret Lin other than as conceding the need for state intervention. The first – to some degree corresponding to but not reproducing the non-replicability stance of the World Bank on the East Asian miracle[21] – is that the whole thrust of his support for the state's interventions are designed to contain and constrain them to institutional and policy supports to private capital alone. Second, then, is the total absence of a number of key considerations – there is no discussion of substance of public ownership, of the global crisis, of finance, of the global and systemic more generally, and even (or especially) of the developmental state.[22] Most strikingly of all, there is no point of contact with the policies of the World Bank currently being adopted, nor are there any mea culpas for those of the past, not least, for example, the previously mentioned rush from privatisation to public (and World Bank) support for private participation in provision of economic and social infrastructure, including health and education.

Significantly, then, the post–Washington Consensus can be interpreted as having signalled a shift in scholarship across the two phases of neoliberalism, previously delineated, with Stiglitz as chief economist forced to resign from the World Bank once such shifting perspectives were put into policy practice. By contrast, Lin's new structural development economics stands aloof both from the policies of the Bank and from the global crisis to which it currently responds. That he can do so and command the scholarly developmental agenda is a remarkable testimony to the power of the World Bank as a knowledge bank and to the obfuscating resilience of the neoliberalism that it serves.

Notes

My thanks to Chang Kyung-Sup and Linda Weiss for comments on earlier drafts.

1. See http://en.wikipedia.org/wiki/Josiah_Stamp,_1st_Baron_Stamp.
2. It is neatly complemented by the following, cited in Wade (2009, 539):Two executives sit at a conference table studying documents, and one says to the other, "These new regulations will fundamentally change the way we get around them", *New Yorker*, cartoon, 9 March 2009.
3. See also Naudé (2009) on the G-20 summit:Many have already remarked on the fact that huge amounts of money have been found at short notice to bail out banks, but that money to bail out the world's bottom billion can never be mobilised. Contrast for instance the $50 billion agreed on for developing countries at the summit with the estimated $8.4 trillion for bailing out banks. As Oxfam recently remarked, the latter amount is sufficient to end extreme poverty worldwide for 50 years.

4. Nor is Ferguson alone in questioning the liberal use of neoliberalism in addressing social policy. For Molyneux (2008, 775):The term neoliberal is widely used as shorthand to describe the policy environment of the last three decades. Yet the experience of the Latin American region suggests that it is too broad a descriptor for what is in fact a sequenced, fragmented and politically indeterminate process.See also Fine (2012) and Peter Abrahamson's Chapter 5 in this volume.
5. For a sophisticated account, with case studies from South Africa, of the association of neoliberalism with diversity and specificity as opposed to reductionism, see Hart (2002, 2008).
6. See Stockhammer (2010), who also observes Arrighi's early use of the term. Of course, many discuss financialisation across its various definitions without necessarily using, possibly even avoiding, the term. See Duménil and Lévy (2011) for the latest in a series of contributions on the relationship between neoliberalism and finance.
7. In absolute terms, global financial assets rose from $12 trillion to somewhere between $196 and $241 trillion from 1980 to 2007 (Blankenberg and Palma 2009, 531).
8. See Lazonick and O'Sullivan (2000), for an early account of pursuit of shareholder value though corporate buy-back of shares, and Milberg (2008), for use of global value chain profits by U.S. corporations to sustain value of domestic shares.
9. "Why It Is So Hard to Keep the Financial Sector Caged", *Financial Times*, 6 February 2008, cited in Michael Perelman, "How to Think about the Crisis", http://www.monthlyreview.org/mrzine/perelman131008.html.
10. See also Demir (2009).
11. See Lapavitsas (2009) for a contrary view.
12. See Fine (2010) for a critique.
13. See, for example, references cited on financialisation.
14. As eloquently observed by dos Santos (2009, 180–1), the crisis has not derived from a tulip bulb, South Sea island, or dot.com bubble or even stock market or commodity crash, although these have witnessed considerable speculative turmoil in the period leading to the crisis:By many historical measures the current financial crisis is without precedent. It originated from neither an industrial crisis nor an equity market crash. It was precipitated by the simple fact that increasing numbers of largely black, Latino and working-class white families in the United States have been defaulting on their mortgages.
15. They do concede that, "[t]he data show that fiscal costs associated with banking crises can be substantial and that output losses are large" (Laeven and Valencia 2008, 30).
16. Apart from collapse in levels of (industrial) production, Stuckler et al. (2009), for example, find that the mass privatisation programmes in Eastern Europe increased the short-term adult male mortality rate by a staggering 12.8 per cent.
17. See Bayliss and Fine (2008) on privatisation; also, Fine (2011).
18. See Blanchard et al. (2010), Ostry et al. (2010), and Gallagher (2011) for a balanced account.
19. Initially, Lin (2010a).
20. See Lin and Chang (2009), Lin (2010b), and Wade (2010, 2011), and debate wedged between Lin and Monga (2011a, 2011b).

21. That other countries did not have the characteristics to be able to reproduce successful interventions as in East Asia.
22. This remains a no go (i.e. mention) area for the World Bank. Significantly, though, Lin could be interpreted as belonging to the economic school of the developmental state approach, offering appropriate policies for soliciting latent comparative advantage with scant regard for the concerns of the political school, whether such policies are liable to garner support and be implemented in practice. See Chapter 14 in this volume and Fine et al. (eds) (2012).

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Predicaments of Neoliberalism in the Post-Developmental Liberal Context

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1 Introduction

The world before global neoliberalisation was a complex of disparate ideologies, political economies and social structures. Despite the seemingly all-encompassing forces of global neoliberalism, the wide diversities in the pre-neoliberal systems of politics, economy and society have critically shaped the motives, conditions, processes and consequences of neoliberal reforms. Capitalist East Asia, where the nature of economic, political and social orders used to be decisively moulded by the nationalist economic initiatives of the so-called developmental states, has confronted global neoliberalism in its own distinct historical context.

In capitalist East Asia, the active political pursuit of industrial catching up and export promotion was backed up by what can be characterised as *developmental liberalism* in social policy. State policies involving, among others, labour and welfare were generally regarded as conservative or liberal in terms of both spending levels and institutional configurations, but the developmental proactivism of each state frequently effected a systematic harnessing or sacrificing of social policies and grassroots interests for the sake of maximum economic development. That is, these East Asian states were *developmentally liberal* in social policy. However, the dual sacrifices of grassroots due to repressed labour rights and minimalised welfare protection became untenable as democratic transitions significantly empowered industrial workers and other grassroots citizens in their confrontation with the authoritarian developmental bureaucracy and its business allies. It was during this crisis of developmental liberalism that Western neoliberalism in social policy (as well as in economic policy) was politically embraced, now by the supposedly democratic political regimes, in order to fend off the political challenges from below to developmental liberal policies. The nature, processes and consequences of neoliberal reforms in social policy have been critically enmeshed with developmental liberalism and its political economic supporters.

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In the case of South Korea – and to lesser extents in neighbouring capitalist countries – global neoliberalism was also actively incorporated in the financial sector, however, only to fatally destabilise the entire national economy. Ironically, the unprecedented national economic meltdown of 1997–8 resulting from hasty financial (neo)liberalisation in turn necessitated intensification of neoliberal social policies and economic practices. Ramified thereby were indiscriminate layoffs and pay cuts, generalisation of casual contractual jobs, and practical annulment of social security benefits through employment casualisation, as well as unrestrained overseas relocation of industrial jobs to China, Vietnam and other countries.

As these tormenting troubles were not effectively relieved but rather implicitly endorsed, under the pretext of reviving the national economy, by the democratic and even pretentiously progressive governments of Kim Dae-Jung and Roh Moo-Hyun, South Koreans had to find themselves in a serious political epistemological obfuscation. Economic and social progressivism became an almost irrelevant political issue when South Korean voters began to search for an alternative leadership for remedying their utmost troubles. A man mimicking Park Chung-Hee was elected into the next presidency, which he has managed in a developmentally disguised neoliberal way. In fact, such *developmental nostalgia* as an outcome of the intricate interaction between ambiguous democratic politics and neoliberal social pulverisation has decisively shaped the political landscapes across Asia – for example, from South Korea to Taiwan, Malaysia, Thailand and elsewhere.[1]

2 Developmental liberalism: the developmental state and social policy

Most South Korean scholars do not hesitate to utilise the categories of social policy regimes that have been devised to portray Western societies – most notably those presented by Esping-Anderson (1990). According to them, broadly speaking, South Korea displays a liberal orientation in the level of political (and for that matter financial) commitment to public protection of livelihood, whereas the recent institutional augmentation of social securities and services, particularly after the economic crisis of 1997–8, takes on a resemblance to the Continental European conservative regimes. The former is a different way of branding the country as a “welfare laggard”.[2] The latter reflects the *deceptive* political gestures for worker protection through various public insurance schemes rendered unavoidable by social catastrophes since the national financial breakdown. These are deceptive because the number and proportion of regularly employed (and thus protection-eligible) workers have dramatically declined and because non-pay-as-you-go social insurance schemes are more a political lip service than an actual act of protection until many years after. These seemingly dubious characteristics tend to

discourage South Korean scholars from putting forward a clearly demarcated model of social policy for the country's experiences.

The pre-crisis drawback of South Korea's developmental state did not simply consist in neglecting social welfare; more critically, it drove the entire population into an almost blind pursuit of material expansion and thereby made them very vulnerable to any risk of economic downturn. Instead of reminding its citizens that they needed to prepare individual safety nets because the state was neither able nor willing to provide significant social safety nets, the developmental state kept seducing them directly and indirectly to bet all private resources entrepreneurially – whether in education, skills training, business operation, stock investment, or even real estate speculation. It was a strategy of mobilising all national resources into economic development, and most South Koreans gladly responded to such "developmental" prompts on the experienced basis of explosive economic growth since the early 1960s.[3] The developmental state enjoyed the strong support of *developmental citizenry*.

This situation necessitates a comprehensive yet systematic analysis of the relationship between the nationally dominant force of state-led industrialism and various social policy concerns.[4] The main concern of the developmental state was without doubt rapid industrialisation and economic growth, but social policy was not delegated to a different political body. It was this developmental state that was also accountable to the basically liberal doctrine of social policy partially coated with culturalist ideologies and, more recently, covered up with Continental European–style conservative programs of social insurance. Therefore, we need to document any systematic relationship between economic developmental goals and liberal social policies, both of which are attributes of the developmental state. I propose *developmental liberalism* in order to characterise such a systemic relationship between economic goals and social policy.

The necessity of researching developmental liberalism or other systems for linking developmental goals and social policy (cf. Midgley 1995) is aptly exemplified by the German experience under Bismarck. According to Gerschenkron (1962), the German state in the nineteenth century intensely aspired to catch up with neighbouring rival states in economic development and therefore found it necessary to directly organise social groups and mobilise national resources for maximum industrial production. It was no coincidence that the Bismarck government devised and implemented some classic social insurance schemes in order to exhort main groups of labour and bureaucracy into the developmental process and contain leftist revolutionary sentiments in society. These schemes were later termed a "Bismarckian welfare system" by Esping-Anderson (1990). Thus, it is essential to decipher the origin and nature of the German social policy regime in the context of state-led late development. In a similar vein, a proper

understanding of the social policy regime in South Korea (and other state-led developmental political economies) requires its contextualisation in the process of state-led capitalist development.

The developmental state in South Korea is well known for its comprehensively organised and aggressively implemented policies for industrialisation, export promotion and the like. Its social policy orientation, however, has often been simplified as one of brutal conservatism against those in need, be they workers, women, the poor, or a host of other disadvantaged or alienated social categories. While such appraisal has much validity, there is a pressing academic as well as practical need for more systematic analysis of the structural relationship between economic developmentalism and social policies and practices instead of dwelling on a supposed zero-sum relationship between them. To begin with, the extent of such a zero-sum relationship itself has varied over time. Even in regard to the suppressing or sacrificing of social policies, the motivations, conditions, manners and outcomes of such actions should be systematically documented in order to explore any possibility that they are *developmentally liberal*, as opposed to being *liberally liberal*. A simplified comparison of the two systems of political economy is as follows: in a *liberally liberal* society, the bourgeoisie as the dominant class will insist on minimal social spending in order to minimise its financial burden of tax, whereas in a *developmentally liberal* society, the developmental state will try to minimise social spending in order to maximise economic investment within a given budget. In the following, drawn from separate works of mine, several detailed characteristics of developmental liberalism are highlighted.[5]

Depoliticisation / Technocratisation / Developmental Obfuscation of Social Policy. State autonomy has been a focal issue in research on the developmental state in East Asia and elsewhere. In South Korean development, it was achieved through depoliticisation of administrative work. The government bureaucracy as a whole was a developmental institution, and its collective performance was measured in terms of growth rates of export, national income and the like. Officials and offices in charge of social policy concerns were not allowed to envisage or emphasise the importance of their duties as separated from economic developmental goals. Even these officials' personal ambitions often consisted in a desire to transfer to economic policy units. In fact, ministers formally in charge of welfare, health, labour, education, environment and other social policy concerns were often required to attend the regular "Meeting of Economic Ministers" (*gyeongjejanggwanhoeui*) and present measures to use (abuse?) and compromise social policy for economic development. Social policy was oftentimes a purely technocratic and, for that matter, technical matter whose efficiency was to be appraised in terms of its contribution to improved economic indicators.

Developmental Cooptation of Social Policy Constituencies. The emergence of a developmental statist regime in the 1960s induced South Korea to seriously depart from its earlier duplication of the American approach to social policy. The South Korean industrial miracle was primarily based upon abundant and talented human resources. The preparation, mobilisation and organisation of South Koreans for industrial production were as much social as economic policy concerns. However, the core aim of such social policy was not social protection of the citizenry but economic utilisation of the population. A social policy regime in the direct service of economic development was gradually forged and would then survive into the twenty-first century. Grassroots South Koreans were not against the economic developmental subordination of social policy. Lacking even an elementary notion of social citizenship rights, they rarely conceived themselves as serious constituencies of social policy. They instead related their citizenship status to fair economic and educational opportunities as expanded and improved by the successive developmental governments – a phenomenon I have elsewhere explained as *developmental citizenship* (Chang 2007, 2012a, 2012b). Political leaders and technocrats welcomed such economic orientation of the otherwise burdensome constituencies of social policy. A sort of developmental cooptation of citizenry was pursued without any significant social resistance. The successful developmental cooptation of social policy constituencies – and for that matter the suppression or postponement of earnest social citizenship politics – should be appraised not only against the rapid industrialisation and sustained high economic growth in the following decades but also against the complicated political and social context in the latter half of the twentieth century.

State-Business Entrepreneurial Merge and Direct State Engagement in Labour Relations. While international scholarship on the developmental state has mainly focused on the unique developmental nature and cooperative interaction patterns of the state-business relationship, the formation of such business entities as would be strategically suitable for the national targets of industrial and trade growth was often considered the mission of the developmental state itself.[6] Private (and public) enterprises the developmental state thereby helped create were treated as dear instruments for national development, and their corporate interests were often protected as if they belonged to the state. It was in this political economic context that the labour policy in South Korea began to assume an inherently anti-labour orientation. In the early stage of export-oriented industrialisation, wage suppression and abusive working conditions in sweatshops were practically considered indispensable conditions of international competitiveness, and any organised resistances to such corporate practices were often directly quelled by the state (i.e., with riot police).[7] Even the state regulations for protecting the health, safety and basic human rights of workers were

arbitrarily distorted or neglected with the tacit support of the government.[8] Such asymmetrical labour politics of the developmental state was sustained into more mature stages of economic development, but the oppressed class would grow in its organised power and social influence so as to gradually, if not fully, counterbalance the anti-labour developmental coalition.

Familial Reconstitution of Social Citizenship. No matter how successful the economy-centred developmental policy functions, a society cannot operate without proper institutional arrangements for meeting various material, physical and cultural requirements of the so-called social reproduction.[9] Social policy – if defined as public means, programs and regulations for stable social reproduction of individual citizens and, ultimately, of the nation – is not an optional function of the modern state but its most essential and universal requirement. Thus, even when a citizenry is willingly incorporated into economy-centred politics and remains content primarily with the economic performance of the developmental state, its operation still needs to be complemented by various public means, programs and regulations for stable social reproduction. For a welfare state, social policy is the central political objective; for a developmental state, it is at least a complementary yet indispensable technocratic instrument. In its actual administrative practice, however, the developmental state did everything to redefine social policy – or for that matter social citizenship – in terms of private responsibilities for mutual support and protection. Families were summoned in order to meet various public necessities in social reproduction (Chang 2010, Chap. 4). The developmental state somewhat resembled the early modern liberal state of the West in articulating various social problems accompanying industrial capitalism as individual and familial responsibilities and in morally regimenting individuals and families to cultivate human qualities and attitudes suitable for industrial work and life (Donzelot 1979). In doing so, the South Korean developmental state was equipped with two distinct advantages: its developmental appeal and Confucian familial culture.

Welfare Pluralism and Demobilisation of Civil Society. Family welfare, whether codified culturally or obliged politically, is a self-contradictory doctrine. The main function of social protection is expected of the least capable social groups (i.e., destitute families). This means that, in a capitalist society where the self-protection of families and individuals is politically emphasised, various types of actors and institutions need to step in to make up for the structural lacunae in social protection. Thus, welfare pluralism (in terms of social diversity of welfare providers) is a common attribute in liberal (including developmental liberal and neoliberal) societies. In South Korea the mobilisation of every thinkable type of (non-state) welfare provider has been a consistent policy of the developmental liberal state. The complementary players in welfare provision would take on diverse

ideological and organisational characteristics resulting from their social and political origins, but a paternalistic attribute is common to them. That is, they pose themselves as a kind of *surrogate family* that assumes the moral duty of a private family, not the political right of sovereign citizens to state-organised social benefits. In South Korea, private philanthropy, religious social work, corporate welfare, welfare NPOs, nepotistic support networks and media-based fund-raising for emergency relief have usually been deployed in pseudo-familial ideological and organisational frameworks. These diverse welfare institutions and forces make welfare-receiving disadvantaged groups become clients of narrow paternalism and thereby make them hostage to the divisive or sectarian interests they represent (e.g., religious affiliation or conversion, divisive corporate loyalty, etc.).[10] Also, just like the developmental state's role of helping to form an industrial entrepreneurial class for national economic development, the developmental (liberal) state, given insufficient non-state welfare providers, has helped form civilian actors and organisations for welfare provision. Many of these state-dependent welfare entities behave entrepreneurially, as if in profit sectors, under the tacit endorsement of a budget-conscious bureaucracy. On the other hand, a dominant majority of actors and organisations involved in these welfare activities have been keen to keep their distance from those progressive political lines and voices that advocate civil activism. As welfare provision has been conceived, not as an active expression of civil social solidarity, but often as a clientelistic benefaction for narrowly targeted groups, it has paradoxically contributed to the segmenting and demobilising of civil society.[11]

3 Democratic challenges to developmental liberalism

It is implied from the functionalist thesis of developmental authoritarianism upheld by Huntington (1968) and innumerable followers that developmental liberalism as a state policy paradigm was crucially predicated upon authoritarian political power.[12] Developmental liberalism was rule by carrot and stick, but the grassroots were often exhorted or coerced to keep receiving material rain checks (delayed carrots) while being continually threatened with physical oppression (immediate sticks). With their national economy already highly developed, the delayed carrots became increasingly intolerable to grassroots South Koreans, including overworked and underpaid workers. Such widespread material discontents themselves served as a crucial social basis for political upheavals, whereas their gradual acknowledgement of the autocratic state as the main basis for the socio-economic injustices helped bolster the societal alliance for democratisation led by progressive intellectuals and civilian professional politicians. When in the mid 1980s the civil and social struggles for democratisation finally forced the dictatorial regime to agree on restoration of democratic political

procedures, the developmental liberal approach to social policy could not but be subjected to serious political challenges from below and to ever more second thoughts from policymakers.

First, social policy – social welfare in particular – began to take on independent political significance as the post-authoritarian regimes tried to bolster their political legitimacy through protective or redistributive social programs and services (Kwon 1999). The democratically elected government of ex-General Roh Tae-Woo, confronted with mounting social pressures and political challenges against him, even declared that it would do its best to establish "the welfare state" as early as possible. It was more lip service for securing Roh's own political safety than a serious politico-ideological transition into anything resembling social democracy. Nevertheless, welfare expenditure increased substantially, and social services and insurances were augmented significantly. An especially notable affair was the overnight construction of mammoth "bed towns" for coping with the extreme shortage of urban housing. Social policy ceased being reducible to an auxiliary part of national economic development in the minds of both political elite and grassroots citizens. Social rights – or socio-economic components of modern citizenship – gradually began to define the state-citizen relationship.

Second, the political rise of social policy was closely linked to a political rebirth of the citizenry as a social policy constituency. The political eruption of organised labour, along with various groups of middle-class citizens, was a critical determinant of the democratic transition of 1987, and the political yearning for democratic rights was immediately succeeded by practical demands for improved wages and working conditions, basic housing, nutrition and education, and a host of other components of a decent livelihood. The struggle of unions and other organised groups for social rights turned out to be quite effective in terms of rapidly enhanced wages, social welfare benefits and the like.

Third and relatedly, the politico-legal purge of the corrupt chains between industrial capital and the deposed autocratic regime and the reform of the *chaebol* system as a whole, no matter how limited these were in implementation, were quite consequential for social policy. Since the inherently illicit nature of *chaebol*'s corporate control and management was judged to be a chronic structural factor for legal as well as economic distortions, their foul history of relying on the military-based autocratic regimes for politico-legal safety and business expansion constituted a directly political concern.[13] A majority of *chaebol* heads (*chongsu*) ended up being convicted of grave criminal charges with some sentenced to prison terms along with military-originated politicians. Apart from such legal punishment of *chaebol*'s specific instances of political bribing and corporate embezzlement, the reform of *chaebol*'s corporate governance, financial structure and industrial monopoly became a main agenda in national politics. Even without any

formally declared setback in the state-business developmental alliance, the legal punishment of *chaebol* heads and the political pronouncement of *chaebol* reform induced a gradual, if not full, political balancing of the state-business-grassroots relationship and ultimately helped strengthen the political significance of social policy vis-à-vis economic development. As a more immediate process, the lopsided relationship of state offices to employers (as opposed to workers) in industrial and labour policies had to be seriously rectified. The politically softened state began to restrain its physical interference with labour relations, leaving employers to directly confront workers' demands and challenges (J. Choi 2002; Koo 2001). The resulting corporate concessions to workers in wage levels, employment conditions and fringe benefits in effect significantly relieved the state's burden of welfare provision. Nevertheless, the state itself had to undertake its own political work of reconfiguring grassroots citizens as beneficiaries of new social services, protections and insurances.

Fourth, women's role in the democratisation and labour struggle, while much less conspicuous than that of men, was succeeded by a strong movement for women's human, cultural and social rights.[14] As most women's hardships were closely linked to their familial duties, roles and positions, the feminist movement came to serve as a powerful initiative for socialising the familial functions of social support and protection for the elderly, infants and children and the handicapped. To the extent that the developmental orientation of the state had required its institutional dependence on patriarchal family relations for welfare provision, the democratic repositioning of women implied the political reconfiguration of private welfare provision as a public duty of the state.[15]

Finally, the above-mentioned political affirmation of the social rights of citizens was soon accompanied by various civil initiatives and struggles for actually realising such social rights. Whereas developmental political economy defined the state-society relationship mainly in terms of corporate roles (and proletarian duties) for realising national economic goals in exchange for preferential business support (and improved incomes), democratic polity involved the proactive engagement of civil society (e.g., NGOs, community initiatives and intellectual movements) for realising various humanitarian, communitarian and socio-ecological concerns as public goals or state duties. Besides the hitherto existing philanthropic, religious and politically minded providers of welfare and relief, many broad-based civil social organisations and movements arose as crucial counterparts of or watchdogs on the social policy bureaucracy of the state. These civil society actors, on the one hand, worked to ensure that political pledges and legal (constitutional) stipulations for social rights would materialise into actual enhancement of people's livelihood and security; on the other hand, they attempted to propose new or better social policies and programs for augmenting social rights.[16]

4 Neoliberalism and counter-democratic renewal of developmental politics

In international scholarship on comparative democratisation, insufficient attention seems to have been paid to the post-democratic impacts of the specific nature of each authoritarian rule. Authoritarian or dictatorial rule officially became something to be abolished in the political institutional sense, but many non-democratic political orders had shaped (or had been shaped by) structural political economic interests, relations and ideologies that could not be reshuffled or eradicated by political institutional changes alone. In particular, the "successful" developmental political economies in East Asia orchestrated by the authoritarian developmental states had nurtured and had been nurtured by the structurally aligned interests of industrial entrepreneurs, economic technocrats and other state functionaries and media and intellectual collaborators.[17] Regardless of democratisation (i.e., the replacement of an autocratic regime by a democratically elected government), the core members of these coalitions would continue to identify themselves as the main basis of the developmental political economy and social system. They would do their best to preserve the currently prevalent economic and social orders and extend the economic and social policies of the state that had buttressed such orders. As a cold reality, the democratically elected state leaders and grassroots citizens committed to democratisation had to confront these firmly entrenched elite groups without comparable material, institutional or even techno-intellectual resources. Furthermore, the ambiguous ideological origin of the democratically elected governments – they had certainly not been socialist or even social democratic – would easily result in political compromise with such entrenched interests under the pretext of pragmatic or realistic governance.

In this context, the political lifespan of developmental liberalism (and that of developmental statism in the economy) was not anywhere near an end. Core members of the conservative developmental political economy would realign themselves into a neodevelopmental coalition pivoting around the pecuniary power of business (*chaebol*) and attempt to capitalise on the global spread of neoliberalism in order to resuscitate developmental liberalism.[18] A neoliberal rebirth of developmental liberalism would take place, causing an extreme confusion about the politico-ideological nature of South Korea's political economy and social policy in the democratic era.

In South Korea, as everywhere else on earth, neoliberalism has been an extremely controversial subject for political debate and scholarly discussion. To begin with, in South Korea's economic and political history, liberalism has remained a highly ambiguous issue. The international scholarship on South Korea's developmental state (vis-à-vis a supposed market-centred liberal paradigm) has reinforced the vague epistemological and ideological status of liberalism in the country. Nonetheless, there seem to have been four

major trends or components of neoliberalism that have critically influenced the South Korean political economy and social policy: global free trade and investment, financialisation, institutional deregulation and social policy liberalisation.[19] The first two components are generally considered direct economic policy concerns, whereas the latter two are seen as non-economic conditions for economic progress or rationalisation. However, as explained below, all of them have had fundamental social policy ramifications.

Social policy liberalisation was noisily heralded by frequent references to Western discourses on the supposed economic pitfalls of the welfare state. Interestingly, European welfare states became a major topic for public policy debate in two mutually contradictory directions. That is, no sooner had the Western European–style welfare state become a national political objective in democratised South Korea than its supposed economic limits and moral risks began to be widely publicised.[20] Such conflict seemed to be resolved in terms of "productive welfare" (*saengsanjeok bokji*), but it by and large remained an empty slogan without systematic policy substance.[21] In effect, productive welfare functioned to contain social voices and political moves for welfare expansion. The most crucial social policy area in which actual liberalisation was seriously pursued was labour relations. Under the neoliberal rubric of *labour-market flexibilisation*, the basic conditions of wage labour were subjected to radical proposals for liberalisation, including easy layoffs, labour dispatching and outsourcing, and transitory employment.[22] The Kim Young-Sam regime tried to enact a new labour law full of aggressive neoliberal substances without seriously seeking political cooperation or compromise from opposition parties and labour unions, but a societal upheaval awaited Kim, one requiring a long process of social and political negotiation.

Institutional deregulation (*gyuje gaehyeok*), under a strong developmentalist ideology of national economic competitiveness, has taken on an almost sacred political status since the late 1980s.[23] Broadly speaking, labour-market flexibilisation was one of such deregulation projects in the area of social policy. But a much wider range of policy domains – including health and safety protection, social security, environmental control, agricultural preservation, geographic management, industrial licensing, corporate financing, and foreign currency transaction – was subjected to the deregulation spree. When social policy domains were brought under deregulation, it usually implied reduction in governmental, corporate, or social commitment to the social protection of workers, farmers, small businesses, handicapped, dependent and deprived individuals, environments, or communities. Thus, deregulation often constituted an indirect way of sapping various social rights of citizens.

South Korea's aggressive pursuit of global free trade has basically reflected the national and corporate interest in rapid economic expansion. But the concomitant radical economic restructuring has ramified serious economic

and social sacrifices on the part of various consequently weak links of the South Korean economy – farmers, labour-intensive producers, and unskilled workers above all, all of whom began to rapidly lose international economic competitiveness in the face of their counterparts in much more populous and much less expensive-to-live-in societies. The socially exclusionary nature of the South Korean developmental state got even more intensified under the supposedly democratic leader Kim Young-Sam, who tried to outperform Park Chung-Hee by aggressive economic globalisation. Furthermore, more and more South Korean industrial firms began to relocate part or all of their production bases overseas in order to tap into much cheaper and more easily exploitable labour or secure bigger markets for their products. In particular, South Korea's geographic location as China's next door began to engender radical outcomes in the new international division of labour. Even when employers decided to stay in the country, South Korean workers now had to sell their labour under Chinese-level working conditions. Not having sufficient supplies of such willingly exploitable domestic workers, South Korean companies also asked for the opening of the domestic labour market to *unlimited* supplies of poor Asian workers (cf. W. Arthur Lewis 1954). Having become one of Asia's most open labour markets, South Korea is busy dealing with the social and cultural ramifications of its *accidental* ethnic plurality.[24] All these tendencies coalesced to bring near to an end the most fundamental condition of South Korea's timeworn developmental politics – namely, stable employment.

Financialisation is a highly complex theoretical and practical issue, with rapidly expanding influences.[25] If most broadly interpreted, grassroots South Koreans have been induced or urged to financialise the economic troubles attendant upon the widespread employment crisis by relying on various old and new commodities of the financial industries. Since such reliance does not fundamentally solve any financial problem for desperate South Koreans, the ultimate cumulative effect of individual bankruptcies has been manifested as *the financial crisis of the financial industries* – for instance, the near insolvency of many South Korean credit card companies during the first several years of the twenty-first century (U. Chung 2004). Such experience has made the South Korean government much more cautious in monitoring and regulating the financial industries. Ironically, this has resulted in further jeopardising the widespread reliance of poor people on often illegally existing or behaving private usurers – a dangerous trend which often coerces helpless borrowers into complete insolvency, physical abuse, mental disorder, suicide, prostitution and even human organ transactions (see K. Chang 2012c, Chap. 5). At the other pole of the economy, financialisation has involved indiscreet corporate borrowings from overseas, aggressive portfolio investment (as opposed to industrial investment) by global financial speculators, and so forth (T. Kong 2000). The extreme velocity of such international financial incorporation of the South Korean economy

became directly responsible for runaway inflationary pressure and, consequently, aggravated the above-mentioned financial troubles of grassroots South Koreans. However, it was not the grassroots alone that had to confront the perilous outcome of injudicious financialisation. An alarming number of major South Korean enterprises, and then the entire national economy, instantly skidded into financial insolvency during the so-called Asian financial crisis of the late 1990s.

While neoliberalism was initially adopted as a countermeasure to the democratic social and political challenges to developmental liberalism, neoliberal policies and practices in effect functioned to critically undermine various conditions and components of developmental liberalism. First, labour-market flexibilisation, in combination with the unrestrained relocation of industrial jobs to China and elsewhere, came to gradually demolish the full and stable employment regime as the most essential political basis of the developmental enfranchisement of the citizenry (K. Chang 2007). Second, the neoliberal ideological propensity to liquidate social and political concerns away from economic activities – often under the rubric of deregulation – was directly antithetical to developmental liberalism as an economically integrative social policy regime. Third, industrial restructuring to strengthen the global competitiveness of major export firms in technology- and capital-intensive sectors, accompanied by a trade policy of securing wider markets for such firms at the expense of domestic labour-intensive sectors, made the close state-business relationship devoid of developmental justification for ever-increasing proportions of the population. Fourth and relatedly, the massive dismissal of family breadwinners in urban industries and the structural decline of family-based petty producers in agriculture and in urban tertiary sectors came to crucially damage the essential material basis of the family as the key provider of welfare and protection. Finally, the globalisation of corporate business operations, individual job careers and even citizenship arrangements, combined with the intrusive engagement of foreign capital and international regulatory forces in the South Korean economy, tended to enervate communitarian nationalism as the key ideological basis of pluralist welfare provision. These tendencies, in combination, effected an irreversible weakening of the developmental liberal regime of social policy.

5 Economic crisis, neoliberal democratic governance and political obfuscation

The decisive cause of the economic crisis of 1997–8 in South Korea (and Asia) is still debatable. The U.S.-originated global financial crisis of 2008–9 reaffirms the fundamentally problematic nature of globalised financial capitalism and its deleterious impact worldwide. But the fact that South Korea incurred national financial calamities in both instances with supposed

"sound economic fundamentals" – that is, a balanced state budget, manageable inflation, internationally competitive industries, and the like – seems to require a particular explanation for the South Korean political economy's structural vulnerability. While seeking such an answer is beyond the purpose of this Chapter, it is sufficient to point out that the haphazard combination of developmental and neoliberal elements in that economy was destined to engender structural instabilities. (This is equivalent to what happened in the social policy area thanks to a similarly haphazard combination of developmental liberal and neoliberal elements.) While neoliberalism was occasionally presented by domestic and international experts as a reform platform for the state-led developmental political economy, both the state economic bureaucracy and *chaebol* thought and behaved otherwise. That is, they tried to incorporate (or reinvent) neoliberalism as a convenient mechanism for expansively renewing the timeworn developmental political economy in the increasingly globalising economic environment. Without rectifying *chaebol*'s inherent tendencies of debt-financed corporate expansion, aggressive yet opaque management and reliance on the politico-administrative underwriting of their operations, the developmentally promoted policies of corporate deregulation and financial liberalisation (both domestic and international) – what may be called *developmental neoliberalism* – coalesced to engender a financial runaway situation. All this process took place under Kim Young-Sam's government, noisily inaugurated under the developmentalist slogan of New Economy (*Singyeongje*) which, according to Kim's propagandists, would finally place South Korea in the status of *seonjinguk* (advanced nation).

Paradoxically, the 1997–8 economic crisis led to the defeat of the right-wing developmentalist party after nearly three and a half decades of ruling South Korea under various names. South Korea came to be governed by a political leadership symbolising national democratic struggle, but its economic and social policy line did not necessarily represent anything seriously progressive – be it social democratic or socialist (Chang 2012c, Chap. 3). At the staunch (and opportunistic) urging of the Wall Street–dispatched international financial regulators, the new South Korean administration, led by Kim Dae-Jung, basically agreed that neoliberal principles would be respected in order to thoroughly reform the state-business collusive economy.[26] The so-called structural adjustment program indeed ramified a serious alteration of the state-business economic relationship, *chaebol*'s corporate structure and management, and even the national industrial structure.[27]

Rescuing the national economy through neoliberal policy measures was not tantamount to rescuing people from sudden material destitution. On the contrary, the structural adjustment of the national economy, as well as of individual industries and firms, involved *intensification of neoliberal social policies* such as labour-market flexibilisation and exhortation of economic self-reliance (Chang 2012c, Chap. 3). Although the official social policy

paradigm of the Kim Dae-Jung government remained quite ambiguous, its subscription to neoliberal economic reform consequently implied the sustenance of neoliberal social policy.[28] In fact, Kim successfully forged a historic labour-business-government tripartite agreement for collaborative rescue of the national economy by persuading organised labour to accept neoliberal programs for labour reshuffling.[29] However, the sheer scale of the all-encompassing national economic restructuring did not allow the Kim administration to take a passive social policy line indefinitely. As millions of South Korean breadwinners and their familial dependants suddenly found themselves on the verge of permanent poverty, there came instant provision of nationwide relief programs – again, in neoliberal forms such as temporary public employment, job skills development, job placement assistance, and corporate employment subsidy – encouraged even by the International Monetary Fund and other international predatory forces under the rubric of the "social safety net".[30] Despite its neoliberal implication, the prompt establishment of the social safety net seemed to afford the Kim government, albeit very briefly, a political excuse for self-consolation.

On the other hand, the fact that many South Korean exporters managed to rehabilitate themselves instantly helped accelerate national economic recovery. This induced the Kim government to concentrate its energy in the boosting of corporate competitiveness and the expansion of export markets – not in the establishment of a serious welfare state regime. The economic crisis kept the supposedly progressive Kim Dae-Jung government from seriously attempting to alter the socially exclusionary nature of the South Korean developmental state. Furthermore, to the extent that the successful recovery of major South Korean exporters was due to sustained concentration in technology- and capital-intensive sectors, their contribution to national economic recovery fell short of rescuing grassroots South Koreans – in particular, middle-agers who had been dismissed from work during or after the 1997–8 crisis and youth who confronted unprecedented difficulties in job finding. While unemployment did decrease, most of the new or renewed jobs offered under the flexible-labour-market regime were *bijeonggyujik* (non-regular position). South Korea thereby became the only advanced industrial economy with more non-regular employees than regular ones. The non-regular jobs, with unstable and unpredictable tenure and low pay, practically nullified social security benefits.[31] As the country's major social security programs had been devised in accordance with people's regular employment (following the conservative welfare state model initiated by Bismarck's Germany), joblessness or non-regular employment came to imply a practical disenfranchisement from the national social security system.

Despite these economic and social complications, Kim Dae-Jung managed to see Roh Moo-Hyun, a candidate of the same political party, succeed him as president. Roh, having built up a career as a democracy fighter, was much

more concerned with political issues (in particular, interregional confrontation and disparities); no serious departure was made from his predecessor's economic and social policies.[32] The above-mentioned structural problems involving industry, employment, and social security consequently remained unchanged in nature, but grew worse in extent. Without his predecessor's excuse of "rescuing the national economy", Roh's passiveness in social and economic policy was subjected to harsh criticism from his own political supporters, as well as from organised labour, progressive intellectuals and the media.[33] Roh began to react quite sensitively, however, not through policy changes but through apologetic political propaganda. While continuing to rely on conservative technocrats for neoliberal economic and social policies, Roh launched colourful verbal attacks on neoliberalism and the conservative domestic forces feeding on it and on developmental (liberal) legacies from the past. His final, proudly pragmatic project was, ironically but not surprisingly, the South Korea–United States Free Trade Agreement.

Roh's "right turn with the left-turn signal" resulted in unprecedented political and epistemological mayhem. To those South Koreans who had been systematically disenfranchised from stable work and social security, the pretentiously progressive Roh seemed to suggest that social democratic, socialist, or other progressive political lines would offer no fundamental relief or alternative. Without any apparent policy debacles (at least as he saw it), Roh's political approval rate remained extremely low throughout his term. However, even more serious political injury would be experienced by those genuinely progressive politicians representing labour rights and social democratic policies. The Democratic Labor Party suffered devastating losses in the presidential and parliamentary elections (in 2007 and 2008, respectively) at a time when its theoretical policy constituencies appeared larger than ever before (Chang 2012a).

The materially troubled and politically puzzled South Koreans instead turned nostalgic, as can be seen in the so-called Park Chung-Hee nostalgia. The conservative opposition party, successfully capitalising on such public sentiment, launched a noisy, colourful presidential election campaign focused on national economic revival. In late 2007, it won the presidential election by a wide margin. Lee Myung-Bak, the lucky winner, proudly introduced himself as one of the Park era's most successful CEOs, implicitly offering himself as a new Park for the twenty-first century.[34] However, he and his political staff lacked any serious theories or programs for systematically implementing another round of developmental statist governance – particularly with respect to developmentally disenfranchised South Koreans. General neglect seemed to constitute the social policy line – except for occasional repetitions of the neoliberal allegation that redistributive welfare had an economically negative side effect.[35]

After bungling the very first move for supposedly developmental intervention in the economy – the arbitrary boosting of high exchange rates

on the eve of the global financial crisis caused a near collapse of South Korea's currency – Lee's administration became an empty-shell developmental regime. Under pressure from entrenched economic and political supporters, Lee simultaneously pursued a variety of neoliberal policies and projects.[36] With this neoliberal turn being carried out under developmental statist propaganda, it was as if a *developmental neoliberal* regime had come into existence. However, even this characterisation of the Lee regime would not be sustainable in the long run. On the one hand, his technocratic staff seemed to realise that there was nothing much left to be neoliberalised further; on the other hand, his obsession with mammoth infrastructural developmental projects often forced him to sound as if he were a neo-Keynesian. Furthermore, as part of his political and intellectual staff were firmly convinced that the regime's survival necessitated conciliatory treatment of *seomin* (grassroots people), Lee suddenly began posing as a populist leader willing to implement social or economic policies helpful to people categorised as less privileged.[37]

6 Conclusion and comparative implications

The dramatic twists and turns in the South Korean social policy regime reflect complex historical circumstances and transformations in polity, economy and social structure. In particular, the seemingly paramount hegemony of liberal order in the world's last Cold War bastion against communism has been in fact a clutter of historic interactions among its political, economic and social forces. In this complicated context, developmentalism served as not merely a provisional and partial adjustment to liberal order but a forceful melting pot for dissolving endless internal contradictions of liberal order in South Korea. The developmental state has as much harnessed liberal order as revised it, particularly in the economy. Its social policy regime of developmental liberalism has been an indispensable instrument for that function.

As South Korea entered the global neoliberal era and its own democratic era simultaneously, developmental political economy and social policy, democratic forces, and neoliberal ideology and policy began to interact in quite a complex manner. Democratic forces representing labour, women, the poor, the handicapped, or civil society in general seriously challenged the basic conditions and components of the developmental liberal social policy regime. Neodevelopmental forces tried to utilise neoliberal ideology and policy as a countermeasure to democratic challenges to developmental liberalism but ended up further undermining its conditions and components. The 1997–8 national economic crisis required neoliberalism to be used, this time by a supposedly progressive political leadership, more as an economic reform platform than as a developmental renewal strategy, but the social policy dimension of neoliberalism remained virtually unchanged. Even the social safety net was sought as a complementary social policy component of the

neoliberal structural adjustment of the South Korean economy rather than as a social democratic initiative. Developmentally and socially disenfranchised groups of voters opted to elect a regime mimicking Park Chung-Hee's, but neither renewed developmental statist economic governance nor developmental reincorporation of unemployed and underemployed South Koreans has successfully taken place under the new leadership. Developmental liberalism as a social policy regime has been critically emasculated through the complicated processes of democratisation, neoliberalisation and economic crisis, but a sustainable alternative regime has not yet even been envisioned. Ironically, the impressive economic recoveries from two national economic crises (1997–8 and 2008) do not seem to have functioned as material bases for social policy renewal; rather, they have intensified the socially adverse nature of South Korea's neoliberalised economy.

Although developmental liberalism and its neoliberal degeneration have been presented here on the basis of South Korean experiences, a majority of national political economies governed by effective or ineffective developmental states have confronted similar trends. Outside the Western families of social democratic and liberal welfare states (in Europe, North America and Oceania), the conventional categories of social policy regimes, such as those of Esping-Anderson, are hardly useful. By contrast, the developmental orientation of the ruling governments and their political constituencies, whether successful or not, is an almost universal phenomenon. Accordingly, developmental liberalism in social policy, with variant forms and contents, may have been quite a widespread phenomenon. The social and political, as well as economic, predicaments of neoliberal transitions in such societies have to be appraised precisely in this post-developmental liberal context.

Notes

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1. See "The Politics of Practical Nostalgia", *Newsweek*, 7 April 2008.
2. This view is even shared by the UN Economic and Social Council (2001).
3. This ironically resembled the stalemate of socialist states that exhausted all national resources in politically promoted industrialisation and thereby deprived their citizens of any effective means of material security against national economic downturns. Not coincidentally, it was more developed – or economically more Stalinised – socialist countries that skidded into political collapse when the Soviet influence suddenly became enfeebled under Gorbachev.

4. The developmental nature of social policy has not been entirely unnoticed by South Korean scholars, albeit with different foci from mine. See Kwon (2005) on "the developmental welfare state" and Shin (2002) on "the developmental workfare state". Shin's analysis, though very sketchy, is closer to my position because he appears to similarly highlight the developmental subordination of social policy.
5. While I have been using this concept in various papers and occasions, it is presented in the most highly organised manner in Chapter 2 of my forthcoming book *Developmental Politics in South Korea: From Developmental Liberalism to Neoliberalism* (2012c).
6. The distribution of (Japan's) "enemy-left assets" in the 1950s to those select figures connected with state elites served as a historical precursor to the later developmental creation and transformation of strategic industries and firms. See M. Kang (1996) and K. Chang (2010).
7. Police often worked together with privately organised or purchased force of *gusadae* (company-saving corps) in cracking down on workers. See H. Koo (2001).
8. An interesting type of labour resistance is "law-abiding struggle" (*junbeoptu-jaeng*) – workers challenge the labour-abusive industrial system by keeping regulations and laws strictly. See K. Chang (1998).
9. See Laslett and Brenner (1989) on a general introduction to social reproduction.
10. Among these non-state welfare providers, the role of Protestant churches has been particularly significant. As many of the most sizeable and influential Protestant churches in South Korea were founded and have been dominated by extremely conservative ministers who had fled North Korea during the communist takeover and the Korean War, their welfare (and education) functions have often been politically contaminated as an ideological tool against North Korean communism and progressive causes in South Korea.
11. For the European experiences of such social solidarity, see Baldwin (1990), *The Politics of Social Solidarity: Class Bases of the European Welfare State, 1875–1975*.
12. For the classic functionalist interpretation of political authoritarianism in the Third World context, see Huntington (1968), *Political Order in Changing Societies*. On the South Korean case, see H. Im (1987), "The Rise of Bureaucratic Authoritarianism in South Korea".
13. See Chang (2010), *South Korea under Compressed Modernity*, Chapter 7; and Chang (2012c), *Developmental Politics in South Korea*, Chapter 8.
14. See Nam (2000) for a more positive assessment of women's role in South Korean democratisation.
15. South Korea ultimately launched a separate ministerial government unit under the name of the Ministry of Gender Equality, which not coincidentally expanded into the Ministry of Gender Equality and Family.
16. The most successful example is, no doubt, People's Solidarity for Participatory Democracy (http://www.peoplepower21.org). See Cho (2006), "Korean Citizens' Movement Organizations".
17. Part of these coalitions constituted what Peter Evans (1995) calls the "embedded autonomy" of the state.
18. This trend is described by such a pejorative phrase as "the Samsung republic".
19. Privatisation (of public enterprises and services) was another component, however, with relatively limited social policy implications. But the new government of Lee Myung-Bak allegedly pursued privatisation of various essential social services, including even public utilities.

20. I personally noticed this tendency as a member of the Social Welfare Policy Appraisal Committee of the South Korean government during 1994 and 1995.
21. On productive welfare in South Korea, see Mishra et al. (2004).
22. "Labour-market flexibilisation" is a direct translation of the Korean phrase, *nodongsijang yuyeonhwa*.
23. The South Korean government even set up in 1998 a special administrative organ for deregulation, the Regulatory Reform Committee, which is currently (2012) co-chaired by the prime minister and a civilian expert (www.rrc.go.kr).
24. Another factor in ethnic pluralisation is the massive arrival of foreign brides, mostly in rural areas.
25. See Chapter 3 in this volume, by Ben Fine, for a succinct definition of financialisation and examination of its diverse tendencies.
26. He also agreed to liberally offer South Korean industries and public assets to international investors.
27. In an interesting development, many reform-minded South Korean economists and civil activists came to accidentally align with international neoliberal regulators in respect to the reform of *chaebol*'s corporate governance. To these reformers, the national economic crisis was no less an outcome of the legally and financially problematic nature of *chaebol*'s corporate governance than that of the volatile and irresponsible structure of the global financial industry and the poor reaction of the South Korean government to its influences. The mounting social (and international) pressure for *chaebol*'s managerial transparency and accountability was once so daunting that they even tried to arouse a nationalist sentiment from the public, hinting at a supposed possibility of corporate takeover by foreign investors amid their financial difficulties. This manipulative strategy was not entirely unsuccessful, but the reform of *chaebol*'s corporate governance remained a national priority in the public mind. In another interesting development, as major *chaebol*, such as Samsung and Hyundai, continued to confront social and legal challenges as well as administrative pressures, they suddenly began to make pledges for phenomenal amounts of public donations. While such pledges fell short of constituting an integrated trend of corporate social responsibility, they at least represented an acknowledgement that they shared the responsibility for social protection of underprivileged and deprived groups even in the global neoliberal era.
28. Such neoliberal betrayal by a supposedly progressive state leadership has not been limited to Kim Dae-Jung; it is widely observable in contemporary world politics. Tony Blair's Third Way politics was a showy example, as was that of Bill Clinton. The common politico-historical background to these neoliberalised progressive leaders is that they all came to power thanks to national economic or government budgetary crises caused by conservative governments; thus, they were obliged to immediately grapple with these crises. Rescuing a defunct national economy or a bankrupt state seems to have required these seemingly progressive leaders to turn to conservative or neoliberal measures in their economic and social policies. Barack Obama's presidency may be interpreted in the same vein in spite of his strong will to execute serious reforms in health care and other areas.
29. See "Labor-Business-Government Committee Co-declaration" (in Korean), 20 January 1998 (Chang, 2012c).
30. Provision of a social safety net, as a condition for radical economic restructuring and labour reshuffling, was part of the so-called Washington Consensus.

31. The Bismarckian social security system in South Korea is predicated upon permanent regular employment. Thus, the denial of regular employment consequently implies annulment of social security benefits (or denial of social citizenship rights). See Chang (2007), "The End of Developmental Citizenship?"
32. If anything, special policy attention was paid to the issues of extremely low fertility and hyper population aging. While these issues reflected typical (neo) liberal concerns, some progress was made in the areas of child care and protection of the elderly.
33. It was only in the latter half of his term that he gave explicit attention to social policy in general – for instance, by setting up the position of Social Policy Adviser.
34. See Lee's "Korea 747" pledges (http://english.mbplaza.net/default/korea/?type=html/747_01&wgrp=42&m=2).
35. "Active welfare" (*neungdongjeok bokji*) was initially discussed as its social policy paradigm, but even this has been bluntly ignored by the regime itself.
36. Broadly viewed, the candlelight protests that lasted a few months in 2008 were an expression of civil resistance to the Lee government's neoliberalisation, ranging from the completion of the FTA with the United States to aggressive privatisation of public enterprises and concerns. See Chang (2012c), *Developmental Politics in South Korea*, Chapter 7.
37. As Lee's approval rate recovered immediately after his populist turn, this political line was sustained quite a while.

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5

European Welfare States: Neoliberal Retrenchment, Developmental Reinforcement or Plural Evolutions

Peter Abrahamson

1 Introduction

In Western Europe the welfare state was part of the post-World War II social settlement during the so-called *trente glorieuses*, but with the oil crises during the 1970s it became contested, and in 1981 OECD declared the welfare state to be in crisis. This was the beginning of a neoliberal turn in politics across the globe. Looking back at the development from 2011, however, a very complex picture emerges from the social science literature. Crudely, political economy has had a tendency to view the changes within post-industrial welfare states as indeed going down a liberal road of retrenchment, privatisation and marketisation. Thus, Jasmin Lorch entitled a paper "The Neoliberal Retreat of the Welfare State in Europe and the Developing World" and began by stating that "due to budget constraints most European countries have been experiencing some form of the retreat of the welfare state since the early 80s. Partly in reaction to this neoliberal tendency..." (2007; see also Harvey 2005; Ryner 2008). Differently, part of the political science literature has pointed to welfare states' resilience to change (Esping-Andersen 1996; Pierson 1994; Starke 2006). Yet the majority of comparative, institutional, sociologically oriented literature has pointed to various degrees of changes – such as recalibrating, recasting, renewing, or reforming of welfare states – and concluded that these changes have led to a survival of the welfare state (Bolukbasi 2009; Clasen 2000; Clegg 2007; Drahoukoupil 2007; Ferrera and Rhodes 2000; Ferrera, Hemerijck, and Rhodes 2000; Kuhnle and Alestalo 2000; Leibfried and Obinger 2000).

How is it possible for social scientists to reach such opposite conclusions? In order to clarify and qualify the discussion, it is important to be more precise about time, space, and content. Following the reactions to the first oil crisis of the mid 1970s ending the "golden years" the advice given to governments from international organisations such as the OECD was indeed of a

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neoliberal kind (OECD 1981). Some governments, at least judged by their rhetoric, did also speak against the welfare state, particularly conservative ones like those of Margaret Thatcher in the United Kingdom and Ronald Reagan in the USA. Hence, the 1980s in Western Europe and the 1990s in Eastern Europe can, at least to some extent, be characterised as neoliberal. However since around 1997 the Washington-based international organisations have stopped arguing a neoliberal agenda and are now pursuing a social developmental perspective (Midgley and Tang 2001) which is still productivist but certainly not neoliberal, arguing for enhanced public intervention in health care, education, and basic social security.

It is, thus, important to be precise about what point in time we are observing and also where. Europe consists of (at least) five different welfare regimes clustered geographically and with different trajectories of welfare reform and welfare retrenchment. The most clear-cut neoliberal case is the Eastern European transformation from state socialism to capitalism beginning after the fall of the Berlin wall in November 1989; the Atlantic experience (United Kingdom and Ireland) was a contender for a neoliberal turn even if many observers, when looking back at the 1980s, had problems actually identifying such a change. Viewing the development in Southern Europe following the defeat of military dictatorship and the installation of democratic rule in the 1970s, we saw a rapid expansion of welfare entitlements, including the creation of public universal health care systems. In Continental Northwestern Europe the frozen landscape of the 1990s may have to some extent been succeeded by some retrenchment and marketisation during the 2000s. Finally, there have been changes to welfare provision in Scandinavia, but nothing that would qualify as a neoliberal turn. Below a periodisation will be applied which considers the 1980s and 1990s a period of uncertainty and the 2000s a period marking the turn toward a new welfare state settlement labelled the social developmental state.

Furthermore, disagreement about developments taken may stem from comparing apples with oranges. It is very likely that reforms of social assistance and unemployment schemes have taken another direction than family policy; and pension reforms may look very different from health care reforms. Thus, it is important to be precise about which welfare sectors are being analysed and compared over time and across space.

These considerations taken together make it a formidable task to assess welfare reform in Europe with an eye to neoliberalism. Ideally the development over three decades in five welfare regimes with regard to ten or more specific social policy areas should be analysed. Finally, the whole exercise hinges on what definition of neoliberalism is applied. Obviously, the ambition of this paper is more limited. It provides results from a selective – but certainly not arbitrary – reading of the literature on welfare reform, with an emphasis on the most recent development and most important

changes and considering policy areas within the regimes. The reasoning is very much in line with what is expressed by Linda Weiss in Chapter 1, where globalisation is interpreted as demanding rather than discouraging state intervention. It will be concluded that problems of welfare state development are different within different regimes but that everywhere there can be identified a strong commitment to welfare within a new welfare settlement entitled the social developmental state. The system is bifurcated, however, with the middle classes enjoying generous protection but the marginalised subjected to increased obligations and reduced entitlements.

2 Development of social expenditure

The most simple and, admittedly, superficial way of assessing welfare state cutbacks is to view total social spending either relatively, set against GDP, or in absolute terms – per capita. The tables below (5.1 and 5.2) do that for clusters of European countries. Throughout the chapter welfare development and welfare reform are discussed with reference to five different trajectories: former state-socialist states, Continental Europe, Atlantic Europe, Southern Europe, and Scandinavia. Though the number and demarcations of welfare regimes are contested (for an excellent overview, see Powell and Barrientos 2011), it is a widespread perspective and a good tool to order European welfare states (Abrahamson 1999a). Concerning perhaps the most contested cluster – that of Central and Eastern Europe – I agree with Francis Castles and Herbert Obinger (2008, 321): "Our main conclusions are that country clustering is, if anything, more pronounced than in the past, that it is, in large part, structurally determined and that the EU now contains a quite distinct post-Communist family of nations."

In relative terms the Visegrad countries have caught up with the OECD average when it comes to social spending, but in absolute terms they are much less affluent and hence spent much less on welfare polices than an average OECD country. Yet the Visegrad countries have expanded their spending considerably from 1990 to 2005 (between 50 and 250 per cent).

During the Thatcher and Major years (1979–97) the United Kingdom expanded social expenditures both relatively and absolutely and continued to do so under Blair (New Labour). The United Kingdom has followed the OECD average for 25 years except for the mid-1980s. In absolute terms Ireland has increased its social spending by 300 per cent during this period of time and is now at par with the United Kingdom and the OECD average.

Continental Europe stands out as a big spender when it comes to social policy, generally spending about 50 per cent more than the OECD average, with Luxembourg as the biggest spender of all in absolute terms. Most countries have doubled their spending from 1980 to 2005.

Table 5.1 Total social expenditure as share of GDP, 1980–2005

	1980	1985	1990	1995	2000	2005
Visegrad countries						
Czech Republic			16.0	18.2	19.8	19.5
Hungary					20.0	22.5
Poland			14.9	22.6	20.5	21.0
Slovak Republic				18.6	17.9	16.6
Atlantic Europe						
Ireland	16.7	21.3	14.9	15.7	13.6	16.7
UK	16.7	19.8	17.0	20.2	19.2	21.3
Continental Europe						
Austria	22.5	23.8	23.9	26.5	26.4	27.2
Belgium	23.5	26.0	24.9	26.2	25.3	26.4
France	20.8	26.0	25.1	28.6	27.9	29.2
Germany	22.7	23.2	22.3	26.5	26.2	26.7
Luxembourg	20.6	20.2	19.1	20.8	19.1	23.2
The Netherlands	24.8	25.3	25.6	23.8	19.8	20.9
Scandinavia						
Denmark	24.8	23.2	25.1	28.9	25.8	27.1
Finland	18.0	22.5	24.2	30.9	24.3	26.1
Norway	16.9	17.8	22.3	23.3	21.3	21.6
Sweden	27.1	29.4	30.2	32.1	28.5	29.4
Southern Europe						
Greece	10.2	16.0	16.5	17.3	19.2	20.5
Italy	18.0	20.8	20.0	19.9	23.2	25.0
Portugal	10.2	10.4	12.9	17.0	19.6	23.1
Spain	15.6	17.8	19.9	21.4	20.3	21.2
Central and Eastern European Union Non-OECD Members						
Bulgaria						16.0
Estonia					14.0	12.7
Cyprus					14.8	18.4
Latvia					15.3	12.4
Lithuania					15.8	13.1
Malta					16.9	18.4
Romania					13.2	14.2
Slovenia					24.2	23.0
OECD	16.0	17.7	18.1	19.9	19.3	20.6
EU-25					26.5	27.3

Source: OECD (2009); Eurostat (2009a).

The Scandinavian countries have more than doubled their social policy effort from 1980 to 2005 in absolute terms, while relatively speaking they have progressed moderately during this period of time.

In relative terms Central and Eastern EU-member states are small spenders, with between 13 and 18 per cent of GDP devoted to social protection; many

Table 5.2 Total social expenditure per capita at constant PPP US$, 1980–2005

	1980	1985	1990	1995	2000	2005
Visegrad countries						
Czech Republic			2.322	2.524	2.964	3.523
Hungary					2.459	3.455
Poland			1.093	1.833	2.164	2.590
Slovak Republic				1.741	1.964	2.291
Atlantic Europe						
Ireland	1.891	2.635	2.346	3.010	3.886	5.723
UK	2.769	3.583	3.567	4.546	4.963	6.094
Continental Europe						
Austria	4.316	4.906	5.640	6.745	7.683	8.285
Belgium	4.458	5.175	5.697	6.394	6.963	7.695
France	3.745	4.930	5.436	6.424	7.030	7.696
Germany	3.581	3.935	4.371	6.261	6.785	7.109
Luxembourg	4.995	5.492	7.167	8.796	10.529	13.996
The Netherlands	4.764	5.049	5.857	5.907	5.813	6.355
Scandinavia						
Denmark	4.685	5.040	5.817	7.381	7.431	8.176
Finland	3.060	4.256	5.296	6.362	6.237	7.476
Norway	3.624	4.428	5.924	7.226	7.683	8.468
Sweden	5.202	6.269	7.114	7.510	7.913	9.094
Southern Europe						
Greece	1.553	2.369	2.538	2.763	3.523	4.600
Italy	3.124	3.919	4.375	4.637	5.948	6.477
Portugal	988	1.026	1.693	2.419	3.343	3.974
Spain	2.011	2.407	3.327	3.811	4.326	4.928
Central and Eastern European Union Non-OECD Members						
Bulgaria						373
Estonia					623	896
Cyprus					2.148	2.918
Latvia					547	558
Lithuania					559	781
Malta					1.845	1.973
Romania					238	260*
Slovenia					2.613	2.671*
OECD	2.642	3.152	3.662	4.332	4.821	5.628
EU-25					5.359	5.964

Note: *2006.

Source: OECD (2009); Eurostat (2009a).

states spend relatively less in 2005 than in 2000. However, in absolute terms they all spend more in 2005, but the dispersion in absolute spending is striking: the poorer states spend €260 to €900 per capita while the richer ones spend €2000 to €3000 per capita.

From a social expenditure perspective it is not possible to identify any signs of retrenchment within European welfare states.

3 Welfare reforms in Europe

This section assesses the degree and direction of welfare reform within the five different welfare regimes following the sequence adopted in the previous section. Regarding Central and Eastern Europe and the United Kingdom, the focus is on the period of uncertainty of the 1980s and 1990s, while the most recent development is in focus regarding the other regimes. The section concludes with some attempts toward cross-cutting reflections.

Central and Eastern Europe: neoliberalism and beyond

There can be no doubt that welfare reform in Eastern Europe took place within a climate of neoliberalism, as indicated by Jan Drahokoupil (2007, 408):

> The transition of post-communist regimes to capitalism started at a time when the global hegemony of neoliberalism was at its height. Thus, the neoliberal premises of the Washington consensus and respective advisors shaped the policies aimed at radical, systematic transformation from non -capitalist regimes to capitalist ones. The transition to capitalism was designed to be essentially market-led.

He identified two qualitatively different phases of development of the neoliberal transformational in the four Visegrad countries, which he labelled the Klausian welfare national state and the Porterian workfare post-national regime. "The Klausian state focused on stimulating local capital and co-constituted a growth dynamic largely based on the environment of soft credit and state spending, including relative generous social policies." "…in spite of the radical neoliberal rhetoric, the Czech strategy of post-socialist transformation can be characterized as social-liberal" (2007, 402). Hence, even when the development saw strong elements of privatisation and marketisation, it did not dismantle social citizenship. The reform package included: anti-inflationary policy (monetary restraint), price liberalisation, freeing of imports, strict wage control, legalisation of collective bargaining, "and a comparatively very generous and elaborate social and health-care system" (Drahokoupil 2007, 411; emphasis added). Thus, he characterised the four Visegrad countries as welfare states and explained that an elaborate system of social provision was introduced in order to guarantee social peace during the process of post-socialist transformation. Development in this early stage can "hardly be identified as laissez-faire" (Drahokoupil 2007, 414).

However, from 1998 onward these countries experienced a "sea change" toward externally oriented competitive policies of the supply-side kind. Yet

welfare provisions were still maintained even if a significant active turn can be identified. Similarly, Maria Bordas from Hungary maintained that "Welfare privatization in post-communist countries has been fairly limited" (2001, 232).

If we differentiate welfare policies and consider the two most important elements, two opposite tendencies have appeared in Eastern and Central Europe. Regarding pensions, a radical alteration with a liberal strategy (except in the Czech Republic and Slovenia) because eight of the countries converted their pay-as-you-go systems into multipillar models with capital-funded components. Hence, "many of the redistributive elements of the old socialist system were eliminated", writes Björn Hacker (2009, 154). But regarding health care, the basic principle of universalism was preserved. In most of the Central and Eastern European countries "the right of free access to health care provision is fixed in the constitution" (Hacker 2009, 157). Concerning the Eastern and Central European welfare regime with respect to unemployment policy it has turned supply side, being focused on the employability of workers, which is a productivist approach, but hardly neoliberal.

So even when Central and Eastern Europe from the outset could be considered the most obvious contender for demonstrating a neoliberal development, this does not hold true for social protection, and this is most probably explained by politicians listening to their constituencies (or fearing them).

Atlantic Europe: the example of Thatcherism and the UK Third Way

Another obvious contender for a neoliberal turn in Europe would be the United Kingdom under Margaret Thatcher.[1] Ideologically, the Conservative Party's taking office in 1979 signalled a profound change in the approach to welfare provision, and the new prime minister became not only associated with but actually personified the new times by some dubbed "after the golden age". The rhetoric of the various Thatcher governments certainly was anti–public intervention and extreme to the extent of denouncing the existence of a common identity, as expressed in the famous quote "Who is society? There is no such thing! There are individual men and women and there are families and no government can do anything except through people and people look to themselves first" (Thatcher 1987). During this period of time critical scholarship amplified this impression of a government seriously devoted to rolling back the welfare state and substituting it with free market solutions in a privatised environment (see, e.g., Jessop et al. 1984 and numerous articles in *Critical Social Policy*). And, indeed, it was. Rodney Lowe sums up the situation prevailing in the late 1970s: "To many, in brief, the welfare state was beginning to appear not only politically but also morally bankrupt ... the New Right was also inherently hostile to state welfare ... the New Right was committed – just like the Poor Law reformers of the 1830s – to a 'remoralising' of society" (1993, 303–4). But

he then goes on to ask how effectively the classic welfare state was actually destroyed during this period, and he identifies two major casualties: one is the commitment to full employment; the other is corporatism. Nevertheless, "the social services remained largely unscathed ... despite the explicit commitment of Conservative governments after 1979 to 'roll back' the state, to end the 'dependency culture' and to reduce taxation, public expenditure steadily rose in real terms between 1979–80 and 1986–7" (Lowe 1993, 309). Examining specifically the development within social security and personal social services, Lowe concludes that "on the best evidence available, however, it is clear that the radical ideas of both the 1970s and the 1980s were disappointed" (1993, 318).

So viewed at some distance the Thatcher (and Major) years cannot adequately be described as a process of dismantling the welfare state in Britain, as we learned from Lowe and as is also reflected in the scholarship presented in *The State of Welfare from 1990*, which collects the research from 11 scholars on the development of welfare in Britain since 1974 (Hills 1990). Julian Le Grand wrote: "There are indeed important parts of the welfare state which show the expected pattern of decline. But the overall picture is rather different. ... In absolute terms, therefore, so far from there being a decline, there was a rise [in public welfare expenditure from 1974 to 1988] – indeed, at over a third, a significant one ... there is no evidence to support a story of serious decline" (1990, 340). He analysed development in expenditure for various categories of welfare provision and tries to relate it to estimates of "need", most often represented by demographical indicators and concludes that "... trends in expenditure seem to have followed trends in need ... " (1990, 344). The explanation he offers is the middle-class thesis; that is, that areas that have the interest of the middle classes developed the most. An evaluation of the development of welfare outcomes over this period of time concludes that there has been a steady improvement (Le Grand 1990, 347–50).

Based on these sources we should conclude that the change in welfare provision during the Conservative reign has been one of organising welfare. It is no longer self-evident that the public sector must regulate, finance, and provide all welfare services. Incorporating private firms in the provision was an especially significant and major change, but not a change leading to a dismantling of welfare security for citizens on the whole. "No matter how dramatic it might have seemed to observers (not to mention end-users) on the spot the shift from Beveridge-style liberal universalism to post-Thatcher-style liberal stakeholdership was arguably not that great", wrote Finer (1999, 29). Ideologically, the conservatives paved the way for a welfare-mix approach to social policy, an approach continued by the New Labour government under Tony Blair (1998).

Blair (1998, iii) wrote, "We want to rebuild the system around work and security. Work for those who can; security for those who cannot", introducing

in 1998 the blueprint for reforming the British welfare state. Welfare reform, viewed as part of a larger picture in which Britain should become a "model of the twenty-first century developed nation", was premised on a sound and stable economic development with dynamic enterprises, the best-educated workforce in the world, and "a welfare state that promotes our aims and achievements" (Blair 1998, iii). The Third Way welfare policy focused on activation and individualism but also on fighting (child) poverty and increasing female labour participation. Thus, productivist elements can be identified, but the development does not qualify for the term *neoliberal*.

Continental Europe: a frozen welfare landscape or simultaneous reductions and improvements of welfare entitlements?

According to a late 1990s study directed by Maurizio Ferrera, the major reason for welfare reform in Continental Europe was unsustainable pension systems. "To a large extent, the crisis of the welfare state is the crisis of social insurance (pensions)" (Ferrera and Rhodes 2000, 265). Analysing pension reforms ten years later, Frericks, Maier, and de Graaf found tendencies toward both privatisation and solidarity: "We propose the thesis that the current developments cannot be satisfyingly grasped by a neoliberal or neoetatistic perspective, but must be interpreted as representing a new mix of the dynamic state-market relationship. This mix combines the stick of the market with the carrot of (equalising) state interventions, where they are not seen as separate and in opposition but as co-productive for so-called public–private arrangements" (2009, 138).

Among neoliberal reform measures they identify are introduction of private pension schemes, more space to private financial institutions (banks, etc.), and stronger individualisation of obligations and entitlements. Among neoetatistic reform measures they identify are strict new regulations for pension funds and the linking of some pension rights to education, periods of care, or both – meaning that in those periods of time, pension "points" are earned even if the persons are not working.

The overall conclusion is that a new form of social citizenship is developing, one resting on a welfare-mix approach, with private as well as public elements:

> Citizens' obligations and entitlements are being redefined in the sense that behavior which apparently supports long-term developments of society as such, is rewarded thus, resting on a more holistic understanding of responsibilities, one could speak of a kind of anthropological system-sustaining citizenship. By this we mean that the shift in welfare regimes can be seen as aiming at the transformation of the "protection" of citizens-in-need because of unemployment, sickness, education, or age to the "activation" of citizens as individually participating in and being responsible for the risks and opportunities of the current

> society. Citizenship is thus not defined in terms of acquired status, but as the possible or actual differentiated contribution to society. We would propose the concept of the "productive citizen" to delineate this new form of citizenship (Frericks, Maier, and de Graaf 2009, 151–2).

Regarding applying the concepts of neoliberalism and its presumed opposition, neoetatism, these authors conclude it is not very "fruitful" even if elements of both can be found. They have convincingly shown, at least in the case of pension reform, that the real picture is much more complex. Stephan Leibfried and Herbert Obinger also found that "…no consistent pattern of reform can be found"; rather, "beginning in the mid-1980s, retrenchment was accompanied by selective welfare state expansion, focused first on family policy" (2003, 209).

A similar observation is made by Daniel Clegg when analysing welfare reform in Continental Europe with respect to unemployment benefits. Focusing especially on the Dutch case, he found that "the reform path has been complicated, not to say confused" (2007, 609). Yet he did find an overall pattern in the changes affecting Belgium, the Netherlands, Germany, and France: "Generally, policies have enhanced protection for 'insiders' while targeting both benefit cuts and new activation initiatives on 'outsiders'."

What we are witnessing here is also reflected in the discussion of so-called flexicurity, which is a combination of flexible labour markets (read: no job protection) and generous welfare provisions facilitated by active labour-market policies. Originally a Scandinavian and Dutch affair, it is now being promoted across Europe by such international organisations as the European Commission and the OECD. Elke Viebrock and Jochen Clasen suggested that "flexicurity policies might be characterized as a form of synchronization of economic and social policy, as a post-deregulation alternative" (2009, 307). They also characterise it as a "third way" strategy between traditional liberal labour markets of the Anglo-Saxon countries and the strict job security of Continental and Southern European countries.

The overall conclusion is that welfare reform has been aimed at adjusting entitlements to conditions of post-industrialism; changes have been incremental, with some retrenchment concerning weaker segments and some improvements concerning core groups of citizens (Bonoli 2007; Rothgang, Obinger, and Leibfried 2006).

Southern Europe: public health care and guaranteed minimum income

Southern Europe, both Western and Eastern, is the least developed area when it comes to welfare state provisions and interventions. These regions contain the laggards and latecomers, with the strongest reliance on family networks and voluntary organisations in Europe. Yet development has generally been one of expansion and universalisation, even if it started late.

With the installation of democratic rule succeeding the military dictatorships, social citizenship rights saw a rapid expansion in Southern Europe. Different paths have been chosen in different fields, but in the case of health care the four southern states chose during the 1980s to develop universal public health care systems, as Ana Guillén (2002) has informed us. More recently, however these already mature systems have been undergoing reform, at least in Greece and Spain, and the literature points to some problems of regional inequality, insufficient coverage, and the like (Petmesidou and Guillén 2008). Particularly concerning the Greek case there seem to be strong veto actors at play – hence drawing a picture more of a stalled reform process than of a radical one. Thus, Athanasios Nikolentzos and Nicholas Mays assert that "…the empirical research to date strongly supports the argument that health care reform in Greece is path-dependent because the parliamentary and government process allows the main actors in the system, such as hospital doctors and university doctors, to shape any reforms so as to maintain the status quo" (2008, 174).

A similar argument is made with reference to pension reforms in all four Southern European countries by Leandro, Marina, and Daniel (2009, 1):

> Thus, while Italy has been able to adopt more path-breaking reforms that ultimately reduced the generosity of the public pension system significantly while enhancing the role of the second pillar, reform in Spain has been more modest although the measures adopted have helped strengthen the financial sustainability of the first public pillar. Meanwhile, pension reform efforts have largely stalled in Portugal and Greece, and recent reforms have only been approved after providing significant concessions to the labor movement.

A third social policy area given considerable analysis is that of guaranteed minimum income schemes. Leonor Vasconcelos Ferreira (2008, 67) states: "New developments in social policy were introduced in South European countries in the late 1990s, especially through centre-left governments (Guillén and Matsaganis 2000; Matsaganis et al. 2003).…As a consequence of these new political ideas, there has been a clear review of the social policy agenda with an increase in and restructuring of social expenditures in Southern Europe."

Finally, the near absence of public care arrangements in the South must be mentioned briefly since it aggravates the future constraints on these societies. The more and more unfavourable ratio between those of working age and the elderly is the result of very low fertility rates, and this low-fertility equilibrium, as in Germany (Leibfried and Obinger 2003, 203), is associated with a lack of care facilities other than totally private ones. Hence, Henjak (2007,191) cites Francis Castles for the opinion that "visibly lower fertility rates in those countries [of Southern Europe] are mainly due to the lack of

suitable child care and flexible work arrangements for working parents". It is only certain middle-class groups that can afford to employ a Latin American or Eastern European carer, the otherwise common solution. It has proven impossible to keep women away from the labour market, but since they still have the main responsibility for caring for children and frail parents, they postpone and reduce childbearing (Bifulco and Vitale 2006; da Roit, Bilan, and Osterle 2007; Pfau-Effinger 2005). The Southern European welfare states may still be incomplete, but the development has certainly been one of expansion, not retrenchment.

Scandinavia: incremental changes in different directions

There is widespread agreement that Scandinavian welfare states have changed during the 1990s, but many observers have focused more on the resilience to change.[2] Overall, that is, changes have not been viewed as paradigmatic: "In the past twenty years the Nordic welfare states have overcome a sea of changes in family structures and labour markets, and even demonstrated a remarkable ability to survive through periods of dramatic economic turmoil ... " (Kautto et al. 2001, 271; see also, e.g., Nordlund 2000). Yet others have pointed to the mounting evidence of the introduction of elements otherwise characteristic of the Atlantic, the Continental, and even the Southern European model: "Government ability to control and command are now being challenged by unclear horizontal and vertical separation of powers, regionalization and globalization, decentralization and devolution, and involvement of nongovernmental units in the policy steering process (i.e. governance)" (Micheletti 2001, 265).

With regard to universalism, access to social insurance benefits have been restricted, and the divide between middle-class people and marginalised groups has increased. Elements of individualisation and decentralisation, more reliance on family and kin, and market solutions are pushing Scandinavia closer to principles governing the other EU welfare models.

Another feature of Scandinavia is a high degree of reliance on general taxation for financing welfare provision. Here the trend is that contributions are increasing and tax shares are decreasing, yet the public sector still picks up the lion's share; but perhaps more importantly, financing is politically decided by the parliaments and not negotiated between the social partners. The parliaments still decide by whom welfare should be financed and with how much, but the growth in occupational pensions in Denmark is a move towards a more continental approach to financing.

The Scandinavian model was characterised by a high degree of public provision; yet the trend is toward more private insurance and labour-market-negotiated schemes regarding pensions and additional health insurance (since the 1980s private hospitals have been introduced in Denmark). It is also a hallmark of Scandinavian welfare that personal social services are provided by the municipalities, but the trend, at least in Denmark and

Sweden, is toward more contracting out, especially regarding home help for the elderly and handicapped. Furthermore, both the Danish and the Norwegian government strongly encourage and financially support voluntary service provision (volunteer centres), while relatives and other civil societal institutions have had a bigger role to play in Sweden regarding old age.

Within the areas of health care, pensions, old age, and employment, changes of second and third order have been identified, all of which point in the direction of principles and institutions hitherto considered trademarks of the Southern European model (reliance on family networks and voluntary organisations), the continental model (the close embeddedness in the labour market, with its built-in tendency of creating a dual structure), or the Atlantic model (with its emphasis on market solutions). Yet nowhere else is such a large share of the total population gainfully employed as in Scandinavia, and the model (under change) still receives strong support from the population according to all opinion polls (Andersen et al. 1999). The Scandinavian welfare states are still distinct, only less so; they are being Europeanised.

The most important third-order change is the active turn in welfare policy in Scandinavia. To some extent unemployment is no longer considered a macroeconomic problem linked to a downturn in the business cycle; it is now more often associated with insufficient qualifications. Based on this kind of thinking, labour-market policies are now focusing on the employability of people. If they are unemployed, they must have their skills upgraded, something that is supposed to happen with activation measures. However, the most important effect of activation has proven to be what economists have labelled the motivation effect or what sociologists refer to as the scare effect. When unemployed people approach the time to go into activation, they significantly increase their job search and consequently also their employment. What happens is that they drastically lower their expectations concerning pay, benefits, the job's relation to their education, the distance to the workplace, and so on. (Apropos the Norwegian case, see Lødemel 2001; the Danish case, see Abrahamson 2009).

Comparative studies cross-cutting the five welfare regimes

Even when the welfare regime approach is accepted, some studies try to include developments within all five regimes, usually with reference to OECD or Eurostat data. Peter Taylor-Gooby (2008) sums up a number of common developments that have surfaced across Europe. His reading of the literature leads him to suggest that Western European welfare states, "broadly speaking", have developed through three distinctly different phases: "confident and continuous expansion in the 1950s, 1960s and 1970s; a period of uncertainty and challenge during the late twentieth century; and more recently, movement toward a new welfare state settlement" (Taylor-Gooby

2008, 4). Key to this new settlement is an understanding of the welfare state as productivist. Hence, he labels it the new social investment state. What he identifies is "a shift toward a view that the government is to promote national competitiveness in an increasingly international market, and away from a passive providing state to one which seeks to enhance self-activity, responsibility and mobilization into paid work among citizens. Social policy is shifting from social provision to social investment" (Taylor-Gooby 2008, 4). Others have applied that label too; for example, Jenson and Saint-Martin (2003) in a paper where they identify a change toward a stronger emphasis on social cohesion with regard to welfare policy recommendations (see also Jenson 2010).

Taylor-Gooby suggests that this new welfare state settlement rejects what he calls the "loose monetarist conclusion that welfare states are at best irrelevant and at worst counter-productive". Instead, it tries to maintain the usual range of popular mass services, but with a continued pressure for cost-efficiency. Here the emphasis is on welfare as social investment and no longer on welfare as a burden on the economy. He finds that such a productivist interpretation of the welfare state is promoted by the EU, the OECD, and many national European governments. Flexicurity is one element in this productivist interpretation of the welfare state, and with it comes a stronger emphasis on activation but more through benefit redesign than actual positive support for mobility between jobs (Taylor-Gooby 2008, 11). He sums up thus:

> De-regulation; policies to make work more attractive for those on low wages; cutbacks in passive benefit schemes that do not require recipients to pursue jobs, such as early retirement or job-creation; greater use of regulated social assistance and case management; specific programs for high-risk groups (young low-skilled people, single-parents); and more child-care, particularly for those on low incomes. (Taylor-Gooby 2008, 13)

He concludes by suggesting that "European countries have some way to go in achieving a new welfare state settlement that fully reconciles economic and social goals" (Taylor-Gooby 2008, 21).

In an equally important paper Giuliano Bonoli (2007) points to the importance of the time dimension. His main thesis is that welfare state provisions initially developed as a response to risks associated with industrial societies and that the change to post-industrialism has happened at significantly different times in different areas of Europe, which in turn has led to different conditions for welfare state adoption. He claims that social risks have changed considerably from industrial to post-industrial society. He asserts that "the postwar welfare state protected well against the risk of being unable to extract an income from the labour market, be it because

of sickness, invalidity, old age, or lack of unemployment" (Bonoli 2007, 496). It did so by granting entitlements to the male breadwinner and relied on stable family relations and a clear division between husband and wife. However, with post-industrialisation things have changed dramatically; the new social risks include precarious employment, long-term unemployment, being a one of the working poor, single parenthood, and inability to reconcile work and family life. "Broadly speaking, the Nordic and some English-speaking countries ... [were] the first set of countries to enter the post-industrial age in the 1970s. They were followed by Continental European countries about a decade later and by Southern Europe even later" (Bonoli 2007, 511). Furthermore,

> Whether countries manage or fail to reorient their welfare state in a way that reflect changed socio-economic circumstances depend on the relative timing of key socioeconomic trends in interaction with existing welfare state structures. The key developments are postindustrialization and the increase in the cost of the industrial welfare state resulting from the combination of demographic aging and generous pension promises. These two developments must not happen simultaneously if a welfare state is to successfully reorient. (Bonoli 2007, 512)

He then demonstrates that the early post-industrialisers, which are the Scandinavian countries, are the ones that have developed the most comprehensive systems of new social risk coverage, and he writes that his findings are not good news for those who are hit by new social risks in Continental and Southern Europe.

Walter Korpi and Joakim Palme have promoted an exception to the resilience-and-reform perspective. They found that "the long increase in social rights has been turned into a decline and that significant retrenchment has taken place in several countries" (Korpi and Palme 2003, 425). Particularly, they found that "the British welfare state has been rolled back to a pre-Beveridge level, at or below that of the 1930s" (Korpi and Palme 2003, 433–4). The apparently contradictory findings within social science literature on recent changes within European welfare states can, however, be explained by being more precise about what programmes are being considered and what time span is investigated. Analysing the net worth of compensation in cases of unemployment, sickness, and work accident from 1975 to 1995, they found the strongest case for retrenchment with unemployment insurance (see also Korpi 2003). This is not incompatible with the view that, generally speaking, there has been little or no retrenchment within European welfare states. In EU-27 in 2006, unemployment compensation only took up 5.4 per cent of total social expenditure (Eurostat 2009b, 5). Furthermore, some programs – notably unemployment insurance and social assistance – were subjected to cutbacks in the 1980s and 1990s (the period investigated by

Korpi and Palme); but if, for instance, pension and health care rights are not cut back when family policies are being expanded, the general picture is one of resilience to change rather than retrenchment.

Furthermore, Korpi has pointed out that one very important element in the post-World War II social settlement, the commitment to full employment, has been given up. He views this as a significant retrenchment of social rights (Korpi 2003, 589). What can safely be concluded concerning this period of uncertainty is that the social settlement that underpinned the golden age was changed.

Finally, a few words on the potential influence of EU membership on welfare state developments in Europe. As Tolga Bolubasi wrote, "there exists a broad agreement in the political economy literature on the view that the EMU [Economic and Monetary Union] project represents the final stage in the process of institutionalization of neoliberalism across Europe" (2009, 529). The argument was that the strict convergence criteria made it impossible for the member states to maintain high levels of public intervention. Instead, a race to the bottom regarding welfare provision was to be expected. However, as demonstrated above, that has not happened; "new empirical evidence showed that while welfare states were in a constant process of transformation, these could not, even during the trials and tribulations of the convergence period, be characterized by downright retrenchment" (Bolubasi 2009, 528). He concluded, "Although the jury is still out over the future impact of EMU, a scenario of across-the-board retrenchment seems most unlikely in the foreseeable future" (Bolubasi 2009, 528).

So much for economic integration. When it comes to the so-called social dimension, the EU long ago adopted a policy that does not involve harmonisation of social policy legislation. Instead, the term applied is coordination. Space does not allow a thorough discussion of this dimension, which I have dealt with at length elsewhere (Abrahamson 2007). A few conclusions must suffice. A number of decisions by the European Court of Justice have considerably widened the scope of social entitlements within the EU, in the sense of categories of citizens that have such entitlements. What used to be rights for male workers have gradually been extended to spouses, part-time workers, students, and pensioners. But the court has not ruled on the level of benefits. Furthermore, most regulation – with the important exception of the social protection of migrant workers, which is regulated by Regulation 1408 – consists of soft-law initiatives such as recommendations, solemn declarations, resolutions, and of late the so-called Open method of Coordination (OMC). This is a policy instrument whereby the heads of states or governments in the biannual meetings in the European Council decide upon some common goals sometimes accompanied by tangible benchmarks, as in the case of the fight against social exclusion from the 2000 Lisbon summit. The member states must then file a report to the commission explaining how they expect to meet the common goals, but they can

apply any means – an arrangement that leaves the different welfare regimes intact. After a designated period of time, the commission will collect reports on the progress made within each member state. The only sanctions are "shaming and blaming," parallel to OECD's publication of rankings of its member states with respect to various performances (also see Haverland 2007; Murphy 2005). The Greek case is illustrative of how little real influence the EU institutions have on national decision making in the social area. Despite the signing of various recommendations and participation in the OMC, virtually nothing has happened in developing social entitlements in Greece. Whether the PASOK (Panhellenic Socialist Movement) government (installed in fall 2009) will make a difference remains to be seen, but the conditions attached to the bailout of the Greek state's colossal deficit make it unlikely that social entitlements will be improved under conditions of reducing the public sector expenditure.

4 Conclusion

Despite double pressure from globalisation and Europeanisation, European welfare states have not embarked on a race to the bottom. On the contrary, measured by social spending and assessment of major programs, social citizenship has been strengthened and expanded over the last three decades. Yet this does not mean that the welfare state has been resilient to change, as assumed by parts of the literature. European welfare states have indeed been reformed during the period of globalisation, and some significant changes have occurred in comparison with the golden age. The old welfare state settlement, with its commitment to full employment, has been given up, and unemployment insurance has largely changed its scope from compensating income loss in bad times to forcibly manipulating individuals' skills to better match current labour-market conditions. A more pluralistic risk management has developed by involving more sectors in a welfare-mix approach, leaving more room for private, market, and civil societal solutions; but the state is still in charge of regulation and to a large extent also of financing social entitlements.

From a discourse-analytic perspective it is important to differentiate, within the era of globalisation, the period of uncertainty of the 1980s and 1990s and the post-neoliberalism period of the 2000s and beyond. Indeed, the period of time following the first oil shock of the 1970s was a neoliberal era, one that manifested itself very tangibly within industrial, financial, and other policy areas, as is convincingly demonstrated by many contributions to this book (Chandrasekhar, Chang, Fine, Masina, Saad Filho). Rhetorically, these were also neoliberal times with regard to prospects of welfare state development, with a strong emphasis on privatisation, marketisation, retrenchment, increased individual responsibility, and other issues. The OECD and other international organisations led the way, and

in Europe governments such as the United Kingdom's and those in Central and Eastern Europe adopted this new policy paradigm. On the ground, however – seen from the perspective of social citizenship rights and obligations – the commitment to state-guaranteed entitlements survived and was gradually expanded. In the 2000s a new welfare state settlement, the social developmental state, emerged, with an emphasis on active citizenship and the productive citizen.

At a closer look, developments have diverged in different welfare regimes and in different policy areas. Western Continental and Southern Europe have proven most resilient to change; the opposite is true for the Scandinavian and Atlantic regimes. But all, including those of Central and Eastern Europe, have expanded public commitment to safeguarding the welfare of citizens. Yet the development has been uneven across policy areas. Seen from the perspective of entitlements, health care is a public matter in Europe. In Southwestern Europe it became so during the era of neoliberalism, but with the introduction of the so-called new public management, governance techniques imported from the market sector were introduced. Regarding old-age pensions, rights have been expanded and have remained a collective, non-market-regulated area, even when elements have been commodified. The same goes for care services for the elderly, albeit many of these are now delivered by the private sector working under contract with local and regional authorities. Family policies, especially policies enabling a better balance between family and work, have been expanded significantly except in Southern Europe, while unemployment insurance and social assistance programs have been cut significantly. This uneven development explains in part why the social science literature has been in such disagreement about welfare state development under neoliberalism and beyond; the focus has been on different policies in different times and places. Given these different developmental trends regarding time, space, and policy, it is no easy task to try to summarise the state of the art of the contemporary European welfare state, but some generalisations will be offered.

As Frericks, Maier, and de Graaf (2009, 152) point out, citizenship is "not defined in terms of acquired status, but as the possible or actual differentiated contribution to society". So-called activation policies feature prominently in this new welfare state architecture; originating in Sweden, this approach has now spread to most if not all European states and beyond. It has led to a significant change of scope concerning unemployment and social assistance benefits by focusing on the employability of the individual unemployed citizen instead of only compensating him or her for income loss. Ideally, activation strives at enhancing the qualifications of unemployed individuals by providing them with some kind of job training or education, but by doing so, it in reality tests their employability and sorts them out accordingly. Hence, activation acts as a tool of marginalisation by sorting the unemployed into various categories – invalids, the long-term

sick, handicapped, disabled – to the extent that the individuals in question do not succeed with their activation measure. Furthermore, activation is obligatory; one loses the right to benefits if an offer is refused. This has led to the so-called scare or motivation effect being the most significant effect of activation: when claimants approach the date for going into activation, they strongly increase their job search and significantly lower their expectations regarding sector, pay, distance to work, and other factors. To a large extent they find employment, however much below their otherwise expected level and standard it turns out to be.

Thus, one price that has been paid for the active turn in social policy and the productive citizen is a high degree of marginalisation of various categories of people, including ethnic minorities, youth, and people with disabilities. Processes of marginalisation are accompanied by strong trends toward a dualisation of welfare entitlements and provisions, with relatively generous benefits for the well-integrated productive middle-class citizens on the one hand and, on the other hand, reduced and punitive provisions for the increasing number of marginalised people.

Notes

1. This subsection follows Abrahamson (1999b).
2. This subsection follows Abrahamson (2005).

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Part II

Developmental Politics and Neoliberalism in Developing Political Economies

6
Neoliberalism, Democracy and Development Policy in Brazil

Alfredo Saad-Filho

1 Introduction

This chapter offers a political economy analysis of the two systems of accumulation in the post-war Brazilian economy, import-substituting industrialisation (ISI) and new liberalism, and the industrial policies associated with them.[1] The shift across systems of accumulation has been associated with significant changes in the role, structure, and policies of the Brazilian state. Section 1 examines the case of ISI, departing from a review of conventional assessments of this system of accumulation and offering an alternative interpretation of its economic and political structures. This section also considers the limitations of ISI and the reasons for its crisis in the eighties.

Section 2 focuses on the political transition to new liberalism; that is, the shift from military rule to democracy. It is argued that this political transition was *functionally articulated* with the economic transition to neoliberal policies, examined in Section 3. This section begins with a conceptual review of neoliberal economic policies and reviews their implementation in Brazil since the nineties, highlighting the significance of the Real stabilisation plan. The shortcomings and limitations of new liberalism (a system of accumulation defined through four main features: neoliberal economic policies, the integration of domestic capital into transnational circuits, a decisive role for finance in economic policymaking, and political democracy) are studied in detail.

The chapter concludes that both ISI and new liberalism achieved significant successes, but both strategies were implemented unevenly and inconsistently. These shortcomings can be analysed at two levels: the internal micro- and macroeconomic limitations preventing these development strategies from achieving their stated aims and the external limitations imposed by the social conflicts during each period of time.

This chapter argues that industrial policies are closely associated with specific state structures, economic constraints, and political configurations which can be analysed only concretely. Consequently, there can be

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no general theory of industrial policy, and there is no “optimum path” of accumulation under late development. Each system of accumulation is limited by a distinctive set of historically specific economic and political constraints, which set limits to its potential development. These are examined in the two Brazilian cases within this chapter. Finally and for these reasons, it is concluded that industrial policy is irreducibly political and context-specific.

2 ISI and its limitations

This section reviews the political economy of ISI and the industrial policies associated with this development strategy. It explains the conventional interpretations and critiques of this system of accumulation and offers an alternative interpretation of ISI and its economic limitations.

2.1 Conventional interpretations of ISI

ISI is often presented as the “typical” Latin American economic policy, and Brazil was a model case of ISI between 1930 and 1980. ISI is generally viewed as a spontaneous response to three severely adverse external shocks experienced in succession by most countries in Latin America: the two world wars and the Great Depression. These shocks led to drastic reductions in export revenues and foreign financial inflows, because of either price or quantity constraints, and to large fiscal deficits, since a significant part of the state revenues relied on import tariffs.

Under these circumstances, the balance of payments and the fiscal deficit could not be financed externally. However, in Brazil sharp exchange-rate devaluations and rapid monetary expansion helped to preserve the level of domestic income despite the falling import capacity. This “proto-Keynesian” policy response helped to alleviate the impact of the crises and supported local demand for goods and services which, in turn, fuelled the expansion of domestic manufacturing capacity. The initial response to the external shocks was later supported by the targeted expansion of the manufacturing and infrastructure sectors. These state policies were often called “populist” by the mainstream economists and “developmentalist” by their structuralist rivals. They were justified by the strategic imperative to industrialise and modernise a primary-export-dependent economy and reduce its vulnerability to fluctuations in international trade and in the price of key exports.

Rapid manufacturing growth aiming at import reduction and unsupported by significant export growth or diversification reduced the degree of trade openness of Brazil and other Latin American economies. In other words, natural resource abundance, foreign exchange scarcity and ISI pushed these countries towards self-sufficiency, which in turn bred economic stagnation either because of technical inefficiencies and rent seeking (for the

mainstream) or because the narrowness of the internal market limited the scope for domestic production (for the structuralists).

These insights are valuable but insufficient for a balanced assessment of the experience of ISI. An alternative interpretation, outlined below, offers the possibility of reinterpreting this development strategy and assessing the transition to new liberalism.

2.2 An alternative interpretation of ISI

ISI is a system of accumulation based on the sequenced expansion of manufacturing industry, with the primary objective of replacing imports.[2] Manufacturing expansion usually departs from the internalisation of the production of non-durable consumer goods (e.g., processed foods, beverages, tobacco products, and cotton textiles). It later deepens to include the production of durable consumer goods (especially household appliances and automobile assembly), simple chemical and pharmaceutical products (e.g., oil refining and certain pharmaceutical products), and non-metallic minerals (especially cement). In larger countries, including Brazil, ISI can reach a third stage, when the manufacturing structure becomes "complete" (in the structuralist jargon). This includes the production of steel, capital goods (e.g., industrial machinery and electric motors) and technologically complex goods such as electronic machines and those used in shipbuilding and aircraft design and assembly (see Tables 6.1 and 6.2 and Figure 6.1). This gradual "deepening" of the manufacturing base is accompanied by backward, forward, and horizontal linkages between the established firms. As a result of these processes, in the 1950s primary exports were no longer the driving force of the Brazilian economy (see Bulmer-Thomas 2003). Brazil, the world's largest coffee exporter in the early twentieth century, offers a particularly striking example of these processes: agriculture declined from 36 per cent of GDP in 1910 to only 10 per cent in 1980, while manufacturing increased from 14 to 41 per cent of GDP (Abreu, Bevilacqua, and Pinho 2000, 162).

The extent of these structural shifts varied greatly. For example, Brazil and Mexico advanced further than Argentina and Peru (not to speak of Ecuador and Honduras) for several reasons, including market size, government policies, and the social consensus around the strategy of industrialisation.

Although ISI often starts spontaneously, experience in Brazil and elsewhere shows that its success requires activist industrial, financial, and trade policies and state provision (or state incentives for the private provision) of finance and infrastructure. The expansion of the state bureaucratic apparatus is also essential, because industrial expansion requires not only suitable policies but also law enforcement, labour control, the regulation of social conflicts, and so on.

Brazilian ISI was associated with a specific structure of property relations and a peculiar mode of competition. Briefly, the production of non-durable goods was predominantly undertaken by relatively small family

Table 6.1 Brazil: distribution of value added in manufacturing industry, 1919–59

	1919	1939	1949	1959
Consumer goods	80.2	69.7	61.9	46.6
Textiles	24.4	22.0	19.7	12.0
Clothing	7.3	4.8	4.3	3.6
Food	32.9	23.6	20.6	16.4
Other	15.6	19.3	17.3	14.6
Consumer durables	1.8	2.5	2.5	5.0
Intermediate goods	16.5	22.9	30.4	37.3
Metallurgy	3.8	7.6	9.4	11.8
Non-metallic minerals	2.8	4.3	6.5	6.1
Chemical	0.8	4.2	4.7	8.3
Wood	5.7	3.2	4.2	3.2
Other	3.4	3.6	5.6	7.9
Capital goods	1.5	4.9	5.2	11.1
Mechanical	0.1	1.3	2.1	3.4
Electrical	0.0	0.3	0.8	1.0
Transport equipment	1.4	3.3	2.2	6.7

Source: Abreu, Bevilacqua, and Pinho (2000, 163).

Table 6.2 Brazil: GDP shares (%), 1910–80

	Agriculture	Manufacturing	Services
1910	35.8	14.0	50.2
1920	31.9	17.1	50.9
1930	30.6	16.5	52.9
1940	25.0	20.8	54.2
1950	24.3	24.1	51.6
1960	17.8	32.2	50.0
1970	11.5	35.8	52.6
1980	10.1	40.9	48.9

Source: Abreu, Bevilacqua, and Pinho (2000, 162).

firms owned by domestic capitalists. In contrast, durable and capital goods were typically produced by foreign TNCs and domestic oligopolistic firms, respectively. Finally, infrastructure and basic goods were generally supplied by state-owned enterprises (SOEs), and state-owned banks played an important role in the provision of credit, especially for industrial development and economic diversification (Auty 1991; Moreira 1991).

2.3 The politics of ISI

The uneasy coexistence between populism, nationalism, corporatism, and statism under Brazilian ISI was primarily due to the intense conflicts of

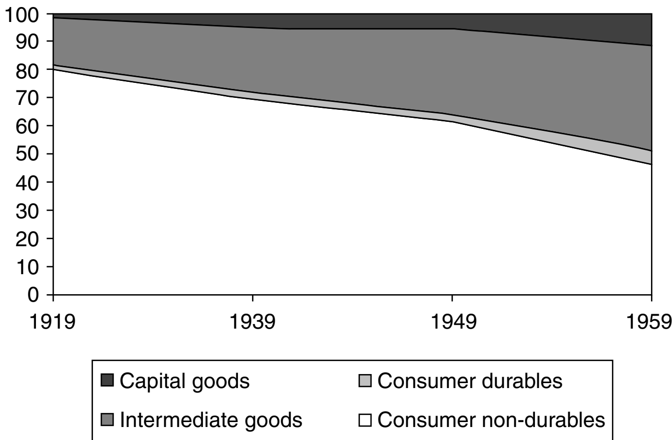

Figure 6.1 Brazil: distribution of value added in manufacturing industry, 1919–59

interest within the elite, especially between agrarian and urban interests, between manufacturing capital and finance, and between the elite and other social groups, especially the marginalised but increasingly militant urban workers and the emerging urban middle classes (Saad-Filho, Iannini, and Molinari 2007). Stripped of their rich complexity, these conflicts essentially centred on the extent to which resources should be transferred away from the primary export sector and where they should be allocated – for example, towards urban industry, infrastructure, or welfare provision and within these alternatives, to which subsectors, regions, and social groups.

It was widely accepted that, in order to achieve developmental objectives (synthesised in the goal of industrialisation), extensive state intervention was required at several levels. Economic interventionism was legitimised by a nationalist ideology according to which the "nation as a whole" would progress only through industrialisation. In this developmentalist discourse, insufficient industrialisation was associated with backwardness and with the political and economic power of the traditional landed elites, which should be overcome through state action fostering economic "progress". The relationship of nationalism, statism, and developmentalism tended to become especially pronounced when private capital lacked the capacity or interest to invest in oil, steel, electricity generation, transport links, or other strategic areas. In these cases, provision often depended on extensive state intervention, either through the nationalisation of the industry or through the provision of subsidies for private capital. The management of the ensuing conflicts of interest was never unproblematic. Contradictory popular demands, state initiatives, and sectoral pressures were played out in the media, in educational and research institutions, in state institutions,

and on the streets, sometimes violently, and the outcomes were contingent on timing, circumstances, and the constellation of forces mobilised on each side. These conflicts were displaced by the 1964 military coup.

2.4 Limitations of ISI

Despite its important achievements, ISI was severely limited across Latin America and in Brazil specifically. The six most important limitations are described below.

(1) *The balance of payments constraint*. This constraint, which captures the relationship between the economy and the rest of the world, is considered by many Keynesian economists to be the most important limitation to growth (McCombie and Thirlwall 1994). Under ISI, the balance of payments constraint took the form of absolute scarcity of foreign exchange, largely due to the fragility of the export base and lack of reliable access to foreign capital. Currency shortages restricted growth and induced economic volatility because they limited imports, investment, external market access, and the availability of technology for manufacturing development. This constraint was addressed through the cumulative internalisation of the production of imported goods, the attraction of foreign direct investment (FDI), and foreign borrowing. However, this approach was limited on two grounds. First, although ISI reduced the demand for imports of finished goods, it increased the demand for imported machines (to produce these goods), oil, and other industrial inputs. Second, the changes in the industrial structure increased the rigidity of the country's import requirements because fluctuations in import capacity, due to the decline of the terms of trade, crop failures, insufficient foreign capital inflows, and so on, no longer limited the consumption of imported goods, as was the case in the past, but instead hampered domestic production and employment.

(2) *The fragility and inefficiency of the domestic financial system*. The Brazilian financial sector was structurally unsuited for the provision of long-term finance for industrial development (Studart 1995). This sector developed in order to finance the production of export crops and trading and speculation with primary products, especially coffee, which normally required short loan terms and offered relatively liquid and readily available collateral. Brazilian banks were generally short-termist and speculative, the financial system was shallow, and financial institutions were generally unwilling or unable to provide long-term finance to a rapidly expanding manufacturing sector. Consequently, manufacturing investment was funded primarily by FDI, foreign loans, state-owned banks, directed credit, state subsidies, and firms' own resources. However, this combination of sources of finance is fragile, and it eventually proved to be unsustainable (see below).

(3) *Fiscal fragility*. The state played a key role in the vertical deepening and horizontal integration of the manufacturing sector. The state influenced

production and investment decisions through specialist agencies and institutions, mediated the relationship between domestic and foreign interests, played a key role in strategic technological development, and subsidised capital accumulation through the provision of cheap credit, infrastructure, and inputs. Although activist industrial policies were essential, they were not adequately financed by the tax system. Brazilian ISI was accompanied by fiscal deficits, inflation, and the accumulation of substantial foreign and domestic liabilities by central and local governments.

(4) *High inflation*. This was typical of ISI for two main reasons (Saad-Filho and Mollo 2002). On the one hand, social divisions fostered distributive conflicts, with social groups fighting for shares of the national income through higher prices, taxes, and wage demands. On the other hand, inflation was the outcome of the limitations of the financial structures underpinning the process of accumulation, especially fiscal deficits, lack of bank finance, and shallow and speculative stock markets, which compelled firms to rely on price increases to fund investment. This institutional structure facilitated the adoption of rigid markup pricing rules by the leading firms, which protected their revenue against demand shifts or adverse fluctuations in the level of activity. This may have protected investment in key industries, but it also increased the vulnerability of the economy to inflation due to distributive conflicts or adverse supply shocks.

(5) *High inequality and social tensions*. Brazil is one of the most unequal societies in the world in terms of access to income, wealth, and privilege. ISI reinforced these inequalities; it did not create sufficient jobs, wages were permanently compressed by labour abundance and outright repression, and there was a lack of land reform. Moreover, since manufacturing development responded to the existing pattern of demand, it was systematically biased towards relatively expensive durable consumer goods produced by transnational corporations employing capital-intensive imported technologies (Furtado 1972). These social and distributional features limited the domestic market, skewed the structure of demand away from mass-consumed non-durable goods, and frequently blocked the expansion of industry unless income was concentrated further or consumer credit was made available, which often required access to foreign finance. These inequalities have fostered severe social conflicts in Brazil, which reduced the ability of the state to impose coordinated industrial policies.

(6) *Lack of policy coordination*. The Brazilian state could rarely exercise the degree of economic coordination essential for the long-term success of ISI. Consequently, ISI was often guided by short-term profitability considerations rather than a long-term vision of the needs of accumulation. New economic sectors would arise, bringing demographic, social, cultural, and political changes and creating new interest groups that competed for income, status, and state incentives and increasing the complexity of policy formulation and implementation. State agencies frequently clashed with

other agencies with different priorities, and these coordination problems were worsened by the extent of TNC penetration and the foreign dependence of the manufacturing sector, especially in finance and technology. These weaknesses help to explain the excessive fragmentation of industry, the fragility of the national system of innovation, and the failure of most firms to compete successfully in international markets, perpetuating the balance of payments constraint. The remarkable success stories in the steel, auto, and aircraft industries – and temporarily in the defence and telecommunications industries – show what the textile, plastics, toy, wood, beverages, processed food, and other sectors were missing. These limitations help to explain the "stumbling" character of ISI, the volatility of the economic growth rates, and the reproduction of severe social and economic problems, including mass poverty, concentration of income, and insufficient infrastructure provision.

2.5 The crisis of ISI

The limitations outlined in the previous section were due primarily to the *weakness* rather than the "excessive" strength or size of the state. In brief, the Brazilian state was interventionist, but it was institutionally disarticulated and unable to impose consistent priorities over conflicting interests, especially in the dominant power bloc. This social group generally found detailed planning and large-scale state intervention unacceptable, because it upset the political balance within the elite and it sometimes promoted the interests of the poor majority.

The structural constraints and fragilities of ISI and the strongly negative impact of the external shocks of the seventies and early eighties made macroeconomic management extremely difficult in Brazil. These shocks showed that the monetary, financial, fiscal, tax, and exchange-rate policies associated with ISI had become incompatible with internal and external balance. The oil shocks and the international debt crisis worsened the balance of payments constraint and contributed to the development of an acute fiscal crisis, culminating with a slide towards hyperinflation (see Table 6.3). The social conflicts intensified, political instability became endemic, and policy shifts were limited by cumulative institutional weaknesses and growing political paralysis. The military government lost the capacity to manage the economy. In the early eighties, it had become widely agreed that political changes were imperative.

3 The political transition to new liberalism

Between the early seventies and the early nineties, the Brazilian elite gradually convinced itself that the restoration of economic dynamism would be compatible with the preservation of the existing patterns of exclusion only

Table 6.3 Brazil: annual inflation rate (CPI, %)

1970	17
1971	21
1972	17
1973	14
1974	33
1975	29
1976	38
1977	41
1978	40
1979	67
1980	85
1981	91
1982	95
1983	164
1984	179
1985	228
1986	68
1987	367
1988	892
1989	1,637
1990	1,639
1991	459
1992	1,129
1993	2,491

Source: FIPE, www.ipeadata.gov.br.

through the introduction of a new system of accumulation. This system, which can be defined as "new liberalism", includes four main features: *neoliberal economic policies*, *the microeconomic integration of domestic capital into transnational circuits* (i.e., denationalisation of firms and their integration into global value chains), *a decisive role for finance in economic policy-making,* and *political democracy*. This section reviews the political aspect of the transition to new liberalism.

The defining feature of the Brazilian military regime, in power between 1964 and 1985, was its attempt to preserve social exclusion through the combination of economic growth with varying levels of repression. The power of the regime declined gradually after 1974 due to the political exhaustion of the government's heavy-handed approach towards dissent and the economic exhaustion of the regime's growth strategy. The country's foreign debt escalated after the first oil shock, and inflation rose from 20 to 100 per cent in the early eighties. The second oil shock (1979–80) triggered a deep economic crisis and the first GDP contraction since 1929. The economy stopped responding to the government's policies, and the military regime ran out of options.

Military rule finally collapsed because of the emergence of a growing democratic mass movement in the period 1977–85. Political contestation encompassed a wide range of modalities of struggle, including criticisms of corruption, economic mismanagement, lack of democracy, and political accountability, renewed trade union activity, and mass mobilisation for economic democracy and political freedom. At this stage, a significant change took place within the elite: for the first time since 1930, a consensus emerged around political democracy.[3] This consensus was due to external pressures as well as domestic developments, and it facilitated the democratic transition because it defused the conflicts that might have arisen around the change of political regime (Markoff and Baretta 1990; Weffort 1989). For this reason, Brazilian democracy did not emerge on the ruins of the institutions left behind by the dictatorship, as was the case in Argentina. Instead, the military commanders of the regime and the country's traditional elites managed to control the democratic transition.

The substance of the elite pact that subsumed the democratic movement was straightforward. In exchange for political freedom, the redistribution of economic power was ruled out. Under these limited conditions, the democratic transition established the most open and stable regime in the history of the republic. For more than 25 years there has been no press censorship, no parties or movements of any significance have been banned, and civil rights are formally guaranteed to a greater extent than in many "old" democracies. For the first time since the late nineteenth century, the military only rarely interfere in the political sphere, and the political influence of religious leaders has been curtailed. Finally, right-wing ideology has been demoralised, and no influential organisation claims to be either "conservative" or on the "Right" (however right-wing their policies and practices may be).

4 The economic transition

Neoliberal economic policies are hegemonic in Brazil and in the world today (see Saad-Filho and Johnston 2005; Saad-Filho and Morais 2004). This section reviews the theoretical foundations of these policies and the transition from economic policies geared to the promotion of ISI to neoliberal policies in Brazil.

Like all mainstream approaches, at the microeconomic level neoliberalism presumes that, in a decentralised and deregulated economy, free competition leads to full employment equilibrium. Consequently, the market rather than the state should address such economic problems as industrial development, international competitiveness, and employment creation. By the same token, policy-oriented shifts in relative prices and in the allocation of resources should be avoided. At the macroeconomic level, neoliberalism argues that the world economy is characterised by the relentless advance of

"globalisation" (usually defined superficially and imprecisely) and international capital mobility. They offer the possibility of rapid growth through the attraction of foreign capital. However, this strategy can be successful only if domestic policies conform to the short-term interests of the financial markets. This implies that interventionist policies are unfeasible, because any policy deemed undesirable or unsustainable by the financial markets would lead to capital flight, balance of payments crisis, and economic collapse. "Policy credibility" is essential, and in practice it derives from the preferences of the international financial conglomerates, the U.S. government and the IMF.

4.1 Inflation, stabilisation and industrial policy

It was suggested in Section 2 that in the eighties the Brazilian elite converged around the view that ISI faced three insurmountable problems: the inefficiency of the financial sector, continuing industrial backwardness, and the difficulty of creating a dynamic national system of innovation (Laplane and Sarti 1999, 198). It gradually became accepted that these obstacles could be overcome only if the size of the state was reduced through expenditure cuts, the reform of the fiscal, tax, and Social Security systems, and the privatisation of state enterprises. It was expected that fiscal reforms would reduce inflation, while financial liberalisation would increase domestic savings and investment. Finally, the liberalisation of foreign trade and capital inflows and the resolution of the remaining conflicts with the international financial system would facilitate the attraction of direct and portfolio investment flows and facilitate industrial restructuring in those sectors compatible with the country's comparative advantages. Productivity would rise, followed by a structural improvement in the balance of payments (Auty 1991; Moreira 1991). In sum, in the neoliberal view the integration of Brazilian productive and financial capital into transnational conglomerates would drive a virtuous circle of growth that would turn Brazil into a developed economy.

These policy prescriptions were implemented gradually and with increasing consistency by successive governments. In 1988, during the Sarney administration, the domestic financial system was reformed; starting in 1989, international capital flows were liberalised (Studart 1999). The exchange-rate regime was made increasingly flexible in the following years (Banco Central do Brasil 1993). From 1990, during the Collor administration, Brazil reduced import restrictions incrementally and implemented the resolutions of the Uruguay Round of GATT. The Collor and Franco administrations adopted strongly contractionary monetary policies in order to control inflation, attract foreign capital, and generate exportable surpluses. The Cardoso government fully implemented a neoliberal economic strategy, especially through the Real Plan, and the first Lula administration pursued essentially the same policies introduced by its predecessor.

Between early 1992 and mid-1994, Brazilian inflation increased slowly but relentlessly from under 20 to over 40 per cent per month. Inflation control was essential for the political legitimacy and economic viability of the new elite consensus. High inflation was eliminated through the Real Plan.[4] This stabilisation plan was also used to legitimise the economic transition to neoliberalism.

Five policies underpinned the Real Plan. (1) *Import liberalisation*, because foreign competition limits the prices that domestic firms can charge (otherwise their markets will be lost to imports). It also limits the workers' wage demands, since pay increases could make local firms uncompetitive. Neoliberals also claim that trade liberalisation forces local firms to compete against "best practice" foreign producers, which should help to raise productivity across the economy.

(2) *Exchange-rate overvaluation*, which reinforces the effect of trade liberalisation on inflation and competitiveness. These policies are highly effective against inflation, and they can be very popular with consumers. However, their impact on the balance of payments and local industry and employment can be devastating. Brazilian goods imports increased from US$20.6 billion to US$50.0 billion between 1992 and 1995. Cheap imports badly harmed the manufacturing industry. In Brazil, the proportion of manufacturing value added in GDP reached 41 per cent in 1980. By 2001, this ratio had declined to 27 per cent. Manufacturing sector employment fell, with the loss of more than one million jobs between 1989 and 1997, and average real wages declined by 8 per cent between 1994 and 2001 (Bonelli 1999, 89; Saad-Filho and Mollo 2006).

(3) *Domestic financial liberalisation*. It was expected that the deregulation of the financial sector would help to increase savings and availability of funds for investment. In fact, the opposite happened; both savings and investment rates declined. The savings rate fell from 28 per cent of GDP in the mid-eighties to around 20 per cent in the mid-nineties and below 15 per cent in 2001, while the investment rate fell from an average of 22.2 per cent of GDP in the eighties, to 18.2 per cent in the nineties, and 16.1 per cent between 2001 and 06. The inflows of foreign capital may have replaced rather than supplemented domestic savings, financing consumption rather than investment (Bresser-Pereira 2003). The decline of the investment rate helps to explain the dismal growth rates in Brazil: between 1994 and 1999, Brazil's average annual real GDP growth rate was only 2.6 per cent (3.2 per cent between 1994 and 2008). In contrast, between 1933 and 1980 the economy expanded, on average, 6.4 per cent per annum.

(4) *Fiscal reforms*, in order to address the public sector deficits that presumably induced high inflation. These reforms were largely successful through privatisations, expenditure cuts, and tax increases (Giambiagi 2007).

(5) Finally, *liberalisation of the capital account of the balance of payments*, which was supposedly essential to attract foreign savings and modern technology.

This policy combination offered a fail-safe strategy to reduce inflation and simultaneously lock in the neoliberal reforms. Cheap imports were allowed in, while high interest rates, foreign loans, mass privatisations, and TNC takeovers of domestic firms brought the foreign capital that paid for them. Inflation tumbled as consumers gorged on new automobiles, computers, and DVD players and splashed out on artificially cheap foreign holidays. Consumer-goods imports increased from US$606 million to US$8.2 billion between 1985 and 1998. In the same period, foreign travel spending increased from US$441 million to US$5.7 billion. Neoliberalism bribed those it had not yet convinced, and it seemed that it could do no wrong.

However, the neoliberal reforms did not resolve the shortcomings of ISI (explained in Section 1-2), and they destabilised the balance of payments and the country's productive system. The reforms hollowed out the industrial chains built during ISI and reduced the local content of manufacturing production. Wages and profits declined because of competing imports, the rising share of interest in the national income (due to the financial reforms and the permanently high real interest rates), and the difficulty in developing new competitive industries. Structural unemployment mounted. Neoliberalism discarded import substitution and instead promoted "production substitution" financed by foreign capital.

4.2 Industrial policy and the restructuring of the manufacturing sector

The neoliberal transition introduced a new industrial structure in Brazil, based upon the microeconomic integration of production and finance into transnational value chains. It was expected that intensified competition would lead to partnerships and mergers and acquisitions (M&As) or to collapse of the inefficient firms, raising average productivity. First, the share of imported manufactured goods increased sharply (see Table 6.4).

Second, the participation of foreign firms in M&As and the foreign purchases of minority stakes in domestic companies increased significantly. Foreign firms participated in 49.1 per cent of the 3276 M&As between 1990 and 1999. Both the number of M&As and the degree of foreign involvement increased during this period.[5] The most affected sectors were electric and electronic goods, telecommunications equipment, car parts, and processed foods.

Growing foreign participation contributed to the search for efficiency gains. The new mode of competition was influential at several levels. First, it led to a shift in management techniques towards "modern" methods and the downsizing of the workforce. Second, rising manufacturing unemployment was reinforced by the introduction of new labour-saving technologies. Third, firms tended to shift their output mix towards simpler products with less value added in order to reap efficiency gains. As a result, manufacturing productivity increased on average by 7.6 per cent annually between 1990

Table 6.4 Brazil: import coefficients, 1993 and 1996 (%)

Sector	1993	1996
1. Standardized capital goods and electronic goods	29	65–75
2. Chemical inputs, fertilisers, resins	20–26	33–42
3. Auto parts, natural textiles, capital goods made to order, rubber	8–15	20–25
4. Pharmaceuticals, tractors, electric and electronic consumer goods, glass, chemical goods	7–11	13–16
5. Synthetic textiles, petrochemical inputs, cars, food, paper, and cardboard	3–6	9–12
6. Beverages, shoes, plastics, dairy products, semi-processed foods	0.7–3	4–8
7. Non-tradable goods (cement, inputs, and others)	0.5–2.5	1–4

Source: Coutinho, Baltar, and Camargo (1999, 70).

and 1997 (Feijó and Carvalho 1998). Coutinho, Baltar, and Camargo (1999, 66, 73) rightly conclude that

> [The] avoidance of industrial development policies by the State strongly contributed to the increasing exposure of domestic industry to imports, especially in high value added sectors and those with high technological content.... [T]he explosion of imports rapidly "hollowed out" the productive chains, and led to a large reduction in intra-industry demand which sharply reduced the economy's capacity to create jobs.... [T]he frantic attempts to cut costs have led to successive rounds of innovation and rationalisation in the productive process that generated strong tensions in the labour market.... [This is partly due to the] entry of new competitors and the redefinition of strategic alliances [that] have destabilized the oligopolistic structures inherited from previous decades.... The "modernisation" of [these] oligopolistic structures has ruptured the existing supply chains, led to the entry of new [foreign] suppliers, reduced the degree of verticalisation and increased the import coefficients.... [The] higher coefficient of imported inputs and components (and, therefore, the substantially lower value creation in the country) means that the success of efforts to stimulate domestic demand for intermediate goods and employment will tend... to be very modest.

These heavy blows were softened by the expansion of trade within the Mercosur group (i.e., Argentina, Brazil, Paraguay, Uruguay) and by the transfer of some SOEs to Brazilian capital.[6]

4.3 The new policy regime

The Brazilian experience shows that there are two reasons why the new liberal reforms can secure short-term macroeconomic stability and

growth. First, they are part of the conventional wisdom of the age and are embedded in the belief systems of most domestic and international institutions. Therefore, they are "credible" by definition. Second, if international liquidity is high and interest rates are low, as was the case in the mid-seventies and again in the early nineties and after the recovery from the 2000–1 slump, trade and capital-account liberalisation seem to abolish the balance of payments constraint. They can attract capital inflows to finance a large trade deficit, allowing consumption, investment, and growth rates to increase rapidly in a virtuous circle that may last several years. However, if these foreign capital flows decline, as they did in the early eighties, in the mid-nineties, in 2000–1, and since mid-2007, countries following neoliberal policies can find themselves in a vulnerable position. The balance of payments constraint can reappear suddenly, either because of the scarcity of foreign exchange or because higher international interest rates push up the domestic interest rates, squeezing the economy both internally and externally at the same time.

In Brazil, the crisis of the Real Plan, in 1998–9 (Morais, Saad-Filho, and Coelho 1999), led to the introduction of a new macroeconomic policy regime that included inflation targeting, large fiscal surpluses, and the managed fluctuation of the real. The aim of these policies was to preserve low inflation, stabilise the DPD and the exchange rate, and eliminate the current account deficit. These policies and goals were also pursued by the Lula administration.

This policy regime has been partially successful. Devaluations of the real in 1999 and 2002 triggered a temporary inflation bubble, while revaluations of the currency have been associated with declining rates of inflation (see Figure 6.2; also see Araujo and Leite 2009). Although the government's inflation targets have normally not been achieved, the inflation rate is relatively low and stable (Bresser-Pereira 2003; Lima, Maka, and Mendonça 2007).

Permanently high real interest rates during the period of the real (see Figure 6.3) are due to the high costs and continuing inefficiencies of the Brazilian financial system and the latent conflicts between monetary and fiscal policy under new liberalism. In summary, contractionary monetary policy automatically relaxes the fiscal policy stance because of the growth and high liquidity of the DPD. This leads the government to again contract monetary and fiscal policy in a vicious circle that can gradually increase the financial fragility of the state. This conflict requires permanently high fiscal surpluses (which are politically costly and economically damaging), privatisations (which are largely exhausted), or more realistically, the reduction of domestic interest rates. However, lower rates can conflict with the balance of payments constraint; they may trigger capital outflows, or they could reduce the demand for public securities, making it harder to finance the public deficit and potentially leading to the monetisation of the DPD. This would trigger a currency collapse, an inflation bubble, or both. However, since the new policy regime automatically blames excess demand for any

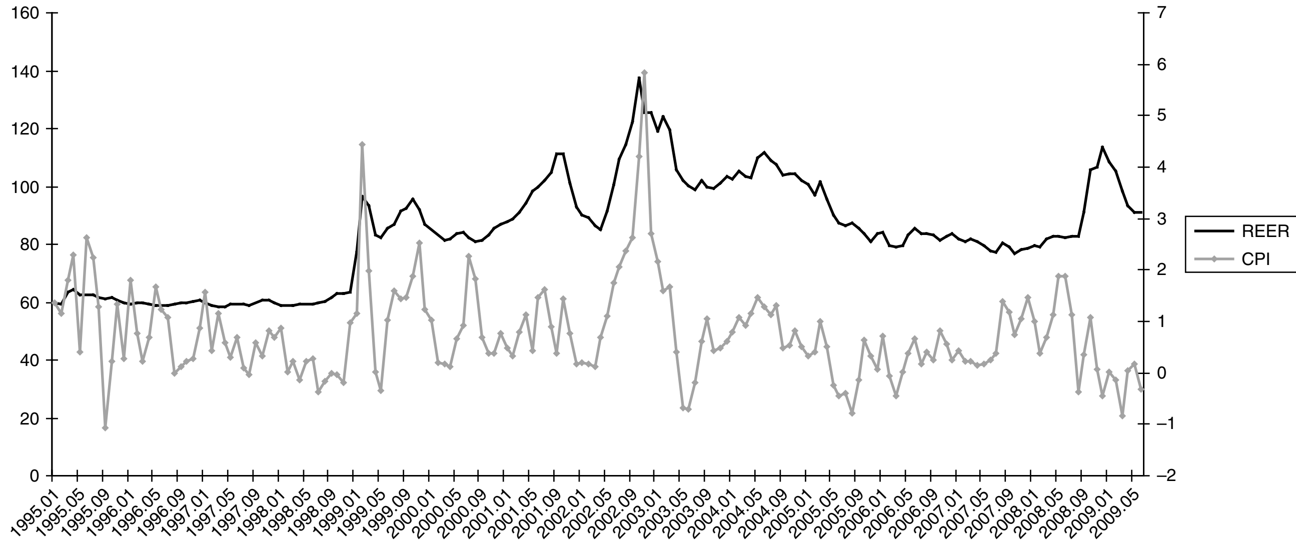

Figure 6.2 Brazil: real effective exchange rate (REER) (average 2000–100) and inflation rate (CPI) (% per month)

Source: Ipeadata.

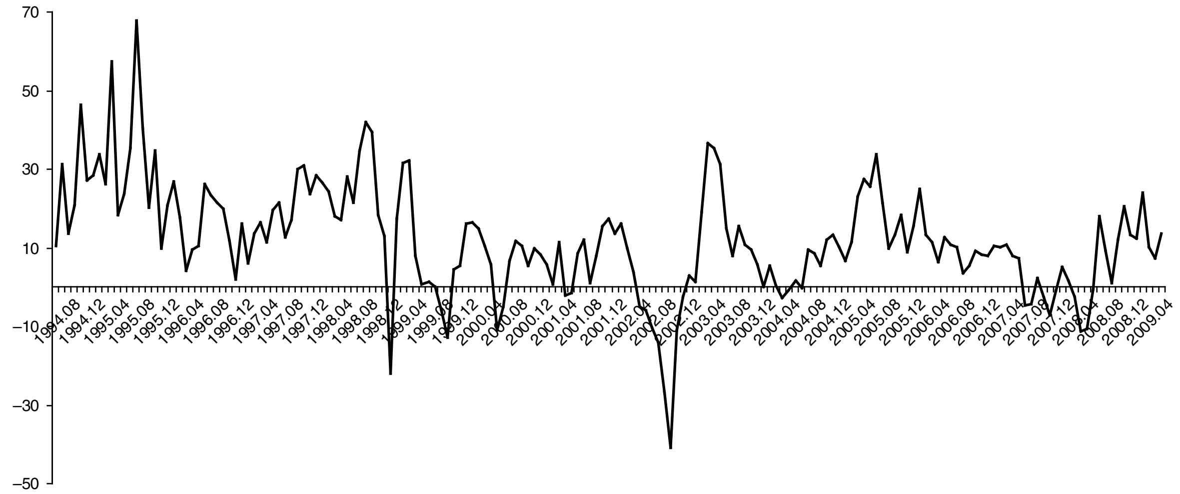

Figure 6.3 Brazil: real overnight interest rates (annualised monthly rate, %)

Source: Calculated from Ipeadata.

increase on the rate of inflation (regardless of the level of capacity utilisation or the unemployment rate), inflation stabilisation will *always* require high interest rates and a high fiscal surplus, perpetuating the limitations of the current policy regime.

The economic limitations outlined above help to explain why the Brazilian trade balance reacted slowly after the currency crisis. The trade balance shifted to a surplus only in 2001 and the current account two years later. The trade surpluses have proven to be sustained (see Table 6.5). In particular, expansion of Brazilian exports has brought much-needed relief to the balance of payments. However, this has been due largely to favourable market conditions for some of the country's main commodity exports and the excellent performance of the agribusiness sector. This, along with the slower growth of manufacturing output and processed exports, has led to the re-primarisation of the Brazilian economy, which is not easily compatible with the creation of quality employment and the improvement of social welfare in a Latin American economy.

5 Conclusion: the limitations of new liberalism

New liberalism includes a hegemonic political settlement (procedural democracy) and a hegemonic set of economic policies and relations (neoliberalism). New liberalism has become the mode of existence of Brazilian capitalism – a system of accumulation – with a specific material basis corresponding to a particular social structure and relationships between domestic capital, foreign capital, and the state.

New liberalism has transferred state capacity to allocate resources intertemporally (the balance between investment and consumption), intersectorally (the distribution of investment, employment, and output), and internationally to an increasingly integrated and U.S.-led financial sector. The policy reforms have dismantled the production systems established during ISI and the social structures and patterns of employment that corresponded to them. They have led to the privatisation of the most productive and financial SOEs and promoted the alliance between foreign and domestic capital at firm level and the denationalisation of industry and infrastructure. The transnationalisation of production and finance (i.e., globalisation) was to a large extent a process of international integration at firm level; it restructured the "national" system of production at a higher level of productivity and integrated the local elite internationally. The economy has become structurally more dependent on foreign trade, investment, and technology. Brazil's productive base has shifted away from the long-term requirements of national accumulation towards the short-term imperatives of global accumulation. The counter-tendencies operating during the Lula administration, including the state sponsorship of private capital through the national development bank, BNDES, have been far too weak to reverse this trend.

Table 6.5 Brazil: balance of payments (US$ million)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Goods (FOB)	–6,575	–1,199	–698	2,650	13,121	24,794	33,641	44,703	46,457	40,032	24,836
Exports	51,140	48,011	55,086	58,223	60,362	73,084	96,475	118,308	137,807	160,649	197,942
Imports	–57,714	–49,210	–55,783	–55,572	–47,240	–48,290	–62,835	–73,606	–91,351	–120,617	–173,107
Services and income (net)	–28,299	–25,825	–25,048	–27,503	–23,148	–23,483	–25,198	–34,276	–37,120	–42,510	–57,252
Current unilateral transfers	1,458	1,689	1,521	1,638	2,390	2,867	3,236	3,558	4,306	4,029	4,224
CURRENT ACCOUNT	–33,416	–25,335	–24,225	–23,215	–7,637	4,177	11,679	13,985	13,643	1,551	–28,192
CAPITAL AND FINANCIAL ACCOUNT	29,702	17,319	19,326	27,052	8,004	5,111	–7,523	–9,464	16,299	89,086	29,352
Capital account	320	338	273	–36	433	498	372	663	869	756	1,055
Financial account	29,381	16,981	19,053	27,088	7,571	4,613	–7,895	–10,127	15,430	88,330	28,297
Direct investment	26,002	26,888	30,498	24,715	14,108	9,894	8,339	12,550	–9,380	27,518	24,601
Portfolio investments	18,125	3,802	6,955	77	–5,119	5,308	–4,750	4,885	9,081	48,390	1,133
Financial derivatives	–460	–88	–197	–471	–356	–151	–677	–40	41	–710	–312
Other investments	–14,285	–13,620	–18,202	2,767	–1,062	–10,438	–10,806	–27,521	15,688	13,131	2,875
ERRORS AND OMISSIONS	–4,256	194	2,637	–531	–66	–793	–1,912	–201	628	–3,152	1,809
OVERALL BALANCE	–7,970	–7,822	–2,262	3,307	302	8,496	2,244	4,319	30,569	87,484	2,969

Source: Central Bank of Brazil, www.bcb.gov.br.

Equally significantly, the Brazilian state has become profoundly depleted in the areas of economic planning, control, and policy implementation. In contrast, state capacity in monetary policy implementation, financial sector regulation, and security has been extended significantly. The financial reforms have embedded private sector interests in the policymaking process through the decisive role of finance in pricing government securities, determining interest rates, and financing the public sector. The reforms also increased the role of private financial institutions in the foreign exchange market and, therefore, in the country's relations with the rest of the world.

Finally, the neoliberal transition has contributed to the disorganisation of the workforce and to a significant shift in power away from the majority regardless of the stabilisation of political democracy – indeed, to some extent because of it. Rather than rely on military force, the new liberal consensus has disciplined the working class through contractionary fiscal and monetary policies, higher unemployment and labour turnover, personal debt, and the continuing threat of inflationary or balance of payments crises should the distributive conflicts get out of hand. In all these senses, the neoliberal experience in Brazil has failed to achieve the high expectations that were manufactured to justify the economic transition. Yet the political transition has delivered a stable and vibrant (albeit, as in most other countries, limited) democracy. It is within this duality that the search for progressive alternatives to neoliberalism must proceed, in Brazil and elsewhere in Latin America.

Notes

1. The system of accumulation is determined by the economic structures and institutional arrangements that typify the process of capital accumulation in a specific region in a certain period of time (Fine and Rustomjee 1996). This is a relatively concrete concept, with no direct relationship with relatively abstract concepts, such as mode of regulation (Aglietta 1979; Boyer 1990).
2. Import-substituting industrialisation is assessed by Bruton (1998) and Gereffi and Wyman (1990). For an overview of ISI in Latin America, see Bulmer-Thomas (2003), FitzGerald (2000), and Thorp (1992). The Brazilian case is reviewed by Baer (1995), Furtado (1972), and Hewitt (1992).
3. "Consensus" refers to a substantial measure of agreement on strategic political projects among social groups which, by virtue of their institutional power and political influence, can implement these projects through the institutions of the state. This concept is related to the Gramscian notion of hegemony. Neither of them presumes unanimity.
4. Governo do Brasil (1993); also see also Bacha (1997), Dornbusch (1997), Saad-Filho, Morais and Coelho (1999), and Sachs and Zini (1996).
5. Price Waterhouse Coopers (*Folha de S. Paulo*, 21 January 2000). For similar estimates, see Gonçalves (1999a, 138–42).
6. See Cano (1999) and Laplane and Sarti (1999, 222–224). "[The] flows of [Brazilian] exports to the Argentine market are concentrated on medium-high and

medium-low technological intensity products, which include 70–75% of the sales of Brazilian industrial goods. The participation of these products in Brazilian exports to the rest of the world is less than 40%" (Machado and Markwald 1997, 197). See also Leal and Silva (2008).

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7

From Dirigisme to Neoliberalism: Aspects of the Political Economy of the Transition in India

C. P. Chandrasekhar

1 Introduction

Over the last two decades or more, the developing world has shifted out of development strategies involving a highly interventionist and often developmentalist state to one that has been widely characterised as neoliberal. *Neoliberalism* is an ambiguous and loosely defined term, even when it is restricted to the economic sphere. So it would be useful to clarify the sense in which it is being used in this context. In what follows, neoliberal theory and practice are taken as referring to (1) the use of the rhetoric of market fundamentalism, in which the market – ostensibly "free economic exchange" – is presented as the most efficient mechanism to work the economic system, to pave the way for the increasingly unfettered functioning of private capital, both domestic and foreign; (2) the use of the notion of a minimalist state, to be realised by dismantling its developmentalist version, to legitimise the shift of various terms of trade and mechanisms of distribution in favour of the owners of capital and their functionaries and conceal the conversion of segments of the state apparatus into sites for primitive accumulation; and (3) the pursuit of a regime of accumulation where the home market and deficit-financed state expenditure are replaced by exports and debt-financed private expenditure as the principal stimuli to growth.[1]

Despite a degree of commonality across developing countries with respect to the transition to a neoliberal strategy, there is no unanimity on the factors that account for this transition. Some have attributed it to "government failure". That is, the very idea that the state would be able to garner adequate information, ensure that there are no agency problems, and successfully direct development was brought into question. Others saw a neoliberal strategy as being more "efficient" in the allocation of resources and therefore capable of ensuring sustained growth, unlike the interventionist alternative. Yet others see the transition, not as result of some objective choice

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among alternatives, but as reflective of changes in the relative strengths of different classes.

In what follows, this chapter examines India's post-independence development experience to identify the factors that led to the failure of interventionist, import-substituting strategies, assess the options that were available in the context of that failure, and understand why neoliberalism emerged as the preferred alternative. Post-independent India was one of the classic cases of state-led economic development. Not only was the state highly interventionist, but over time the economy included a sizeable public sector, especially in areas of infrastructure and basic industries. The "mixed" economy which thus came into being within the political framework of a parliamentary democracy made the Indian experiment novel and unique, and the Indian industrialisation strategy was seen as a model for other developing countries with a reasonably sized home market.

State intervention, especially after the mid-1950s, attempted to influence the pace and pattern of industrialisation by (1) insulating the domestic market from excessive import competition; (2) regulating the inflow of foreign capital and mediating the interaction of domestic and foreign capital; (3) investing in infrastructure and basic and heavy industries and closing gaps that may not be filled by private players because of lumpy investments, long gestation lags, and uncertain profits; (4) using controls on capacity creation and production and the tax-cum-subsidy regime to influence the allocation of investment; and (5) putting in place a regulatory regime that attempted to reduce industrial concentration and ensure a more regionally dispersed industrial sector.

Given this background, India's transition in 1991 to a liberal and open industrial policy regime was an event of great historical significance. The question as to why and how the transition occurred and the effect it had on the pace and pattern of industrial growth and employment generation and distribution are still being debated. This chapter attempts to trace the evolution of India's industrialisation since independence, to partly explain the transition, and to assess the impact of alternative policy regimes on the pace and pattern of growth.

There are two ways of periodising industrialisation during the six decades since independence: in terms of episodes of growth and deceleration and in terms of the policy regime in place. The former warrants dividing the period into three phases: (1) the immediate post-independence years, stretching from 1950 to 1964, when Indian industry grew at creditable rates compared both with earlier phases of industrialisation and with the pace of industrialisation in many similarly placed developing countries; (2) the period from the mid-1960s to the late 1970s, referred to as one of "secular stagnation" when compared with the preceding phase; and (3) the years since the 1980s, when growth has not only risen on average and remained high for a relatively long period of time but showed signs of further acceleration after 2002 (Table 7.1).

Table 7.1 Annual trend rates of growth of output

	Total	Manufacturing	Mining & quarrying	Electricity
1950–1 to 64–5 (a)	7.2	7.1	5.9	13.6
1965–6 to 79–80 (b)	4.7	3.8	6.9	6.2
1965–6 to 74–5 (b)	4.3	2.7	9.4	3.8
1975–6 to 84–5 (c)	4.9	4.3	6.6	7.3
1985–6 to 94–5 (d)	6.2	6.2	4.2	8.3
1995–6 to 04–5 (e)	5.5	5.8	2.7	5.0
2000–1 to 06–7 (e)	7.3	7.9	4.0	4.8

Source: Computed from figures on Index of Industrial Production reported in Reserve Bank of India (2009), *Handbook of Statistics on Indian Economy*, and Reserve Bank of India (1961, 1971, 1981, 1991, 1995), *Report on Currency and Finance* (Mumbai: Reserve Bank of India).Notes: (a) Based on series with base 1950–1 = 100; (b) based on series with base 1970 = 100; (c) based on series with base 1970 = 100; (d) Based on series with base 1980–1 = 100; (e) based on series with base 1993–4 = 100.

In terms of policy we can speak of three phases, of which two coincide with the growth-based periodisation and one does not. The first was the period of dirigisme, with a highly interventionist state leading development between the early 1950s and the middle of the 1960s. In the second phase – the mid-1960s to the end of the 1980s – interventionism remained in place, but because of evidence that intervention had not been implemented as originally planned and had therefore not managed to realise its multiple objectives, it was losing its legitimacy. This triggered a contradictory phase in policy where the strengthening of some measures of intervention was accompanied by a creeping process of limited liberalisation. Finally, the third phase began in 1991–2, when in the wake of the balance of payments crisis of 1991, the government opted for an accelerated process of liberalisation.

India's transition in 1991, initially through a programme of "structural adjustment", entailed a regime of "liberal imports", substantial dilution of regulations governing foreign investment, a progressive removal of administrative controls, a strictly limited role for public investment, the privatisation of publicly owned assets over a wide field, the easing of capital controls, and domestic financial liberalisation that did away with targeted lending at differential interest rates. Underlying this transition was a changed international conjuncture.

To say this is not to whitewash the fundamental flaws of the dirigiste regime or gloss over its basic contradictions but merely to avoid making facile judgements about it. Both the advocates of neoliberal reform and its critics trace the transition to the factors leading up to the development impasse of the late 1960s and 1970s in India. This was a period when growth decelerated substantially relative to that recorded during the first 15 years

after independence. This deceleration was not accidental or exogenously determined. It is clear that, behind the socialist rhetoric of the 1950s, there were a number of features of India's post-independence growth strategy that structurally limited the potential of the system. To start with, despite talk of land reform, of providing "land-to-the-tiller" and curbing the concentration of economic power, little was done to attack or redress asset and income inequality after independence. The worst forms of absentee landlordism were done away with, but the monopoly of land remained intact in most of rural India. While some monopolistic practices were curbed, asset concentration in the industrial sector was never really challenged. Rather, India's monopolists were able to use state intervention as a device to consolidate and expand their monopolistic positions.

One consequence of the persistence of asset and income inequality was that there were definite limits to the expansion of the market for mass-consumption goods in the country. Employment and income growth in the private sector was limited. The large mass of peasantry, faced with insecure conditions of tenure and often obtaining only a small share of what they produced, had neither the means nor the incentive to invest. The prospect of increasing productivity and incomes in rural India (home to the majority of the population) in order to stimulate domestic demand was therefore restricted. Absent any radical land redistribution, the domestic market, especially for manufactured goods, remained socially narrowly based, and the growth of agricultural output, though far greater than in the colonial period, remained well below potential.

Under these circumstances, continuous growth in state spending was essential for the growth of the market; it was the key element in whatever overall dynamism the system displayed. Further, given the strength and assertiveness of the domestic industrial capitalists, the government was not in a position to discipline them to the extent that would have been required to launch an East Asian–style mercantilist strategy of export-led growth. The stimulus for growth had to be internal, even though the autonomous expansion of the domestic market was constrained by the inequality of asset distribution.

In the event, the basic stimulus to growth during the early post-independence years came from the state itself. It provided domestic capitalists with a large once-for-all market for manufactures by widening and intensifying trade protection and displacing imported goods from the domestic market. It sought to expand that market through current and capital expenditures and supported the domestic capitalist class by investing in crucial infrastructure sectors and channelling household savings to finance private investment through the creation of a number of industrial development banks.

This strategy paid dividends during the decade and a half immediately following independence. In this period rates of industrial growth were creditable by international standards. India built up a diversified industrial base,

and the public sector expanded rapidly enough to provide crucial infrastructural services, industrial raw materials, and capital goods to sustain industrial growth even when the foreign exchange available to import these commodities was limited (Chakravarty 1987). By the mid-1960s, however, not only was the once-for-all stimulus offered by import substitution exhausted, but the ability of the State to continue to provide the stimulus to growth was also undermined by its inability to raise adequate resources. In consequence, aggregate growth decelerated, leading to the "secular stagnation" of the late 1960s and 1970s.

There were three mutually reinforcing and interrelated contradictions that aborted the objectives of this basic model. First, the state within the old economic policy regime had to simultaneously fulfil two different roles that were incompatible in the long run. On the one hand, it had to maintain growing expenditure, in particular investment expenditure, in order to keep the domestic market expanding. At the same time, however, the state could not mobilise adequate resources through taxation; the exchequer was a medium through which large-scale transfers were made to the private sector, and so the state effectively became the most important instrument for primary accumulation by the domestic capitalist class in its various manifestations.

The contradiction between these two different roles of the state was manifested in the government's revenue account. This was in surplus until the end of the 1970s, but thereafter turned to a deficit that grew despite increasing resort to indirect taxation and hikes in administered prices. The implications of this growing fiscal crisis were obvious: the government could either cut back on its own investment or maintain it through increased borrowing. The period from the mid-1960s to the late 1970s witnessed the first option being chosen, while from the early 1980s the second option was dominant. But such government borrowing and the subsequent increase in public debt in turn generated pressure for changes in economic strategy.

The second contradiction lay in the inability of the state to impose a minimum measure of discipline among the capitalists, without which no capitalist system anywhere can generate sustained growth. One consequence was the failure of domestic capitalists to diversify from serving the protected and lucrative domestic market to serving the competitive export market in order to earn a part of the foreign exchange expenditure their activities entailed. This absence of a collective discipline in turn meant that a successful transition could not be made from the Nehru-style interventionist regime to an alternative viable capitalist regime with a different kind of state intervention such as existed in Japan and South Korea, where state intervention was based on close collaboration between the state and capital and on the simultaneous enforcement of fairly rigorous discipline among the capitalists. Thus, the only feasible alternative to the earlier dirigisme became a process of deregulation and liberalisation.

The third contradiction had its roots in the social and cultural ambience of India as a developing country. Characteristic of metropolitan capitalism has been continuous product innovation, with newer goods constantly entering the market and even creating new lifestyles. In India, as we have seen, the market for industrial goods was limited from the early stages, with additional purchasing power dominantly accruing to a comparatively narrow social segment, which in turn provided the main source of growth in demand for manufactured consumer goods. This social segment, as in most other developing countries, was eager to emulate the lifestyles and consumption patterns of the metropolitan centre. Therefore, it was not satisfied with having more domestically produced goods; rather, its demand was increasingly for the new goods produced in the metropolitan centres, which could not be locally produced using only indigenous resources and technology.

This created an imbalance between the possibilities of domestic production and the patterns of domestic demand, since much of the additional demand for consumer goods came from richer social groups. While import controls sought to contain this demand to some extent, they inevitably gave rise to clandestine imports. In any case, further innovations in the metropolitan economies increased this basic imbalance over time. This created powerful and growing pressure among the more affluent groups in society for dismantling controls on both domestic production and imports, regardless of the balance of payments effects and erosion of the viability of the domestic manufacturing sector. The international demonstration effect has been a powerful instrument in the hands of metropolitan capital in its efforts to prise open the markets of developing countries, and India's markets are no exception.

The net result of the working out of all these contradictions has been evident in the Indian economy for quite some time. Changes in the growth rate of manufacturing production over the decades provide a barometer of the possibilities of productive accumulation. In the period 1951–65, manufacturing output grew at an average annual rate of 7.1 per cent, but the subsequent 15 years (1965–80) saw this rate fall to only 3.8 per cent. By the first half of the 1980s, manufacturing growth was slightly higher, at an annual rate of 4.3 per cent; in the decade beginning 1985–86, it touched 6.2 per cent and, after a deceleration immediately thereafter, rose to 7.9 per cent during 2000–1 and 2006–7. Thus, after 15 years of rapid industrial expansion in the 1950s and the early 1960s, there was a dramatic decline in the rate of manufacturing growth during the next 15 years. Even though the growth rate picked up somewhat in the early 1980s, it was still nowhere near the rates witnessed in the first 15 years of planning. Only after the mid-1980s did a pronounced boom occur once again in Indian manufacturing.

The fact that the 15 years after the mid-1960s which were characterised by a relative stagnation in manufacturing output also witnessed a decline

in the rate of growth of public investment is well known. This decline meant, as discussed earlier, that in promoting primary accumulation of capital, the state could not adequately fulfil its other role of expanding the domestic market. This adversely affected a number of industries catering to mass consumption or those with strong linkages to public investment. In addition, the sluggish rate of public investment added to infrastructure constraints upon private economic activity.

These were the factors that underlay the development impasse of the late 1960s and 1970s. Any effort on the part of the state to accelerate growth through deficit-financed expenditures resulted in inflation, a balance of payments problem, or both. The state was constrained to avoid these outcomes beyond a certain limit.

2 The 1980s recovery

Since this feature of Indian political economy did not change subsequently, the revival of growth in the 1980s appears puzzling at first glance. The return to economic buoyancy cannot be attributed to the emergence of any *new* source of stimulus to growth. Exports during these years were by no means remarkable enough to stimulate growth in an economy as large as India's. The factors which had earlier constrained the expansion of the mass market were still operating. This implied that the stimulus to growth, as before, had to come from the state (Chakravarty 1987; Patnaik 1995).

This is essentially what happened. Three new features characterised the 1980s, and they allowed the economy to escape from the growth impasse of the earlier period. First, there was a big increase in the fiscal stimulus to the economy provided by government spending. Second, there was substantial liberalisation of imports, especially of capital goods and components for manufacturing. Third, associated with both of these, there was a shift to relying on external commercial borrowing by the state to finance the increases in the consequent fiscal and current-account deficits.

In terms of fiscal stimulus, there was a significant increase in the total fiscal deficit as a share of national income. The gross fiscal deficit of the central and state governments together averaged 9.5 per cent of GDP at current market prices in the second half of the 1980s and touched 10.1 per cent in 1990–1. This was not due to any increase in the share of public investment but was largely the result of a decline in the share of public savings, reflected in the burgeoning revenue deficit (which rose from an average of 2.8 per cent of GDP between 1985–6 and 1989–90 to 4.5 per cent in 1990–1). Current expenditures of the state grew at a rate which far outstripped the growth in tax and non-tax revenues, despite hikes in indirect taxation and in administered prices.

The second new feature was the liberalisation of imports of capital goods and components required for a number of commodities catering to luxury

consumption, especially electronics and automobiles. The argument for this step – explicitly stated by some government officials – was that since even the small segment of the population that demanded such goods amounted in absolute terms to a fairly large number, the economy could grow on the basis of such an industrialisation strategy, whose benefits would eventually "trickle down" to the poorer sections of the population as well.

The import liberalisation of the late 1980s was not tied to a larger export effort; its main immediate thrust was towards producing more goods – luxury goods – for the domestic market. In 1985–6, the very first year that the policy was introduced, there was a dramatic increase in balance of payments deficits, with the current-account deficit increasing to 2.26 per cent of GDP. While it reached a plateau thereafter, this still reflected a very large increase in non-oil imports, since there was a significant reduction in India's oil import bill between 1984–5 and 1988–9 owing to the development of the Bombay High oilfield. But for the import profligacy, the trade deficit would have declined significantly in absolute terms since mineral oil and related products accounted for nearly a third of India's import bill at the start of the 1980s.

Meanwhile, remittance inflows during this period had flattened out, and "soft loans" were becoming more and more difficult to come by. In this context, the maintenance of the trade deficit at a high, even though steady, absolute level and the related need to finance large current-account deficits turned out to be an unsustainable extravagance. It should be noted that more than 40 per cent of the increase in import value between 1984–5 and 1988–9 (barring what was effectively re-exported) was on account of machinery and transport equipment, including components, which went to a significant extent into the production of a variety of goods for upper-income groups.

The third new feature was a systematic resort to commercial borrowing from abroad. As trade and current-account deficits went up in the latter half of the 1980s and access to soft loans dwindled, there was increasing recourse to external commercial borrowings. Because of the need for debt servicing, this in turn contributed, with a lag, to large current-account deficits, which eventually necessitated further borrowing. Debt, feeding upon itself, has a habit of escalating rapidly. As fresh debt was contracted even to pay off old debt, the terms at the margin became stiffer, the maturity period shorter; hence, the rate of escalation of debt increased as well. The debt in dollar terms nearly quadrupled during the 1980s, from around $20 billion in 1980 to nearly $82 billion in 1990; debt to banks and private individuals increased more than ten times, from just under $2 billion to more than $22 billion. By 1990, India's debt-service payments absorbed foreign exchange amounting to nearly one-third of the value of exports.[2]

It is the combination of these three features which explains the state's ability to pull the economy out of the impasse it faced during the late 1960s

and 1970s. Of course, it can be asked why earlier successive governments – which were, after all, just as desperate to revive growth – could not adopt a similar strategy. To answer this, we need to look at developments outside the country, developments that influenced India's medium-term growth prospects significantly. The rise to dominance of finance capital in the international economy was the most important of such developments.

3 Changed international conjuncture

Until the early 1970s, the private international financial system played only a limited role in recycling financial surpluses to the developing countries. Capital flows to developing countries, barring South Korea and a few other exceptions, were through official bilateral and multilateral channels. The period immediately after the first oil shock saw a dramatic change in this scenario. Since oil surpluses were held mostly as deposits with the international banking system based in and controlled by the developed world, the private financial system there became a powerful agent for recycling surpluses. This power was immense. The expenditure fuelled by such credit in both the developed and developing worlds generated further surpluses with the oil producers, which then deposited these surpluses with transnational banks, which in turn could offer further doses of credit. By 1981, OPEC countries are estimated to have accumulated surpluses to the tune of $475 billion, $400 billion of which was parked in the developed industrial nations.

This power of finance was all the more significant because a slowdown in productivity growth in metropolitan industry was already bringing the post-war industrial boom to a close, and this process was being hastened by the contractionary response to the oil shocks. As a proportion of world output, net international bank loans rose from 0.7 per cent (1964) to 8.0 per cent (1980) and 16.3 per cent (1991). Relative to world trade, net international bank loans rose from 7.5 per cent (1964) to 42.6 per cent (1980) and 104.6 per cent (1991) (World Bank, *World Debt Tables*, various issues).

Two other developments contributed to the increase in international liquidity during the 1970s and 1980s. First, the United States had built up large international liabilities during the Bretton Woods years, including those resulting from expenditures on the Vietnam War and its policing efforts elsewhere in the world. The explosion of the Eurocurrency market in the 1970s reflected this increase, which was sustained by the confidence in the dollar stemming from the immediate post-war hegemony of the United States, which made it as good as gold. International confidence in its currency allowed the United States to ignore national budget constraints on its international spending and brought an expansion of liquidity in international financial markets.

Second, the demographic structure in most of the advanced countries had changed, with baby boomers reaching the age when they would emphasise

personal savings for retirement. This was accentuated by changes in the institutional structures relating to pensions, whereby in most industrial countries public and private employers tended to fund less of the planned income after retirement, requiring more savings input from employees themselves. With the concomitant growing demand for more variety in savings instruments as well as higher returns, pension funds, mutual funds, and the like took on greater significance in financial markets.

The resulting massive increase in international liquidity found banks and non-bank financial institutions desperately searching for the means to keep their capital moving. At first, there were booms in consumer credit and housing finance in the developed industrial nations. When those opportunities petered out, a number of developing countries were discovered as the "emerging markets" of the global financial order. Capital, in the form of debt and equity investments, began to flow into these countries, especially those that were quick to liberalise rules relating to cross-border capital flows and regulations governing conversion of domestic into foreign currency.

From the point of view of governments in certain developing countries, this growth in international finance appeared positive. Some of them needed the liquidity to finance their post-shock deficits. For others – those not willing to undertake structural reforms that would involve attacking the very landed and industrial interests they represented and therefore stuck without an alternative in the face of the development impasse after the 1960s – the new situation appeared to offer a lifeline. They could now experiment with the alternative of opening up their economies and integrating with world capitalism and hope to derive at least some of the benefits of whatever growth occurred in the world system. This was certainly true of India in this period.

This option did not exist earlier, since the very process of opening up would have involved a rise in the current-account deficit to levels not warranted by their access to finance through the development aid network. The resulting balance of payments problem would have necessitated an immediate reduction in growth, ensured through a state-led deflation. Larger access to international finance seemed to allow for the possibility of running larger current-account deficits, permitting the state to liberalise the economy while hoping that in the medium term this would trigger an increase in exports. Liberalisation, which was not a relevant option under the earlier international financial framework, was all of a sudden a real and even attractive option.

Thus, this congruence of interests – of the developing countries to borrow and of the banks to lend – resulted in the current-account deficit being for almost a decade and a half no constraint on growth in at least some underdeveloped countries. The fallout of this scenario is now history. Right through the 1970s and 1980s – and definitely by the 1990s – governments in one developing country after another combined more liberal growth

strategies with huge budget deficits financed with international borrowing. This also served to neutralise, at least partly, the adverse effects on domestic growth of trade liberalisation. In fact, during those years many developing countries actually recorded rather creditable rates of growth. Typically, these were then attributed to liberalisation rather than to reckless pump-priming by domestic governments, which the irresponsible lending practices of the international banking system had in turn encouraged.[3]

Seen in this light, the revival of growth in India during the 1980s is far easier to explain. Exploiting the access to foreign exchange afforded by the rise to dominance of finance internationally, the government chose to pump-prime the system. Rising government expenditure, however, was not accompanied by an increase in resource mobilisation through rising taxes. The fiscal stimulus was financed through rising deficits, including one on the revenue account of the government's budget. The demand stimulus resulting from such expenditure was serviced by domestic industry with the help of imported capital goods, intermediates, and raw materials, imports of which were liberalised. This essentially meant that the import intensity of domestic production rose. But such growth was not constrained by inadequate access to foreign exchange, since it was accompanied by an increase in foreign borrowing from the IMF, the international commercial banking system, and non-resident Indians. Fortunately for India, this was the time when remittances from Indian workers, especially in the Gulf, to sustain the consumption expenditures of families they left behind, provided the country with a fortuitous inflow of foreign exchange. Despite this, India's ratio of foreign debt to GDP doubled during the 1980s. Only when international creditors chose to shut off credit at the end of the 1980s did India run into the balance of payments crisis of 1990–1, which provided the grounds for advocates of reform to push through an IMF-style stabilisation and adjustment strategy.

4 The 1990s and after

If this was the set of factors that triggered the growth turnaround in the 1980s, how did growth manage to remain high and even accelerate after the 1991 crisis? Annualised month-to-month rates of growth, as captured by the manufacturing Index of Industrial Production (IIP), indicate that after touching a trough in September 2001, growth staged a medium-term recovery to peak at 17.6 per cent in November 2006 (see Figure 7.2). Though there have been signs of a downturn in industrial growth since then, the period 2001–6, when formal employment in the organised manufacturing sector stagnated or declined, was one of accelerating and, on average, high growth. By GDP estimates the Indian economy had moved on to a higher growth trajectory during the years since 2003–4, with growth averaging close to 9 per cent per annum. What the sectoral GDP estimates suggest is that this high growth characterised the manufacturing sector as well.

Taking a long view, we find that industrial growth as captured by the IIP, which averaged 9 per cent in the second half of the 1980s, slumped immediately after the balance of payments crisis of 1991. However, a recovery followed, with manufacturing growth rising to a peak of 14.1 per cent over the three years from 1993–4 to 1995–6. Though many were led to argue that liberalisation had begun to deliver in terms of industrial growth, the boom proved short-lived. Industry entered a relatively long period of much slower growth, with fears of an industrial recession being expressed by 2001–2.

Since then the industrial sector has once again recovered; by 2004–5 rates of growth had touched the high levels of the mid-1990s (Figure 7.1). Even though the peak of 1995–6 was not equalled, growth was creditable and sustained over the five years ending 2007–8.

An additional cause for comfort is that there appear to be significant differences between the mini-boom of the mid-1990s and what occurred later. The 1993–5 mini-boom was the result of a combination of several once-for-all influences. Principal among these was the release after liberalisation of the pent-up demand for a host of import-intensive manufactures, which (because of liberalisation) could be serviced through domestic assembly or production using imported inputs and components. Once that demand had been satisfied, further growth had to be based on an expansion of the domestic market or a surge in exports. Since neither of these conditions was realised, industry entered a phase of slow growth.

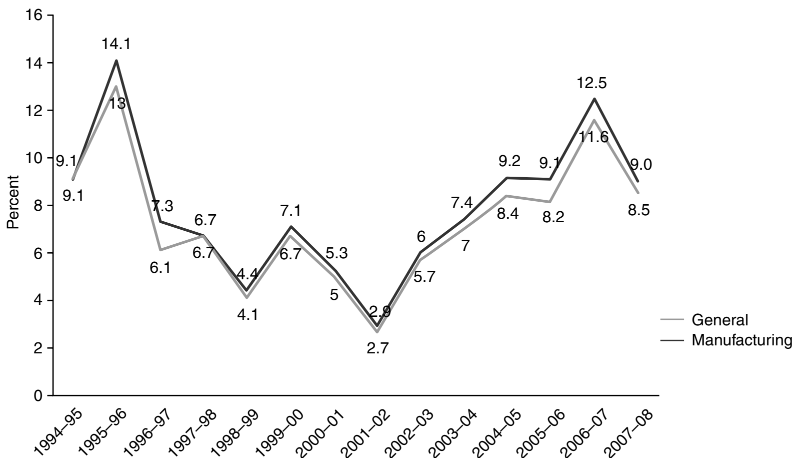

Figure 7.1 Annual rate of growth of the index of industrial production

Source: Computed from figures provided by Government of India, Ministry of Statistics and Programme Implementation, Central Statistical Organisation (http://mospi.nic.in/iip_table3.htm).

What was surprising, in fact, was that growth was not even lower. Economic liberalisation and fiscal reform were bound to adversely affect manufacturing growth. To start with, import liberalisation results in some displacement of existing domestic production – directly by imports and indirectly by new products assembled domestically from imported inputs. Second, the reduction in customs duties, resorted to as part of the import liberalisation package and the direct and indirect tax concessions provided to the private sector to stimulate investment, led to a decline in the tax-to-GDP ratio at the centre of around 1.5 percentage points of GDP over the 1990s. The implication was that so long as deficit spending by the government did not increase, the demand stimulus associated with government expenditure would be lower than would have otherwise been the case. Third, after 1993–4 the government also chose to significantly restrict the deficit as part of fiscal reform. Success on this front is a late 1990s phenomenon, when the stimulus provided to industrial growth by state expenditure was substantially smaller than was the case in the 1980s. These were among the factors that slowed industrial growth after the mid-1990s (see Figure 7.2).

If the stimulus to industrial growth was dampened after the late 1990s, what explains the recent recovery in industrial growth? In large measure it was due to the increases in private consumption and housing investment

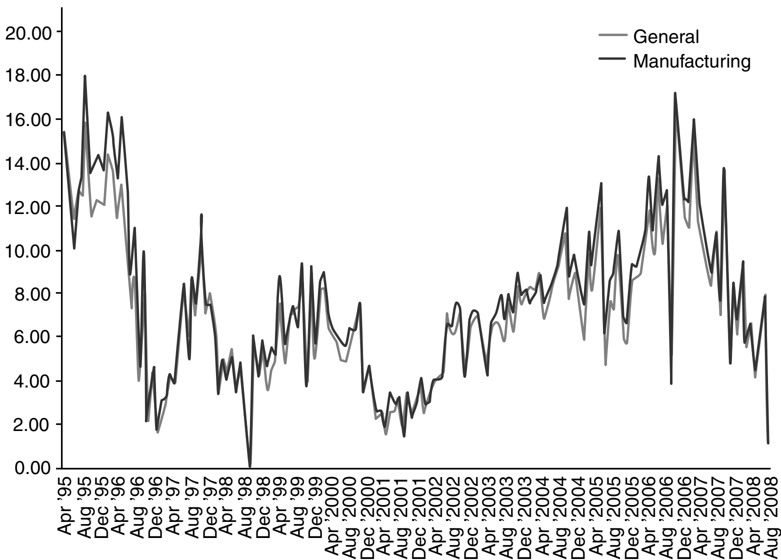

Figure 7.2 Month-to-month annualised rates of growth of industrial production

Source: Computed from figures provided by Government of India, Ministry of Statistics and Programme Implementation, Central Statistical Organisation (http://mospi.nic.in/iip_table3.htm)

resulting from two important developments. One was the much faster increases in income in the top deciles of the population. It is known that these do not get effectively reflected in consumption expenditure surveys and inequality calculations based on them, because these surveys inadequately cover the upper-income groups. Yet a comparison of the mean real per capita consumption expenditure by decile groups indicates that the rate of such expenditure's growth rose much faster in the highest decile (in both rural and urban areas) than in the other deciles. Moreover, not only did the rate of aggregate mean consumption expenditure increase much faster in urban areas (22 per cent) than in rural areas (5.5 per cent), but in the urban areas the growth rates in the top five deciles (between 19 and 33 per cent) were much higher than in the lower five deciles (between 10.4 and 16 per cent). This meant that there would have been some diffusion of luxury consumption to those below the topmost deciles in the urban areas.[4] The other development was the sharp increase in credit-financed housing investment and consumption, facilitated by financial liberalisation, which played an extremely important role in keeping industrial demand at high levels. Credit served as a stimulus to industrial demand in three ways: (1) it financed a boom in investment in housing and real estate and spurred the growth in demand for construction materials; (2) it financed purchases of automobiles and triggered an automobile boom; and (3) it contributed to the expansion in demand for consumer durables.

An important point to note here is that even though there was a slowdown in the flow of foreign loans to India after the 1991 crisis, the financial liberalisation that accompanied the adjustment process attracted capital in other forms, among them equity investments, that contributed to liquidity in the system. Hence, an important way in which integration has influenced the process of growth in India is its impact on the role played by credit in financing private consumption and investment. Total bank credit grew from 2005 onwards at more than double the rate of increase of nominal GDP – a scorching pace. As a result, the ratio of outstanding bank credit to GDP (which had declined in the initial post-liberalisation years from 30.2 per cent at the end of March 1991 to 27.3 per cent at the end of March 1997) doubled over the next decade to reach about 60 per cent by the end of March 2008. Thus, one consequence of financial liberalisation was an increase in credit dependence in the Indian economy, a characteristic imported from the USA and other developed countries. This increase in credit could appear to be positive inasmuch as it reflected a greater willingness on the part of banks to lend: growth in credit outperformed growth in deposits, resulting in an increase in the overall credit-deposit ratio from 55.9 per cent (end March 2004) to 72.5 per cent (end March 2008). This increase was accompanied by a corresponding drop in the investment-deposit ratio, from 51.7 per cent to 36.2 per cent, which indicates that banks were shifting away from their earlier conservative preference to invest in safe government securities in excess of what was

required under the statutory liquidity ratio (SLR) norm. (Data in this and the subsequent four paragraphs are from CFSA 2009.)

However, rapid credit growth meant that banks were relying on short-term funds to lend long. From 2001 there was a steady rise in the proportion of short-term deposits with the banks, with the ratio of short-term deposits (maturing up to one year) increasing from 33.2 per cent in March 2001 to 43.6 per cent in March 2008. On the other hand, the proportion of term loans maturing after five years increased from 9.3 per cent to 16.5 per cent. While this ratio delivered increased profits, the rising asset-to-liability mismatch increased the liquidity risk faced by banks.

These changes do not appear to have been driven by the commercial banking sector's desire to provide more credit to the productive sectors of the economy. Instead, retail loans became the prime drivers of credit growth. The result was a sharp increase in the retail exposure of the banking system, with overall personal loans increasing from slightly more than 8 per cent of total non-food credit in 2004 to close to 25 per cent by 2008. Of the components of retail credit, the growth in housing loans was the highest in most years. As Table 7.2 indicates, the (new) private banks were the most enthusiastic adopters of such a strategy, followed by foreign banks.

This rapid increase in credit and retail exposure, with inadequate or poor collateral, would have brought more tenuous borrowers into the bank credit universe. A significant (but as yet unknown) proportion of this could be sub-prime lending. According to one estimate, by November 2007 a little more than 400 billion rupees of credit were of sub-prime quality, defaults on which could erode the capital base of the banks. To attract such borrowers, the banks offered attractive interest rates below the benchmark prime lending rate (BPLR). The share of such loans in the total rose from 27.7 per cent in March 2002 to 76.0 per cent at the end of March 2008. This increase, especially marked for consumer credit, reflected a mispricing of risk that could affect banks adversely in the event of an economic downturn.

The point to note is that, compared with the mid-1990s, the growth of credit in recent years has been explosive, facilitated in part by the liquidity

Table 7.2 Personal loans as percentage of total outstanding credit of commercial banks

	1996	**2000**	**2007**
State Bank of India and associates	9.5	10.7	22.0
Other nationalised banks	9.1	10.9	15.8
Foreign banks	8.8	17.1	24.8
Regional rural banks	10.5	18.8	20.5
Private sector banks	9.7	7.9	37.3
All scheduled commercial banks	9.3	11.2	22.3

Source: RBI 1997–2008.

injected into the system by the large inflows of foreign financial capital in the form of equity and debt. In the wake of this increase in liquidity, expansion in credit provision has been accompanied by an increase in the exposure of the banking sector to the retail loan segment. The share of personal loans in total bank credit has doubled in recent years, rising from 12.2 per cent (end of March 2001) to 24.7 per cent (end of March 2007).[5] Much of this has been concentrated in housing finance, with housing loans accounting for 51 per cent of personal loans in 2007. But purchasers of automobiles and consumer durables have also received a fair share of credit. The importance of credit-financed private consumption and investment for growth has been flagged in recent times by the Finance Ministry. Despite being an ardent votary of financial liberalisation and being committed to a policy of minimal government intervention, it has often chosen to push public sector banks into reducing interest rates every time there is any sign of a slowing of credit growth. It is not non-intervention that liberalisation involves but a form of intervention that uses the financial sector as a means of stimulating the demand needed to keep private sector growth going.

Another element of change in the factors contributing to industrial growth during the current boom (as opposed to that in the mid-1990s) is the stimulus provided by exports. In the early and mid-1990s high growth was accompanied by high imports, with exports growing, if at all, in areas where India was traditionally strong. In recent years, the share of India's traditional manufactured exports (e.g., textiles, gems, jewellery, and leather) in the total exports of manufactures has declined, while that of chemicals and engineering goods has gone up significantly. This would have stimulated growth. While exports are by no means the principal drivers of manufacturing production, they play a part in sectors such as automobile parts and chemicals and pharmaceuticals, where Indian firms are increasingly successful in global markets.

All this suggests that Indian industry has been experiencing a transition. While during the first four decades of development, industrial growth was almost solely dependent on the stimulus offered by government expenditure and the support provided by public investment in infrastructure, there are signs that other sources of demand, including private consumption and exports, have played an important role in recent times. Further, the recent industrial buoyancy suggests that these new stimuli, unlike those prevalent during much of the 1990s, have neutralised the adverse effects that import liberalisation and fiscal contraction had on industrial growth.

5 The pattern of demand

The nature of the stimuli underlying recent industrial growth has implications for the pattern of demand. An important implication of debt-financed manufacturing demand is that it is inevitably concentrated in the first

instance in a narrow range of commodities that are the targets of personal finance. Commodities whose demand is expanded with credit finance range from construction materials to automobiles and consumer durables. These commodities, which serve or deliver products that can serve as the collateral for the debt that finances their purchase, must be in the nature of durables and more often than not are the products of metal- and chemical-based industries; they therefore tend to be more capital intensive and are characterised by relatively high productivity and high rates of growth of productivity.

Conventionally, the pattern of industrial growth is analysed on the use-based indices of the IIP. Such analysis, however, is not too enlightening; it just suggests that basic, intermediate, and consumer non-durable goods each contributed about a quarter of the aggregate industrial growth rate between 1993–4 and 1999–2000, with capital and consumer durable goods contributing the rest. Since each of these sectors has very diverse contents, it is difficult to infer much from this evidence about either the nature of demand or its biases in terms of capital intensity.

A more disaggregated picture of the pattern of organised industrial sector growth can be drawn based on movements in net value added at the three-digit level in industries covered by the Annual Survey of Industries (ASI). To adjust the series for changes in prices, the three-digit-level industries have been matched with appropriate combinations of commodities covered in the series on wholesale price industries (WPI; base year 1993–4) published by the Office of the Economic Adviser in the Ministry of Commerce and Industry, Government of India.[6] Where a perfect match for a particular three-digit industry group was not available, price indices for three-digit groups have been arrived at by weighting the index of each commodity within the group with the relative weight attached to it in the WPI. Using these indices, figures on value added at the three-digit level have been deflated to compute inflation-adjusted values for each year. Figures on capital formation have been deflated in the case of all industries, using the implicit deflator for capital formation derived from the National Accounts Statistics of the CSO. Analysis has been restricted to the period from 1993–4 to 2003–4 and to those three-digit industries for which data are available from the ASI and price indices can be computed from the WPI series with 1993–4 as base.

One feature which emerges from the resulting series on net value added is the wide variation in growth at the three-digit level, with high growth being concentrated in relatively few industries. Consider Figure 7.3, which gives the distribution of the trend rates of growth in real net value added by three-digit industry groups in the registered manufacturing sector for the period from 1993–4 to 2003–4. It should be clear that there is wide variation in growth performance, with a few sectors recording remarkably high rates of growth, though data problems may be exaggerating figures at the two tails.

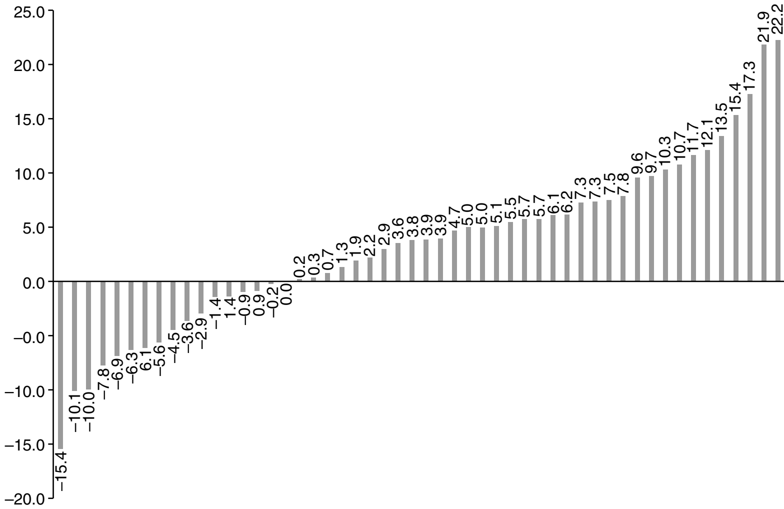

Figure 7.3 Distribution of rate of growth of net-value-added three-digit industrial groups (%)

Source: Computed from data available from the Central Statistical Organisation's Annual Survey of Industries collated in EPW Research Foundation, "Annual Survey of Industries: 1973–74 to 2003–04 – a Database on the Industrial Sector in India" (Mumbai: EPWRF, 2007).

One way of calculating the contribution of the fastest-growing industries to the overall rate of growth of these 52 three-digit-level industries is to multiply the compound rate of growth in any particular three-digit industry (implicit in the real net value added in 1993–4 and 2003–4) by the share of value added in this industry relative to all 52 industries in the base year and then divide the resulting figure by the sum of the weighted growth rates of net value added of all 52 industries. The top 3 growth-contributing industries from 1993–4 to 2003–4 accounted for 38 per cent of the growth in all industries, with the figure for the top five rising to close to 55 per cent, for the top ten to almost 75 per cent, and for the top 15 to almost 90 per cent. There were 39 industries that recorded a positive rate of growth for this period. If analysis is restricted to *those industries that registered a positive rate of growth* over the period, the picture of concentration still persists (Table 7.3). The top three growth contributors from 1993–4 to 2003–4 accounted for more than a third of growth in all industries with a positive rate of growth, with the figure for the top five rising to close to 50 per cent, for the top ten to more than two-thirds, and for the top 15 to almost 80 per cent. This pattern of growth distribution characterised the two subperiods into which the period has been divided.

Table 7.3 Contribution of fastest-growing industries to the aggregate rate of growth

	Contr. to VA Gr 1993–4 to 2003–4	Contr. to VA Gr 1993–4 to 1998–9	Contr. to VA Gr 1998–9 to 2003–4
Top 3	34.21	38.97	37.36
Top 5	49.00	47.66	52.50
Top 10	67.19	63.45	75.43
Top 15	79.12	74.40	85.60

Source: Computed from data available from the Central Statistical Organisation's Annual Survey of Industries collated in EPW Research Foundation, "Annual Survey of Industries: 1973–74 to 2003–04 – a Database on the Industrial Sector in India" (Mumbai: EPWRF, 2007).

Let us examine the industries that fall in the category of highest growth-contributing industries. It should be clear that these consist largely of the metal and chemical industries– including the automobile, television receiver, and computing equipment areas – that gained from the credit-financed construction and consumption boom. The leading sectors also include refined petroleum products and other chemical industries that feed luxury consumption. Finally, the leaders include industries, such as iron and steel and chemicals, that may have benefited from new export opportunities.

6 Implications for productivity

Thus, there appears to have been a shift in the pattern of demand resulting partly from increases in income inequality associated with more liberalised and open economic regimes, partly from the role of credit-financed consumption, and partly from the effects of the kinds of things exported in the more liberalised environment. Industries producing commodities whose demand is driven by factors such as these tend to be more capital intensive and are characterised by relatively high productivity and high rates of growth of productivity. Higher labour productivity is also the outcome of the combination of import liberalisation and rising inequality. This is so because (1) tastes and preferences of developing countries' elites are influenced by the "demonstration effect" of lifestyles in the developed countries and therefore new products and processes introduced in the latter very quickly find their way to the developing countries when their economies are opened; and (2) technological progress, in the form of new products and processes in the developed countries, is inevitably associated with an increase in labour productivity, so that increased imports of technology imply increased productivity. Hence, after trade liberalisation, labour productivity growth in developing countries is exogenously driven and tends to be higher than prior to trade liberalisation, leading to a growing divergence between

output and employment growth. Prabhat Patnaik (2006) argues that for these reasons a combination of high output growth and low employment growth is a feature characterising many developing countries during the years when they open their economies to trade and investment.

This lack of correspondence between output and employment growth must be because average labour productivity in manufacturing has grown so fast that the effects of the higher rate of increase in output on employment growth has been more than neutralised. This indeed appears to be the case. According to estimates quoted in the Planning Commission's Eleventh Plan document, GDP per worker in manufacturing which grew at 2.29 per cent per annum from 1983 to 1993–4 accelerated to 3.31 per cent between 1993–4 and 2004–5 (Planning Commission, Government of India 2008, 83). It is to be expected that this acceleration would have been sharper in the case of organised manufacturing because of the effects of reform.

This factor, together with the industrial "restructuring" associated with liberalisation, has resulted in a sharp and persistent increase in labour productivity (as measured by the net value added at constant prices generated per worker) in the organised manufacturing sector during the years of liberalisation. As Figure 7.4 shows, labour productivity rose more than two

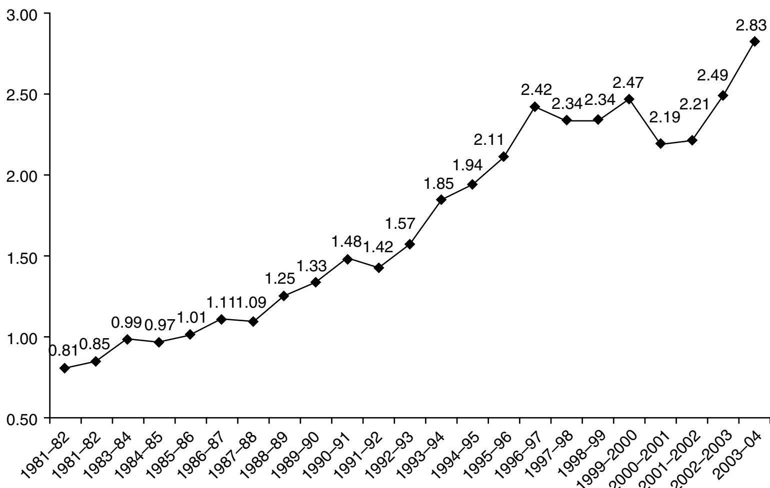

Figure 7.4 Value added per worker at constant 1993–4 prices: organised manufacturing

Source: Computed from data available from the Central Statistical Organisation's Annual Survey of Industries collated in EPW Research Foundation, "Annual Survey of Industries: 1973–74 to 2003–04 – a Database on the Industrial Sector in India" (Mumbai: EPWRF, 2007).

and a half times between 1981–2 and 1996–7, stagnated and even slightly declined during the years of the industrial slowdown that set in thereafter, and has once again risen sharply in the early years of this decade.

There are two factors that would have contributed to this sharp increase in labour productivity. First, an increase in capital intensity in individual industries, one that has associated with it an increase in labour productivity. Second, a faster rate of increase in the demand for and production of capital-intensive commodities, resulting in an increase in the share of capital-intensive production in the total. Concern here is with the latter set of changes, as a result of shifts in the pattern of demand.

Therefore, Table 7.4 attempts to relate changes in product mix directly to labour productivity by relating the ranks of individual three-digit industries in terms of the rates of growth of net valued added with their ranks in terms of average productivity at the beginning of the period, productivity growth during 1993–4 and 2003–4, and average capital intensity at the end of the period. (Capital intensity has been calculated using capital estimates based on the perpetual inventory accumulation method.)

The figures point to a significant, even if not overwhelmingly strong, relationship between value added growth on the one hand and productivity growth on the other and to a reasonable association between the output/value added variables and average productivity and average capital intensity. Thus, the faster-growing sectors substantially include those that are characterised by higher rates of growth of productivity and higher capital intensity.

Table 7.5 provides information on the top 25 three-digit sectors in terms of trend rates of increase in labour productivity among those for which data is available. It should be clear that they cover all of the sectors associated with the credit-financed and inequality-driven household demand boom, suggesting that the pattern of growth associated with the more open and liberalised regime of the 1990s has been significantly responsible for the extremely poor showing in terms of employment growth of an otherwise buoyant organised manufacturing sector.

Table 7.4 Growth, productivity, and capital intensity

Rank correlation coefficient of rate of growth of net value added with	
Average productivity 1993–4 to 1995–6	0.2
Productivity growth 1993–4 to 2003–4	0.48
Average capital-to-labour ratio 1993–4 to 1995–6	0.25

Source: Computed from data available from the Central Statistical Organisation's Annual Survey of Industries collated in EPW Research Foundation, "Annual Survey of Industries: 1973–74 to 2003–04 – a Database on the Industrial Sector in India" (Mumbai: EPWRF, 2007).

Table 7.5 Top 25 industrial categories in terms of rate of growth of labour productivity

Industry	**Code**	**RoG**
Manufacture of railway and tramway locomotives and rolling stock	352	76.6
Manufacture of coke oven products	231	48.3
Manufacture of watches and clocks	333	41.2
Dressing and dyeing of fur; manufacture of articles of fur	182	21.7
Manufacture of television and radio transmitters and apparatus for line telephony and line telegraphy	322	21.4
Manufacture of glass and glass products	261	20.9
Publishing	221	17.3
Manufacture of motor vehicles	341	15.1
Manufacture of domestic appliances n.e.c.	293	13.3
Manufacture of other electrical equipment n.e.c.	319	13.0
Manufacture of structural metal products, tanks, reservoirs and steam generators	281	8.8
Manufacture of non-metallic mineral products n.e.c.	269	6.8
Manufacture of refined petroleum products	232	6.4
Manufacture of electric motors, generators and transformers	311	6.4
Manufacture of office, accounting and computing machinery	300	6.1
Manufacture of rubber products	251	6.0
Manufacture of tobacco products	160	5.4
Spinning, weaving, and finishing of textiles	171	4.6
Saw milling and planing of wood	201	4.3
Manufacture of paper and paper products	210	4.2
Manufacture of television and radio receivers, sound or video recording or reproducing apparatus, and associated goods	323	4.0
Manufacture of accumulators, primary cells, and primary batteries	314	4.0
Manufacture of dairy products	152	3.5
Manufacture of man-made fibres	243	3.4
Production, processing, and preservation of meat, fish, fruit vegetables, oils, and fats	151	3.1

Source: Computed from data available from the Central Statistical Organisation's Annual Survey of Industries collated in EPW Research Foundation, "Annual Survey of Industries: 1973–74 to 2003–04 – a Database on the Industrial Sector in India" (Mumbai: EPWRF, 2007).

It is indeed true that conclusively establishing a direct link between the process of growth, the pattern of demand, and the stagnation in organised employment is difficult. But the elements of evidence pieced together above do suggest that the initial level of income and expenditure inequality, the increase in that inequality, and the shift in the stimulus for growth from public expenditure and investment to debt-financed private consumption

and exports during the liberalisation period has delivered a pattern of demand for manufactures and a process of industrial growth that is biased in favour of capital-intensive sectors and technologies. Together with the factors encouraging increases in capital intensity in individual sectors discussed elsewhere (Chandrasekhar 2008), this is bound to have contributed to the tendency for organised sector employment to stagnate even as production growth in the sector accelerates – the phenomenon of "jobless growth".

This pattern of growth was accompanied by a significant shift in the distribution of income in the organised sector that intensified the tendencies described above. This was so because the benefits of the labour productivity increase went largely to those deriving rent, interest, and profit incomes rather than to workers. The share of wages in value added, which was stable through much of the 1980s (Figure 7.5), declined almost consistently from the late 1980s till 1996–7 and then, after a period of stability, fell sharply to touch less than half its mid-1990s level.

This was the result of two developments. The restructuring of the public sector has meant that public-sector manufacturing employment, which rose during the 1980s, was on the decline during the years of liberalisation and fell particularly sharply after 1997. Private organised manufacturing employment, stagnant during the 1980s, rose marginally during the early 1990s and particularly sharply from 1995 to 1997, after which it declined

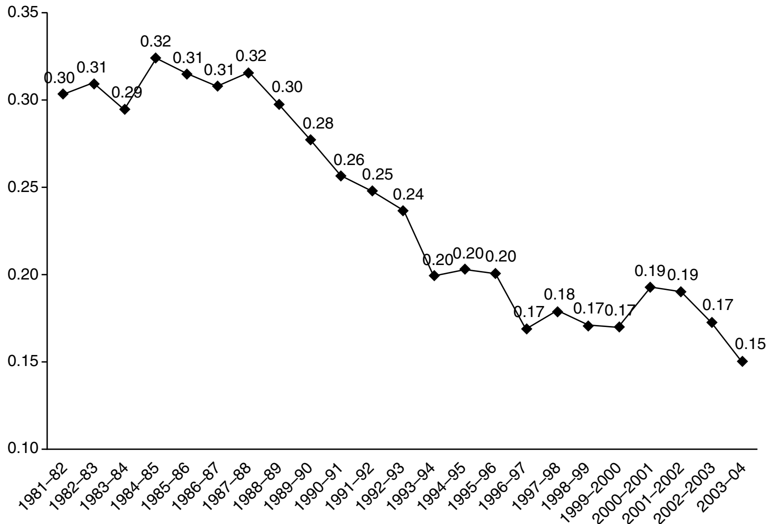

Figure 7.5 Ratio of wages to net value added in organised manufacturing

Source: Computed from data available from the Central Statistical Organisation's Annual Survey of Industries collated in EPW Research Foundation, "Annual Survey of Industries: 1973–74 to 2003–04 – a Database on the Industrial Sector in India" (Mumbai: EPWRF, 2007).

to its mid-1990s level by 2003. In the event, aggregate (public and private) organised manufacturing employment rose from 6.1 million (1981) to 6.4 million (1994) and 6.9 million (1997) and then declined sharply to 6 million (2003).[7]

The second development of significance is that the average real wage of workers in the organised manufacturing sector has been more or less constant right through the 1990s.[8] That is, the relative price of capital with respect to labour has shifted in favour of capital, not because workers are being highly paid and *real* wages are rising, but because the prices of capital goods have been reduced and kept cheap as part of the policy of facilitating private investment.

Together, the above two developments have ensured that the benefits of the rise in labour productivity have largely gone to the surplus earners in the organised manufacturing sector, who have been the main beneficiaries of the policies of liberalisation in general and trade liberalisation in particular.

Thus, the recent boom was fundamentally dependent upon greater global integration, which also made the growth process more uneven and more vulnerable to internally and externally generated crises. It is commonly perceived that this reflected the impact of trade liberalisation, but in fact changes in finance were probably more significant, in ways elaborated above. Essentially, recent growth was related to financial deregulation that sparked a retail credit boom and combined with fiscal concessions to spur consumption among the richest quintile of the population. This led to rapid increases in aggregate GDP growth, even as deflationary fiscal policies, poor employment generation and persistent agrarian crisis kept mass consumption demand low. The substantial rise in profit shares in the economy and the proliferation of financial activities (which together with real estate accounted for nearly 15 per cent of GDP in 2007–8) combined with rising asset values to enable a credit-financed consumption splurge among the rich and the middle classes, especially in urban areas, which in turn generated higher rates of investment and output over the upswing. The earlier emphasis on public spending as the principal stimulus for growth was thus in the 1990s substituted with debt-financed housing investment and private consumption of the elite and burgeoning middle classes. The recent Indian growth story in its essentials was therefore not unlike the story of speculative bubble-led expansion that marked the experience of several other developed and developing countries in the same period.

Notes

1. This is so because inequality of asset ownership and incomes limits the expansion of an income-driven, mass-consumption market at home and dependence on finance limits deficit-financed public expenditure.

2. While this increase in external debt was not quite as rapid and extensive as had occurred in the previous decade in some Latin American economies, it was nevertheless very significant in terms of India's balance of payments.
3. These issues are discussed in more detail in Chandrasekhar and Ghosh (2004).
4. Inequality in consumption expenditure as measured by the Gini coefficient rose from 0.286 to 0.305 in rural areas and from 0.344 to 0.367 in urban areas during this period. Figures are based on National Sample Survey Organisation, Department of Statistics, Government of India (1997), and National Sample Survey Organisation, Ministry of Statistics and Programme Implementation, Government of India (2006).
5. Computed from figures on sectoral deployment of bank credit for different years, available at www.rbi.org.in.
6. These figures are available at http://www.eaindustry.nic.in.
7. Government of India, Ministry of Finance (1985, 1991, 2001, 2005), Economic Survey, New Delhi: Ministry of Finance.
8. Reference data available from the Central Statistical Organisation's Annual Survey of Industries collated in EPW Research Foundation, "Annual Survey of Industries: 1973–74 to 2003–04 – a Database on the Industrial Sector in India" (Mumbai: EPWRF, 2007), and Reserve Bank of India (2009), *Handbook of Statistics on the Indian Economy* (Mumbai: Reserve Bank of India).

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8

The Transition from Neoliberalism to State Neoliberalism in China at the Turn of the Twenty-First Century

Alvin Y. So and Yin-wah Chu

1 Introduction

Neoliberalism emerged in the late 1970s as a new policy framework to guide the development orientation in not only the South but also the North and the East. In the 1990s neoliberalism found expression in the so-called Washington Consensus as a way of articulating the economic orthodoxy that prevailed in the U.S. Treasury Department, the World Bank, and the IMF. Beeson and Islam (2005, 4) point out that neoliberalism and the Washington Consensus are meant to favour the unfettered operation of the market and to roll back the reach of the state. The states, in both rich and poor nations, have been urged to embrace "macroeconomic prudence" (a euphemism for control of inflation and for maintaining tight budgets), deregulation, privatisation, trade and financial liberalisation, lower taxes, and small government.

However, much assessment of the impact of neoliberalism on development over the past three decades has been negative. William Tabb (2003, 25), for instance, claims that neoliberalism has failed in term of its own goals. "It has not brought more rapid economic growth, reduced poverty, or made economies more stable. In fact, over the years of neoliberal hegemony, growth has slowed, poverty has increased, and economic and financial crises have been epidemic."

Talking about specific regions, Beeson and Islam (2005, 6) also endorse the viewpoint that neoliberalism has failed to promote development in Latin America and East European countries:

- Latin America represents a case of "reforms without results". Despite decades of reforms, there is more poverty in Latin America in 2005 than in 1980, real wages are barely equal to those of 1980, and inequality remains persistent and conspicuously high.

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- The attempt at "big bang" privatisation and the fast-tracking of capitalism in the transition economies of eastern Europe and the former Soviet Union has been a tragic failure. The "transition recessions" have been longer and deeper than the Great Depression. GDP in 2000 was still below the 1990 level (by as much as 40 per cent) for many of these economies. Poverty and inequality have gone up sharply.

Others talk about the "lost decades" of neoliberalism during the 1980s and 1990s. Martin Hart-Landsberg (2006), for instance, contends that the post-1980 neoliberal era has been marked by slower growth, greater trade imbalances, and deteriorating social conditions. The UN Conference on Trade and Development (UNCTAD) reports that "for developing countries as a whole, the average trade deficit in the 1990s is higher than in the 1970s by almost 3 percentage points of GDP, while the average growth rate is lower by 2 per cent per annum" (UNCTAD 1999, vi).

Like other states in the developing world, China faithfully (albeit gradually) carried out the policies of neoliberalism when it re-entered the capitalist world economy in the late 1970s. The Chinese state set up institutional frameworks to guarantee private property rights and promoted free markets and free trade, in the hope that an invigorated Chinese economy could compete successfully in the world market.

However, unlike other developing countries, China did not lose out during the lost decades of neoliberalism. Instead, it underwent rapid and sustained economic development in the last three decades of the twentieth century. China's development has been remarkable for a number of reasons. In the first place, its gross domestic product increased close to 10 per cent a year from 1978, and the country managed to reduce the share of population living on less than US$1 per day from 64 per cent (1981) to 16 per cent (2006); effectively 400 million people were lifted out of absolute poverty (UNDP 2006). China's rapid growth rate was matched nowhere in the world except in the so-called Asian miracle economies of South Korea, Taiwan, Singapore, and Hong Kong.

In the second place, although China's economy has had its share of problems, such as tremendous regional disparity and growing social inequality, it has also succeeded in upgrading its technological capability. Over the years not only has China become the global factory for inexpensive consumer goods, it has also enticed BP, General Motors, Intel, Microsoft, Oracle, and other corporations to locate part of their R&D facilities there. Furthermore, despite the importance of foreign investors as both producers aiming at the global market and retailers targeting the domestic one, foreign capital remains largely a junior partner in China's development project.

In the third place, despite the downfall of the former Soviet Union and eastern Europe, China's Communist Party has continued to provide

leadership for the country. China thus avoided the regime change and political chaos that befell its socialist cousins.

As a result, by the first decade of the twenty-first century, researchers began to characterise China as a "rising, new economic superpower" and reported that "China surged past the United States to become the world's largest automobile market" (Holz 2006; Wines 2010); the world press began to speak of the G-2 – the United States and China – as in effect sharing world power (Wallerstein 2010). Some researchers even welcome China's regional and global emergence as a counterweight to U.S.-driven neoliberal and militarised capitalism (Silver and Arrighi 2000).

The aim of this chapter is to understand why China was able to avoid the pitfalls of neoliberalism and become one of the economic powerhouses of the twenty-first century. Our argument is that China has pursued a unique mode of neoliberalism – what we call *state neoliberalism* – which differs from the mainstream neoliberalism promoted in the Washington Consensus model. The following sections first delineate the distinctive features of state neoliberalism and then examine how the neoliberalism project historically emerged in China in the 1980s, deepened in the 1990s, and then was transformed to state neoliberalism at the turn of the twenty-first century. Finally, the trajectory and theoretical implications of state neoliberalism will be discussed.

To begin with, let us explain our conception of state neoliberalism and how it differs from the neoliberalism project in the Washington Consensus.

2 Neoliberalism and state neoliberalism

Before the late 1970s, capitalism in the North took the form of what John Ruggie (1982, 2005) called "embedded liberalism". In order to solve the acute economic and social problems created by the unfettered market during the 1930s' Depression, the advanced capitalist state had to take a more active role in managing the economy to provide full employment and avoid wide upswings and downswings of the market. In embedded liberalism, the state takes on more and more roles – providing welfare and social services, strengthening workers' trade unions, imposing more regulations on the market, imposing higher taxes on the capitalist class, and so on. Thus, capital, induced to compromise and have a new social contract with the working class, is embedded in a web of social and political constraints and in a new regulatory regime that serve to constrain its "greedy" profit-making behaviour. After World War II, a variety of liberal, social democratic, and dirigiste welfare states exemplifying this embedded liberalism trend emerged in western Europe and the United States.

According to Harvey (2005), neoliberalism is a new class project through which the capitalist class fights back against the high taxes and strict regulations of the state as well as the "rigidities" imposed by the state and the

trade union on production relations. On one hand, neoliberal reforms aim to liberalise markets so that members of the capitalist class have more freedom to hire and fire workers and expand their trading and investment within and beyond national boundaries. From the late 1970s onwards, neoliberal reforms have entailed deregulation, privatisation, and the marketisation of social services. It is also widely agreed that neoliberalism as a philosophy or ideology seeks to downsize or confine the role of the state to that of establishing and expanding markets. Thus Harvey (2005, 7) uses the term "neoliberal state" to refer to "a state apparatus whose fundamental mission was to facilitate conditions for profitable capital accumulation on the part of both domestic and foreign capital".

In the North, neoliberalism emerged in advanced capitalist societies where the state and the capitalist class were the two most powerful players. Neoliberalism was a new project prompted by members of the capitalist class who wanted to revamp the unfettered market when confronted by a crisis of capital accumulation in the 1970s. As "neoliberalism" replaces "embedded liberalism," state-market relations shift from a situation of state domination to one of market domination.

The historical context from which neoliberalism emerged in China, however, was totally different from that in the North. China is a state socialist country where property is predominantly owned by the state and the collective. In addition, China in the early 1970s had just gone through its devastating Cultural Revolution, the primary aim of which was to suppress the capitalist market and destroy the capitalist class. Thus, at the onset of the reform the private sector was almost non-existent, and the capitalist class was very weak. The market institution, therefore, had to be constructed from almost nothing. In this scenario, which agent had the capacity to re-create the market institution in 1970s China in the aftermath of the Cultural Revolution, where anti-capitalist sentiment was still very strong?

Whereas the capitalist class has been the dominant agency for neoliberalism in the North, the communist party-state had to take the driving seat to propel neoliberalism forward in China. During the initial stage of the reforms in the 1980s, the party-state did carry out neoliberal policy progressively. However, when Chinese society responded to neoliberal policies with waves of social resistance and class conflict at the turn of twenty-first century, the party-state had second thoughts and adopted what we call *state neoliberalism* in order to attain a more harmonious society.

The term *state neoliberalism* seeks to highlight the contrast between China's experience of neoliberalism and that of the North. Obviously state neoliberalism is a highly contradictory term. Since the party-state still claims to be communist and to stand on the side of workers and peasants, it could not possibly carry out all sorts of neoliberal policies to assault workers and peasants and undermine their interests. When the negative

impacts of neoliberalism led to waves of protests among urban workers and countryside peasants and threatened the survival of the party-state, the party-state sought to institute state neoliberalism – more taxes and more regulations, more redistribution of resources to the countryside – to restrain the excess of neoliberalism. How the contradiction of neoliberal reforms in a post-socialist state has led to an oscillation between market-led and state-led development in China and how the party-state has handled this contradiction over the past three decades – leading to both the surprising continuation of the Chinese communist party-state and the rise of China as a contending power in the capitalist world economy – is discussed in the following pages.

3 Neoliberal capitalism in China in the late 1970s and the 1980s

In China as in other countries northern, southern, and eastern, the impulse to carry out neoliberal reforms was irresistible when the state faced a capital accumulation crisis in the 1970s and the 1980s. Thus, the Chinese communist party-state started the reforms to reinvent and liberate the market from the state as well as re-integrate China into the capitalist world economy in order to speed up capital accumulation. With this mindset the Chinese state leaders carried out the following policies during that period:

- *Decollectivisation*. In the countryside, agricultural communes were dismantled in favour of an individualised "household responsibility system". Peasant families were given plots of land to cultivate, and they were responsible for their own gains and losses. They were also encouraged to sell their products to rural markets, engage in rural industries, and seek work in nearby township enterprises. Township and village enterprises were created out of the former commune assets, and these became centres of entrepreneurialism, flexible labour practices, and open market competition.
- *Proletarianisation of peasants*. The loss of collective social rights in the countryside meant the peasants had to face burdensome user charges for schools, medical care, and the like. At the same time, forced to seek work elsewhere after the end of collectivism, rural migrants flooded – illegally and without the right of residency – into the cities to form an immense labour reserve (a "floating population" of indeterminate legal status). China is now in the midst of the largest mass migration the world has ever seen (Chan 2003). This rural floating population, vulnerable to exploitation on a grand scale, puts downward pressure on the wages of urban workers (Pun 1999).
- *Marketisation policy* to restore and expand the market. A new labour market was introduced to the Chinese economy in the late 1980s, creating

a flexible labour force responsive to the market's ups and downs. After a labour market was set up, the state enterprises were no longer required to provide lifelong employment and job security to their workers and were given the autonomy to hire and fire workers in the name of enhancing productivity and efficiency, as called upon by neoliberalism.

- *Fiscal decentralisation and the weakening of the central state*. In the mid-1980s provincial, municipal, county, and township governments became subject to a bottom-up revenue-sharing system that required localities to submit only a portion of revenues to the upper level; they were then allowed to retain all or at least most of the remainder. This fiscal decentralisation policy made local states independent fiscal entities with the unprecedented right to use the revenue they retained. As a result, the central state's extractive capacity was considerably weakened. The Chinese state was unable to control the extrabudgetary funds of the local governments, and its relative share of tax revenues decreased to the extent that the central state lost effective control over China's economic life (Wang and Hu 2001; Oi 1992).
- *Opening up and spatial differentiation*. There was an open-door policy toward foreign investments. It began with the establishment of four special economic zones (SEZs) in 1979, the opening of 14 coastal cities and Hainan Island in 1984, and the extension to three delta areas (the Pearl, Yangtze, and Yellow river deltas) in 1985. The combination of decentralisation and the opening up led to a very uneven pattern of spatial development in China, with rapid economic growth taking place mostly along the eastern coastal subregions. These subregions were characterised by an "extrovert" economy – that is, their economies were driven by foreign direct investment and export-led industrialisation, and their economic growth relied upon their integration with global commodity chains (Chen 2005).

Through the above processes of decollectivisation and proletarianisation, marketisation, fiscal decentralisation, opening up, and spatial differentiation, China was clearly moving toward the neoliberal capitalist model. On the one hand, the state was being downsized, and state capacity was being weakened. On the other hand, the private sector and the various markets (labour, capital, and finance) were expanding rapidly. The Chinese economy reintegrated with the capitalist world economy.

Like other neoliberal states, China suffered a considerable cost during her initial march toward neoliberal capitalism in the 1980s. A decade of market "reforms" had already led to many serious economic problems: inflation, unemployment, corruption, and tax evasion. Inflation was over 30 per cent in 1988 and 1989, when the state tried to decontrol commodity prices. Unemployment became a problem when bankrupt enterprises discharged workers. Workers showed signs of discontent as reforms began to exert tighter control over the work schedule and raise work quotas. A government

source estimated that 70 per cent of enterprises became rich through profiteering and speculation; another source revealed that the private sector had evaded from 70 to 80 per cent of its taxes (So and Hua 1992).

In the late 1980s these economic problems and social grievances triggered a democracy movement that led to a confrontation between the protesters and the party-state in the Tiananmen Square. The Tiananmen incident was the first major challenge to the Chinese communist party-state during the post-Mao era. It led to bloody suppression of the protesters and serious political division within the party-state between the so-called reformist faction (which was pro-neoliberal reform) and the conservative faction (which was sceptical of such reform). What happened after the Tiananmen incident?

4 Rebuilding the state and the deepening of neoliberal capitalism in the 1990s

The Chinese state, in contrast to its image in much of the neoliberal literature as weakened, considerably strengthened its managerial and fiscal capacity in the aftermath of the Tiananmen incident. In the early 1990s, to strengthen its control over the evaluation and monitoring of local leaders, the central party-state instituted a new "cadre responsibility system". County party secretaries and township heads have to sign performance contracts and pledge to attain certain targets laid down by higher levels; they are held personally responsible for attaining those targets. There are different contracts for different fields, such as industrial development, agricultural development, tax collection, family planning, and social order. The Chinese party-state has the capacity to be selective – that is, to implement its priority policies, control the appointment of key local leaders, and target strategically important areas. Thus, Maria Edin (2003, 36) argues that "state capacity, defined here as the capacity to control and monitor lower-level agents, has increased in China, and that the Chinese Communist Party is capable of greater institutional adaptability than it is usually given credit for" (see also Zhu 2003).

The state also strengthened its fiscal capacity. The central party-state introduced a tax sharing scheme (TSS) in 1994 to redress the centre-local imbalance in fiscal matters (Yep 2007). The TSS is aimed at improving the centre's control over the economy by increasing two ratios – the share of budgetary revenue in GDP and the central share in total budgetary revenue. It seems that the TSS has succeeded in raising both (Loo and Chow 2006), thus helping to arrest the decline of the centre's fiscal foundation and increase the central party-state's extractive capacity. Zheng (2004, 118–9) argues that the TSS has shifted fiscal power from the provinces to the centre and so "now, it is the provinces that rely on the central government for revenue".

In addition, in contrast with the neoliberal doctrine's call for less intervention, the Chinese state intervenes more in the economy. It has engaged in debt-financed investments in huge projects to transform physical infrastructure. Astonishing rates of urbanisation (no fewer than 42 cities have expanded beyond the one million population mark since 1992) have required huge investments of fixed capital. New subway systems and highways are being built in major cities, and 8500 miles of new railroad are proposed to link the interior to the economically dynamic coastal zones. China is also trying to build an interstate highway system more extensive than America's in just 15 years, and practically every large city is building or has completed a big new airport. These megaprojects have the potential to absorb surpluses of capital and labour for several years to come (Harvey 2005, 132). It is these massive debt-financed infrastructural and fixed-capital-formation projects that make the Chinese state depart from the neoliberal orthodoxy and act like a Keynesian state.

After the party-state strengthened its capacity and played a more active role in upgrading the economy, it also pushed for a deepening of neoliberal capitalism. In the first wave of neoliberal reforms in the 1980s, reform policies sought mostly to expand the private sector, while leaving the public sector largely intact. Thus, the reformers in the 1980s used the expression "socialist market economy" to stress that China was still socialist because it had a dominant public sector and because the party-state was still in control of the strategic sector (the commanding height) of the Chinese economy.

However, the party-state turned to the public sector and pushed forward the following policies in the late 1990s:

- *Privatisation and corporatisation* policy to cut the size of the state sector and increase the size of the private sector. In the 1990s, with state-owned enterprises (SOEs) undergoing corporatisation, they were no longer dependent on the state for funding and had to operate independently in the market. After corporatisation, the SOEs were asked to run like an independent, private, profit-making enterprise; they could go bankrupt if they lost money (So 2005). The SOEs were given the green light to lay off workers, increase work intensity and productivity, and cut workers' benefits if they found it necessary to remain competitive in the market. In the late 1990s one could observe the layoff of millions of state-sector workers and the cutting back of their benefits.
- *Commodification of human social services*. Whereas the Maoist state provided social services (housing, health care, welfare, education, pension, etc.) based on need and free of charge to all citizens, the reform-era state treated them as commodities to be distributed to people in accord with market principles. Housing, for example, is no longer provided to state workers free. Instead, workers are now asked to find their own housing

in the newly emerged private housing markets. Likewise, workers are now asked to pay a part of the cost for most welfare and social insurance services, including pension, medical care, the newly created unemployment insurance, higher education, and many personal services (Guan 2000).

- *Deepening of liberalisation*. Petras (2006) points out that China's membership in the World Trade Organization (WTO) will likely lead to further dismantling of the state sector, dismantling of trade barriers and removal of subsidies, the near-unquestioning orientation toward an export-market strategy, and consolidation of foreign production as the leading force in the Chinese economy (see also Hart-Landsberg and Burkett 2004).

This two-pronged strategy, state intervention and deepening of neoliberalism, stems on the one hand from the ascendancy of the idea of "stability" in the aftermath of the turbulence associated with the Tiananmen protest and its suppression and, on the other, from the reformist faction's conviction that they need not only the state but also domestic and multinational capital to restructure China's society and market. In the words of Wang (2005, 70), "[t]his is the secret history of the tangled connection between 'neo-authoritarianism' and 'neo-liberalism' in China".

5 Another wave of social resistance to the deepening of neoliberal capitalism in the 1990s

With the deepening of neoliberal policies, class inequalities and class conflict rapidly intensified along the two poles of capital and labour. On the one hand, a cadre-capitalist class was formed as a result of privatisation and corporatisation of state assets. Since the old Chinese capitalist class was eliminated in the 1950s, a new class of capitalist entrepreneurs had to be created in order to promote market reforms. During the first decade of economic reforms (the 1980s), when a private sector was created, cadres (state officials) turned local state and collective enterprises into profitable township and village enterprises (TVEs), developed joint ventures with foreign and overseas Chinese capitalists, quit their official positions to set up their own capitalist enterprises, and hired their kin and friends to run the new enterprises. Since cadres possessed political capital as well as the necessary networks to run their enterprises, they had an edge over other classes in taking advantage of nascent business opportunities in the reform era's first decade. It was this cadre-capitalist class that advocated the deepening of neoliberal policies in the aftermath of the 1989 Tiananmen incident.

During the second stage of reform (the 1990s), when the state called for the privatisation of state enterprises (through shareholdings) with its "grasp the big, release the small" policy, the assets and profits of state enterprises were diverted on a massive scale into the private hands of the cadres in charge

of them. Ding's (2000) studies show that state enterprises were stripped in three ways: through organisational proliferation, consortium building, and "one manager, two businesses". In organisational proliferation, cadres removed the best-equipped or most profitable segments of an enterprise and established collectively owned companies. Consortium building refers to a partnership between economic entities in which a state-owned enterprise sets up a new firm in collaboration with a non-state-owned enterprise. "One manager, two businesses" happens when cadres establish their own private business by usurping assets from state industries in which they continue to hold executive positions. Francis (2001) points out that these practices are carried out by all sorts of state entities – "local and municipal governments, national ministries, the army, national and local public security bureaus, party organisations, universities, scientific institutes". The coexistence and interpenetration of various forms of ownership between the state and the non-state domain have provided a golden opportunity for cadres to transform themselves into capitalist owners and managers of semi-state, collective, and private properties.

As a result of the above practices, the emerging state-capitalist relationship is characterised by the fusion of the political capital of the cadres, the economic capital of the capitalists, and the social and network capital embedded in the local society. Many collective enterprises are owned and run by capitalists, while many private enterprises are spun-off state properties owned and run by state managers or their kin. This fusion makes it very hard to distinguish what is owned by the state, by the collective, or by the capitalist in the private sector; the boundaries of property relations are often blurred. Fuzzy property boundaries and the mutation between state managers and capitalists have created an all-powerful hybrid that can be called a cadre-capitalist class (So 2003).

At the same time, the deepening of neoliberal policy also has produced the formation of the working class. In the 1990s the need to boost productivity and bring profits into the state sector led to attempts to lay off redundant workers, hire rural migrants as temporary and contractual workers, cut wages, reduce workers' benefits, charge workers for services, intensify workloads, and enforce strict work discipline in order to improve the state enterprises' productivity and profitability. Workers in the state sector are now beginning to feel like proletarians in a capitalist enterprise.

In response to the above neoliberal policies, the Chinese working class has become restless. *China Labour Bulletin* (2002, 1) reports that "almost every week in Hong Kong and mainland China, newspapers bring reports of some kind of labour action: a demonstration demanding pensions; a railway line being blocked by angry, unpaid workers; or collective legal action against illegal employer behaviour such as body searches or forced overtime". According to the official statistics, in 1998 there were 6767 collective actions (usually strikes or go-slows with a minimum of three people taking

part) involving 251,268 people – an increase in collective actions of 900 per cent from the 1990s. In 2000, this figure further jumped to 8247 collective actions involving 259,445 workers (*China Labour Bulletin* 2002, 2). Given such widespread labour protests, it is no wonder that the Chinese government has identified the labour problem as the biggest threat to social and political stability (So 2007).

The peasants in the countryside, too, became restless because of increasing taxes and levies imposed by corrupt cadres in local government. Thornton (2004, 87) cites a Chinese government report confirming that over 1.5 million cases of protest occurred in 1993 alone, over 6000 of which were officially classified as "disturbances" (*naoshi*) by Chinese authorities. Of these cases 830 involved more than one township and more than 500 participants; 78 involved more than one county and over a thousand participants; and 21 were considered to be "extremely large-scale" events involving more than 5000 participants. A surprising number of confrontations turned violent; the disturbances caused 8200 casualties among township and county officials, 560 county-level offices were ransacked, and 385 public security personnel were fatally injured (So 2008).

Aside from the workers and peasants, there was also resistance from middle-class intellectuals. The late 1990s saw the emergence in China of many kinds of social movements: environmental, consumer, homeowners' resistance, women's, and so on (Economy 2005; Cai 2005; Chen 2003). Mirsa (2003) points to the rise of a group of critical intellectuals – the so-called New Left (*xin zuopai*) – who were highly dissatisfied with the growing socio-economic class inequalities and the alarming decline of public morality. Showing a greater appreciation for the Chinese revolution, they wanted a reassessment of Western models of development (including modernisation theories and neoliberalism). Thus, when neoliberal reforms were deepened during the late 1990s and workers, peasants, and the middle class were increasingly restless, their criticisms of the problems of neoliberalism were more outspoken and blunt, and their protests and demonstrations became more widespread and violent. These societal forms of resistance were reflected in the party-state. In June 1998, 35 members of the Standing Committee of the National People's Congress (NPC), presenting an emergency resolution to the top leaders of the Chinese Communist Party (CCP), accused the government and the party of violating workers' "right of existence" and "trampling the worker-peasant alliance" and alluded to widespread protest and opposition to China's program of economic liberalisation (Liew 2001; Nonini 2008).

The challenges to the party-state outlined above happened at the right time because the party was undergoing an elite transition. In 2002 President Jiang Zemin, who served as China's top leader for more than 13 years, retired. Jiang was the one who proposed "the Three Represents" policy to

recruit more politically progressive people from the "advanced productive" and "advance cultural" forces into the Communist Party. Jiang's leadership team was replaced by Hu Jintao and Wen Jiabao. According to Joseph Cheng (2007), Hu and Wen's ideal has been to return to the "good old days" of the 1950s when the Maoist party was in full control and the vast majority of party cadres were uncorrupt, dedicated, and selfless.

By the early 2000s, Hu and Wen began to institute a new mode of neoliberal policy – what we call state neoliberalism – in response to the escalation of social resistance and class conflict in Chinese society.

6 The transition from neoliberalism to state neoliberalism at the turn of the twenty-first century

Contrary to neoliberal calls for the dismantling of the welfare state, in 2006 the Chinese party-state under Hu and Wen's leadership presented a policy of "building a new socialist countryside" and "harmonious society" (Saich 2007). This policy has been hailed as significant because it could signal a change of ideological orientation in the Chinese state (Kahn 2006). Whereas the pre-2006 Chinese party-state adopted what can be loosely described as a neoliberal orientation – where market expansion is carefully controlled in some areas yet rapidly enabled in others – the goal became rebalancing the emphasis on economic growth with greater attention to social development. While market reforms would continue, the new policy indicated that the state would play a more active role in moderating the negative impacts of marketisation. The new policy required the state to include "the people and environment" in its developmental plan and not just focus narrowly on GNP indicators and economic growth.

Thus, the policy advocated a transfer of resources from the state to strengthen the fiscal foundation of the countryside. Not only was the agricultural tax abolished to help relieve the burden on farmers, but the state also increased its rural expenditure by 15 per cent (to $15 billion) to bankroll guaranteed minimum living allowances for farmers and hiked the health-care budget by 87 per cent, to $4 billion (Liu 2007). These policies indicated a massive infusion of funding from the state for the peasants and rural areas. In addition, there was a decommodification of human social services. Rural residents no longer would have to pay many miscellaneous charges levied by schools; fees at primary schools would be abolished as part of a nationwide campaign to eliminate them in the countryside for the first nine years of education. The state would also increase subsidies for rural health cooperatives, which would be available in 80 per cent of the rural counties. In the early 2000s, rural residents have to pay market rates at villages' private clinics; since most of them do not have medical insurance, they spend staggering proportions of their cash on health care (Liu 2007).

The new policy was also aimed at reducing social inequality, especially the widening gap between countryside and city. Thus, pensions were to be made available to everyone, not just those enjoying privileged status as registered urban residents. In the mid 2000s, the state has also promoted the spread of minimum-living-standard assistance for the rural population. Potentially a highly significant development, this program might for the first time institute a social safety net covering the whole of the population, whether urban or rural (*Economist* 2006; Hussain 2005).

Unlike neoliberal states in other parts of the world, China has a strong state machinery. Although a cadre-capitalist class emerged at the local level when state managers were asked to promote local development – a phenomenon Oi (1992) describes as "local state corporatism"– it failed to capture the central party-state. Thus, the central party-state still held the moral high ground of state socialism, going after the capitalist for tax evasion and the breaking of environmental laws, standing on the side of the workers by strengthening labour laws, and standing on the side of peasants by cutting rural taxes and relocating more resources to the countryside. The party-state at the centre blames corrupt officials for causing social unrest at the local level. It is also highly autonomous, in the sense that it is not "captured" by vested economic interests at the local level. The old generation of capitalists was largely destroyed in the Communist Revolution and in the Cultural Revolution. The capitalist class born out of the market reforms of the 1980s and 1990s is still too weak and too dependent on the state to pose any challenge (Dickson 2008). In addition, the Chinese state has the capacity to carry out its developmental plans. Since it owns the banks and controls the financial sector, it has at its disposal powerful policy tools to make the cooperation of indigenous business more likely: access to cheap credit, protection from external competition, and assisted access to export markets are all levers that the Chinese state can use to ensure business compliance with governmental goals. Since Chinese corporations have a high debt-to-equity ratio, even the threat of withdrawal of state loans would be serious.

Second, unlike the form of neoliberal state sometimes associated with the Washington Consensus, the Chinese state has actively and proactively intervened in the economy. It has become the engine powering capital accumulation. Besides controlling debt finance and infrastructure construction, the Chinese central state plans the development of strategic sectors, decrees prices, regulates the movement of capital, shares entrepreneurial risks, and underwrites research and development.

Third, unlike other neoliberally oriented states, the Chinese state has actively mobilised the ideology of nationalism; it defines itself as carrying out a national project to make China strong and powerful. In the post-reform era, China experienced an ideological vacuum, since the state could no longer be legitimised by Marxism or communism. Thus, nationalism became the dominant medium for the communist party-state to get the support of the

Chinese people. The state seems to believe that the best course is to build a strong sense of national cohesiveness based on cultural heritage and tradition rather than develop a nationalism based solely on hostility toward the outside world. Nationalism, however, can cut both ways. The state knows well that excessive nationalism might not only undercut the Communist Party's ability to rule but also disrupt China's paramount foreign policy objective: creating a long-term peaceful environment for its modernisation program. The Chinese state's concern is reflected in its rejection of a more radical nationalism, such as that advocated by the authors of *The China That Can Say No*, as well as in its efforts to control anti-Japanese sentiment. Indeed, China's response to the Japanese provocation involving the visit to the Yasukuni Shrine in the 1990s was far more restrained than Taiwan's or Hong Kong's. Concern that nationalism had to be controlled was also evident in Chinese efforts to restrain anti-Americanism in the aftermath of the NATO bombing of the Chinese embassy in Yugoslavia (Ogden 2003).

Fourth, unlike the embedded social democratic states in the North, which see themselves as a protector of citizenship rights, the Chinese state adopts authoritarian policies to discipline labour, suppress labour protests, and deactivate civil society in order to maintain a favourable environment to attract foreign investment and facilitate capital accumulation. Authoritarianism and export-led industrialisation go well together because labour subordination serves to keep labour cheap while making the working class docile. Otherwise, the exports of the East Asian developmental states would not be competitive in the world economy, and transnational corporations would not relocate their labour-intensive production to East Asia. It is ironic that the Chinese neoliberal state, with its tightly organised Leninist party-state machinery, has proven to be very effective in co-opting labour activists, dividing the working class, and silencing labour protests (Gallagher 2005).

In short, China's neoliberalism is unique, different from that of both the neoliberal state in the Washington Consensus and the embedded liberal state in the North. Chinese state neoliberalism has a strong state machinery with a high degree of state autonomy and a strong capacity to carry out its goals. It vigorously intervenes in the economy through developmental planning, deficit investment, export promotion, and strategic industrialisation. While highly nationalistic and authoritarian, it suppresses labour protests and limits popular struggles.

7 The historical emergence and future trajectory of state neoliberalism in perspective

David Harvey (2005, 1) points out that the period 1978–80 was a turning point in China's social and economic history. In 1978 Deng Xiaoping, the leader of the Chinese Communist Party, took the momentous first step

towards liberalising a communist-ruled economy. The path that Deng defined was to transform China in two decades from a closed backwater to an open centre of neoliberal capitalism in the global economy. The first decade of neoliberal reforms, however, led to serious economic and social problems in Chinese society and triggered robust democracy protests in Tiananmen Square in 1989, protests that challenged the rule of the Chinese Communist Party.

In the aftermath of the Tiananmen incident, the party-state tried hard to restrengthen itself. It instituted a "cadre responsibility system" to improve local governance and a tax-sharing scheme to redress the centre-local imbalance in fiscal matters. In the mid-1990s, after political order and economic growth had been restored, the party-state determined to push for a deepening of neoliberal capitalism through privatisation, corporatisation, commodification of social services, and entry into WTO.

By the late 1990s, however, China began to feel the pains of a neoliberal economy. First, there was widespread exploitation of labour power, particularly that of young female migrants from rural areas. Wage levels in China were extremely low, and the insufficiently regulated conditions of labour were despotic and exploitative. China had, moreover, become one of the world's most unequal societies. Neoliberal market reforms, which had quickly created large disparities in income among different classes, social strata, and regions, led rapidly to social polarisation. Formal measures of social inequalities, such as the Gini coefficient, confirm that China had travelled the path from one of the most equalitarian societies to chronic inequality, all in the span of 20 years (Harvey 2005, 143). Furthermore, as usually happens in a country going through rapid capitalist industrialisation, the failure to pay attention to the environment was disastrous. In China, "rivers are highly polluted, water supplies are full of dangerous cancer-inducing chemicals, public health provision is weak (as illustrated by the problems of SARS and the avian flu)" (Harvey 2005, 174). Edward Friedman (2007, 2) also points out that "China has a ruthless free market, no regulation, no safety standards, no FDA, no CDC, no NIH. It is also the world leader for people dying in industrial accidents, and about 400,000 each year die from drinking the water which is polluted."

By the late 1990s, these contradictions had led to discontent and social conflict in society, as shown by the increasing call to regulate the market and the growing numbers of labour protests, peasant demonstrations, social movements, and other large-scale social disturbances.

In the light of the above contradictions and discontents, the Chinese communist party-state had second thoughts about its neoliberal policies. Besides, neoliberalism was increasingly coming under attack and losing its credibility in the global economy. In Eastern Europe and Russia, the "shock therapy" – which called for the dismantling of the centrally planned economy as soon as possible – not only did not work but also led to the

downfall of the communist states. In the West the anti-globalisation movement was greatly empowered by its success in Seattle. In China the party-state began in the late 1990s to reverse some of its neoliberal policies and build up a developmental state. After the party-state strengthened its fiscal capacity, it made debt-financing investments in megaprojects to transform infrastructure and declared a new policy of "building a new socialist countryside" to address the issues of rural poverty and inequality.

The situation in China was not desperate. The Chinese state was not under any threat of foreign invasion, had not incurred any large amount of foreign debt, and confronted no immediate threat of rebellion from below. As matters stood, the state still had the autonomy and capacity to propose and implement various developmental policies "from above". For instance, the state could selectively introduce different types of developmental policies, could vary the speed of the market reforms, could expand or limit market access for transnational capital, and most importantly, could still have the freedom of adjusting (or even reversing) its policies if they did not work.

The asymmetrical power relationship between the state and other classes has also given the state a free hand to try different developmental policies over the past few decades. The capitalist class was too small, too weak, and too dependent on the state to be the agent of historical transformation in China. The capitalist class is politically impotent to capture the state or to carry out the neoliberal path of development. Facing growing labour unrest and popular struggle against such abuses as child labour in the coal mines, discrimination against migrant workers, and environmental degradation, the capitalist class is powerless to affect state neoliberalism.

Nevertheless, the shift from neoliberalism to state neoliberalism took the form of a transition, not a rupture or a revolution. The transition took a fairly long time; it was a gradual, adaptive process without a clear blueprint. The reforms have proceeded by trial and error, with frequent midcourse corrections and reversal of policy. In other words, Chinese state developmental policies were, not a completed project settled in one bang, but an ongoing, pragmatic affair with many adjustments.

Situated in East Asia, China has long been attracted to the developmental state model that has brought remarkable post-war economic growth to South Korea, Taiwan, and Japan. Thus, as Chang Kyung-Sup (2007) points out, the East Asian states have embraced a conscious process of learning and transplanting technologies, industrial organisation, and state policies. China is a leading practitioner of this process.

If the Chinese experience is characterised by trial and error, midcourse corrections, and reversals of policy, what is the future trajectory of state neoliberalism in China? There are several scenarios: a return to socialism, a return to neoliberalism, a move to imperialism, and consolidation of state neoliberalism.

First, the Left would be interested to know whether there is any possibility that China will return to socialism. Given that China has been moving away from socialism for almost thirty years and that its capitalist-oriented economy has become firmly institutionalised, it seems highly unlikely that socialism could make a dramatic comeback in China. Besides, the Chinese working class and peasants are still disorganised and deprived of class organisations to protect their interests.

The second scenario is the return to neoliberalism. Harvey (2005) points out that neoliberalism is the project of the capitalist class, through which it exerts hegemony in advanced capitalist countries. Following this line of argument, the Chinese capitalist class will not be content to remain a junior partner of the developmental state forever. As soon as the capitalist class has matured and consolidated its power, it will seek to push forward with its neoliberal project.

Although at present the Chinese capitalist class is still small and weak, it could grow very fast and become a force to challenge the party-state in a few decades. Should this happen, the capitalist class will probably follow the path of its South Korean counterpart: it will no longer be content as a junior partner of the developmental state. Instead, it will expand its economic interests and push forward its neoliberal project.

The third scenario is the imperial path. State neoliberalism has been so successful that it greatly empowers China in the world economy. When China expands its power at the interstate level, it will inevitably run into conflict with other hegemonic states. When this occurs, the great powers in the global economy will fight China over the control of markets, resources (especially oil), technology, finance, and territory. History shows that the existing hegemon always wants to hold onto its power and will try every means to prevent other states from challenging its position. Unless China can win this battle of hegemonic transition, it will not emerge as the centre of capital accumulation in the twenty-first century. State neoliberalism, by drawing upon national symbols and building up a strong state, does provide an impetus toward the imperial scenario of a rising China and its hegemonic struggles in the world economy.

Finally, there is the scenario of consolidation of state neoliberalism. This paper argues that state neoliberalism, which emerged at the turn of the twenty-first century, is a response to the serious problems of dislocation and social protests triggered by the deepening of neoliberal capitalism in the 1990s. As the century's first decade ended, China again faced developmental problems and social protests triggered by a global financial crisis. In response, the party-state quickly unveiled a multiyear stimulus plan priced at US$586 billion (roughly 7 per cent of China's gross domestic product) to improve infrastructure (new railways, subways, and airports) and rebuild communities devastated by an earthquake in the Southwest in May 2008. The stimulus plan would cover ten areas, including low-income

housing, electricity, water, rural infrastructure, and projects aimed at environmental protection and technological innovation – all of which could incite consumer spending and bolster the economy. The party-state wants to promote domestic consumption and improve collective consumption (by expanding the health care network, lowering tuition and fees for schools and universities, and upgrading the rudimentary social safety net) and social insurance. The assumption is that unless the social safety net and social insurance are expanded, the Chinese are more inclined to save than to spend, and the domestic market will not be able to absorb the slack in the export market caused by 2008's global financial crisis.

Facing sharp economic downturn and the prospect of growing social unrest, the party-state has abundant reason to move away from neoliberalism to state neoliberalism. However, it must be pointed out that the party-state has so far handed out welfare and redistributed resources to the poor without any attempt to "enfranchise" these grassroots social actors. Social welfare policies were to be implemented through state agencies, as were measures undertaken to prevent the emergence of autonomous labour and peasant-class organisations. In this respect, China's state neoliberalism still has a very long way to go towards the sort of social democratic state found in Western Europe. If China continues to move toward the path of state neoliberalism in the future, it could end up in the position that Silver and Arrighi (2000, 69) envisioned: "China appears to be emerging as the only poor country that has any chance in the foreseeable future of subverting the Western-dominated global hierarchy of wealth".

8 Theoretical implications

What is the implication of this study of Chinese state neoliberalism for the debates on neoliberalism? Are there any insights that this study can contribute? Four points in particular seem worth emphasising.

First, this study shows that researchers have to move beyond the "pure" model and basic tenets of the Washington Consensus in order to understand how neoliberalism historically emerged in particular countries. As was argued, the form of neoliberalism that emerged in the Chinese context is quite different from the one that emerged in South Korea and other neighbouring countries. Unless researchers look into *actually existing neoliberalism*, they will fail to capture the complexity, the variants, and the multifaceted impacts of neoliberalism. As several studies have concluded with regard to societies in the North, "globalization leaves room for political choice and does not make the neoliberal model the only realistic option" (Huber and Stephens 2001, 181; see also Weiss 2003; Woo 2007). In particular, the China case demonstrates the fallacy of the state-market duality so often portrayed in the literature on neoliberalism. Given the right conditions, the state could both promote and roll back neoliberal strategies. At

a more general level, the case of China also calls to mind Karl Polanyi's (1957) argument on the fictitious quality of commodities and the usefulness of bearing in mind, even as we seek to draw a useful contrast between *embedded liberalism* and *neoliberalism*, that regulation and market grew up together.

Second, this study shows that researchers need to adopt a dynamic historical perspective to examine how neoliberalism emerged, transformed, and mutated over a long period of time. Neoliberalism is not something fixed in stone; its policy institutions are subject to change if its historical context and social constituencies change. For instance, this study shows that the communist party-state first faithfully carried out policies to liberate the market, to roll back the state, and to open up China to attract foreign investment. But the party-state later decided to adopt state neoliberal policies when it faced social protests and mass demonstration from workers and peasants.

Third, this study shows it is important to bring crises, conflicts, contestations, and struggles back to study neoliberalism. In the South and the East, neoliberalism is not simply a hegemonic project imposed by the U.S. capitalist state, the World Bank, or the IMF. Instead, neoliberalism, as manifested in policy, ideology, and governmentality (Larner 2000), is always a contested terrain. Actual existing neoliberalism – contingent upon how the battle between pro-neoliberal and anti-neoliberal forces plays out and whether their conflict resolves – could be a very messy, ambiguous, and confused historical product.

Finally, despite highlighting the historical specificity of state neoliberalism, this study also shows that China's developmental experience could be generalised to other cases if certain conditions were met. If a nation has a weak capitalist class but a strong state, it is highly unlikely that it would carry out neoliberal policies wholeheartedly, even if it badly needed to promote capital accumulation. Furthermore, even if neoliberalism works (and promotes rapid economic growth), it is bound to produce massive dislocations, mounting tensions, and intensified class conflict and protests. The state, therefore, stepping in to restrain neoliberalism's excesses, produces a variant of neoliberalism quite unlike the orthodox model in the Washington Consensus.

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9

Vietnam between Developmental State and Neoliberalism: The Case of the Industrial Sector

Pietro Masina

During over 20 years of *doi moi*[1] Vietnam achieved major results in terms of economic growth, institutional development, and poverty reduction. This chapter argues that these results depended on a pragmatic and gradualist reform process that scarcely conformed to the prescription of the Washington Consensus. A deeper integration in the regional productive system during the 2000s contributed to industrial development and resulted in wider income polarisation and labour-capital conflicts. However, the new economic and social dynamics are too recent to draw conclusions about a possible convergence with neoliberal practices.

Contrary to the transitional models followed by Eastern European countries, the dismantling of Vietnamese central planning did not imply a decline of the state's role in the economy. On the contrary, in the first years of *doi moi* the state sector actually increased as a share of GDP. The furthering of the reform process implied the need to rethink the state's role, and the developmental experience of other successful Asian industrialisers became an important source of inspiration. However, the Vietnamese adherence to the model was limited and often incoherent. For instance, the major state-owned enterprises were reorganised into large groups reminiscent of the Korean *chaebol*, and such government agencies as the Ministry of Planning and Investment and the Ministry of Trade and Industry were apparently modelled in accordance with Northeast Asian examples. But the ability of the Vietnamese state to devise consistent industrial strategies remained limited. Coordination among different central government agencies and provincial authorities was low, and powerful SOEs were often able to indulge in rent-seeking behaviours. By the late 2000s, however, a number of signals – the attempt to define selective policies for attracting FDI to strategic industrial sectors being one – suggested that the developmental state model remained a key reference for national policymakers. A developmental state–style approach may become more pronounced as integration into the

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regional productive order advances, generating more resources and a wider space for manoeuvre and requiring more stringent policies for successful industrial upgrading.

1 Introduction: the Vietnamese *doi moi* – a pragmatic but successful path towards unclear objectives

After 20 years of *doi moi* Vietnam has become internationally renowned as a major case of developmental success. Its economy grew on average 7.8 per cent from 1989 to 2007, with a mild deceleration during the regional economic crisis of 1997–8. Compared with the other large Southeast Asian economies, not only was Vietnam's more resilient during the regional crisis, but it was also faster in regaining rapid and sustained growth (Figure 9.1). It demonstrated similar resilience in the midst of the recent global financial crisis: GDP continued to grow at 6.2 per cent in 2008 and at 5.3 per cent in 2009.

The rapid economic growth was to a large extent a result of the country's integration into the regional productive system. During the 2000s Vietnam assumed the shape of a manufacturing hub – importing capital, technology, and intermediate goods from more advanced Asian economies and exporting finished products (footwear, garments, aquatic products, etc.) to the United States and the European Union. The strong linkage with the regional productive system also contributed to the country's relative

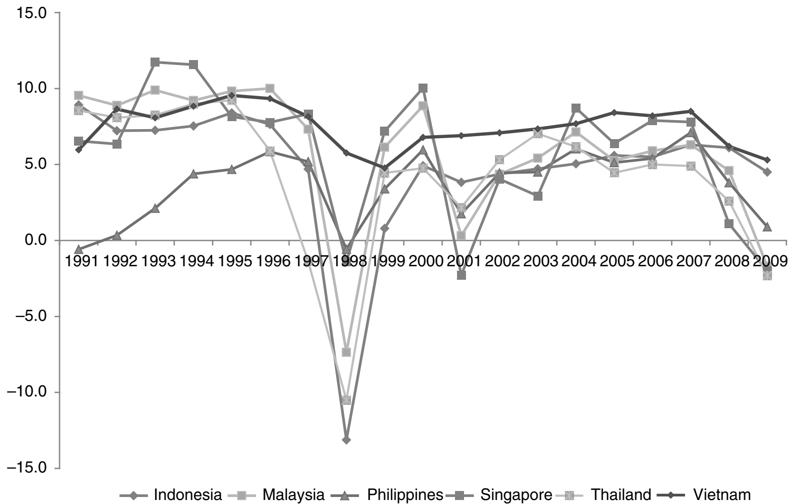

Figure 9.1 GDP growth, 1991–2009 (ASEAN 6)

Source: World Bank, World Development Indicators Online, 2010.

resilience. The industrial restructuring that followed the regional crisis (and the 2007 subprime mortgage crisis) involved the relocation of production to countries with lower labour costs – thus benefitting Vietnam, whose wages were low even by regional standards. This process became even more pronounced by the mid-2000s (especially after admission into the WTO) when China – due to higher labour costs and national policies supporting industrial upgrading – became less competitive for labour-intensive productions and many factories relocated from the Chinese coastal regions to Vietnam.

By the late 2000s Vietnam was no paradise. *Doi moi* implied the de facto loss of universal public health and education through the introduction of user fees and the proliferation of higher-quality private services (London 2004; Gabriele 2006). Income inequality was on the rise. Agricultural land was scarce (the Red River and Mekong deltas were already overcrowded), while industry was not yet able to employ all the redundant labour. The new industrial zones (and sometimes even golf courses) were encroaching on agricultural land, with limited compensation for the resident families. The extension of formal safety nets was largely insufficient. While all these problems were casting dangerous shadows on the country's social and political stability, however, there was a general consensus that living conditions had substantially improved for the large majority of the population. Reduction in poverty levels was dramatic: the number of families under the poverty line declined from about 58 per cent in 1994 to about 16 per cent in 2006 – making Vietnam an international champion of poverty reduction.[2]

The impressive results in poverty reduction were the consequence, on the one hand, of an extended period of economic growth and relative resilience during the Asian regional economic crisis and, on the other, of the specific modalities in which economic reforms had been implemented since the first phase of *doi moi*. The approach taken was gradualist and pragmatic, antithetical to the "shock therapies" adopted by the Soviet Union and other transitional economies. While we have no space to enter into a wider review of *doi moi*'s earliest stages (for this, see Fforde and de Vylder 1996; Beresford and Tran 2004; Van Arkadie and Mallon 2003), it is useful to stress that the reforms in agriculture, land tenure, and eventually agricultural diversification contributed to creating "virtuous circles" (as originally conceived by Gunnar Myrdal) lifting rural families out of poverty and creating demand for domestic industry (see Masina 2006). Crucially, the Vietnamese gradualist approach allowed using agricultural intensification and diversification to reduce the social dislocation produced by a rapid process of industrialisation. During the regional crisis, the GDP composition revealed acceleration in the growth of the agricultural sector as a result of explicit national policies, de facto playing an anti-cyclical function and supporting rural income in a period of general economic downturn (Masina 2009). A similar pattern

emerged in the midst of the global crisis, with the growth of the agricultural sector accelerating in 2008.

After 20 years of *doi moi*, there is broad agreement that the economic reforms were largely successful, but there is no consensus on the causes of success. I have discussed elsewhere these different interpretations (Masina 2006). It is useful to recall here that since the mid-1990s the international financial institutions (IFIs) and mainstream scholars have systematically criticised Vietnam for the slow path of the transition, in particular for delays in the reforms regarding the state-owned enterprises, the financial sector, the trade system, and the role of the private sector. The World Bank repeatedly voiced its disagreement but, considering Hanoi a key customer, continued to lend profusely.[3] The IMF was much more explicit in revealing the disagreement, up to the point of suspending twice the concessional lending to the country. Once the positive results achieved by Vietnam became known internationally, the IFIs tried to reinterpret the history of *doi moi*, suggesting that, after all, Hanoi had applied correctly the advice it received from Washington.

While there is no doubt that Vietnam did indeed implement a number of reforms promoted by the IFIs, analysis of the data suggests that adherence to the neoliberal prescriptions was limited and ambiguous. Not only did Vietnam adopt a gradualist approach in contrast with the shock therapies of other transitional countries (promoted by the IFIs), but also, over 20 years of economic reforms, the country did not apply key aspects of the Washington and post-Washington Consensus. The state sector maintained a prominent role in the economy, and financial liberalisation was resisted; trade liberalisation was adopted through international agreements, but the country upheld features typical of import substitution; and the very notion of Western-style governance (the cornerstone of the revised Washington Consensus) remained totally extraneous to the national political system.

The resistance to the Washington Consensus was not supported by a clear alternative strategy.[4] However, it is possible to argue that, after abandoning the central planning system, Hanoi started to look at the experiences of other successful Asian industrialisers – Japan, South Korea, Taiwan, and Singapore – in search of inspiration. The East Asian developmental-state model seemed particularly appealing because it allowed the state to continue controlling key levers of the economy. Adapting the East Asian model to Vietnam, however, posed two major challenges for the national authorities (by 2010 these challenges had not been successfully addressed). First, state-led industrialisation in Northeast Asia had been implemented as a modality of capitalist stabilisation. For the Vietnamese Communist Party there was a need to adjust the model to a socialist country without a major change in the nature of the political system (Beresford 2008; Masina 2006). The second challenge concerned the kind of state capacity required to implement a coherent set of developmental state policies. Strategic planning is

something very different from the central planning typical of a command economy. Strategic planning requires a skilful leadership able to use incentives and pressures to guide the different sectors of the economy towards intended outcomes. By the late 2000s the political will to nurture such a kind of economic and technical leadership and to grant it adequate power was still limited by the vested interest of major political and economic actors connected with state-owned enterprises.

In what follows, we will argue that the Washington Consensus and the East Asian developmental state presented Vietnam with two largely alternative models for industrial development, integration into the world economy, and policymaking. Based on the analysis of transformations in the industrial sector, our conclusion is that Hanoi took elements from both models but did not consistently converge with either of them.

2 The convergence that never was – the reform of the Vietnamese industrial sector

2.1 State sector and state-owned enterprises (SOEs) – transitional phoenixes

With the end of the war and reunification, the central planning system was extended to the entire country. All industry that mattered was state owned. Compared with that of more advanced socialist countries, Vietnam's industrial sector was rather small and shaped by decades of war. Industrial development was largely dependent on technology transfers as a form of foreign aid. It was already clear by 1979, however, that a rigid implementation of the command economy was not a viable solution for the country, in either agriculture or industry. Economic activities started to take place outside or around the plan (for a review, see Fforde and de Vylder 1996; Beresford and Tran 2004). In industry a number of state-owned enterprises started to search for underutilised inputs and produce outputs beyond what was prescribed by the plan. In 1981 these non-orthodox activities were officially recognised by a Communist Party decree establishing a "three-plan system" similar to the Chinese dual-pricing system. These measures (parallel to others regarding agriculture) can be interpreted as the beginning of the official process of reform and the legal basis for the transitional model. The reforms resulted in a "hybrid transitional model", in which elements of a market economy were experimented with inside the planned economy (Fforde and de Vylder 1996, 13).

The diffusion of activities "out of the plan" within a centrally planned economy, however, increased the imbalances in the system. The three-plan system had been introduced as an attempt to strengthen central planning but eventually contributed to its demise. In December 1986, the Sixth National Party Congress launched a new strategy – the *doi moi* – that in practice introduced a systemic change in the Vietnamese economy and society.

The first step in the reform was the abandonment of central planning. In the industrial sector, the state-owned enterprises (SOEs) became free to purchase input on the market, sell their products to trading companies or directly to final consumers, and retain and use profits at their discretion once they had complied with the compulsory transfers to the state budget. Only the prices of a small number of products remained controlled by the state (Loc 2006, 39). The SOEs were freed to operate on the basis of a market logic during a period of severe macroeconomic imbalances and in which market mechanisms were still rudimentary. As a consequence, most SOEs proved unable to cope and incurred large losses. The need for wider reforms became apparent. In the early 1990s the government decided that non-strategic companies with a poor economic performance and lacking adequate capital and technology should be dissolved or merged with more efficient enterprises. The process resulted in a sharp decline in the number of SOEs: from 12,297 in 1991 to 6264 by April 1994 (Loc 2006, 39). Basically, the strategy adopted was that of "keeping the big and releasing the small" (see UNDP 2006, 23, for a recent review of the SOEs reform).

New legislation was introduced in 1994 and 1995 to regulate the organisation of the large SOEs into "general corporations". These general corporations were composed of firms operating in the same industrial sector and apparently were inspired by the South Korean *chaebol* and the Japanese *keiretsu*. The SOEs were free to decide on their investment and output, establish business relations with other companies (including foreign ones through joint ventures), use their capital, and borrow from national banks.

The new organisation of the SOEs facilitated the revival of the industrial sector and contributed to high economic growth in the first half of the 1990s, until the economic downturn produced by the regional crisis also started having an impact on Vietnam. In the aftermath of the crisis, measures were taken to reduce the burden on the state budget from poorly performing enterprises and to make SOEs better able to contribute to the country's economic development. The new reforms included the launch of a wide equitisation programme under which the property of SOEs could be transferred fully or in part to stakeholders (employees and management) or to new investors (through the creation of a stock market).[5] As in the previous phase, the equitisation initially concerned small and medium enterprises; the largest SOEs started to be involved only in the mid-2000s. Also, when the equitisation process began to concern large and important enterprises, the state maintained a majority ownership or at least remained a substantial shareholder (see Table 9.1).

The hesitation of the Vietnamese authorities towards rapid equitisation of large SOEs was partly (and understandably) related to the fact that these companies made an important contribution to the state budget.[6] The long-term motivation, however, was of a different nature: these companies were meant to serve strategic national interests. The eligibility of SOEs for total or

Table 9.1 State ownership in equitised enterprises

	Until 1998	1999	2000	2001	2002	2003	2004
No. of equitized enterprises	123	251	211	215	164	539	715
State ownership ≥ 50%	12.0%	10.0%	7.2%	8.3%	8.0%	50.0%	42.0%
State ownership 20%–50%	50.0%	46.0%	28.8%	31.7%	33.0%	18.0%	28.0%
State ownership < 20%	38.0%	44.0%	64.0%	60.0%	59.0%	32.0%	30.0%

Source: Perkins and Vu (2007, 24).

partial equitisation depended on the industrial sector in which they operated and on the sector's strategic importance for the country. Although the state increasingly defined its role as that of an investor for both fully state-owned companies and those in which the state had only a majority share, it did not intend to relinquish control over enterprises operating in strategic sectors (UNDP 2006, 23).

The declared objective to maintain control over key levers for industrial policy is obviously in contrast with the principles of mainstream neoliberal economics, but it is consistent with the historical experience of a large number of countries, particularly the East Asian developmental states.[7] To limit our comparison to two economies often debated in Vietnam as potential models, we can recall that in Taiwan, as late as 1980, the six largest public enterprises had sales equal to the 50 largest private industrial concerns and that similar proportions existed in South Korea in the same period (Wade 1990, 178). In these countries, large state enterprises played a leading role in a number of heavy and chemical sectors, apart from the provision of public utilities. State enterprises were typically used in capital-intensive sectors in which the level of investment was too high for private enterprises. The "main import-substituting projects of the 1970s – petroleum and petrochemicals, steel and other basic metals, ship-building, and nuclear power – were carried out by public enterprises; and major expansion projects in heavy machinery, heavy electrical machinery, trucks, and integrated circuit production have been undertaken by public enterprises" (Wade 1990, 178–9).

In other terms, the reluctance of the Vietnamese authorities to release the control over the state-owned enterprises could appear congruent with the intention to emulate the development pattern of successful Asian industrialisers. However, a number of caveats need to be introduced regarding both the statistical data and the very nature of the Vietnamese SOEs.

According to a standard interpretation, the aim of the Vietnamese reform process is (must be!) convergence with a neoliberal market economy. As is

true for every other developing country (especially for a former socialist state), a key indicator of the success of Vietnam's transition is the shrinkage of the state sector in the economy. Interestingly, in Vietnam the GDP state sector share *increased* during the first years of *doi moi*, from 31.1 per cent in 1991 to 40.5 per cent in 1997. This share remained around 39 per cent until the mid-2000s and then declined to about 34 per cent in 2008.[8]

The relative decline of the state sector in the economy since the mid-2000s was the result of faster growth of the private sector and the foreign-invested sector. This could be read as good news for neoliberal observers; but a closer review of the data reveals a reality in contrast with the convergence hypothesis – or, at least, suggests that the convergence was less pronounced than it may seem.

First, as the equitisation process gained momentum, a number of companies previously reported as "state" came to be counted as "non-state". In a majority of these companies – certainly in the largest and most important – the state maintained a substantial control (up to 50 per cent of registered capital). That is, the government came to control a large number of enterprises classified as "non-state". Although a precise calculation is almost impossible, the output of this state-owned share of the non-state sector must account for a few GDP points.

Second, similar considerations can be adduced for the foreign-invested sector. Within this sector the number and importance of 100 per cent foreign-owned companies started to increase by the mid-2000s, but a very large number of companies remained joint ventures – and the Vietnamese partner in the largest joint ventures was always an SOE. Still in 2006, among the 212 largest foreign-invested companies by size of capital resources, 88 were joint ventures. In the same year, joint ventures contributed 44.4 per cent of the net turnover of the entire foreign-invested sector (GSO 2008). Also in this case, a precise estimate of the SOEs' share of the output produced by the foreign-invested sector is not available, but it must be a very significant amount.

The data on the industrial output value by ownership structure (Figure 9.2) show an even larger relative decline of the state sector due to a very rapid increase of the foreign-invested sector in the second half of the 1990s and an acceleration of the non-state sector since 2001. As just shown, however, these data do not reveal the effective dimensions of the state as an important shareholder for non-state and foreign-invested enterprises.[9] Further, recent qualitative research on equitised enterprises suggests that, through administrative and legal mechanisms, the state continued to exert a hold well beyond the amount of shares it officially controlled (Gainsborough 2008).

The permanence of a very large state sector in the Vietnamese economy after the *doi moi* is even more a conundrum for mainstream scholars because it coexisted with a track record of macroeconomic stability and high GDP

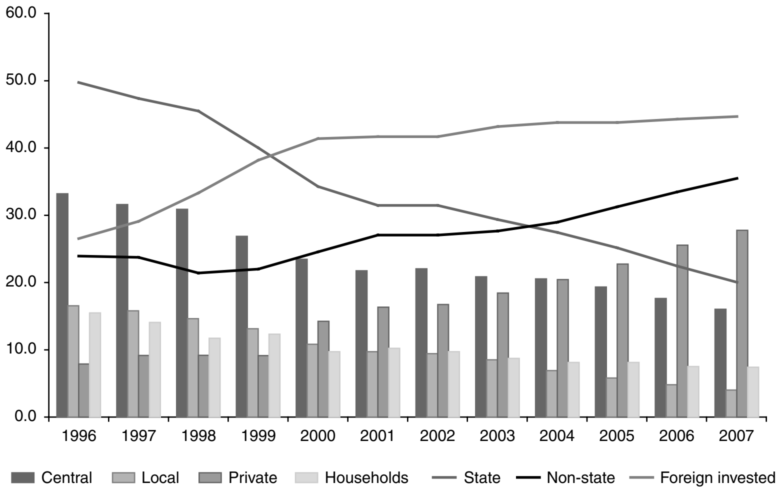

Figure 9.2 Industrial output value by ownership structure (%) calculated at current prices, 1996–2007

Source: GSO Statistics online.

growth. Neoliberal scholars and institutions have had such trouble making sense of the Vietnamese reform process that since the mid-1990s they have repeatedly predicted a collapse of the national financial system, a strong deceleration of growth, an inability to recover after the regional crisis, or the flight of foreign investors – only to see their doom-laden prophecies contradicted by performance constantly above that of other large Southeast Asian nations (Masina 2006). More to the point, Adam Fforde explained the apparent paradox of a large state sector coexisting with high economic growth with two very pertinent observations: first, the SOEs should be understood as "virtual share companies" controlled by a wide range of "virtual shareholders", blurring the divide between private and state; second, the rent-seeking behaviours that the situation could have generated were kept at bay by a very competitive environment (Fforde 2004, 2007). These observations shed light on the complex relationship of the state, the state sector, and the politically connected urban bourgeoisie. On the one hand, looking at the state enterprises as share companies reveals a key feature of the Vietnamese transition and explains the large support the *doi moi* continues to have among the emerging middle class. The creation of a modern capitalist class from within the state sector may nonetheless become a major challenge for Vietnam as a socialist country (Gainsborough 2002; Masina 2006). However, the existence of a high level of "competitive clientelism" among different groups inside and around the state sector has contributed to a higher level of efficiency in the use of resources (Fforde

2007, 3), a factor that explains the overall positive contribution of the state sector to economic growth during the reform process.

As Melanie Beresford (2008) rightly avers, a blurred distinction between the state and private sectors is quite common in East Asia. Vietnam's hazy industrial structure should be understood against the backdrop of the regional experience. Thus, while we argued that for over 20 years of *doi moi* the state sector maintained a paramount position in the economy, we should also underline that it was not always clear what exactly the state sector was and who controlled it. Contrary to mainstream perceptions, Beresford (2008) indicates that government support towards SOEs has been substantially ambiguous since the *doi moi*; while the presence of a strong state sector was seen as an essential instrument for a market economy with socialist characteristics, the state enterprises continued to receive little financial support (as in the pre–*doi moi* era). The financial weakness of SOEs forced them to explore different strategies in order to continue operating. For instance, it became common for SOEs to enter into trading activities or even form joint ventures with foreign partners in fields far from their core business. Diversification of the business portfolio allowed many SOEs to obtain financial resources for core activities but also created tensions in the economy. Absence of capable and coherent government coordination of state enterprises became apparent in the late 2000s and was discussed openly in the Vietnamese media. For instance, in 2008, large SOEs were considered responsible for an overheated real estate market that also contributed to inflationary pressure. A number of scandals – notably, in summer 2010, one regarding Vinashin (the conglomerate dominating the shipbuilding industry) – were associated with excessive diversification and poor governance.

The same SOE weakness was also a major obstacle for their equitisation, as their managers and workers were reluctant to lose state protection without any guarantee that the privatised firm would be able to survive in the open market (Painter 2005). The lack of financial resources (or possibly of a clear strategy) made the Vietnamese government maintain the SOEs, especially the largest ones, in the peculiar position of state enterprises with private-sector characteristics – that is, they were given the autonomy to provide for themselves. Even the creation of general corporations, which was meant to allow a stronger coordination of specific industries, failed to provide an adequate instrument for industrial policy (Painter 2005, 271).

2.2 The rise of the private sector around state-owned industry

Since the early 2000s, the major change in Vietnamese industry has been the rise of a privately owned national sector. Two laws (2000 and 2005) simplified procedures for establishing new firms and defined a single regulatory framework for all national enterprises, regardless of their ownership. After the Enterprise Law of 2000, the number of registered private

firms increased very rapidly (the law also gave legal cover to companies that had so far operated informally): between 2000 and 2005 over 160,000 new private firms were established, corresponding to almost five times the number created during the 1990s (Perkins and Vu 2007, 25). The major increase in the number of private enterprises also resulted in a rapid growth of the industrial output generated by this sector (Table 9.2).

The Enterprise Law of 2005 was intended not only to consolidate the private sector but also to create a level playing field for all the national enterprises – that is, this law became another key reference for the SOEs. As we saw already, by the time the second Enterprise Law was approved, the non-state sector comprised a large number of equitised SOEs (in which the state often maintained substantial shares). This obviously increased support for clearer rules for the entire industrial sector.

Notwithstanding its increasing importance, by the late 2000s the Vietnamese private sector was still dominated by small and medium-size enterprises. A UNDP study indicates that in 2007, among the largest 200 Vietnamese enterprises, 122 were state owned, 56 were foreign invested, and only 22 were private. The study also indicates that a small number of very large companies dominated their respective industrial sectors in terms of share of total labour, assets, turnover, and tax payments; this was particularly the case for the SOEs and the foreign-invested enterprises (see Table 9.2). Their prominence was such that the study concluded that "in some [industrial sectors], the largest firms *are* the sector" (UNDP 2007, 3).

The high level of concentration was particularly relevant in those strategic sectors in which the SOEs maintained their leading function. By directing a small number of companies – large by Vietnamese standards but not much by international ones – it was possible to control an entire industrial sector. This was seen by some observers as an enabling condition for developmental state–style industrial policy (Perkins 2001). At the same time, the mushrooming of small and medium-size enterprises around state-owned giants reminds one of the industrialisation patterns of other Asian economies such as Taiwan and, more recently, China.

Table 9.2 The position of the 200 largest companies, 1997

			Share of the top 200 in the total number of enterprises			
	Total number	**In top 200**	**Labour**	**Assets**	**Turnover**	**Tax**
State	4,083	122	29.6%	65.5%	41.9%	41.5%
Private	105,167	22	1.9%	13.7%	4.8%	4.6%
Foreign	3,697	56	15.9%	10.1%	24.3%	67.8%

Source: UNDP (2007).

The position of private industry in the Vietnamese economy, however, also presented clear differences from the Northeast Asian model. In Japan, South Korea, and Taiwan, the private sector was subjected to clearly defined industrial strategies (Amsden 1989, Wade 1990) or was part of tight, cooperative, and coordinated government-business relations, resulting in "governed interdependence" (Weiss 1995). In the Vietnamese context the private sector seems to be scarcely addressed by the quite embryonic industrial policy defined by the Ministry of Industry, which still sees as its only leverage the SOEs (and to a much lesser extent the regulations for FDI). Even after its recent transformation into the Ministry of Industry and Trade – with a name that seems to evoke the once-powerful Japanese MITI – it seems still to lack an adequate strategy for the private sector.

2.3 High dependence on FDI – the perils of foreign-led integration into the regional economy

From the start of the economic reform, the Vietnamese government was quite open to foreign direct investment. Foreign capital was seen as a major resource for increasing the level of investment in the economy, contributing to diffusion of new technologies and capabilities, and helping to generate employment in the industrial sector. Already in the early 1990s – after withdrawal from Cambodia and the end of the Western embargo – the FDI flow to Vietnam had become sizeable. By the mid-1990s, also due to the speculative tendencies existing in the region, foreign direct investment in Vietnam was over US$2 billion a year – greater than that in Thailand and the Philippines and even in Taiwan, South Korea, and India (Masina 2006).[10] After the regional crisis, the FDI flow declined to levels more realistic for the size of the Vietnamese economy until the mid-2000s. Then, in 2006, when Vietnam was finally admitted to the WTO, the inflows increased tremendously, reaching US$8 billion by 2008 (Figure 9.3).

The volume of the FDI flow indicates the importance that Vietnam has assumed in the regional division of labour and increasingly as a market; one should not forget that, with more than 85 million inhabitants, it has the 13th largest population in the world. However, the significance of foreign investment for the Vietnamese economy is even more evident as a contribution to gross fixed capital formation (Figure 9.4). The FDI share of Vietnam's gross fixed capital formation peaked around 25 per cent in 2007 and 2008; on average it was above 15 per cent in the decade 1995–2005. This level of contribution to the gross fixed capital formation was far above the level of developing countries in general and of China and Southeast Asia in particular.

The ability to attract this high volume of foreign investment can be understood as a further positive indicator for the Vietnamese economy. The country's appeal as an expanding manufacturing base was confirmed in two assessments conducted by UNCTAD that indicated that Vietnam was one

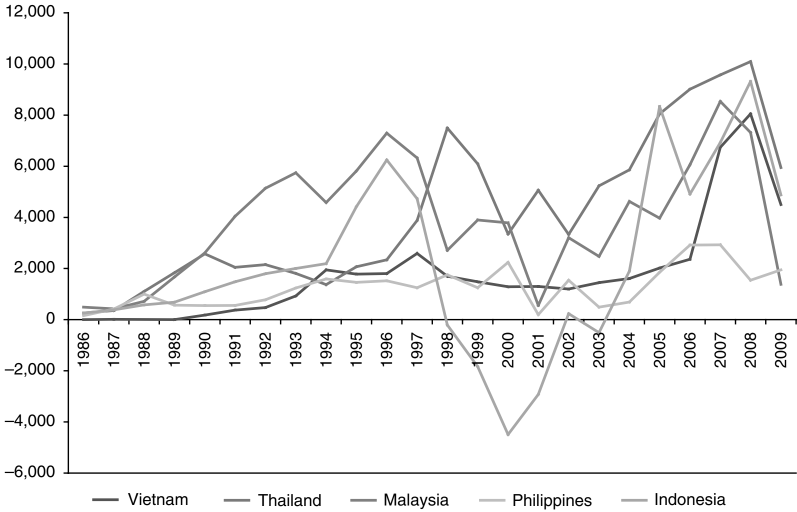

Figure 9.3 FDI inflow – ASEAN5 (in millions of US$ at current prices), 1986–2009
Sources: UNCTAD, *World Investment Review*, online database.

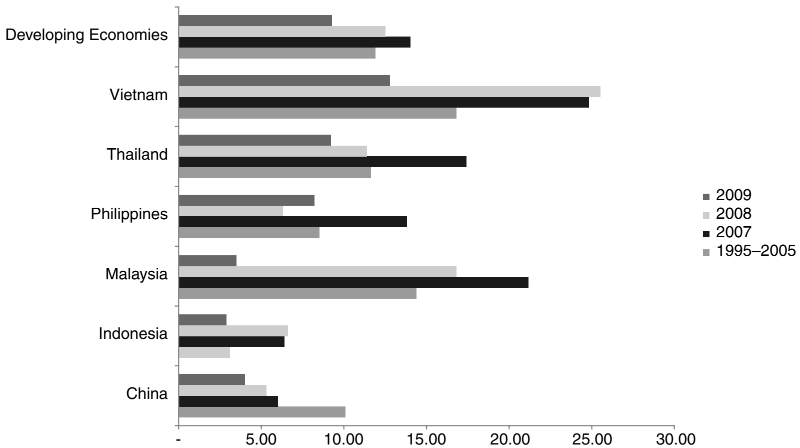

Figure 9.4 FDI inflow as a percentage of gross fixed capital formation, 1995–2009
Sources: UNCTAD, *World Investment Review*, online database.

of the most attractive locations for foreign investors. The *World Investment Prospect Survey* ranked Vietnam in sixth and eleventh place in 2007 and 2009, respectively. Also on the positive side, most investments, connected as they were to “green-field” operations rather than to the acquisition of

national firms, contributed to a net increase in employment generation (mostly in manufacturing but also in services).

On the negative side, high reliance on FDI carries risks of national sovereignty reduction and economic dependency. In this regard, Vietnam clearly departs from South Korea and Taiwan, in whose industrial development FDI played only a marginal role. This departure from the developmental models of the first generation of Asian NIEs cannot be attributed to decisions by the Vietnamese government. Rather, it depended on the changed nature of the regional productive order since the late 1980s. Although the so-called flying geese model described by Akamatsu can be criticised for its exploitative nature, it allowed technology diffusion and industrial upgrading to the first Asian NIEs. Under specific historical conditions, the East Asian developmental state was compatible with a system of regional division of labour that enabled vertical mobility for both countries and firms. In parallel with the diffusion of neoliberalism in the Western Hemisphere, the organisation of the regional productive order became much less favourable, and the countries at the bottom of the regional subcontracting system were exposed to increased competitive pressure connected to the inclusion of China in the system (Hart-Landsberg and Burkett 1999). While in the 1960s and 1970s a typical Japanese firm would rely on independent subcontractors (to which it was ready to transfer technology in order to guarantee adequate standards), in the 1990s and 2000s the same firm would rather operate through FDI – relocating production overseas but maintaining a proprietary control over technologies and patents.

Given the changes in the regional division of labour, a development strategy highly dependent on FDI may be a risky business; it may also be the only possible choice. This is, in any case, the path that Vietnam increasingly adopted from the mid-1990s such that it reached the status of major manufacturing hub in labour-intensive production by the mid-2000s.

The case of Singapore (and to a lesser extent Malaysia) indicates that, even in an open economic environment and with an industrialisation strategy highly dependent on FDI, it is still possible to implement successful industrial strategies. In Singapore the government was able to guide foreign investments to specific targets through incentives and disincentives, thus facilitating a positive process of industrial upgrading (Chang 2006b). The Vietnamese government considered the experience of Singapore a valuable source of inspiration but did very little to emulate it. On the contrary, during the 2000s the decentralisation of licensing for foreign investment below a certain ceiling resulted in fierce competition among the Vietnamese provinces, with an excessive proliferation of new industrial zones and scarce assessment of the concrete benefits that foreign-invested projects would bring the country. By the late 2000s the situation had become so critical as to be officially recognised by the Ministry of Planning and Investment in its *Mid-Term Review of the Five-Year Socio-Economic Development Plan 2006–10*

(MPI 2009, 51). However, no significant measures were adopted to impose stronger guidance for often undisciplined local authorities. The excessive decentralisation remains a major critical obstacle for the adoption of a coherent national industrial strategy.

It should also be added that in the first phase of *doi moi* the creation of joint ventures with SOEs had also contributed to giving state guidance some leverage. However, in the second half of the 2000s, the weight of joint ventures declined significantly, either because foreign partners took over existing companies or new investments were directed towards fully foreign-owned operations (Beresford 2008).[11] In terms of net turnover, as expected, joint ventures continued to dominate in extraction of oil and natural gas, but they also maintained a very important role in the heavy industry, chemical, and automotive sectors – sectors in which the SOEs had a typical stronghold. By contrast, joint ventures became less important in such export sectors as garments and footwear and almost insignificant in hotels and restaurants (GSO 2008).

2.4 An emerging manufacturing hub – with ambitions for industrial upgrading

The position of Vietnam as an emerging manufacturing hub is confirmed by the data on investment and trade. On the investment side, the data indicate that the bulk of FDI originated from Asian countries since the launch of *doi moi*; this trend was confirmed during the 2000s. For the entire period 1988–2008, Asia accounted for almost 70 per cent of committed FDI.[12]

Vietnam's hub position emerges even more clearly in a review of trade-flow composition after its admission to the WTO. The review (conducted on the Comtrade database online) reveals that by 2007 the main import components were producer and intermediate goods; that is, the five largest sectors were mineral fuels (14%), machinery and mechanical appliances (14%), electrical machinery and equipment (9.5%), iron and steel (9.0%), and plastics (5.7%). Instead, the export structure, aside from crude oil (20.7%), was dominated by labour-intensive manufactured goods: apparel (8.6%), footwear (8.4%), aquatic products (6.8%), electrical machinery and equipment (6.7%).

For both exports and imports, Asian countries were the largest partners but with the typical asymmetries of a country importing machinery and intermediate goods from higher echelons in the regional multilayered subcontracting system and exporting labour-intensive consumer goods to industrialised countries. Vietnam's position as a new Asian manufacturing hub was clearly visible in the trade balance; in 2007 Vietnam had a large trade surplus with the United States and the European Union, a trade balance with Japan, and a large trade deficit with the other East Asian countries (Figure 9.5).

Although we suggested at the beginning of this chapter that the high inflow of FDI and the increased exports of manufactured goods helped

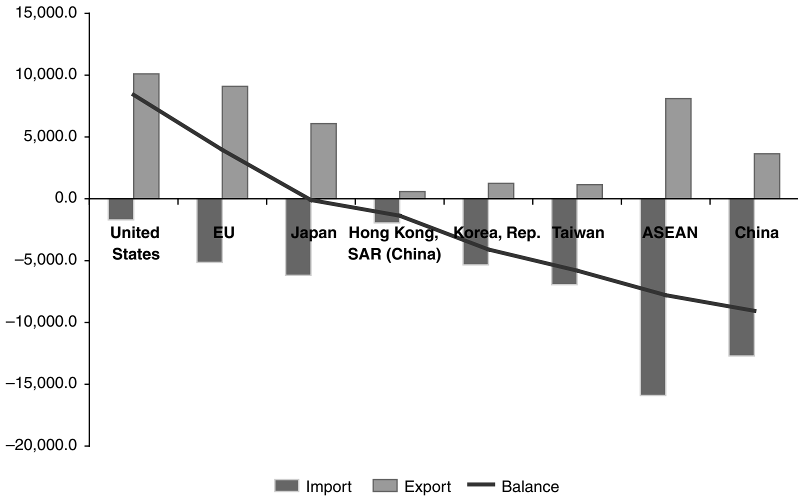

Figure 9.5 Trade balance with major partners (in millions of US$, 2007)
Source: Vietnam General Statistical Office, online database.

Vietnam cope with the regional and global crises, its hub position is problematic for at least three reasons: (1) Vietnam may be trapped in weak relations with those countries and companies that dominate the sector, thus leaving it limited scope for local value adding; (2) there may be a tendency to concentrate on sectors in which it has comparative advantage, thus confining it to labour-intensive production with limited profit margins; (3) in an increasingly competitive environment, dependence on cheap labour may imply a strategy that applies downward pressure on workers' wages, rights, and skills. To a certain extent all these negative tendencies were visible in Vietnam by the early 2010s.

It is possibly too early to give a definitive assessment of the long-term implications of the steep increase in FDI flow into Vietnam's economy since its admission to the WTO. A crucial challenge will be whether it will be able to increase value adding in existing industries and achieve industrial upgrading towards more value-added production. Some saw very positive results in this direction in the first phase of *doi moi*.

> Between 1990 and 2005 industrial (and construction) value added grew at an average annual rate of 10.9 percent for a 4.72 fold increase over the fifteen year period. This rate was only marginally lower than the extraordinarily high growth rate of industrial value added (including construction) in China over the 27 years between 1978 and 2005 of 11.3 percent per year. (Perkins and Vu 2007, 22)

The question of increasing the value-added contribution for national industry is certainly of paramount importance for Vietnam in the post-WTO admission phase. At the end of the 2000s, leading Vietnamese scholars were discussing the risk that, having achieved the status of "low-middle income" country, it might face a "middle-income trap".[13] This risk for Vietnam was presented by Keinichi Ohno (2009), in an article suggesting that no ASEAN country had been able to break through the "glass ceiling" between the existing national system with a supporting industry still dependent on foreign guidance and a national system in which management and technology had been internalised and mastered. Vietnam – still at the stage of simple manufacturing under foreign guidance, according to Ohno (2009) – should start developing industrial policies that prepare for an eventual breaking of the glass ceiling. By the early 2010s, however, there was no concrete indication that Vietnam was preparing to implement clear and consistent policy measures to guide national industrial development. Both MPI and the Ministry of Industry and Trade were defining new plans – such as a decree on support for industry and rules for improving supervision of FDI inflow – but it will take a few years to see if these policies, adopted in response to the challenges and opportunities deriving from the WTO accession, will coalesce into a meaningful industrial policy.

3 Conclusions – liberalisation without neoliberalism, development without a developmental state

In over 20 years of *doi moi*, the Vietnamese leadership at the party and government levels has never presented a coherent project for the reform process. The development of a modern economy was officially presented as a necessary condition to strengthen the socialist state, but the implications in terms of social and class differentiation produced by the economic reforms were never really examined (at least publicly). The reform process dismantled central planning and the role of the communes in agriculture, liberating the "animal spirits" of capitalism. The demise of socialism's free provision of health and school services was only in part compensated by a still very rudimentary welfare system. Social inequality increased, especially between urban and rural areas and among different regions. The industrialisation process entailed land dispossession for many rural workers, especially with the creation of a very large number of industrial zones. The inclusion of Vietnam in the Asian regional system of division of labour pushed many rural workers to move to urban areas in search of industrial employment; they often found very harsh working conditions and a precarious livelihood. Yet Vietnam could hardly be considered a showcase for neoliberalism.

First, the Vietnamese reforms incorporated a transformative project that was distant from and often contradicted neoliberal prescriptions. The state remained at the centre of economic reform – increasingly giving space to the

market but not renouncing a guiding role (although in unclear terms). The many reforms introduced over 20 years certainly improved the system of governance, but the transition towards a neoliberal *model* of governance was very limited. Both in industry and in the banking system the state retained very strong leverage. The notion of a rule of law above the rule of politics still sounds heretical in Vietnam. In other words, some measures promoted by the post-Washington Consensus have been implemented, but overall the system remains quite distant from its vision.

By the early 2010s the role of the SOEs in the national economy was increasingly contested even within the Communist Party. On the one hand, SOEs were criticised for the waste of national resources produced by poor management and involvement in dubious economic operations. On the other hand, the largest SOEs were considered too independent from state control – and were actually often able to influence policy decisions at government and party levels. Even this new debate, however, may lead to outcomes remote from those prescribed by neoliberal advocates. Weakening the position of the SOEs in the system may actually increase the government ability to implement state-led development strategies.

Second, throughout the world neoliberalisation entailed strong polarisation of income, with a small minority absorbing an ever-growing share of national wealth. In Vietnam, segments of the urban bourgeoisie used connections and political protection (and often corruption) to amass large assets. However, the main trend is represented by a general improvement of living conditions and the emergence of a rather large middle class. Income inequality has increased but not dramatically.

Third, industrial labour – especially in the export-oriented private and foreign-invested sectors – is stuck in a global "race to the bottom" in terms of rights and wages. Working conditions are often so arduous that Vietnam has become known for its large number of industrial strikes, organised without the support of the national trade unions and therefore formally illegal. Yet when workers go on strike, the (state-controlled) media very often give wide, sympathetic coverage. Trade unions and local authorities intervene to ask that the workers' demands be met, at least partially, and the workers organising the illegal strikes are not punished. There is no doubt that in Vietnam (as in Taiwan and South Korea at a similar level of economic development) labour is exposed to severe exploitation. But it does not appear that the Vietnamese state is promoting a neoliberal agenda – on the contrary, the legal framework is quite supportive of labour rights, although the enforcement of these rights is very weak.

On each of these points, Vietnam presents conditions relatively different from China – less income polarisation, much less inequality, and more attention to labour conditions – although industrial upgrading in China has already resulted in substantial wage increases for urban workers in coastal areas.

If the reforms and liberalisation in Vietnam cannot be too easily understood in terms of neoliberalism, so too the country's developmental stance cannot be entirely inscribed under the heading of the East Asian Developmental State. The Vietnamese experience is probably closer to the model of the first Asian NIEs than of Thailand, Malaysia, Indonesia, and other Southeast Asian countries – although all were at least partially influenced by Japan and the other tigers. In key areas, however, Vietnam's case departs significantly from the Northeast Asian model. In that industrialisation process the strategic sectors were selected on the basis of a strategic industrial policy whose aim was to lead national firms towards specialisation in selected, more advanced industries and higher value-added production. State support was granted to facilitate the acquisition of new technologies and new capabilities. Vertical integration was a typical element of industrial policy, and the existence of industrial conglomerates (notably in South Korea, much less in Taiwan, where SOEs played a major role) aided in the goal's achievement. On the contrary, Vietnam's definition of strategic sectors depends more on an attempt to defend national sovereignty in important industrial sectors than on a concerted effort to create competitive advantage, as the Northeast Asian states did.

With admission to the WTO, Vietnam has become a significant manufacturing hub, increasing its integration into the regional multilayered subcontracting system. Although a large FDI flow is helping to create jobs in the industrial sector, the experience of the other ASEAN countries (Thailand, Malaysia, Indonesia, and the Philippines) indicates that the regional productive order is much less favourable to technology spillover and industrial upgrading than it was in the first few decades after World War II. In this context, in the future Vietnam may try to promote policies to support the development of national industry (both private and state-owned) towards a higher level of technological and managerial capability. While current evidence suggests that the country is still missing a strong and clear industrial strategy, East Asian–style policies continue to be seen by scholars and policymakers as an alternative to "market-driven" Washington Consensus policies. Whether Vietnam's developmental trajectory continues to maintain a degree of autonomy from the neoliberal project, however, will depend on the evolution of the capital-labour relation. It is highly unlikely that integration into the global and regional productive system will enable labour-friendly policies in a country at the bottom of the commodity chain. But the state may still try to promote a transformative project serving also the medium- and long-term interest of the working class. Alternatively, a revision of the developmental state model could be adjusted to accommodate the prevailing neoliberal tendencies in the capitalist systems – possibly achieving some industrial upgrading but at the price of a radical rupture of Vietnamese society and the complete demise of the socialist project.

Both scenarios are open at the present. How they play out will also depend on the evolution of the international economic and political system. The

results achieved over 20 years of *doi moi*, however, give space for a moderate optimism. While the objective of socialist orientation is very unclear in terms of concrete policymaking, the notion of equity and national solidarity may be strong enough to guide the country through the challenges ahead.

Notes

1. *Doi moi* (renovation) is the name of the reform process launched by the Vietnamese Communist Party in December 1986. The process became particularly significant after 1989 with the fall of the Berlin Wall. Like the Chinese case, *doi moi* implies a transition towards a market economy "with socialist characteristics" but without major political reforms.
2. Vietnam General Statistical Office, *Living Standard Surveys 1994, 2004 and 2006*. Although the definition of poverty lines is always problematic and the Vietnamese line is low by international standards (about $10 a month in rural areas and about $13 in urban areas), there is a strong consensus that the results achieved have been impressive. The outstanding results were confirmed by different quantitative indicators (child mortality, access to clean water, etc) and by qualitative studies based on participatory poverty assessment and other methodologies (see Masina 2006).
3. The Vietnamese government was skilful in attracting large amounts of ODA. Rather than be coerced to adopt structural adjustment policies, it used these resources to promote its own agenda (Painter 2005). This was possible for at least four reasons: (1) since the level of foreign debt was low, so too was economic and political dependence; (2) a large amount of ODA came from Japan; it came with very different policy advice from that promoted by the IFIs; 3) Vietnam was projected as a success story, and the different donors did not want to miss the opportunities that presence in the country offered; 4) the U.S. political interest in having a strong Vietnam as a potential (direct or indirect) ally in "containing" China made Washington-based institutions (especially the World Bank) more accommodating.
4. These reasons included the need to avoid confronting the IFIs and Western countries but also the difficulty in charting a course in unknown waters (Masina 2006).
5. In Vietnamese parlance "equitisation", seen as an alternative to privatisation, emphasises the role of the management and workers as important shareholders.
6. Even in 2007, revenues from SOEs were the third most important contribution to the state budget; at 15.9% they trailed only the revenues from oil (24.4%) and customs (19.1%).
7. See, for instance, Ha-Joon Chang's chapter in this book. I must add that the economic boom of my own country, Italy, after the Second World War was enabled by large state-owned enterprises in all the strategic sectors – from steel to oil and telecommunications to energy – and by state-owned banks that dominated the national financial sector.
8. GSO data online.
9. As the equitisation process advances, joint ventures with foreign investors are created by non-state enterprises in which the state maintains significant shares. Thus, the understanding of what is what – state, non-state, and foreign invested – becomes even more complex. (I thank Do Ta Khanh for this comment.)

10. Such a high level of FDI flow was obviously unsustainable for the Vietnamese economy, as a comparison with other countries in the region easily reveals. In the months before the regional crisis unfolded, however, the World Bank used the argument of a relative contraction in FDI commitment (from Asian countries whose economies were already facing difficulties) to push for a *doi moi* 2; that is, an acceleration of the reform process.
11. Vietnamese unofficial sources suggest that some joint ventures were intentionally mismanaged by foreign partners in order to facilitate their takeover by foreign parent companies. The case of Coca-Cola is often quoted in this regard.
12. In the period 1988–2008, the share (calculated in current U.S. dollars) of Asian countries as counterparts of FDI-licensed projects was as follows: Taiwan: 14%; Malaysia: 12%; Japan: 11%; South Korea: 11%; Hong Kong: 5%; and Thailand: 4% (Source: Vietnam General Statistical Office, online data).
13. Comments received during interviews at the Vietnamese Academy for Social Sciences and at research centres within the Ministry of Planning and Investments (MPI) and Ministry of Industry and Trade in 2009 and 2010.

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10
New Developmentalism in the Old Wineskin of Neoliberalism in Uganda

Julius Kiiza

1 Introduction

Uganda has had one president, Yoweri Museveni, for 26 years. Regime longevity has granted Museveni a politically rare chance to flirt with Marxism (1986–9), embrace orthodox neoliberalism (1989–97), and eventually, rediscover developmentalism.[1] The rediscovery of developmentalism has involved the partial resurrection of certain old institutions (such as the Uganda Development Corporation), the reform of others (such as National Water & Sewerage Corporation), and the birth of new developmentalist institutions (such the Uganda Energy Fund).

New developmentalism apparently springs from growing dissatisfaction with orthodox institutions and policies, which took root in Uganda in the 1980s and 1990s (Mensah 2006). This dissatisfaction has triggered a rethink of the developmental role of states and markets. Uganda's new National Development Plan (2010/11–2014/15) is a case in point. The NDP advocates a quasi-market approach, in which the state plays a strategic role in uprooting the obstacles to national development – particularly poor roads, dysfunctional railways, poor energy infrastructure, and limited application of science and technology.

The central claim of this chapter is that Uganda's elites are reinventing developmentalism without renouncing economic liberalism. They advocate a new economic role for the state without abandoning what critics of free market extremism (Soros 1998; Stiglitz 1998, 2008) call market fundamentalism, that is, the exaggerated or even misguided faith in the ability of unfettered markets to solve socio-economic problems and deliver national development.

In the foreword to the NDP, for example, President Museveni argues that Uganda's new development priorities (e.g., in infrastructure) will be pursued via a quasi-market approach (NPA, 2010, i). He hastens to assert

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that government will play a "facilitating role", provide a "conducive" (read "pro-market") environment, and pursue "sound" (read "conservative") macroeconomic policies. Government will also encourage public-private partnerships in a "rational"-cum-conservative manner and continue to pursue outward-oriented policies that will encourage foreign (not national) investments. These terms, which are used to sterilise Uganda's "new" developmentalism, come straight from the orthodox economics lexicon.

By implication, then, Uganda's new developmentalism is being poured into the old wineskin of economic liberalism. This begs two questions. What, in the first place, explains Uganda's dissatisfaction with the orthodoxy at the level of economic policies and institutions? Second, if the dissatisfaction is real, why is the country unwilling – or unable – to sever ties with the orthodoxy and fully embrace new developmentalism?

This chapter argues that the demand for new developmentalism is real. The orthodox economic policies and institutions have not been a complete developmental disaster. Between 1992 and 2009 Uganda attained a rapid gross domestic product (GDP) growth rate of 7.3 per cent. The proportion of income-poor people also declined considerably from 56 per cent in 1992 to 24.5 per cent in 2010 (Ssewanyana 2010).

Uganda's "impressive" outcomes arguably conceal more than they reveal. For example, no structural socio-economic transformation has taken place. About 85 per cent of the population remains a rural-based agrarian population stuck in the Garden of Eden (Kiiza 2007, 288). Second, income inequality has remained high, suggesting that the fruits of "impressive" growth are reaped by a tiny fraction of Uganda's 31 million people. Third, Uganda's growth has been "jobless growth" (MoLGSD 2010). It is these developmental flaws that have caused widespread dissatisfaction with business as usual and fuelled demands for a new approach to national development.

Yet while the demand for new developmentalism is real, the supply has been scarce. The main obstacle to fully fledged developmentalism is arguably the embeddedness of market fundamentalism (or the Washington Consensus) in the Ugandan political economy. For one thing, economic liberalism is the dominant or even official economic ideology of the ruling elites in the economy and politics of Uganda. This makes Uganda comparable to nineteenth-century Germany. As Friedrich List would comment, the popular theory of political economy propounding the virtues of "free trade," property rights, and "unfettered markets" has assumed the status of a hegemonic political economy ideology.

But that is not all. Economic liberalism has been institutionalised. It has, therefore, assumed enduring significance. The most influential institutions for governing the national economy – the central Bank of Uganda and the powerful Ministry of Finance, Planning and Economic Development – are predominantly staffed with donor-driven, baby-faced economic bureaucrats,

such as the powerful Governor Tumusiime-Mutebile. These bureaucrats religiously owe their allegiance, economic wisdom, and political clout to the IMF–World Bank fraternity. Insulated from local political demands for concrete developmental outcomes, the central bank and the ministry have a bifurcated character. They are simultaneously autonomous of local political pressures and captured by the Washington-based forces of global capitalism. The IMF, for example, retains an office in the Bank of Uganda building. The aim, as will be emphasised later, is to conduct surveillance on Uganda and enforce compliance with conservative economic policies made in Washington, DC.

Information for this paper was collected via critical reviews of the published literature. Government "grey" documents, selected statistics, and press reports were also reviewed critically. These were augmented with key informant interviews – for example, with top officials of Uganda's National Planning Authority (NPA) and the Ministry of Finance, Planning and Economic Development (MoFPED).

What follows first contextualises and then conceptualises developmentalism in Uganda. The shift from the "old" developmentalism of the 1960s through orthodox adjustment (in the 1980s and early 1990s) to contemporary developmentalism is documented. Two positive outcomes associated with orthodox economic adjustment are outlined; namely, the rapid GDP growth and drastic reduction in income poverty. The shortcomings of orthodox adjustment, such as huge income inequalities and jobless growth, are then outlined. These, it will be noted, have informed contemporary demands for new developmentalism. Finally, the half-hearted adoption of new developmentalism will be accounted for before relevant conclusions are articulated.

2 Contextualising and conceptualising developmentalism in Uganda

Uganda's new developmentalism began in the 1990s, after a protracted period of first-generation pro-market reforms (economic stabilisation, exchange-rate liberalisation, etc.) and second-generation institutional reforms such as privatisation, decentralisation, and retrenchment in the civil service (see Kiiza 2006). However, Uganda's new developmentalism is merely a renaissance of the old developmentalism that crystallised in the womb of British colonial rule (1894–1962), particularly after World War II. Prior to this period, the colonial state actively discouraged durable institution building and industrialisation. The goal was to retain Uganda as an agrarian producer and exporter of raw cotton, coffee, and other raw materials needed by British manufacturers.

The antidevelopmentalist economic ideology changed drastically in the post–World War II period. In the six years of the war and soon thereafter,

the metropolitan state experienced serious economic hardships. The United Kingdom "changed from one of the major creditor countries of the world to the world's principal debtor nation".[2] With the drain of UK gold and dollar reserves accelerating at an alarming rate, the British empire was in economic collapse. To stop the haemorrhage of national reserves and fix the balance of payments, Britain had, among other things, to increase production in dollar-earning and dollar-saving industries.[3]

This dollar-earning and dollar-saving industrialisation strategy marked the genesis of developmentalism in Uganda as a part of the British empire. In the last years of colonial rule, the state acquired developmental credentials comparable to those of the capitalist developmental states of Northeast Asia. For example, the state embarked on development planning, beginning with Uganda's first long-term development plan (1947).[4] The accent in the plan was on the promotion of industrial development, particularly import-substituting industries. The aim was to produce locally the basic consumer goods (sugar, sweets, biscuits, etc.) that were initially imported. The underlying goal was to embark on dollar saving.

Central to colonial developmentalism was the state's new-found faith in the developmental role of political institutions. In 1952, the state established two strategic institutions: the Owen Falls Dam and the Uganda Development Corporation (UDC). These public corporations were set up when the Labour Government was in power in Britain. But they were never meant to be organs of socialist construction. The purpose of the colonial development companies, as they were called, was to promote private British manufacturing enterprises in the colony by having the state guarantee the initial risk capital. Specifically, the dam was meant to provide cost-effective hydroelectric power for industrial development. The UDC, for its part, would be expected to

> [b]e able to assist the local investor and be able to enter into partnership with the investor from outside – not with the idea of itself going into industrial businesses and running those businesses permanently, but with the idea of filling this gap, to give enterprise a start, and gradually to be able to pass over to the private investor in the colony both capital burden and the managerial responsibility in the industries. ... (the colonial secretary, quoted in *Uganda Herald*, 1 April 1952, 4)

The UDC became the institutional embodiment of Uganda's developmentalism. In the 1960s, it was the fulcrum of strategic partnerships between government and foreign capital. For example, in the manufacturing sector, the Chillington Tool Company Limited was a partnership of Chillington Tool Company of England, the UDC, and Mitchell Cotts. The Universal Asbestos Manufacturing Company (a manufacturer of cement) was a partnership of

UDC, Universal Asbestos Manufacturing Company (an English company), and Tanganyika Cotton Company. In the case of Ugadev Bank, Limited, the partners were UDC and Lombard Banking of London.[5]

2.1 From colonial to postcolonial developmentalism

The first postcolonial regime led by Milton Obote (1962–71), upheld the developmentalism of the colonial state. Developmental nationalism became the guiding economic ideology of state officials. This comes out clearly in a landmark speech delivered in 1966 by Obote's vice president, John Babiiha. According to him,

> [T]he achieving of independence by the East African territories has given a new impetus to an even greater revolution, namely, economic revolution. East Africa can no longer be contented with the old colonial maxim of the duty of Government being the maintenance of law and order. The accent must now be on development, more particularly economic development and all other things must serve principally as a medium to facilitate and accelerate this development. It would, therefore, follow that our education, our philosophy, our attitudes and our mental outlook should be re-orientated and geared to this over-all aim. Creation of a new environment to facilitate development revolution becomes an absolute necessity. We cannot afford to take a passive role any longer.[6]

2.2 Economic liberalism displaces old developmentalism

The UDC's ability to steer economic progress in Uganda was compromised by two developments. The first was the political instability associated with Amin's regime (1970s) and the post-Amin governments of 1979–86. The second was the death of developmental nationalism, which was superseded by the hegemony of economic liberalism as the official ideology of the Yoweri Museveni regime (1986–). As a guerrilla fighter (1981–86) and in the first few years of his regime, Museveni professed Marxism. In 1989, however, he made an absolute U-turn. By the early 1990s he was fully committed to the orthodox economic and institutional reforms of the IMF–World Bank fraternity.

Guided by economic liberalism, President Museveni drove developmentalist institutions such as UDC and Uganda Development Bank to their deathbed before rediscovering, albeit half-heartedly, their enduring developmental significance. Such strategic public enterprises as Uganda Commercial Bank, Uganda Electricity Board, and Uganda Railways were privatised, thanks to embedded free market fundamentalism. The dominant view was that the "appropriate" role of government is to create a "conducive" or "enabling" environment for private-sector-led development. At most, the "new vision", which is articulated in the National Development Plan (NPA,

2010), proposes that government must play a key role in uprooting what the National Planning Authority (NPA, 2010) calls "binding constraints" to national development – particularly poor roads, dysfunctional railway lines, and energy infrastructure.

2.3 Positive outcomes associated with orthodox economics

Rapid GDP growth. Neoliberal Uganda registered positive growth rates (see Figure 10.1). Between 1992 and 2010 GDP grew at an average rate of 7.3 per cent. According to the governor of the central bank, "Real output is now three and a half times greater than it was at the start of the 1990s. Private investment, in real terms, rose six-fold in this period, while exports of goods and services in dollar terms are now 16 times larger" (see Kuteesa et al. 2010).

Drastic reduction in poverty. The proportion of poor people, measured by income poverty, declined from 56 per cent in 1992–3 to 38 per cent in 2002–3 and further down to 24.5 per cent in 2009–10 (Uganda 2010).

2.4 Problem of causation

A key analytical problem is that no simple correlation exists between economic liberalism and Uganda's economic performance. Where correlation may be empirically demonstrable, causation is difficult to prove. Simply stated, the fact that Uganda has had improvements under a regime of economic liberalism does not mean it improved because of economic liberalism. In particular, Uganda (after the 1981–6 guerrilla war that brought Museveni to power) has had relative peace, particularly in the southern half, which has grown rapidly (as opposed to the conflict-ridden north). Can one separate the peace dividend from the "good" economics dividend in the assessment of Uganda's economic performance?

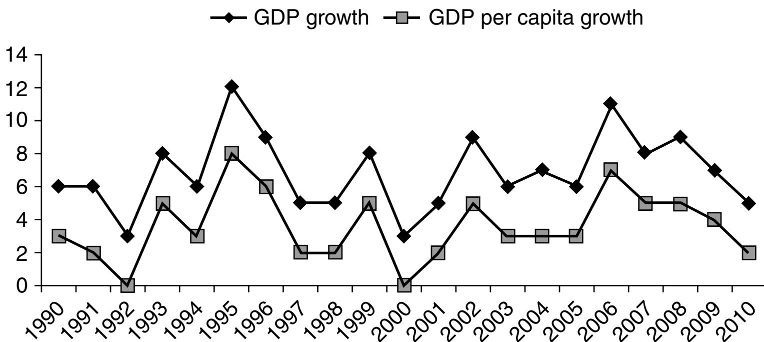

Figure 10.1 GDP annual rates of growth and per capita GDP growth, 1990–2010
Source: World Bank, World Development Indicators.

2.5 Whose growth, whose welfare?

Secondly, the official statistics undoubtedly point to stellar economic performance. The real devil is in the details. According to Lawrence Bategeka, a senior economist at the government-affiliated Economic Policy Research Centre, "the official statistics are definitely important. We can hardly do without them. However, we need to enrich them with simple context-specific questions. For example, whose economic growth and whose social welfare are improving?" (Interviews 2010). While there is general improvement – 7.5 million Ugandans were below poverty in 2009–10 compared with 8.4 million in 2005–6 (see Table 10.1) – the evidence shows that over 85 per cent of Ugandans continue to live in the rural areas primarily as smallholder agriculturalists using a primitive technology – the hand hoe. The rural poor, like the urban poor, have been near spectators in Uganda's "impressive" economic growth.

Regionally disaggregated data also show that 46 per cent of northern Ugandans are still below poverty, largely because of the 20-year civil war, which subsided only four years ago. Thus, while poverty has on average come down, the fruits of Uganda's growth have not been shared equitably. The Gini coefficient, which was 0.365 in 1992–3, deteriorated to 0.428 in 2002–3. It improved marginally to 0.408 in 2005–6 before worsening to 0.426 in 2009–10 (Uganda 2010).[7] The trend of the coefficient suggests that inequality widened between 1992 and 2010.

Some of my interviewees suggested that Uganda's "impressive" poverty trends may be premised on minimalist or even questionable indicators. Uganda's top poverty expert, Sarah Ssewanyana (2010), concedes that the proverbial "dollar a day" sets the yardstick too low. Yet the new World Bank yardstick, US$1.25 a day, does not substantially change Uganda's poverty metrics. Ssewanyana (2010) also concedes that the official figures focus on the minimalist income poverty, not the multidimensional approach

Table 10.1 Poor persons (in millions), 2002–10

	2002–03	2005–06	2009–10
Uganda	**9.81**	**8.44**	**7.51**
Residence			
Rural	9.31	7.87	7.10
Urban	0.50	0.57	0.42
Region			
Central	1.67	1.30	0.87
Eastern	3.19	2.45	2.20
Northern	2.90	3.25	2.84
Western	2.06	1.44	1.60

Source: Based on Uganda, 2010, Table 6.13, 80.

proposed in UNDP's (1990, 2010) influential work on human development.[8] Premised on consumption expenditure, not income, the official figures lose in breadth what they gain in depth. A household that spends more on health services is perceived to have become richer. In reality, increased health expenditures, arising from the collapse of the subsidised public health system, signify increased misery, not welfare.

2.6 Trends in sectoral composition of GDP

A structural problem exists in the sectoral composition of GDP. Official statistics suggest, and only suggest, that a qualitative change has taken place. In the official figures (Figure 10.2), the share of agriculture declined from over 70 per cent (1980) to about 25 per cent (2010), while the share of services increased from less than 25 per cent to 50 per cent.

Several problems dampen these impressive structural trends. First, as already hinted, roughly 85 per cent of Ugandans still live in rural areas and use Stone Age technology, notably the hand hoe, in their wealth-creation process. Uganda's armchair economists have not pushed for a fundamental change in agricultural technology. Nor have their allies within the IFIs demonstrated interest beyond business as usual.

Additionally, the impressive decline of agriculture coupled with the rise of services as a share of GDP is not reflected in the sectoral composition of employment. The official unemployment rate in Uganda – 1.9 per cent – is one of the world's best. However, this figure grossly understates the realities on the ground. An estimated 75 per cent of Uganda's total labour force (estimated at 10.9 million) works in rural areas, particularly in the Stone Age agricultural sector. About 50 per cent of the economically active youths are not in income-generating employment (NPA 2010). Moreover, 70 per cent of female youths (aged 14–30) do unpaid family work.

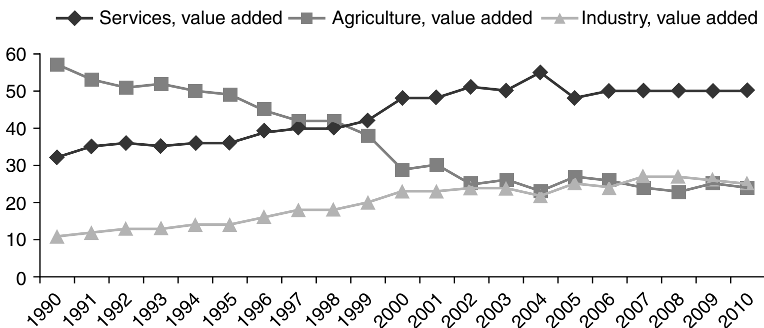

Figure 10.2 Trends in the sectoral composition of GDP, 1990–2010

Source: World Bank, World Development Indicators.

By implication, economic liberalism has triggered rapid growth with no fundamental socio-economic transformation. It is simultaneously associated with impressive economic trends and depressing social statistics. The services sector, for example, has attracted high-quality telecommunications companies (such as MTN of South Africa), but it is still dominated by tourism and trade. Tourism, best described as a commodity service (see Kiiza 2007), involves attracting foreigners to see Ugandans in a state of nature, unaffected by the forces of the global knowledge economy.

2.7 Unimpressive manufacturing sector

Most importantly, from a transformative-developmental perspective, manufacturing has played a peripheral role in Uganda's market-driven growth trajectory. As Figure 10.3 shows, the share of manufacturing in GDP (defined to include the low-value-added agroprocessing activities) improved from 6.3 per cent in 1990 to 10 per cent in 1997. Thereafter, it declined to about 8 per cent (2010), that is, below the average of 11 per cent for least developed countries (UNCTAD 2008, 7).

Moreover, Uganda's industrial sector is characterised by low capacity utilisation, standing at an estimated 50 per cent of installed capacity (NPA 2010, 118). This raises doubts about Uganda's ability to leapfrog from an agrarian economy into a services economy without the viable manufacturing base needed for a nationally embedded high-tech services economy.

2.8 Primary commodities in the export basket

Finally, primary commodities still play a dominant role in Uganda's export basket. Uganda's total exports undoubtedly increased from US$171 million in 1992 to US$478 million in 1999 and $2.8 billion in 2009 (NPA 2010). However, the structure of exports changed only superficially, from

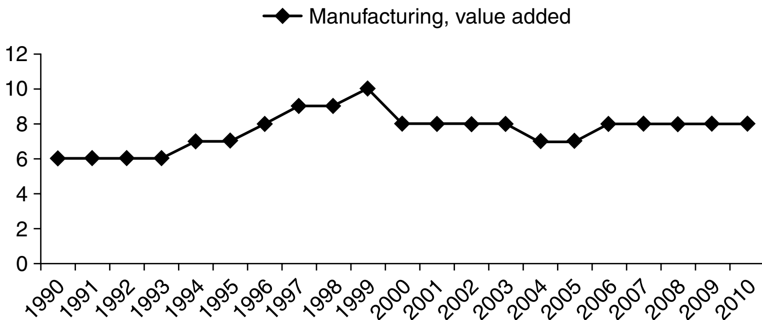

Figure 10.3 Manufacturing as a share of GDP, 1990–2010

Source: World Bank, World Development Indicators.

traditional colonial commodities (coffee, tea, tobacco) to non-traditional ones (fish, cut flowers, maize). This signifies that Uganda is still a fragile, Ricardian economy, one that is stuck in the biblical Garden of Eden.

In sum, Uganda's development paradox is one of depressing socio-economic and structural realities in the face of "stellar" economic growth. It is this development paradox that has fuelled calls for a new approach to national development.

3 Rise of new developmentalism

The demand for a new approach to development began in the 1990s as a protest against the unkept promises of orthodox economic adjustment, whose advocates (e.g., Devarajan et al. 2001) had promised that an extensive reformer such as Uganda would reap more growth and poverty-reduction dividends than such reluctant or non-reformers as Zambia or Libya. Critics urged caution. Mkandawire and Soludo (1999), for example, argued that structural adjustment programs "have not worked and…as designed, they are grossly defective as a policy package for addressing the endemic poverty and pervasive underdevelopment of the [African] region" (xi). Stein and Nissanke (1999) concurred. According to them (1999, 399), "accumulated evidence generally points to the weak link between adjustment and performance in Africa".

Even the Bretton Woods institutions have shifted from the "get-the-prices-right" dictum of the era of orthodox adjustment to a new regime of "good" institutions (World Bank 2001). The problem, critics contend, is that "good" institutions are defined narrowly to mean liberal democracy, private property rights, and other "best-practices" (read "Western") institutions. According to Chang (2007), "orthodox economists" do not use available evidence to concede that "orthodox" policies are flawed. Rather, they use institutions to "explain" why "good" policies based on "correct" economic theories have consistently failed (emphases in original). "By talking about deficient institutions, [mainstream economists] argue that their policies and theories were never wrong, and did not work only because the countries that implemented them did not have the right institutions for the right policies to work" (Chang 2007, 21).

Contemporary Uganda has tested virtually all the orthodox economic and institutional reforms treasured by the IMF–World Bank fraternity and their local allies (Mensah, 2006). As Kuteesa et al. (2010) indicate, Uganda has had no reform reversals. For the reformers, the absence of reversals implies that reform is working. For critics, it points to the straitjacket character of the IMF–World Bank policies, which have reduced Uganda's economic elites to puppets of the Bretton Woods institutions.

In the mid-1990s, it was realised that the reforms treasured by the economic orthodoxy had resulted in macrostabilisation, inflation targets of

under 10 per cent, and fiscal deficits of under 5 per cent. These were celebrated indicators of "best-practices" economic management. Unfortunately, the best-practices policies were conservative in nature. They restrained government expenditure even when it was needed most. The object was not to use government expenditure to address pressing economic problems (comparable to the stimulus spending of Obamanomics in the wake of the 2008–9 global economic crisis). The object was to simultaneously operationalise "prudent" (read "conservative") economic policies – made in Washington, DC – and attain global best practices. The assumption was that what was good globally was good enough for national development. The policies undeniably made Uganda a darling of Western donors. However, the social cost was high, as the widening income inequalities show.

But that was not all. The first pro-poor donor-driven initiative, dubbed PAPSCA (Program for the Alleviation of Poverty and the Social Cost of Adjustment), did not deliver the desired developmental outcomes. Its failure compounded that of trickle-down economics and compounded the difficulties associated with privatisation and other belt-tightening institutional reforms. One crucial outcome was the rise of pro-poor policies in the development policy community. Uganda's Poverty Eradication Action Plan (PEAP) became the local expression of the new pro-poor development orientation.

The Poverty Eradication Action Plan (PEAP). PEAP was introduced in 1997, the year universal primary education was launched. PEAP is a local chapter of the PRSPs (Poverty Reduction Strategy Papers) of the World Bank and the Poverty Reduction and Growth Facility (PRGF) of the IMF (Piron and Evans, 2004). Both PRSPs and the PRGF signify a review, by the IFIs, of their orthodox policies and institutions in response to critics. Both are associated with a "new" development orientation that required each aid recipient to develop a comprehensive poverty reduction strategy.

Uganda's PEAP came in the wake of this new development orientation. The accent in the official rhetoric was on the need to reform orthodox adjustment and create space for local participation in program design, implementation, and review (Interviews 2010). The empirical justification was not hard to find. In 1995 – two years before the launch of PEAP – 60 per cent of Ugandans were living below poverty (Uganda 1997). The voices of the poor had to be heard if resistance to reform was to be minimised.

PEAP had four specific goals, or pillars, all dressed up in flowery language. The first pillar was sustainable economic growth and structural transformation; the second was good governance and security; the third was increasing the poor's ability to raise their incomes; and the fourth was improving the quality of life of the poor. The action plan identified several "priority poverty" areas, including primary health care, rural feeder roads, water, the modernisation of agriculture, and primary education.[9] While certain gains have been achieved, a lot remains to be done, as the case of universal primary education (UPE) indicates.

Universal Primary Education. With regard to primary education, a key issue that was addressed was "elitist" education versus "mass" education. The former offered primary, post-primary, and tertiary education to a few students whose parents or guardians could afford tuition fees; the latter promises affordable basic education accommodating lower-class students (Bray 1986). Inspired by Bowman (1962), George Psacharopoulos (1973, 1981, 1987, 2008) and his World Bank colleagues produced influential literature on the "returns to investment in education". The result was the proverbial "economics of education" research (e.g., World Bank 1989), which drew a two-pronged conclusion. The private rate of return was high in higher education. By contrast, the social rate of return was highest for primary education and the education of women. This suggests that a user-pays policy makes economic sense in university education, which is predominantly accessed by the rich.

Banking on the economics of education, the bank pushed for the user-pays (or cost-sharing) policy in Uganda and elsewhere in the developing world. The policy sought to simultaneously liberate public resources from the "elitist" university sector and reallocate them to the more inclusive primary education sector. The stated goal of increasing educational access and equity, echoed the March 1990 Jomtien (Thailand) Conference on Education for All. Article 1 of the Jomtien Declaration on Education for All provides that every person – child, youth, and adult – has a right to basic education.[10] Uganda's pro-poor education policy is also consistent with the UN's Millennium Development Goal (MDG) no. 2, on the provision of universal primary education (UPE) by the target date of 2015.[11]

The rise of pro-poor public policies did not result in the death of pro-market public policies (Interviews 2010). What happened was the rise of dualism as a public policy strategy. Access to primary education, for example, came to be defined in terms of efficiency versus equity. Efficiency is a service delivery strategy for the rich; equity, for the poor. Efficiency is typified by the private schools (which charge exorbitant tuition fees); equity by the poor-quality UPE schools. Thus, while the pre-UPE regime of "all education for some" restricted access, the new regime of "some education for all" has disastrously affected education quality. This calls for an explanation.

Following the introduction of UPE (1997), total enrolment tripled, from roughly 2.7 million in 1996 to 8.2 million in 2009 (NPA 2010, 209). With the government achieving gender parity in girl-child versus boy-child education, Uganda's enrolment rates were widely seen as having put the country on track to realise the relevant MDGs. However, several challenges that affect education quality remained (Table 10.2).

For example, while the percentage of pupils attaining satisfactory levels of literacy in primary 3 has increased from 18 per cent in 2000 to 38 per cent in 2006, it is still below average (certainly too low to trigger durable national development). The percentage of pupils attaining satisfactory

Table 10.2 Trends in quality indicators for primary education, 2003–8

Indicator	**Source of Data**	**Actual 2000**	**Actual 2003**	**Actual 2004**	**Actual 2005**	**Actual 2006**	**Actual 2007**	**Actual 2008**
Pupil Teacher ratio:	EMIS*	50:1	56:1	58:1	50:1	48:1	57:1	57:1
Percentage of pupils reaching defined level of competency in literacy at	NAPE UNEB							
(a) P3		18%	34.3%	34.3%	38%	38%	–	–
(b) P6		13%	20.5%	20.0%	30%	30%	–	–
Percentage of pupils reaching defined level of competency in numeracy at								
(a) P3		39%	42.9%	45%	41%	41%	–	–
(b) P6		41%	20.5%	22%	33%	33%	–	–
Pupil-classroom ratio	EMIS	106	94:1	85:1	79:1	72:1	72:1	72:1
Pupil-textbook ratio (overall)	EMIS	–	3:1	3:1	1:1	1:1		
Survival rate to grade 5 (percentage of a pupil cohort actually reaching a grade)	EMIS		52%	56%	52%	47:9%		
(a) Boys		88.3%	52%	57%	52%	47.5%		
(b) Girls		88.5%	51%	56.6%	53%	48.3%		
Completion rate-P7	UNEB	62.9%	56%	60%	51%	48%		
(a) Boys		71.1%	66%	71%	N/A	55%		
(b)Girls		54.9%	47%	51%	N/A	42%		

*EMIS = Education Management Information System.

Source: NPA, 2010 (quoting Ministry for Education data).

numeracy skills by standard (primary) 3 was 39 per cent in 2000. By 2006 this level had not changed substantially. The percentage having satisfactory numeracy skills by standard 6 was 41 per cent in 2000; it declined to 33 per cent by 2006. The completion rates (standard 7) had declined, for boys and girls, respectively, from 71 per cent and 55 per cent in 2000 to 55 per cent and 42 per cent in 2006. This suggests that a substantial number of pupils were dropping out of school.[12]

4 Accounting for the half-hearted adoption of new developmentalism

Documenting the flaws of orthodox adjustment is easy. Accounting for the half-hearted adoption of new developmentalism is not. Why has Uganda been unwilling or unable to sever ties with orthodox adjustment and fully embrace new developmentalism?

Six major reasons account for the half-hearted adoption. First is the institutional embeddedness of market fundamentalism. In the early years of reform, particularly the 1980s and early 1990s, the IFIs coerced Uganda to adopt pro-market economic and institutional reforms. However, donors made an effort to identify, strengthen, and incentivise a nucleus of pro-reformers within key government departments, particularly the Ministry for Finance and the central bank. Around this nucleus, strong bureaucratic cadres (grounded in economic liberalism) were groomed. These cadres became a fusion of covert and overt political, financial, and technocratic power. Technocrats such as Tumusiime-Mutebile (Oxford University economics graduate, fellow, World Bank Institute; long-time Permanent Secretary, MoFPED; and Governor, Bank of Uganda, for over 10 years) were key ideologues of reform. These pro-reformers, who played a crucial role in entrenching conservative fiscal, monetary, and trade liberalisation policies, became major beneficiaries of donor support. They benefited through "capacity-building" workshops and all-expenses-paid trips to the IMF–World Bank headquarters. In Washington, DC, Uganda's economic bureaucrats were tutored in "prudent" macro- and microeconomic modelling. Under their global best-practices models, fiscal deficits must be kept around 5 per cent of GDP. Inflation is also targeted at under 10 per cent (Van Waeyenberge and Bargawi 2010, 26–7).

By extension, Uganda's conservative economic bureaucrats became an obstacle to new developmentalism. At the 8–9 December 2010 workshop on rethinking Uganda's development strategies, Keith Muhakanizi (Uganda's Deputy Secretary to the Treasury), who was invited to close the workshop, stated in effect: *You know my position. I don't believe in the theme of your workshop – namely, Rethinking Uganda's Development Approach. Nor do I believe in what you are suggesting; that is, rethinking the role of the market.* His mind was made up. He would not entertain the view that strategic forms

of state intervention were necessary to overcome the obstacles to Uganda's economic transformation.

The second key obstacle to fully fledged developmentalism was the national embeddedness of the IFIs. A case in point is the IMF, which retains an office on the first floor of the Bank of Uganda's head office. Manned by a senior resident representative, the political significance of this office easily escapes apolitical commentators. According to a key informant, Uganda (which graduated from IMF's balance of payments support) has been subjected to the subtle policy support instruments (PSIs) of the IMF since 2006. In official rhetoric, PSIs are voluntary and demand-driven. An interviewee urges caution, however. He describes the PSI as an instrument used by the IMF to conduct economic surveillance on donor-dependent countries, such as Uganda. The aim is to enforce compliance with "prudent" exchange-rate policies, inflation targets of under 10 per cent; and "prudent" fiscal deficits of under 5 per cent. The IMF no longer lends money to Uganda. It cannot, therefore, enforce the Machiavellian donor conditionalities. But the IMF has to issue a certificate of good economic health before Uganda can obtain credit from other lenders. At present, when donor agencies are highly coordinated, the PSI gives IMF substantial political clout. The outcome is the entrenchment, within the national economy, of the conservative policies of the IFIs. This entrenchment has sterilised Uganda's development policy space with its preference for global best practices. Yet what is good for "the globe" is not necessarily good for national development.

The third obstacle to full developmentalism lay in the political arena. At the start of massive reforms in the 1980s and 1990s, Uganda was a failed state, thanks to the political, institutional, and governance crisis of the Idi Amin era (1970s) and the Obote II regime (1981–5). The pre-reform era crisis apparently stifled resistance to reform (Kiiza 2006). Over the last 26 years, Uganda's political economy has been monopolised by President Museveni (1986–). An ex-Marxist who shot his way to power in 1986, Museveni made a U-turn in 1989, as noted earlier. He has won international acclaim as Africa's leading reformer (thanks to Uganda's rapid GDP growth rates).

Museveni's presidency, which operates with no effective checks, has resulted in presidentialism – a system of governance where the president (as the office holder) is more powerful than the office and other institutions of the state. One key outcome of presidentialism has been the implementation of austere reforms. For example, the privatisation of Uganda Commercial Bank was pushed by donors through the president against the wishes of Parliament. So long as presidentialism remains intact and Museveni continues to wittingly or unwittingly operationalise donor preferences, the wish for new development will remain exactly that – a wish.

Banking on Uganda's weak institutional checks – fourthly – Museveni became a pragmatic politician. In the face of resistance to reform, he

sided with the pro-reformers within the civil service. He also merged the Ministries of Finance and Economic Planning into a mega-ministry of Finance, Planning and Economic Development (MoFPED) and appointed Tumusiime-Mutebile (an avowed free marketeer) its permanent secretary. Tumusiime-Mutebile, also appointed Secretary to the Treasury, wielded substantial economic powers. He and his team of highly trained bureaucrats have tightly controlled the powerful ministry and the Bank of Uganda.

The verdict is now clear. The bureaucratic elites have succeeded in prudent economic management, but they have failed to deliver structural socio-economic transformation. Yet Uganda's elites appear unwilling to change course. Hasn't the economy grown rapidly over the last two decades of conservative policies? Hasn't income poverty come down?

The fifth reason for half-hearted adoption of new developmentalism revolves around embedded political patronage. Uganda's privatisation, for example, resulted in massive piratisation. It created an economic elite class that owed its economic fortunes to systemic corruption in public office. According to Ddumba-Ssentamu (Dean of Economics at Makerere University), the divestitures, completed by 2004, achieved less than their asset value (Interviews 2009), arguably because the parastatals (e.g., Uganda Commercial Bank) were grossly undervalued, thanks to the high degree of domestic and cross-border corruption. Second, government injected more moneys into the enterprises prior to divestiture than it realised from sales. By 30 June 1997, "the net accumulated sales proceeds from privatisation amounted to [90 billion shillings], leaving a net deficit of [5.6 billion shillings]".[13] Third, by 2000 only 28 of the 55 privatised enterprises had been fully paid for.

Yet the moneys from divestiture were reportedly "borrowed" by the politically connected predators who became major beneficiaries of reform.[14] They control the commanding heights of Uganda's political economy and are unwilling to change. The perennial president and his ruling party ideologues and cronies are not only married ideologically to economic liberalism; they consider their regime the best thing that ever happened to Uganda. Ordinary Ugandans who complain to Uganda's ruling elites about lack of basic necessities get the proverbial Marie Antoinette reply: If the victims of famine – or economic deprivation – have no bread, let them eat cake (Interviews 2010).

The sixth reason concerns fragilities within the national political economy. A 2007 study by UNESCO's Institute for Statistics (quoted in UNCST 2008) ranks Uganda among the world's R&D-poorest countries, with a miserable 0 to 100 researchers per million inhabitants (South Africa and China have 1001 to 2000 researchers per million). Between 2004 and 2008, Uganda's R&D performance as a percentage of GDP fluctuated between 0.2 and 0.5, far below the 1 per cent of GDP spending on R&D recommended by the Africa Union as the minimum needed to trigger durable growth in Africa.

Developed and newly industrialised countries spend 2 to 4 per cent of their GDP on R&D (UNCST 2008, 19).

To make matters worse, foreign capital is the main source of public R&D funding in Uganda. Between 2006 and 2008 government funding of R&D in Uganda rose by 25 per cent, from 27,396 million to 34,327 million shillings. Over the same period, donor funding, or "funds from abroad", increased by 53 per cent, from 27,288 million to 41,717 million shillings. In 2007–8 government committed roughly 42 per cent to total R&D expenditure; donors, 51 per cent (UNCST 2008, 17). Between 2003 and 2008, "All expenditure on R&D in the higher education sector was from abroad ... " (UNCST 2008, 17). State failure to invest in local R&D has created a knowledge vacuum. It has created opportunities for donors to utilise their financial, political, and knowledge power to shape Uganda's development agendas.[15]

5 Conclusion

This chapter, which aimed to explain why Uganda's new developmentalism was being poured into the old, dysfunctional wineskin of economic liberalism, has provided reasons for the widespread dissatisfaction with economic and institutional orthodoxy. It has been explained why Uganda has been neither willing nor able – institutionally, economically, and politically – to fully embrace new developmentalism. The main conclusion is that while the demand for new developmentalism is real, the supply has been scarce. This mismatch arises from the institutional embeddedness of market fundamentalism as the dominant ideology of Uganda's economic and political class.

The national embeddedness of market fundamentalism suggests that Uganda might be comparable to nineteenth-century Germany. As Friedrich List would comment, the popular economic theory propounding the virtues of "free trade," property rights, and "unfettered markets" has become not just institutionalised. It is a hegemonic political economic ideology. Thoroughly elaborated and uncontradicted, the dominant theory is "a compact school, a powerful party which [has] advocates in every ... legislature and learned society, but above all the great motive power – money" (List 1885, xxvii–xxviii). In short, while concrete demands for new developmentalism exist, staunchly embedded liberalism constrains the degree to which "new" developmentalism is able to work.[16]

Thus, national development, which once meant structural economic and social transformation, has been "neutered" into marginal improvements within a conservative macroeconomic framework. Where developmentalist institutions (such as a capable state) had a strategic developmental role, market fundamentalism has taken an upper hand. Where industrialisation and job creation were key goals of economic policy, deregulation, high interest rates (20–25%), and conservative inflation targets (under 10 per cent

of GDP) have taken precedence. Where the state played a key role in forced savings and state-coordinated infrastructural investments, the market has become hegemonic. Where the domestic market and domestic savings were central to national development, foreign markets and foreign savings (such as foreign direct investments) now reign, thanks to the current era of globalisation. It is these dynamics that have reduced new developmentalism to new wine in an old, dysfunctional wineskin.

This chapter's main recommendation is surprisingly simple. A developing country, such as Uganda, that has stifled its post-independence developmentalism and embraced economic liberalism needs to rethink its preferences. Economic liberalism is not necessarily a wrong ideology; it is simply inappropriate for Africa at its current stage of development. This underscores a more profound lesson for developing countries. Evidence (cf. Chang 2002, 1–68) shows that the now developed countries (NDCs) used developmentalist policies, such as infant-industry protection, to advance. Yet the gospel according to the NDCs is "do as we say, not as we did (to advance)"! Developing countries must reject this gospel. For one thing, the good economics for the NDCs may be bad for developing countries; and their good institutions or policies are not necessarily good enough for developing countries.

Uganda needs to learn that the structural fragilities within the national political economy create spaces for foreign domination and control. As Martin Luther King Jr argued (in another context), no one can ride your back unless it's bent. Thus, instead of perpetually lamenting foreign domination – in politics, economics, and ideas – Uganda and other developing countries must put their national political economy in order. They should strengthen their domestic institutions and rid them of grand official corruption, which is perhaps the greatest obstacle to Uganda's socio-economic transformation. They should transform the national economy into a higher-value-added industrial and information economy. They should also deepen domestic savings beyond the current 13 per cent of GDP. The aim, over the long-term, should be to simultaneously liberate the national economy from aid dependency and finance national development priorities using domestic resources. The point is not that donors have no role at all. Rather, it is that donors should supplement – but only supplement – domestic efforts.

None of these megachanges will come to fruition unless embedded economic liberalism is overcome. Change will not come unless economic nationalism replaces economic liberalism as the ideology of new developmentalism. Domestic institutions (such as the central bank) should be used to govern the national economy in the nation's interest. To make this happen, the selfish agendas of local state elites and their foreign allies need to be sterilised. Uganda needs to replace the market fundamentalists (who control the commanding heights of the Ugandan political economy) with economic nationalists.

None of the changes suggested in this chapter is easy; but all seem to be necessary if new developmentalism is to gain traction. Uganda may choose to embark on the proposed changes peacefully – or it can wait for a political tsunami comparable to the one that swamped Hosni Mubarak's Egypt and its neighbouring countries in 2011.

Notes

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1. President Museveni and his National Resistance Movement/Army (NRM/NRA) took power in 1986 after a five-year guerrilla war. He ruled Uganda for about 20 years under a system described by party ideologues as a "no-party democracy" and by critics as a "one-party dictatorship." A multiparty political dispensation was readopted in the run-up to the 2006 general elections. However, the NRM still monopolises political space (Kiiza et al. 2008). At the time this work went to print (2012), Museveni had won re-election as president of Uganda for the period 2011–16 in an election characterised by vote-buying. Museveni will have spent 30 years in office in 2016.
2. See the memorandum from the Colonial Office to the governor of Uganda, The Colonial Empire and the Economic Crisis, 6 August 1948, in Maini Papers, AR MA 5/34, Standing Finance Committee, 1944–49, 1.
3. See the memorandum, 6 August 1948, 2.
4. Named after Dr. E.B Worthington who prepared it, the Worthington Plan, 1947–1956 was preceded by Uganda's first development plan (for the period 1936–1941), and the second six-year plan of 1944. The first was a modest plan of works. The second plan prioritised social development (particularly education and health).
5. For a detailed list, see Uganda Herald, 24 April 1951.
6. See John K. Babiiha (1966), "Gearing East Africa to Our Economic Revolution", Address delivered by the vice president of Uganda before the Fourth Annual Symposium of the East African Academy in Kampala (East Africa Journal 3, no. 5, August 1996, 24).
7. The Gini index is a widely used estimate of inequality. A Gini index of 0 represents perfect equality, while an index of 1 implies perfect (very high) inequality
8. UNDP uses a more comprehensive list of indicators, including things such as powerlessness, voicelessness (in what Tandika-Mukandawire calls choiceless democracies), vulnerability, and rootless growth. These are not easy for mainstream quantitative economists to measure statistically; hence, the focus on the easy-to-measure income poverty.
9. The revised (2004) PEAP document has five pillars: (1) economic management (macroeconomic stability, fiscal consolidation); (2) export promotion and private-sector investment (3) boosting production, competitiveness, and incomes (via agricultural modernisation, natural-resource preservation, and infrastructural development); (4) conflict resolution / disaster management; and (5) governance (human rights, democratisation, accountability, and elimination of corruption).
10. This upheld the 1948 Universal Declaration of Human Rights, which was perhaps the first bold assertion at the international level that "everyone has a right to education".

11. The full list of MDGs is as follows: (1) eradication of extreme poverty and hunger; (2) delivery of universal primary education; (3) promotion of gender equality and women's empowerment; (4) reducing child mortality; (5) improving maternal health; (6) combating HIV/AIDS and other diseases; (7) promoting environmental sustainability; and (8) developing a global partnership for development.
12. The official statistics on school dropout rates appear to be unreliable. In a paper presented by the Education and Sports Minister to the Ministerial Seminar on Education for Rural People in Africa (Addis Ababa, 7–9 September 2005), Geraldine Bitamazire (quoting data from the Education Management Information System – EMIS) argued that school dropout rates moved from 7.9% in 1997 through 4.7% in 2002 to 6.1% in 2003. This optimistic view suggests that Uganda had dropout rates below 10%, which appears to be untrue. If over 5.3 million pupils enrolled in 1999, for example, and only about 400,000 sat for UNEB in 2006, Uganda's dropout rate was huge (given that no pupil, however incompetent, is allowed to repeat classes under the UPE policy). A systematic study of the cohort survival rates is urgently needed to establish the magnitude of dropouts in Uganda.
13. Ddumba-Ssentamu (2001), "The Privatisation Process and Its Impact on Society", cited in The Monitor, 14 March 2001, http://www.monitor.co.ug/news.
14. At least these enterprises – Uganda Grain Milling Co., Ltd; Entebbe Handling Services (ENHAS); Printpak Uganda Ltd; Soroti Meat Packers Ltd; Lira Hotel; Kabale White Horse Inn; and Soroti Hotel – went to NRM cronies at giveaway prices. Off the record, government interviewees allege that most beneficiaries did not pay even the small amounts they were charged. Perhaps several supporters of the status quo are beneficiaries of crony capitalism.
15. In 1996, for example, World Bank president James Wolfensohn pushed for the transformation of the bank into a knowledge bank. This has resulted in the fusion of financial power with knowledge power. Today, the World Bank directly or indirectly produces global best practices knowledge on a wide range of topics – institutional reform, political economy analysis; macroeconomic management; public sector management; etc. Anchored in a pro-market analytical framework and orthodox institutionalism, the bank's publications are widely disseminated for maximum policy influence. Students and academics of financially constrained libraries in the developing world often receive World Bank publications as donations and thus often think that there is no alternative to its thinking.
16. Uganda's state elites firmly embraced economic liberalism because some believed the free market ideology. Others have reaped substantial monetary, material, or political rewards or incentives. In the Finance Ministry, for example, the directors of donor-funded projects earn between US$4,000 and $10,000 a month, depending on their negotiating power with donors (Interviews 2011). This pay dwarfs the official civil service salary of 1.5 million shillings (about $652) paid to the topmost civil servant, the Permanent Secretary. However, off-the-record government interviewees suggested that senior civil servants (who do not necessarily work directly on donor-funded projects) also benefit from project funding – e.g., by accessing 4-by-4 project vehicles, computers, or even allowances. Detailed research is needed to document the effect of "projectisation" on formal state institutions and the morale of civil servants working on donor-funded projects vis-à-vis those excluded. It is also important to document how projectisation impacts state capacity to deliver services for the citizenry.

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Part III

Developmental Politics and Neoliberalism in Developed Political Economies

11
Neoliberal Restructuring in South Korea before and after the Crisis

Tat Yan Kong

1 Introduction

In contrast to doctrines of state-guided capitalist development, or the "capitalist developmental state" (CDS), which sees the developed market economy as the goal of development, neoliberalism sees liberalised markets as both the means and the ends of development. Neoliberal restructuring is the replacement of non-liberal means by liberal ones. Once a stellar example of the CDS, South Korea (hereinafter Korea) has experienced such a transition over the past 20 years. The financial crisis of 1997 represented a defining moment, marking the transition from gradual to accelerated liberalisation. Rather than see the CDS and neoliberalism as opposites, this chapter will argue for the existence of a complex relationship between the two in the Korean case.

The complexity of the relationship between the CDS and neoliberalism in Korea will be based on four central arguments. First, the introduction of market forces was not inconsistent with the history and purpose of the CDS (high growth, fast qualitative change). Second, the high export, high external borrowing means employed by the CDS also created high vulnerability to international fluctuations. At the same time its success in nurturing export competitiveness also created strong capacity for rapid post-crisis recovery in a fashion similar to that of advanced capitalist states (especially in the effective socialisation of the costs of private failure). Third, rapid recovery provided the conditions (effective governance capacities, high optimism, state provision of growth-enhancing public goods) attractive to the continued flow of external lending and FDI. In other words, well-developed CDS characteristics have facilitated neoliberal restructuring. By contrast, for those developing countries without the background of a successful CDS, the costs of neoliberal restructuring tend to be much higher (in the loss of productive assets and social displacement), and the benefits less tangible

Fourth, in spite of these successes, the CDS has also bequeathed some dysfunctional legacies that obstruct Korea's convergence with advanced

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capitalism (the ultimate end for which the CDS was created). The institutional foundations of the advanced mass production model have been insufficiently developed by the state (social safety nets, training, etc.), or they conflict with the dominant conglomerate (i.e., *chaebol*) form of business organisation (in the case of stakeholdership). The *chaebol*-dominant economic structure, however, may also be inhospitable to the development of network-based high-technology (and breakthrough) sectors appropriate to Korea's resource base. Thus, Korea uncomfortably straddles two varieties of advanced capitalism: it lacks the consensual institutional practices of non-liberal capitalism but is at the same time too rigid by liberal capitalism's standards and lacking in market discipline.

2 Sequences of neoliberal restructuring

Neoliberal restructuring seeks to bolster economic performance by maximising the scope for private initiative. This involves the elimination of anti-competitive rules (liberalisation) and the introduction of pro-competitive rules, which prevent private abuse and market distortion (good governance). Liberalisation consists of reduction of the fiscal burden of the state, transfer of state activities to the private sector, and minimisation of the barriers to the circulation of the factors of production (liberalisation of trade, finance, direct investment, and labour markets). Good governance reform consists of enacting and effectively enforcing the pro-competitive rules that govern interactions between private entities (business relations) and within them (corporate governance). Pared back to a narrower range of responsibilities and enjoying increased tax take from superior economic performance, the state is expected to become more effective within its narrower market-facilitating remit – that is, "small state, strong state".[1] In effect, the strong, pro-competitive state and the high-performing private sector become mutually reinforcing. In practice, however, this virtuous sequence tends to be realised only by advanced capitalist countries and a select number of newly industrialising countries (NICs), including Korea.

The experience of Latin American NICs (especially the leading trio of Brazil, Argentina, and Mexico) during the past two decades exhibits the sequence of neoliberal restructuring built on unsuccessful state-guided capitalism. As the most Westernised cases of Third World industrialisation during the 1960s, their experiences inspired the dominant theoretical benchmarks – underdevelopment, dependent development, bureaucratic authoritarianism, state corporatism – against which East Asia and other regions were evaluated. By the end of the 1980s, however, the exhaustion of Latin American state-guided capitalist development was evident. This included the once impressive Brazilian CDS (Weyland 1998; also see Saad-Filho's Chapter 6 in this volume). The combination of weak export dynamism and high external borrowing dependence meant that increased

debt burden (from the early 1980s) resulted in a "lost decade" of stagnation. Failure to curb state expenditure in response to stagnation in turn fuelled the hyperinflationary crises of the late 1980s that opened the door to neoliberal restructuring (Kaufman and Stallings 1991).

The Latin American sequence of neoliberal restructuring is telling in many respects. Restructuring proved to be effective at controlling inflation (the principal symptom of the overextended state) by state retrenchment. But the rise of the private sector – in the form of privatisation, openness to imports, and external capital flows – has been disappointing in at least three key respects. First, neoliberal policies have failed to generate employment opportunities (sufficient jobs, high-quality jobs) adequate to the scale of social displacement, leaving social structures permanently scarred by high levels of relative and absolute poverty (Huber and Solt 2004). Second, openness to international capital tended to attract flows into asset speculation and (import-intensive) consumption, thereby increasing the chances of financial crises (Palma 2003), while neglecting sectors with long-term potential economic benefits. Third, the market's failure to plan for the long term meant that Latin American industry would fail to upgrade in response to competition from such new low-waged NICs as China and India. In effect, neoliberalism did not create the Asian-style of export-oriented, mass-employment economy that inspired Latin American liberal reformers (see Edwards 1995, Chap. 3, on the intellectual influence of East Asia).

These deficiencies of Latin American–style neoliberal restructuring can be traced to the background of unsuccessful capitalism. Most importantly, the foundation of successful neoliberal restructuring, an effective, neutral regulatory state ("small state, strong state"), failed to materialise. In tight fiscal conditions (where state resources are limited and bureaucratic morale low), the governance capacity is also likely to be weak. In such a situation, interactions between state and capital tend to favour the latter. Such a capital-dependent state is not well equipped to prevent private malpractice (illicit collusion, anti-competitive activities, speculative boom-bust cycles) or guide the private sector (which is inclined to cherry-pick short-term profitable activities) towards productive activities with long-term payoffs. Moreover the very clientelistic (or "oligarchic") networks of power that thwarted the emergence of an effective CDS also tend to persist under the neoliberal policy agenda (Khan 2005). These networks can prevent the "small state" from focusing its resources rationally (e.g., through misdirection of social programmes or continuing neglect of much-needed universal education), especially in a climate of reduced state expenditure where competition for limited resources is fierce (e.g., see Weyland 1996 on misallocation in Brazil's social programmes).

Chile exposes the weaknesses of the neoliberal approach even in the best-case scenario. Neoliberalism was introduced under an authoritarian regime that distanced itself from the CDS model early on (1973) and decisively.

Effective political control capacities were gradually matched by economic governance capacities. Economic governance and learning capacities were exhibited when the government intervened effectively to support the banking sector (by temporary nationalisation) following the financial crash of 1981 and instituted tax measures to deter speculative capital flows. The financial stabilisation led to the subsequent "miracle" based on agricultural exports. The economy prospered by pursuing its comparative advantage in mineral extraction and food processing. Promising entrepreneurs in these sectors were encouraged (Schurman 1996). However, because neoliberal governments failed to prioritise catch-up, the economy experienced difficulty in progressing to higher value-added stages of production (Schurman 2001; Parrilli 2004). The rise of the post-Washington Consensus and the Southern Consensus reflects the belated understanding of the weaknesses of the neoliberal approach by its erstwhile proponents.

The Latin American sequence of neoliberal restructuring against the background of the failed CDS contrasts with the advanced capitalist sequence, which itself exhibits two variations. In non-liberal advanced capitalism (exemplified by Germany and Japan), the enhanced scope of market forces is reconciled with existing non-market institutions. This is reflected in the persistence of stakeholder (i.e., labour-inclusive) forms of corporate governance despite the rise of the shareholder value priority (as emphasised by mobile institutional investors). In effect, marketisation has to be reconciled with the institutional requirements (long time horizon, stable relationships between economic agents) of the leading industrial sectors associated with non-liberal capitalism. In liberally inclined advanced capitalist states such as the United States and the United Kingdom, by contrast, non-market institutions, such as stakeholdership, are not well established. Moreover, there is greater presence of "breakthrough" industries amenable to short-term change (as opposed to ones based on incremental improvement). These conditions enable neoliberal restructuring to proceed rapidly.[2]

Both varieties of advanced capitalism share the trait of possessing effective states built upon productive economies. They possess the governance capacity that underpins effective liberalisation and the capacities to overcome the weaknesses of the market (socialisation of costs of market failure, promotion of public goods neglected by the market, etc.). These capacities are illustrated by the USA, the archetypal neoliberal economy. In the current global credit crunch, the U.S. government is intervening to re-capitalise major banks and industrial giants, such as General Motors (just as it did with the failing savings and loans institutions 20 years ago). When there is a deep crisis, market forces are not permitted to "take their course" by the authorities.[3] In the provision of growth-enhancing public goods, Block (2008, 172) points to the presence of a "developmental network state" (DNS) in Europe and the United States "to help firms develop product and process innovations that do not yet exist, such as new software applications,

new biotech medications, or new medical instruments". By coordination and benchmarking, the DNS enhances the productivity of existing well-developed research capacities (public and private) under its jurisdiction. The Human Genome Project and Silicon Valley are fruits of this type of approach. Weiss notes that, not coincidentally, the WTO (via TRIMS, TRIPS, etc.) is *least* restrictive towards state support in knowledge-intensive industries in which the most advanced countries enjoy comparative advantage (Weiss 2005, 349; also see her Chapter 1 in this volume). By contrast, Southern governments rarely have the capacity to execute such initiatives.

Korea's neoliberal restructuring sequence (i.e., gradual liberalisation → crisis → accelerated liberalisation) parallels the advanced capitalist sequence of restructuring built on the foundation of effective state capacities. It reveals a relationship between the CDS and neoliberalism that is more complex than is often supposed. In essence, the transition did not represent the unravelling of the CDS in favour of neoliberalism. Rather, the smooth introduction of neoliberalism was built on the productive and governing capacities of the successful CDS. While neoliberalism has facilitated the continued capital inflows that sustain Korean growth, it has also superimposed rules that are at variance with Korea's non-liberal economic traditions and productive profile. Consequently, because of this "institutional ambiguity" Korea uncomfortably straddles the liberal and non-liberal types of advanced capitalism.

3 The CDS and liberalising measures

The Korean sequence of the 1990s (gradual liberalisation → crisis → accelerated liberalisation) has commonly been interpreted as the conflict of opposites. For example, the governments of Presidents Kim Young-Sam and Kim Dae-Jung identified faster economic liberalisation as central to the national drive for convergence with the most advanced (or global) standards. Within Korea's largely U.S.-trained economics profession, liberal economic ideas had been in the ascendancy since the early 1980s. Writing before the rise of Kim Young-Sam, Woo (1991) thought the assertion by the capitalist class of independence from the state a logical and inevitable consequence of successful state-guided development. By and large, most critical and heterodox scholars saw in these liberal policies the abandonment (whether by design or in response to U.S. pressure) of the very successful CDS and its substitution by something inimical to development.

In response to the post-1997 developments, critical writers painted a very vivid contrast between national development and liberalism. At best, liberalisation in response to the 1997 crisis was based on misconceived economic analyses (Chang et al. 1998). At worst, it represented the triumph of U.S. financial capitalism over the (Japan-inspired) Asian model (Wade and Veneroso 1998). By foisting liberalisation onto Korea's high-debt financial system, the external pressures for financial liberalisation opened the way for the 1997

crisis and the imposition of full-fledged liberal measures by the IMF (Wade 1998). Apart from bringing the worst social dislocation for 40 years, critical scholars also stressed the negative developmental consequences of the IMF's wholesale imposition of neoliberal policies. For example, according to Shin and Chang (2003), forced liberalisation prevented the state from leading the "second stage" industrial catch-up appropriate to Korea's level of development (e.g., by privileging shareholder dividend over investment). Cumings (1998) added a domestic political dimension to this story of "the end of late development". He identified the domestic anti-authoritarian civil society (symbolised by President Kim Dae-Jung) as a willing partner with the United States in the elimination of the Korean CDS.

Sceptics of the convergence perspective question the inevitability of neoliberalisation or its necessary conflict with the purpose of the CDS. Weiss (2000) located the demise of the Korean CDS in factors specific to local political conditions. Being such, they do not imply the inevitable demise of the CDS or "governed interdependence" (transformative project, pilot agency, institutionalised government-business cooperation) in either Japan or Taiwan (Weiss 2000, 23). Those stressing the consistency of purpose between the neoliberal turn and the CDS argue that foreign capital was being enlisted as a check against the excesses of domestic big business in a bid to renew the developmental state. In other words, there was coincidence of means (to use market forces to discipline big business), if not ultimate purpose, between the IMF and the reforming government (Mathews 1998). For Kalinowski (2008), on the other hand, the state still possessed capacity but not developmental purpose. Without developmental purpose, the state's role has become largely reactive (as a subsidiser of failed big business initiatives).

Claims of a clear break away from the CDS during the 1990s, therefore, are based on the loss of state purpose and directive capacity and their replacement by business-led growth reliant on direct access to foreign capital. If *state purpose* is understood in the broad sense of maximising industrial growth and qualitative change (i.e., catching up), then the switch in policy instrument from government credit rationing to financial liberalisation during the early 1990s was *consistent* with the agenda of industrial transformation. The point of the credit-rationing policies of the 1960s through 1980s was to ensure access to abundant loan capital (including foreign capital) for priority industries without compromising domestic ownership; put another way, it was to facilitate the rise of world-class manufacturing companies under Korean ownership. Facilitating access to short-term loan capital by liberalisation (based on stable exchange rates) was consistent with this basic objective of obtaining foreign resources for national export winners. Indeed, the preference for short-term loans over FDI was influenced by the concern with maintaining domestic ownership.

As for the national entrepreneurial leadership, the CDS was initially created to substitute for a business sector that was unfit for economic leadership. By the early 1990s, however, an experienced business sector had been created (and the lessons of excessive government leadership of the 1970s had also been learned). In these changed conditions, it was logical for state leadership to be directed towards those domains in which the market continued to be deficient. These domains tended to be ones neglected in the initial drive to create productive capacity but critical to maintaining economic dynamism. They included anti-trust regulation, credit allocation to needy sectors (especially promising small and medium enterprises), and protocorporatist initiatives involving employers and labour unions. Essentially these were characteristics of governance and industrial sponsorship characteristic of advanced non-liberal capitalist system but absent from Korea's newly industrialised, *chaebol*-centred economy.

4 The CDS and the origins of the crisis

Explanations for the vulnerability of the economy to financial crash in 1997 stress the opportunity for financial irresponsibility brought about by financial liberalisation and other institutional changes. From an IMF perspective (e.g., Lane 1999), the remaining vestiges of state control (i.e., images of state underwriting) and poor quality regulation (financial and corporate) fuelled private financial irresponsibility (or moral hazard). Chang (1998) looked to the rise of business power in the post-1987 democratic setting as a source of particularistic relationship between public officials and entrepreneurs. Yet sources of vulnerability go deeper and can be traced to the purpose and means of the CDS.[4] The goal of the CDS, to maximise industrial growth and qualitative change, favoured the creation of export industries (because of limited domestic market size) based on mass production (achievement of profit by economies of scale). The high set-up cost of mass production entailed high levels of indebtedness. With a few exceptions (e.g., POSCO Steel), mass production industries, especially high value ones, tended to be *chaebol*-based, owing to the limited pool of proven entrepreneurial talent as well as the nationalistic aversion to foreign ownership. The *chaebol* became overdiversified (expansion into too many unrelated industries). In part, this reflected the inability of latecomers to specialise owing to lack of depth of knowledge (Amsden 1989, 127). But this phenomenon was also caused by the state policy of stimulating competition among the *chaebol* (with the winners getting state favour). Besides encouraging diversification into related sectors (integration), this rivalry also triggered a race to capture rents in new and unrelated sectors.

Financial vulnerability could also be traced to deteriorating competitiveness (as reflected in growing trade deficits). Paul Krugman (1994) has argued

that the success of Korea and other first-generation NICs was due in large part to high investment rates rather than high productivity. They were thus highly vulnerable to competition from latecomers (especially China and India) using a similar strategy from a larger resource base. Put another way, Korea had not yet made the transition to "quality" mass production (QMP) of the Japanese and German types (for discussion of these two types, see Appelbaum and Batt 1994, Chap. 3). German and Japanese QMP were based on the symbiosis of advanced production technologies, high skills, and reciprocal labour relations (i.e., cooperation between stakeholders based on recognition of shared long-term interests). Advanced production technologies involved highly skilled processes that could not easily be relocated. The high labour skills required for these processes could only be acquired by training. Skill acquisition entailed the existence of frameworks of cooperative labour relations based on reciprocity (Thelen and Kume 1999). In Japan, this cooperative framework was enterprise-based. In Germany, it was industry-based and mediated by the state.

An unintended consequence of the mass production strategy was to make the export economy very susceptible and vulnerable to strikes at key plants. Concentration of production created a strong sense of labour consciousness at the enterprise level. This became the basis of the powerful enterprise labour unions that emerged after democratisation. Low unionisation rates (below 15 per cent) understate the real power of organised labour rooted in the leading enterprises of the *chaebol* sector. The *means* for industrial action were reinforced when the enterprise unions became affiliated with industrial and national-level federations.[5] The *motivation* for dispute can be traced to the means the CDS used for controlling unit-labour costs for almost three decades (Choi 1989). The state forcefully supported employers in the event of disputes and permitted only state- and management-sanctioned forms of labour representation. Despite the historically unparalleled increase in real wages, grievances such as relative inequality, inhumane working conditions, and lack of democratic representation found no outlet.

Labour-repression policy nurtured confrontational reflexes, as manifested in employers' reluctance to accept the principle of unionisation and in the labour unions' "strike first, negotiate later" mentality (Lindauer and Vogel 1997). Moreover, focused mainly on capacity expansion, *the* chaebol *failed to fully appreciate the connections between high productivity, skill development, and reciprocal labour relations.*[6] In response to concerns about rising unit-labour cost, they focused on achieving greater external flexibility (by easing hire and fire and casualisation rules) and relocation. With a few notable exceptions, they did not feel the need to pursue a Japanese path of "micro-level accommodation" at the enterprise level (Kume 1998). From 1994, President Kim Young-Sam's government attempted to create a national-level structure of tripartite cooperation. Since labour (especially progressive labour groups) distrusted the state, for it to assume the arbiter role, as in European

corporatism, was difficult. Thus, failure to achieve the "industrial citizenship" (Jackson 2003, 265–7) characteristic of high-end German or Japanese manufacturing could be traced to the conditions of confrontational legacies and business strategies inherited from the CDS. These legacies were exacerbated by the rise of neoliberal doctrines of labour market flexibility.

5 The CDS and accelerated neoliberal restructuring

As seen above, neoliberal restructuring in many developing countries was characterised by the destruction of productive assets and high social displacement. In these conditions it was difficult for the state to develop effective capacities to introduce and enforce pro-market measures. In effect, the old guided capitalistic system was abandoned, but a viable market-led system could not be put in its place. Neoliberal restructuring in Korea was accelerated as a result of the 1997 crisis. As a condition for rescue, the IMF required rapid completion of market-liberalising reforms (finance, trade, FDI, labour market, privatisation) supported by an adequate regulatory framework.

As in 1981, the IMF financial rescue in 1997 restarted the growth cycle. By alleviating the Korean government's foreign exchange crisis and signalling international support, the IMF provided conditions of stability for the well-developed export engine to be restarted. Rapid recovery based on exports provided the conditions for high optimism, and effective governance capacities.[7] These conditions were favourable to the recovery of optimism on which external lending and FDI depended. They enabled the state to effect a restructuring of business that enhanced efficiency while minimising the loss of productive assets. Without the successful legacy of the CDS, the Korean state would not have had the capacity to socialise the costs of private-sector failure, a trait shared with advanced industrial states. By contrast, Southern governments rarely have the capacity to execute this type of dual rescue.

Korea's high-growth model renders it vulnerable to cash flow problems caused by external shock (including panic triggered by currency depreciations elsewhere), problems that necessitate external rescue (IMF programmes of 1981 and 1997) from time to time. At the same time, because of its strong export capacity, the high-growth model (based on strong industrial structure) is capable of rapid recovery when export markets experience upturn. Once exports rebound, foreign lenders soon regain their confidence (as high exports keep the debt-servicing ratios manageable) and restart lending. Then begins another growth cycle. The capacity for rapid recovery enables any rationalisation to take place against a favourable growth background. The rationalisation of heavy industry (including the costly nationalisation of the power industry) during the early 1980s followed this sequence, one repeated with the financial and industrial rationalisations after 1997. Financial rationalisation cost 67 trillion *won*, or 15 percent of GDP, over

a five-year period (Shin and Hahm 1998, 59). Without the buoyant environment generated by the recovery of exports and growth, it is doubtful whether financial liberalisation alone would have led to the recovery of external lending and direct investment (see below).

The state's reluctance to eliminate financially troubled but productive enterprises should not be confused with toleration of unsuitable management. "Too big to fail" applied to valuable productive assets (such as Daewoo Motors), not their owners and managers. As in previous rationalisations, government leadership emphasised minimisation of the loss of productive capacity (the foundation of recovery) while transferring troubled enterprises to new owners with better financial structures or industrial suitability. As a crude indicator of improved financial soundness, the debt-to-equity ratio for the top five *chaebol* was brought down from over 473 percent (1997) to 113 percent (2006). For the top 30, it was reduced from 394 percent (1999) to 196 percent (2006) (Lee and Lee 2008).

This process led to the transformation of a number of troubled *chaebol* affiliates in the three leading export sectors (autos, electronics, ships) into competitive international companies. For example, the semiconductor giant Hynix was created out of a government-initiated merger between Hyundai and LG affiliates. In the most drastic case, the Daewoo group, one of the "big four", was dissolved, and its flagship auto affiliate was transferred to majority foreign ownership, GM-Daewoo Motors. The ill-conceived Samsung Motors became majority-French-owned Renault-Samsung Motors. The assets of another big four group, Hyundai, were divided between the founder's sons in 2001. Hyundai Heavy Industry (shipbuilding) and Hyundai Motors became separate businesses.[8] The group was already under government pressure to separate into smaller units and divest cross-holdings from each other. Competitive firms were also created out of cooperation with foreign partners (e.g., LG-Philips LCD). Leading export firms with good cash flow (e.g., Samsung Electronics, LG Electronics, POSCO Steel) did not require financial workout. By improving corporate financial structure without destroying productive capacity, the rationalisation strategy also reinforced the capacity to export.

It is interesting to note that the core neoliberal reform recommended by the IMF, financial liberalisation, failed to have the desired governance effect. IMF conditionality was based on the view that partial liberalisation (with its implicit government guarantee for private risks) misled domestic industrialists and the foreign and domestic financial institutions from which they borrowed into taking inappropriate risks. It was believed that full liberalisation and improved economic governance would prevent market distortions and avert another misallocation crisis. The advance of the IMF agenda could be seen most clearly in the opening of the financial sector to foreign ownership. For example, by 2007, the foreign sector's share of the banking sector accounted for 18 per cent, and foreign ownership of the stock market

(KOSPI and KOSDAQ) accounted for 30.9 percent (up from 18.5% in 1999) (*Korea Herald* and Korea Institute of Finance 2008, 54). Foreign ownership is particularly high for major commercial banks, in most of which foreign investors have majority stock ownership. In theory, the threat of exit by foreign investors would end the old cronyistic practices that caused misallocation. Lee and Han (2006, 323) described this as "market discipline in its most brutal form".

The link between the IMF programme, enhanced market discipline, and the post-1997 recovery is highly questionable. This can be seen from the limited effects of financial liberalisation on the improvement of corporate governance. Distortions attributed by the IMF to partial liberalisation persisted in conditions of full liberalisation. For example, the persistence of moral hazard could be seen from the growth of consumer credit, culminating in the collapse of Korea's major credit card business, LG Card, in 2004 (Kalinowski 2008, 452). The sizeable foreign presence in the banking sector and on the stock market did not disturb the opaque corporate practices prevalent in many leading firms. Motivated by short-term profitability, foreign participants were unwilling to interfere in the governance of profitable firms in which they invested. Thus, the affiliates of leading *chaebol* continued to be susceptible to financial manipulation by the founding families (usually involving intergenerational transfer of assets, indirect control through holding companies, and creation of slush funds for political influence). For example, that the founding family was able to control the Samsung Group on the basis of only 0.8 per cent direct share ownership (Ko 2008, 48–9) suggests that recovery had less to do with improved corporate governance and more to do with improved cash flow and enforced specialisation.

6 The incomplete transition to advanced capitalism

The sharp turn towards neoliberal policies in Korea was not accompanied by the severe loss of productive capacity experienced in other developing countries. This sequence of transition could be traced to the presence of the strong export economy and governance capacities bequeathed by three decades of successful guided capitalist development. It is doubtful whether the neoliberal policies, by themselves, could have brought about a successful rebound. In spite of the relative success in assimilating painful neoliberal reforms, formidable obstacles still stood in the way of Korea's transition to advanced capitalist economy status. These obstacles largely arose from the underdeveloped nature of complementary institutions for the prevailing mass production model (MPM) and from the developmental limitations of the mass production model itself (despite its half-century of stellar service). Neoliberal doctrines, premised on the mutually reinforcing effects of market incentives and improved governance, do not appear to offer constructive answers to these dilemmas.

It was noted above that Korea lacked one of the crucial ingredients of quality mass production present in Germany and Japan: cooperative labour relations. The legacy of hostility created under the CDS blighted proto-corporatist initiatives during the first democratic decade. It also inhibited labour compromise in the post-1997 decade of recovery, as was revealed by the failure of the major initiative for social compromise, the Tripartite Commission. Inspired by the Dutch model of "competitive corporatism", the commission was an initiative launched by the Kim Dae-Jung administration (1998–2003) with the purpose of winning labour union support for painful adjustment policies. The labour unions were offered enhanced social and consultation rights in return for their acceptance of increased flexibility. The Tripartite Commission, subjected to repeated boycotts from both national labour federations, failed in its objective of promoting cooperation between employers and labour unions. The persistence of hostility is also indicated by the upsurge in labour disputes (number of disputes, workers involved) during the post-crisis period (Lim and Jang 2006, 455). The Korean strike rate was well above the OECD and EU averages (Lee et al. 2009, 178).[9]

Apart from the background of distrust, the failure of social compromise could also be traced to the welfare legacies of the CDS. In common with other high-growth East Asian countries, the Korean CDS bequeathed a tradition of *productivist* welfare, wherein growth and employment generation rather than redistribution were the primary mechanism for raising the mass living standard (Holliday 2000; also see Chang Kyung-Sup's Chapter 4 in this volume). State welfare would be "residual" – the very last resort – for those without employment or family support. Another productivist aspect was the provision of fringe benefits (subsidies for schooling, health care, holidays, housing) by high-productivity companies. By linking benefits to productivity, the fiscal drain on the state from social entitlements (a source of hyperinflation in many developing countries) could be avoided.

Built on assumptions of rapid recovery and the prospect of stable employment, the productivist welfare state was not designed to cope with the post-1997 context of deep change in the labour market structure. In 1998, the rate of unemployment rose to a 30-year high and then fell back to pre-crisis levels by 2000. Beneath the rapid employment recovery, however, occurred a structural change in employment patterns towards numerical flexibility (i.e., easing of hire and fire) in the shape of insecure and casual forms of employment (Lee and Lee 2003). There was deterioration according to every single social indicator (Lim and Jang 2006, 455–6). Conditions were unsuitable for acceptance of social compromise by the national labour union leadership. From their viewpoint, compensation for tripartite participation (in the form of non-binding consultation and modest increases in social expenditure) was inadequate in relation to the scale of the social displacement taking place (Kong 2006).

These factors, together with the enterprise-oriented nature of Korean unionism, ensured that Korea could not make a transition towards competitive corporatism on a national scale. Instead of tripartite consensus, union and management made their own arrangements within the *chaebol* affiliates (the locus of real union power). Some of the leading firms (both unionised and non-unionised) have developed cooperative labour-management relationships that balance work flexibility with employment stability. The general picture was one of union concession in the face of employment insecurity and acceptance of liberalisation by casualisation (increase of the peripheral workforce without employment stability or fringe benefits). Where enterprise unions were strong, however, they were still inclined to be militant, and employers were inclined to seek exit opportunities overseas (as Hyundai Motors did). Employers have used prevalent neoliberal doctrines to justify short-term cost cutting at the expense of building long-term cooperative relationships.

There are also questions about the prevailing mass production model. The strength of the MPM has been its ability to allow Korea to maximise growth on the basis of a narrow range of exports, a strategy involving the concentration of resources around a small group of proven and promising companies which became *chaebol* (conglomerates). Since the purpose of the CDS was to build winning Korean companies, economic concentration around the *chaebol* was reinforced by the state exclusion of direct investment by TNCs. Thus, *chaebol* were afforded opportunities to diversify into activities that were both related (integration) and unrelated to their core businesses. The downside of promoting such national champions was misjudged diversification requiring periodic government rationalisation. By enforcing greater specialisation and by replacing failing *chaebol* affiliates with dynamic TNCs, the post-1997 rationalisation has been the most far-reaching response to this weakness to date.

Apart from misallocation in the course of diversification, there are other weaknesses associated with the MPM led by the *chaebol*. First, the interweaving of high-export ratios, narrow export range, and business conglomeration makes the economy vulnerable to external shocks and domestic industrial strife (a consequence of labour concentration).[10,11] The Korean drive to establish brand name companies supplying finished export products precluded the Taiwanese alternative of component export specialisation or international subcontracting. The latter would have sacrificed independent integrated production for the benefit of insertion into TNC supply chains with their ready-made distribution networks (a feature of Chinese and Taiwanese development). Smaller scale and dispersal of industrial labour also left Taiwan with fewer labour-relations problems.

Second, the MPM imposes an opportunity cost in terms of the development of knowledge-intensive industries suitable to Korea's resource base. Such diversification would also reduce export vulnerability. Linked to

Shanghai and Silicon Valley, Taiwan's high-technology parks at Hsinchu,[12] Tainan,[13] and Kaohsiung offer a glimpse of a state-coordinated, high-tech, SME-based trajectory that is also relatively cost efficient. By enabling easy transfer of knowledge and rapid product development, such dense networks of small companies are more suited to knowledge-intensive production than Korean-style *chaebol*, whose strengths lie in more capital-intensive mass production with high set-up and organisational costs.

Since these alternative sunrise sectors are unsuited to the *chaebol* style of management, promoting them would entail a switch of resources away from the prevailing *chaebol*-type industries. Even though they receive a greater share of commercial bank funds (from 20% in 1997 to over 50% by 2002) (*Korea Herald* and Korea Institute of Finance 2007, 68), Korean SMEs are unable to obtain sufficient financial support (e.g., from the stock market) or capture enough domestic market base to enable them to develop to their full potential. By and large, they exist as subcontractors through which *chaebol* reduce production costs by outsourcing. This is not to say that the MPM has been unsuccessful, as the *chaebol* have continuously managed to surmount the dire predictions about technological obstacles and Japanese-dominated "regional production hierarchies" (Bernard and Ravenhill 1995).[14,15] There is no doubt that only the *chaebol* are capable of bearing the high input costs of sustaining competitiveness in the mass production industries. Rather, the question is whether the traditional approach – competitiveness based on scale economies, size of investment, and R&D (all features associated with the *chaebol*) – will suffice for the future, given the vast potential of such mid-tech export competitors as China, India, and Brazil.

All this raises the broader question of what type of advanced capitalist economy Korea seeks to become. The prevailing production structure is more akin to the non-liberal variety exemplified by Germany and Japan. However, the history of authoritarian state leadership did not provide an environment for supporting consensual institutions to flourish, as was evident in labour relations. Neoliberalism's emergence as a doctrine aggravated adversarial attitudes by diminishing trust further. Neoliberalism has led to the insertion of international capital into profitable economic niches (finance, service industries, a few high-quality manufacturing enterprises) without jeopardising the dominance of the leading *chaebol* (in their control of the leading sectors, in entry into promising sectors, or in terms of corporate governance) or altering the mass production model the *chaebol* dominate. Thus, the *chaebol* can justify their actions, from anti-labour attitudes to excessive expansion, with reference to the neoliberal agenda while avoiding its disciplines (transparency in the prevention of corporate misgovernance or state-business collusion, allowing sufficient market opportunity for small and medium enterprises, etc.).

7 Conclusion

Two sequences of neoliberal restructuring in the developing world were identified: that built on failed guided capitalism, as represented by Latin American NICs, and that built on successful guided capitalism, as represented by Korea. Effective state capacities built on a strong productive base enabled the worst effects of neoliberal restructuring (loss of productive assets, high social displacement) to be minimised. Moreover, with the background of successful guided capitalism, the opportunities of the open economy model (especially investment flows) can be captured more readily. This is so because international capital is attracted to countries with high growth, effective rule enforcement, and well-developed public goods.

This account views the relationship between the CDS and the advent of neoliberalism as complex. In essence, the transition did not represent a simple unravelling of the CDS in favour of neoliberalism. This argument was made in four parts. First, the introduction of market forces was consistent with the history and purpose of the CDS (high growth, fast qualitative change). Second, the high-export, high-external-borrowing strategy created high vulnerability to international fluctuations. Export competitiveness created strong capacity for rapid recovery using policies similar to those used by advanced capitalist states (especially in the effective socialisation of the costs of private failure). Third, rapid recovery provided the material conditions (effective governance capacities, high optimism, state provision of growth-enhancing public goods) attractive to the continued flow of external lending and FDI. In other words, well-developed CDS characteristics have facilitated neoliberal restructuring. Fourth, convergence with the advanced capitalist economy is incomplete, as Korea's economic and political elites reject non-liberal (or consensual) capitalism without developing the competitive substance of the liberal type.

This last issue can be traced to the authoritarian-state-sponsored development which built up an impressive mass production structure but stymied the emergence of the institutional foundations of advanced non-liberal or consensual capitalism. Liberal rules are being introduced but without the accompanying corporate governance standards or market discipline of liberal capitalism. At the centre of this conundrum are the dominant conglomerates, or *chaebol*, that obtain the greatest benefit from this situation of institutional ambiguity (in effect, the use of liberal means for monopolistic ends). The upshot is that Korea, uncomfortably situated between the two prevailing types of advanced capitalism, lacks the consensual institutional practices of non-liberal capitalism but is at the same time too rigid (and lacking in market opportunities, as exemplified by the weakness of small and medium enterprise) by the standards of liberal capitalist governance.

Notes

An earlier version of this chapter was presented at the International Conference on "South Korea in the Neoliberal Era and Beyond", organised by the Center for Social Sciences, Seoul National University, 14–16 April 2010.

1. The phrase was originally coined by Manuel Antonio Garreton with reference to his native Chile under the neoliberal dictatorship of General Pinochet.
2. In their seminal work, Hall and Soskice (2001) distinguish non-liberal (coordinated market economy) and liberal capitalism (liberal market economy) by the functioning of four key types of economic institutions: intercompany relations, corporate governance, finance, and industrial relations and training. The complementarities between these institutions make transition from one variety of capitalism to another very difficult.
3. Initially favouring a market-led approach to the unfolding banking crisis, the Bush administration was forced onto a reverse interventionist course by the spectre of depression.
4. For example, the phenomena of industrial duplication, high corporate indebtedness, overdiversified *chaebol* could be seen in the crisis of 1979–81. In response to these distortions, regulatory reforms (anti-monopoly measures) and cautious liberalisations of finance and trade were introduced as early as 1982 (nominal bank privatisation).
5. Democratisation led to competition between the existing Federation of Korean Trade Unions and progressive labour groups that later became the Korea Confederation of Trade Unions.
6. For example, Kia Motors's attempt to copy Toyota's "lean" (i.e., no waste) production systems failed owing to absence of agreement from the powerful enterprise unions (Lansbury et al. 2002).
7. According to almost every macroeconomic indicator (GDP, GDP per capita, industrial production, trade balance, current account, FDI, unemployment rate), Korea enjoyed a robust recovery after the negative growth of 1998.
8. Hyundai Motors acquired the debt-laden Kia Motors, Korea's second auto producer, in 1998 and turned it into a viable business that ensured Hyundai's domination of the domestic auto market. In 2004 Hyundai-Kia acquired Hanbo Steel (Korea's second steel producer) to become the only auto producer with an in-house steel production capacity. These acquisitions are indicative of how *chaebol* are drawn towards making expensive acquisitions for the sake of market dominance (Kia) and integrated production (Hanbo).
9. In terms of lost workdays per 1,000 employed persons in all industries (1996–2005), the annual average figures for Korea were 94 (1996–2000), 83 (2001–5), and 89 (1996–2005). For the OECD, the corresponding figures were 51, 33, and 42. For the EU, they were 48, 53, and 50. See Lee et al. (2009, 178).
10. Export to gross national income ratios for 2008 were 55 percent (Korea), 22 percent (Japan), 18.5 percent (USA) and 26.3 percent (UK). The ratios were 36.5 percent in 2003, 42.1 percent in 2004, 40.6 percent in 2005, and 41.2 percent in 2006 (*Korea Times*, 1 April 2009).
11. For example, the accumulation of trade deficits preceding the 1997 crisis was largely due to plunging semiconductor prices.
12. As of 2005, Hsinchu housed 384 companies employing 111,583 workers and generated sales revenue of US$30.9 billion (equal to 8.5 percent of Taiwan's total manufacturing output). Between 1980 and 2005 the government invested a total of US$1.4 billion.

13. Tainan's total set-up cost was NT$39.6 billion, or approximately $US1 billion.
14. According to the OECD (2009), Korea's percentage of GDP (2006) spent on R&D (3.22%) compares favourably with both late developers (Brazil 1.02%, Chile 0.67% [2004]) and with advanced countries (France 2.1%, Germany 2.54%, Japan 3.39%, UK 1.78%, USA 2.66%, EU27 1.77%, OECD 2.26%). While R&D expenditure by the most advanced countries is greater in absolute terms, Korea's world position has nevertheless advanced to an impressive seventh (*Chosun Ilbo*, 30 March 2009), meaning that the gap with the top advanced capitalist states is being closed. The private sector's share of R&D has continued to increase during the past decade, from 69% of total R&D expenditure in 1998 to 75% in 2005 (Ministry of Education, Science and Technology).
15. The catch-up process is symbolised by the rise of Samsung Electronics relative to Sony during the 2000s. This led to cooperation in LCD production and Sony's use of such high-end Samsung inputs as DRAMs and flash memory (Chang 2008, 8).

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12
The Irish Social Partnership Model: From Growth Promotion to Crisis Management?

Kwon Hyeong-ki

1 Introduction

By analysing Ireland's response to globalisation, this chapter explores an alternative to neoliberalism. Ireland had developed a neocorporatist social concertation model as a method of overcoming its economic crisis in the late 1980s and of promoting economic growth under globalisation. As Ireland had to face another severe economic calamity associated with the U.S.-originated global financial crisis of 2008, the hitherto existing social partnership began to break down. However, it has not discarded all social dialogue and fallen into a neoliberal free market model. Instead, it has been cranking up a new form of social agreement, such as the Croke Park agreement in the public sector, as well as a protocol for wage negotiations in the private sector. By examining the evolution of the Irish social partnership, I will appraise whether social concertation is still effective as an alternative form of developmental politics to neoliberalism under globalisation.

Facing new challenges under globalisation, including high mobility of capital and severe competition of national economies, advanced capitalist countries have readjusted their existing economic systems.[1] In the discourse of readjustments under globalisation, neoliberalism gained ascendancy, emphasising the sclerosis of the European labour markets versus Anglo-Saxon flexibility. Some hyperglobalists, including Ohmae (1990, 1996) and Friedman (1999), hold that nation states or democratic decisions within a nation state become meaningless in a borderless world where capital, goods, and labour freely flow across national boundaries. Less radical globalists, including Strange (1996) and Cerny (1997), hold that the nation state's decision-making power has declined due to the shift of its power upward to international organisations and downwards to regions. Furthermore, assuming the universal relevancy of a neoliberal market, neoliberals expect that national labour market regimes will retreat from diversity and converge

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toward an Anglo-Saxon liberal market model. They hold that centralised collective bargaining and state intervention in the economy are at the root of low economic performance in the Europe.[2] Neoliberals hold that corporatism and organised capitalism are no longer effective.

However, although Ireland is one of the most globalised countries, its development strategy under globalisation is not an Anglo-Saxon–style uncoordinated free market model. The reason this chapter focuses on Ireland's development strategy is not just that Ireland has grown rapidly in the 1990s and early 2000s, earning the nickname the Celtic Tiger, but, more importantly, that it achieved economic success with a neocorporatist social concertation model.[3] Ireland agreed to seven social pacts, each on a three-year basis, since 1987, by which it achieved great success in overcoming economic crisis and promoting rapid economic growth. The GDP per capita in Ireland rose from 70 per cent of the EU average in 1987 to 136 per cent in 2003. Unemployment declined from 17 per cent in 1987 to 4 per cent in the early 2000s. Through seven social partnerships, Ireland was transformed from one of Western Europe's poorest countries into one of the richest in the OECD.

Ireland attracted attention once again when it fell into a particularly acute crisis during 2008–9. The Irish economy contracted by approximately 14 per cent between 2008 and 2010. The budget deficit in Ireland fell into one of the worst positions in the EU after years of running a budget surplus. The IMF in mid-2009 forecast a GDP decline of 13.5 per cent for Ireland between 2008 and 2010 and unemployment reaching 15.5 per cent in 2010.[4]

How then has Ireland achieved such rapid economic growth with a social concertation model even under globalisation? Does its current crisis indicate the failure of the social concertation model? Can the model be viable under globalisation?

This chapter argues that domestic politics matter even under globalisation, although globalisation and international relations constrain the range of national options to some extent. Both the United Kingdom and Ireland faced similar globalisation challenges, including high mobility of capital and rapid changes of technology. Ireland also had institutional arrangements of industrial relations similar to Britain's in the sense that it had a fragmented structure of labour and capital organisations. Nevertheless, Ireland achieved economic success with the social concertation model, whereas Britain embraced the Thatcherite neoliberal model. Analysing Irish economic success through social partnership, this chapter holds that a social concertation model is still a viable response to the challenges of globalisation, as seen in its success at overcoming crises and promoting rapid economic growth. The current crisis does not mean the social concertation model has failed. To a large extent, Ireland's current crisis has been caused by financial mismanagement of the boom economy, not by the social concertation model. In addition, Ireland still *uses the social concertation model to address*

the current crisis rather than discard it completely. Ireland has been trying to revise the existing tripartite concertation as two bipartite and loose forms of coordination, such as the Croke Park agreement in the public sector and the wage coordination protocol in the private.

Data for this chapter derive primarily from in-depth interviews conducted in the summer of 2008 with approximately 20 key representatives of the main bodies for social concertation; there were also email interviews in 2009 and 2010. In addition, the last 30 years of the *Industrial Relations News* (IRN) and other weekly periodicals, as well as the *Irish Times* and other daily newspapers were examined. For quantitative evidence, this chapter uses international institutes' survey data, including the OECD and ILO database.

I begin by exploring various views regarding the Irish development model. This is followed by a description of the Irish model's characteristics of. Finally, the recent crisis and responses are examined.

2 Diverse views on the Irish development model

This section examines prevalent views evaluating the Irish development model before exploring empirically what the characteristics of Irish development are. The Irish development model is characterised by social partnership. However, Irish social partnership can be evaluated in different ways according to different perspectives.

First, Marxists (e.g., Allen 2000 and O'Hearn 1998) argue that social partnership is nothing but a neoliberal economy, or "disguised neoliberalism". Allen holds that social partnership is a method to co-opt such potential opponents as trade unions. He argues:

> Social partnership was highly successful in co-opting potential sources of opposition to the growing inequality in the Celtic Tiger. It was linked with the wider European social model, which stresses social solidarity and presents itself as an alternative to the jungle capitalism of the United States. Yet the irony was that discourse about "social solidarity" and "opposition to social exclusion" was a more appropriate way of carrying through a neo-liberal project in a country with strong unions (Allen 2000, 71).

Marxists hold that Irish social partnership is simply another version of neoliberalism because they believe trade unions are co-opted into an economic system in which business holds sway and income inequality has increased.

However, this view does not accurately portray the gains that social partnership has made for trade unions. As an industrial expert and a trade union leader have both suggested in interviews, compared with the British unions under Thatcherism, Irish unions have succeeded in overcoming

organisational decline and have enjoyed a privileged position in the Irish polity, with wide access to government and the capacity to veto a range of proposed policies.[5] In addition, it is not true that income inequality has increased under social partnership, although the inequality level is still high compared with that of Nordic countries. Irish social partnership developed a political trade-off different from that of traditional corporatism, which exchanged wage moderation for high social welfare. Irish working people gained a significant rise in disposable income and high employment growth. The creation of voluntary consensus is the main reason why Ireland could develop a neocorporatist social concertation model, even without such corporatist institutional arrangements as a comprehensive, hierarchical structure of labour and capital organisations.

On the other hand, neoliberals in Ireland, such as Joe Durkan (1992) and Jim O'Leary (2006), argue that social partnership has had little to do with the success of the Celtic "miracle". They suggest other factors as causes of economic success, including growth of foreign direct investment and tax cuts. Neoliberals hold that centralised coordination by social partnership might affect an economy negatively by raising wages, particularly those of public-sector unions. They argue that centralised bargaining increases wage inflationary pressure because wage bargaining under social partnership becomes politicised and gives unions enormous bargaining power.

However, neoliberals underestimate the importance of the role that social partnership plays, in terms of political momentum and stability, in inducing foreign direct investment and tax cuts, which neoliberals suggest were the main causes for economic success. Furthermore, as examined later, Irish success cannot be explained only by the growth of foreign direct investment. Although it had already occupied a significant share of the Irish economy in the 1980s, it suffered from economic crisis because MNCs led wage growth in Ireland. The Irish social partnership had contributed to the improvement of competitiveness by wage moderation and stable predictability of wage increases, which in turn improved employment and living standards.

The present writer basically understands the Irish social partnership in terms of a "corporatist social concertation model" (Rhodes 2001; Roche and Cradden 2003, 75–6). This model agrees with what theorists of competitive corporatism argue: that it differs from traditional corporatism in the content of the political exchange or bargain. Recent social concertation focuses on national competitiveness rather than building social safety nets in response to challenges of globalisation in which, for example, post-war Keynesian expansionary public policies were hard to pursue. In traditional corporatism, wage moderation was exchanged for social justice programs (universal welfare, etc.). In recent social concertation, wage moderation is exchanged for improvement in competitiveness and growth of employment. Despite this difference, both traditional Keynesian and competitive corporatism

are similar in the structure of social concertation in which social partners and government regularly participate. Furthermore, the social concertation model conforms to theories of post-corporatism or deliberative democracy in that Ireland established a model, even without such traditional corporatist institutions as centralised and hierarchical organisational structures and class-based political parties.[6]

Globalisation challenges the existing welfare and economic system in advanced capitalism. In financial globalisation it becomes increasingly costly for a state to pursue an expansionary monetary policy as a measure to stimulate growth and employment because of the difficulty of controlling short-term flows of global capital. Nevertheless, there are ways to meet these challenges that do not necessarily involve neoliberal deregulation; so there is no necessary convergence towards a single Anglo-Saxon model of neoliberal capitalism. Instead, there are many other ways to improve competitiveness and make finance sustainable and employment expanding.

The problem is how to resolve the conflicts arising from redistribution of risks and benefits. For example, Finland, Denmark, and Norway weathered the recessions of the 1980s and 1990s by social concertation, although they also changed social programs and labour market regulation. In the Netherlands case, new corporatist policymaking revived from the mid-1980s with flexible, decentralised bargaining within a coordinated structure (Berger and Composton 2002; Rhodes 2001). In Ireland, social agreements improved competitiveness and triggered economic growth by wage moderation, which in turn improved disposable income and employment at later times. The next section examines how Ireland achieved economic success by social concertation.

3 The Celtic Tiger and social concertation

Most political economists and policymakers are interested in Ireland not only for its rapid economic growth over the past two decades but also for its sharp recession in the recent world financial crisis. Before exploring Ireland's response to the crisis, this section explores the characteristics of its developmental strategy. How did Ireland, long one of Western Europe's poor countries, become one of its richest? What has the social partnership contributed to economic success?

As a comparison of two cover stories in the *Economist* (1988 and 1997) shows, Ireland had already been transformed from "The Poorest of the Rich" to "The Celtic Tiger: Europe's Shining Light". In 1973, when Ireland joined the EC, its per capita income was only 55 per cent of the average income of the 15 advanced European economies. It was 150 per cent by 2007, the EC's second highest (after Luxembourg). In the core period of the Celtic Tiger, Ireland delivered double-digit growth rates, in contrast with the low growth rates in the euro area. For example, the average annual real change of GDP

growth in Ireland from 1995 to 2005, 7.5 per cent, exceeded that of the USA (3.3%), the United Kingdom (2.8%), France (2.1%), and Germany (1.4%) (see Table 12.1). This very rapid growth helped Ireland catch up with the rest of Europe and overtake most advanced countries.

Another reason policymakers and political economists paid significant attention to Ireland is that it had achieved great economic success, not by Anglo-Saxon neoliberal decentralisation, but by neocorporatist social concertation, as seen in Table 12.2. Before the seven social pacts, the Irish economy of the 1980s was characterised by unemployment reaching 17 per cent, mass emigration, high inflation, fiscal crisis, soaring taxes, and falling profits.

How had social pacts contributed to the economic success? Many factors are mentioned as causes for the Irish economic miracle, including social partnership, massive foreign direct investment (FDI) inflows, world-class education, a supply of highly skilled, English-speaking labour, and economic openness. This chapter holds, not that social partnership did everything for the Celtic Tiger, but that it played a pivotal role in Ireland's economic success, in the sense that the Celtic Tiger would probably not have come into being without social partnership (O'Connell 1999; O'Donnell and O'Reardon 2002; MacSharry and White 2000; Sweeney 2008). The social partnership contributed to the economic miracle mainly by keeping wage costs low, enabling fiscal consolidation and a stable exchange rate, and attracting FDI inflows by political stability and industrial peace.

Few people deny that massive FDI inflow was one of the most important factors driving Irish industrialisation and the rapid growth of export-oriented industry. However, any explanation focusing only on MNCs cannot account for both failure in the 1980s and success in the 1990s. The MNCs, mainly U.S. companies, already had a large share of the Irish economy even in the mid-1980s. In 1985 foreign firms accounted for 50 per cent of gross output and 41 per cent of manufacturing employment – figures not so different from those of the 1990s. In 1998, for instance, MNCs accounted for 72 per cent of gross output (54% for U.S. firms) and 47 per cent of manufacturing employment (27% for U.S. firms) (Baccaro and Simoni 2004, 7). However, the Irish economy of the mid-1980s was afflicted with the so-called "Irish disease", while that of the 1990s was called the Celtic Tiger.

The reason is that in the 1980s the MNCs were held responsible for the Irish disease. In the 1980s, under the decentralised system of wage bargaining, the highly productive and competitive MNCs led wage increases to higher levels than domestic companies could afford (Barry 1996; Baker 1988). The skilled workers in the modern sectors acted as wage setters based on their market power under the free labour market system of the 1980s. By contrast, the social partnership after 1987 changed the norms of wage bargaining. The wages under social partnership no longer chased the high productivity growth of the modern sector but were set by the domestic and traditional

Table 12.1 Macroeconomic growth indices

Year	**85**	**86**	**87**	**88**	**89**	**90**	**91**	**92**	**93**	**94**	**95**	**96**	**97**	**98**	**99**	**00**	**01**	**02**	**03**	**04**	**05**	**06**	**07**	**08**	**09**
GDP growth in Ireland	3.1	–0.4	4.7	5.2	5.8	8.5	1.9	3.3	2.7	5.8	9.6	8.2	11.3	8.6	10.9	9.4	5.9	6.4	4.3	4.3	5.9	5.7	4.0	1.5	3.3
Unemployment in Ireland	16.5	17.0	16.7	16.2	14.9	12.8	14.4	15.1	15.7	15.1	12.5	12.0	10.9	7.6	5.6	4.3	3.9	4.4	4.6	4.4	4.4	4.4	4.5	5.7	6.5
Employment in Ireland	50.1	49.3	49.9	49.8	50.0	52.3	51.2	50.7	50.9	51.9	54.1	55.0	56.3	59.6	62.5	64.5	65.0	65.0	65.0	65.5	67.1	70.2	70.8	70.1	69.2
National debt as % of GNP in Ireland	106.0	115.1	117.6	116.2	106.8	99.4	96.0	93.9	93.5	89.0	82.3	73.1	65.4	54.7	51.9	41.0	37.0	34.2	32.1	29.7	27.4	25.1	24.0	32.6	n/a
GDP growth in euro area	2.2	2.4	2.5	4.1	3.9	3.6	2.5	1.4	–0.8	2.5	2.5	1.4	2.6	2.7	2.9	4.0	1.9	0.9	0.8	1.8	1.7	2.9	2.6	1.7	1.4

Source: *OECD Employment Outlook; OECD Economic Outlook; OECD Stat; Department of Finance and Budget Statement*.

Table 12.2 Irish social pacts

Name	Years	Contents	Wage conformity*
Programme for National Recovery (PNR)	1987–1991 (39 months)	– Pursuit of macroeconomic stability – Reduction of national debt – Exchange between wage moderation at 2.5% and tax reduction	94%
Programme for Economic and Social Progress (PESP)	1991–1994 (36 months)	– Keeping the strategies of PNR – Extension of the agreement to the local level	93%
Programme for Competitiveness and Work (PCW)	1994–1997 (36 months)	– Increasing of employment – Keeping the fundamental frames of ex-agreements	93%
Partnership 2000 (P2000)	1997–2000 (39 months)	– Extension of the agreement to the enterprise level – Program for reduction of social inequality and exclusion	89%
Programme for Prosperity and Fairness (PPF)	2000–2003 (33 months)	– Transfer its focus from macroeconomic policies to the supply policies about labour and technology	75%
Sustaining Progress	2003–2005 (36 months)	– Establishment of 'Forum on Workplace of the Future' for successful reorganisation of workplaces – Reinforcement of co-training by ICTU and IBEC	87%
Towards 2016	2006–present	– Establishment of Ten-Year Framework Social Partnership Agreement for enhancing national competitiveness	?

*Industrial Relations News (each year) for conformity rates of wage norms.

sectors (Baccaro and Simoni 2004, 10–11). The modern and foreign sectors followed the wage trends in the domestic sector despite showing higher productivity growth rates. That is why even MNCs prefer social concertation to the free-for-all of decentralised bargaining. As a result, even high inflow of FDI would have a negative impact on the Irish economy in the absence of coordinated wage moderation, as seen in the 1980s.

Since 1987 social partners have coordinated wage moderation successfully, but when employers and unions tried to coordinate wage bargaining in the 1970s, they failed (Hardiman 1988; Wallace, Gunnigle, and McMahon 2004, 221–37). The strong evidence of failure then was the high level of industrial action, particularly unofficial strikes. As seen in Figure 12.1, the frequency of unofficial strikes in the 1970s is one of the main indices for the failure of both intra-union and national coordination. The relatively low number of unofficial strikes in the period 1981–6 was mainly due to the absence of national agreements under the free-for-all decentralised bargaining system (1981–7), when upward wage pressures were relatively dampened by rising unemployment, although the rate of rise of hourly earnings was higher in Ireland than in other Western European countries (Hardiman 2002, 8; Roche and Cradden 2003, 79). In contrast to the centralised bargaining but failure of coordination in the 1970s, the low number of unofficial strikes since 1987 indicates that centralised agreement at the national level achieved high

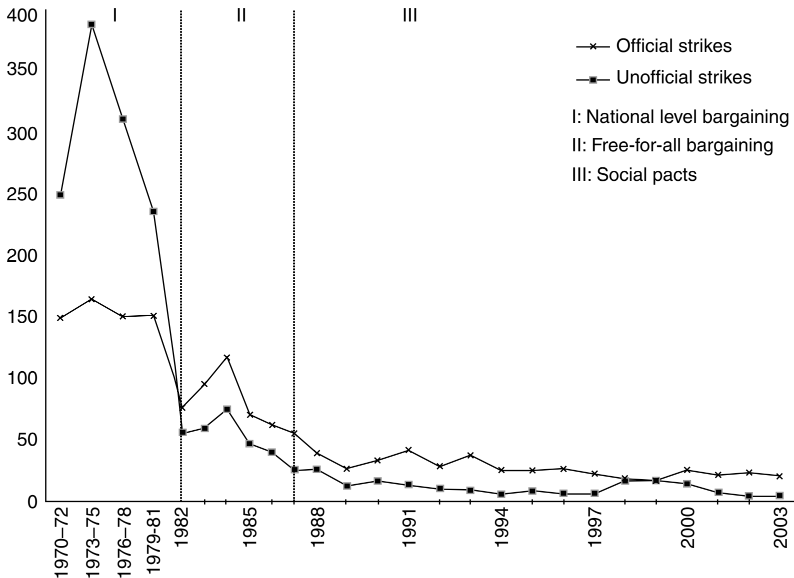

Figure 12.1 Frequency of strikes, official and unofficial, 1970–2003

Source: CSO, ILO, Wallace, et al. (2004).

coordination. As Table 12.2 shows, the conformity of pay deals to national agreements was very high.

Wage moderation under social partnership enabled MNCs and modern sectors to increase competitiveness and enabled domestic firms to maintain profits. The wage share in the business sector of Ireland declined from 79 per cent (1980–4) to 47.8 per cent (2000–3), and wage growth rates under the Irish social pacts were significantly lower than those in other countries (cf. Table 12.3). An immediate effect of wage moderation was the enhanced profitability of business. The rate of return on capital almost doubled, from 8.6 per cent in 1987 to 15.4 per cent in 1996. This growth led to high growth of inward investment. Gross investment in Ireland's private sector was 8.4 per cent in the 1990s, compared with 2.2 per cent for the EU 15.[7] Neocorporatist social coordination in Ireland had created a virtuous cycle, greatly increasing the competitiveness of the Irish manufacturing sector, particularly in industries dominated by the MNCs, and enhancing employment growth. Increasing employment and output increased tax revenues, which allowed government to reduce direct taxes. In turn, tax reduction underpinned wage moderation and social partnership.

Another important contribution of social partnership to success is that it changed Ireland from a highly taxed, highly indebted, underinvested, and high-inflation economy to one with low taxes, low national debt,

Table 12.3 Unit labour costs and wage share in the business sector

	Years	**1970–4**	**1975–9**	**1980–4**	**1985–9**	**1990–4**	**1995–9**	**2000–3**[a]
Unit labour costs in the business sector	**USA**	5.4	7.0	4.6	2.8	2.1	1.5	0.2
	UK	10.3	11.1	5.4	5.9	3.0	3.1	2.8
	Ireland	**12.1**[b]	**13.8**	**9.1**	**1.5**	**1.9**	**−0.3**	**0.2**
	Germany[c]	7.3	3.4	2.6	1.6	3.1[d]	−0.2	1.0
	OECD average[e]	9.2	8.5	5.7	2.9	3.9	1.5	1.3
Wage share in the business sector	**USA**	69.2	67.1	67.3	66.0	65.8	64.2	64.6
	UK	70.8	70.6	70.4	69.7	72.1	69.7	72.6
	Ireland	**80.5**[b]	**79.5**	**79.0**	**71.3**	**67.1**	**57.1**	**47.8**
	Germany[c]	69.2	69.4	69.6	66.0	66.6[d]	64.7	65.0
	OECD average[e]	70.2	72.5	71.2	67.0	66.4	64.4	64.1

a) 2000–2003 values based in part on projected values for certain countries.

b) 1971–74.

c) Data for years up to 1990 refer to the former West Germany; subsequent values correspond to the post-unification period.

d) 1991–94.

e) Employment-weighted averages for the expanding sample of countries for which data are reported for each period.

Source: *OECD Economic Outlook Database*.

low inflation,, and high stability (Sweeney 2008, 164–5; O'Donnell and O'Reardon 2002, 199–200). Social partnership made the Irish economy structurally stable by taking exchange rate and inflation outside day-to-day political competition and industrial conflicts. This contrasts with the short-termism that traditionally ruled economic policy, business decisions, and wage setting.

How could Ireland develop a development strategy different from the United Kingdom's when the challenges of globalisation were similar? In the crisis of the 1980s, when government was almost bankrupt, most political leaders and policymakers in Ireland agreed that it should reverse the expansionary policy of high inflation and high wage growth indexed to inflation, recognising that in order to develop, Ireland should stay in the EC, eschew isolationism and protectionism, and join the European monetary system. Following the economic crisis of the 1980s, almost all the political parties and main social actors agreed that the targets should be stabilising the national debt and controlling public finances. The largest party, Fianna Fáil (FF), agreed to Fine Gael (FG)'s so-called Tallaght strategy, in which FG would support the economic program of the government if it brought public finances under control (Roche 1994, 179–81).

Nevertheless, the international challenges of financial globalisation and its relative position as a small economy did not make Ireland determine to choose a social concertation solution rather than Britain's free market monetarism. Even in the face of globalisation, Ireland had a range of choices – namely, hard monetarism with a free market orientation or wage moderation through coordination and fiscal control.[8] Although employers believed that social coordination of income policy might be more desirable, they lacked confidence in its likelihood, considering the failure of coordination attempts in the 1970s. With social concertation unlikely, employers believed that the only possible and realistic option was hard monetarism with a free market emphasis, since high unemployment in the free market would dampen wage claims (Roche and Cradden 2003, 78; Hastings et al. 2007, 4–5).[9]

In this situation the first social pact created a turnaround. The coordination capability enhanced through domestic politics changed the range of choices. Through its social agreements, Ireland developed a coordinated income policy as well as social integration with neocorporatist social concertation rather than Thatcherite neoliberalism. But how could Ireland establish successful social concertation in the absence of Scandinavian-style corporatist institutions, including the encompassing structure of unions and employer organisations, the hierarchical authority of peak associations, and strong social democracy? Institutions of Irish and British industrial relations were traditionally similar, in the sense of the fragmented structure of numerous unions and employer associations, voluntary and adversarial collective bargaining, and a non-interventionist state (Roche 1994; Chub

1980, 6–9; O'Donnell and O'Reardon 2002, 196–200). Before 1987, with policy concertation virtually absent in Ireland, many comparative political economists classified it as a liberal and uncoordinated market economy (LME) rather than a coordinated market economy (CME), based on the data of the 1970s and 1980s (Soskice 1999, 110–12). Despite the absence of the expected institutions, Ireland achieved economic success by neocorporatist social concertation primarily for the reason that the main actors were able to build a social consensus regarding its desirability by changing their policies through domestic politics. In the national bankruptcy crisis, politicians and social partners agreed to cooperative efforts. In addition, Fianna Fáil's minority government needed trade union support in pursuing a radical correction of fiscal and monetary conditions favourable to national competitiveness (O'Connell 1999, 53).

In particular, the national economy's critical situation changed the main social actors' ideas. Trade unions shifted their confrontational policy for wage increases toward social coordination. Reflecting on the assault on British unions under Thatcherism, Irish unions worried for their survival. A trade union leader of the SIPTU, the largest union in Ireland, described the union choices of 1987 as very limited:

> In 1987, we internally felt that the victory of PD would be a dangerous scenario as seen in the UK. Thus, we thought we'd better get into the tripartite agreement.... For the social partnership in 1987, we were committed to it since we were afraid as seeing what had happened in the UK with Thatcher and the government might be committed to it because they needed to stimulate the economy for recovery.[10]

Frightened about the UK's neoliberal turn under Thatcherism, trade unions in Ireland agreed that they should be quick to show people that they were working for national recovery (Hastings et al. 2007, 10, 19; Baccaro 2003, 693; Hardiman 1988, 234).

The firm attitudes of trade unions and the FF government in committing to the social concertation model convinced employers to exchange their own preferences for a free-for-all decentralised policy for involvement in social concertation. Once it proved successful, more employers began to support it. There have been ups and downs, but the large majority of employers have remained strong advocates.[11] Despite dissatisfactions, Irish employers did not turn from the social coordination approach to the free market model. One of the main reasons employers prefer social partnership is that it provides stability in labour costs and certainty for economic management. Based on national agreements, employers are able to calculate their labour costs as well as economic conditions more accurately. In addition, due to national pay bargaining, employers have been able to avoid direct conflicts with their employees over wage issues and have thus been

able to focus on flexible work teams, productive cooperation, and other important issues.[12]

The reason for its long-term durability is that the Irish social partnership has continuously created social consensus on its desirability through new political exchanges, whose results have by and large satisfied all joined partners. The Irish social concertation model differs from traditional Keynesian corporatism in that social inequality and social welfare in Ireland have not significantly improved in the period of social concertation.

However, Irish social concertation is not "disguised neoliberalism", though leftist critics argue it is (Allen 2003, 2000). In Ireland, despite wage moderation the real incomes of working people have grown, and high employment growth has tremendously improved living standards. That is, in real terms poverty was reduced and disposable income grew. From 1987 to 2007, average nominal industrial earnings rose from €13,000 only to €33,000 a year. Even taking account of inflation and tax reduction, single earners' net income increased significantly – by 83 per cent in real terms – during the period (Sweeney 2008, 10–11). This sharp increase – in stark contrast to weak income growth in the USA and many European countries – was not complemented by similar improvements in social welfare, in terms of which Ireland remained far behind most of other Western European countries. As noted earlier, in abandoning a British-style liberal economy, Ireland, facing globalisation's challenges, created a new model of social concertation that did not follow neoliberalism or traditional Keynesian corporatism.

4 From growth model to crisis model?

The Irish economic crisis of 2009–10 is striking because Ireland experienced one of the euro countries' most significant recessions, caused by problems with derivatives securitised by assets in the U.S. housing market. The Irish economy contracted by 2.5 per cent in 2008 and was expected to decline by 6.5 per cent in 2009, compared with the UK drop of 2~3 per cent. Unemployment rose fast, to 12.9 per cent in September 2009 from the almost full-employment figure of 4 to 5 per cent earlier in the decade. National income was expected to fall by more than 10 per cent between 2008 and 2010. The Economic and Social Research Institute (ESRI) expected that Irish GDP would fall by 8.3 per cent in 2009 and the government would lose a further €1.3 billion in tax revenue. ESRI estimated in 2009 that the budget deficit would reach 10 per cent, the highest in the EU.[13]

Why did Ireland experience the deepest recession in the EU? Had the national economic strategy, particularly the social concertation model, ceased working in a globalised world? It is still too soon to answer the question, though the social partners failed to find a recovery solution by social concertation in 2009 after year-long attempts to do so. This does not mean

that the national development strategy is extinct. Economists assessing the problems identify the main causes of the Irish economic collapse as domestic factors (Kirby 2010, 4–5). Nevertheless, rigidity in the social concertation model did not create the crisis or the structural recession, as neoliberals hold. This section explores the causes of the current crisis and why the social concertation model came to break down in 2009.

The international financial crisis rooted in the USA cannot alone account for the particular severity of Ireland's recession. The causes of the 2008–9 crisis were mainly local in origin (Kwon 2009b). Ireland experienced its deepest recession, not because of short-term outflow of international capital (cf. the Asian financial crisis of 1997), but mainly because of the synchronisation of various domestic and international factors, including the decline of exports resulting from the world recession, the boom and bust of the housing market and the construction industry, the decline of competitiveness from high economic growth (involving a labour shortage, high pressure of upward wages, and strong exchange rates [Goggin and Siedschlag 2009]).[14] The Irish economy had been unsustainably dependent on a housing and construction boom as well as on private consumption. Easy access to loans due to international financial globalisation in the wake of the earlier Tiger boom was a facilitating factor but not the driving cause.

The recent period of Irish growth – 2002–8, after the dot-com crash of 2001 had undermined the key foundation of the Celtic Tiger boom – was characterised as a boom and bubble economy. Rapid growth led to high income rises and increased availability of low-cost globalisation-based finance, which in turn triggered a building and construction industry boom. The boom turned rapidly into a bubble, however, due to the same highly globalised financial system. With easy availability of low-cost capital from abroad, the Irish banking sector borrowed extensively to finance the housing boom, the result being a sharp rise in the banks' net foreign liabilities, from a low 10 per cent of GNP in 2003 to over 60 per cent of GNP by 2007 (Bergin et al. 2009, 5). In 2005 private-sector investment in Ireland peaked at 28 per cent of GNP, the highest in the EU. But 75 per cent of total private investment was in construction (Sweeney 2008, 161).

From 2003, the construction and housing boom drove economic growth, in contrast to the real Celtic Tiger years in which exports drove growth. The Irish economy faced high pressure from upward wages and price inflation due to high long-term growth. The boom and bubble in the construction sector accelerated the decline of industrial competitiveness due to a labour shortage and upward pressures on wages in the export sector as well as price inflation in the economy. According to the European Central Bank, labour costs increased one-third between 1999 and 2007. The decline of competitiveness in Irish industries was reflected in the increasing deficit in the current account of the balance of payments in recent years (National Competitiveness Council 2009).

Therefore, neither the FDI-led development strategy nor the social concertation model can be blamed for the crisis. As mentioned above, the culprit was the grave distortion of the Irish economic system in the aftermath of long-term high growth as accelerated by the globalisation of finance. The social concertation model has not been rendered redundant; it did create great economic success. The problem is less social concertation as such than negative mismanagement of its aftermath. Policymakers and social partners should have better managed the high inflation and bubble from the long-term and highly rapid growth.

Rather than discard the original Irish social concertation model, many policymakers and social partners aim at reviving the original Celtic Tiger, which was characterised by strong export industries based on high productivity, strong cost competitiveness, and stable public finances. The May 2009 ESRI report, *Recovery Scenarios for Ireland*, predicted that the Irish economy would recover by export growth, which in turn depends on not only the world market's recovery but readjustments in the Irish economy to recover cost competitiveness, high productivity, and stabilisation of the financial system. The ESRI report suggested two scenarios for the Irish recovery based on the speed of the world's recovery: the World Recovery Scenario and the Prolonged Recession Scenario. In the former, the Irish economy will return to the pre-crisis level of 2007 by 2014, with a 5 to 6 per cent economic growth rate and a 6 per cent unemployment rate. In the latter, recovery will be delayed till 2015, with 4.7 per cent growth and 7 per cent unemployment. It is noteworthy that the two scenarios are based on the same assumption: that any Irish economic recovery will be driven by domestic economic adjustments and export growth.

Focusing on export growth, the Irish recovery strategy aims not only at stabilising the financial system but, more importantly, at improving the competitiveness of Irish industries by cost competitiveness, where it is expected that the export industries will absorb the current unemployment from the bubble burst of the construction sector. The Irish method for improving competitiveness of export industries focuses on wage-cost reduction. As a euro member, Ireland cannot devalue its currency, something Sweden and Finland did to improve export-led growth in the 1980s. The ESRI recovery scenario expected the Irish economy to recover its competitiveness through a wage reduction of 6 per cent between 2009 and 2011 (Bergin et al. 2009, 42).[15]

In this perspective, the social concertation model retains its significance in sustained domestic readjustments, including wages, inflation, and public finance. The problem is how to distribute corresponding burdens and costs. It is very difficult to overcome the conflicts of different social forces as to how to distribute pains fairly in the processes of stabilisation of public finance and export-led growth by wage moderation. As soon as the crisis

occurred, the government and social partners attempted to reach social agreements on economic renewal, which resulted first in the Framework for a Pact for Stabilization and Economic Renewal on 28 January 2009. The Framework suggested basic guidelines for a national recovery plan.

The creation of social partnership failed, despite several attempts throughout 2009. The collapse of social concertation in the crisis was caused mainly by failure to create social consensus on either a diagnosis or a prescription. Trade unions viewed the crisis as a matter of government's mismanagement and bankers' wrongdoing. For recovery, unions suggested "a fairer way", in which the public debt burden would be distributed other than by cutting wages and social welfare. Unions held that wage cuts and layoffs would reduce domestic consumption, delay recovery, and further deflate the economy.[16]

By contrast, employers held that if competitiveness was to be recovered and the economy cured, excessively generous pay rises gained agreed in good times had to be revised.[17] The employer organisation IBEC formally withdrew from the terms of the national pay agreement and warned that unless the government and the unions reached an agreement, it would withdraw entirely from social partnership. IBEC also revealed a mixed reaction to the government's recovery plan. Employers demanded that the public finances be stabilised by cuts in pay and welfare and that the government also take more decisive measures to improve employment and get the economy going. Although IBEC evaluated Budget 2010 as "a turning point" that put Ireland back on a sustainable path, many employers were not satisfied with the measures to stimulate the economy. In particular, the Irish Small and Medium Enterprises Association (ISME) held that the budget lost an opportunity to introduce stimulus measures to help businesses remain competitive and keep jobs.[18]

Nevertheless, with the main actors in Ireland trying to rebuild social concertation to overcome a crisis (instead of discarding it completely and turning towards neoliberalism), the tripartite form of social partnership changed to a looser form of two bipartite agreements. In 2010, in view of the many benefits of coordination, social partners and the government, in a new kind of social concertation, produced the Croke Park agreement in the public sector and a protocol agreement for wage bargaining in the private sector.

5 Conclusion

In the process of adjusting to the challenges of globalisation, including high mobility of capital and a turbulent world market, neoliberalism gained ascendancy in the debate over readjusting national economic systems. Ohmae (1990, 1996) and other hyperglobalists hold that governments can

no longer control their own development strategies in a globalised economy. Even less radical neoliberals hold that nation-states will converge toward a neoliberal free market model due to its universal purchase.

However, the Irish route to creating an economic miracle contradicts the hyperglobalist view as well as that of proponents of convergence. Ireland achieved great success, even with the challenges of globalisation, not by a neoliberal free market model, but by a neocorporatist social concertation model that departed from the traditional British-style liberal system. Social partnership in Ireland significantly contributed to rapid growth of the economy by keeping industries cost-competitive and enabling the government to pursue a coherent approach to economic policymaking. Irish social concertation differed from traditional Scandinavian corporatism, in which wage moderation accompanied generous social welfare. In Ireland wage moderation was exchanged for high growth of disposable income and employment. Despite differences in the content of the political compromises, these systems similarly managed the economy through social coordination.

On the other hand, Ireland's latest crisis and the collapse of the social partnership do not confirm that a national economic strategy or a social concertation model is no longer effective under globalisation. On the contrary, as seen in 1987 as well as in the crisis of 2009–10, social concertation is more desirable in overcoming challenges if social actors are able to coordinate their actions. Employers opposed the social concertation model in 1986, although it was very desirable, because they believed it unlikely to be established in light of their experiences in the 1970s and 1980s. The social concertation approach permits various avenues toward a recovery strategy, as well as a measure to neoliberalism as an alternative in distributing the costs and burdens in the recovery process. The social concertation model in Ireland deserves significant attention from policymakers and political economists as a viable method for national recovery as well as for initiating the rapid economic growth seen in the Celtic Tiger. The social concertation model may better serve national integration than a clear-cut winner-take-all or free–market model. Once established, it can also improve the nation state's ability to overcome crisis.

Notes

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1. For challenges under globalization, see Harvey (2005), Berger (2006), Andrews (1994), Rhodes (2001), and Iversen and Wren (1998).

2. For the neoliberals' argument, see Harvey (2005), Strange (1997), Siebert (1997), and Feldmann (2003). In particular, for the death of corporatism, see Streeck (2009), Grahl and Teague (1997), and Gobeyn (1993).
3. For the re-emergence of the corporatist social concertation model in Western Europe, see Berger and Compston, eds (2002).
4. For the recent crisis of Ireland, see Barrett et al. (2009, 32), IMF (2009, 5), and Bergin et al. (2009), Kwon (2009b).
5. Interview with an industrial expert on 23 June 2008 and with a SIPTU leader on 14 July 2008. See also Roche (2007) and Roche and Cradden (2003).
6. See O'Donnell (2008) and O'Donnell and O'Reardon (2000), who regard the Irish social partnership as post-corporatist. They emphasise the participation of numerous civic associations in addition to the union and employer associations, although they also point to the importance of social concertation. However, in practice the role of civic associations is relatively minor.
7. European Commission, "European Economy", *Statistical Appendix*, Autumn 2006.
8. *Industrial Relations News*, 8 May 1981, p. 7.
9. See also *Industrial Relations News*, 2 October 1981, p. 11.
10. Interview with a SIPTU leader, 14 July 2008.
11. According to a 2007 survey of 229 Irish CEOs by Price Waterhouse Coopers, a majority of employers are on the whole satisfied with the social partnership, although the level of support fell from 82% in 2006 to 72% in 2007. See *Industrial Relations News*, 29 March 2007, 24–5.
12. Interview with an HR manager, 23 June 2008; interview with a manager from the Bank of Ireland, 11 July 2008.
13. *Guardian*, 29 April 2009; *The Sunday Times*, 29 March 2009; *New Statesman*, 12 Jan. 2009, p. 22; Internet report from the ESRI.
14. See also *Irish Times*, 9 Jan. 2009.
15. See also the *Economist*, 21 March 2009.
16. See *Irish Times*, 19 Oct. 2009.
17. See *Irish Times*, 23 October 2009 (p. 17), and 20 October 2009.
18. See *Irish Times*, 10 December 2009, "Opportunity for Stimulus lost but Fiscal Order Backed"; and 26 November 2009, "IBEC withdraws from Pay Agreement".

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13

From Developmentalism to Neoliberalism and Back Again? Governing the Market in Australia from the 1980s to the Present

Elizabeth Thurbon

This chapter traces the relative influence of developmental and neoliberal ideas in Australia from the 1980s to the present and addresses some popular misconceptions about local manifestations of these competing philosophies of economic governance.

I begin with the 1980s, as it was during this decade that Australia decided to abandon its highly protectionist past and embrace both trade and financial openness in a quest for improved economic competitiveness and industrial transformation. This was also the time when developmentalism and neoliberalism emerged in Australian policymaking discourse as competing approaches to managing economic openness.

I start by exploring some definitional issues surrounding the concepts of developmentalism and neoliberalism, both generally and in the Australian context. I then address two popular misconceptions about Australia's experience of developmentalism and neoliberalism in the 1980s and 1990s. The first is that Australia's shift towards trade and financial liberalisation in the 1980s reflected the wholesale embrace of neoliberal ideas on the part of the economic policymaking elite. A popular but simplistic reading of the changes during that decade, it overlooks the significant influence of developmental ideas and policies in Australia at that time. The second misconception is that the dismantling of developmentally oriented policy programmes from the mid-1990s was driven primarily by neoliberal ideology. The "ideology made him do it" explanation of policy shifts under Prime Minister John Howard significantly underplays the role of domestic *political* calculations in economic policy choices – calculations which had very little to do with neoliberal ideology. It is important to make this point because it paints a more realistic picture of the influence and embeddedness of neoliberalism in Australia, which I suggest is often overstated. It also paves the way for a

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more realistic assessment of the obstacles facing the push to revive developmentally inspired industrial governance in Australia.

It is to this apparent revival that I turn in the conclusion. The 2007 election of Prime Minister Kevin Rudd and the onset of the global financial crisis (GFC) saw the re-emergence of a developmental discourse amongst Canberra's policymaking elite and an attempt to undo the previous dismantling of developmentally oriented policy programs – a pattern that the Gillard government seems to be maintaining. How much policy space the government has left to move in light of the institutional changes imposed under the Howard regime, however, is questionable.

1 The definitional debate

At the most basic level, neoliberalism and developmentalism represent competing ideas about the most appropriate relationship between states and markets. Comparing them, however, is not a straightforward task, as these concepts differ fundamentally in scope and nature. Scopewise, developmentalism is a relatively narrow concept, referring almost exclusively to a set of ideas about governing the *industrial* economy. In terms of conceptual nature, developmentalism represents a relatively straightforward kind of social sciences theorising whose approach can reasonably be described as inductive – where general conclusions are drawn from specific empirical observations. Neoliberalism, on the other hand, is a much broader concept than developmentalism, with more complex epistemological foundations.

The idea of developmentalism

Developmentalism refers to a set of ideas about governing *industrial* economy; they can be distilled as follows:

1. continual industrial and technological upgrading, being central to long-term national economic prosperity and security, should thus be a primary priority of the governing elite;
2. ongoing techno-industrial transformation is not something that can reliably be left to free market forces or notions of "comparative advantage", which could relegate some countries to primary production or low-wage, low-value-added economic activities forever;
3. for these reasons states can and should play an active role in facilitating continual national techno-industrial transformation and upgrading.

These are the basic ideas that I suggest sit at the heart of developmentalist *theory*, which grew out of a long series of empirical observations and comparisons of the rapid industrialisation experiences of a variety of East Asian nations over the post–World War II period.[1] From these observations a set of generalisable principles about some of the essential foundations of national

industrial dynamism were induced, principles which have since been – and continue to be – tested and refined against an ever expanding number of national, sectoral, and industry-specific case studies.[2]

How does developmentalism manifest in practical terms? What do states with developmental tendencies look like? We can draw from the literature three main identifiers or indicators of developmentalism in practice:

1. *normative commitment reflected in political discourse* – an expressed commitment at the highest levels of the policymaking elite to active support and promotion of national industrial transformation and upgrading;
2. *institutional structure of the state* – a policymaking apparatus organised to privilege and facilitate coherent techno-industrial policymaking and implementation. In the East Asian setting this has typically involved the concentration of policymaking responsibilities in bureaucratic pilot agencies such as Japan's MITI, Singapore's EPB, and Taiwan's CEPD, which were not only charged with the task of coordinating the national techno-industrial transformation effort but also sufficiently empowered with means of pursuing their goals. Of course, developmentalism may have different organisational manifestations in other national settings, as Linda Weiss's work on the United States (Chapter 1 in this volume) demonstrates.
3. *government-business linkages* –institutionalised, cooperative relationships between the private sector and the state designed to facilitate the formulation and implementation of developmental goals and plans. Again, such relations may find different organisational expressions in different national settings, from regularised interaction with peak industry bodies aimed at setting and executing industry-wide development objectives, to the establishment and support of innovation and commercialisation-oriented research consortia in key sectors, to the incubation, spin-off, and subsequent support of private firms by government.

As calls for a more developmental approach to industrial governance in Australia have historically been confused or conflated with demands for protectionism or heavy-handed government planning and intervention, it is helpful to define developmentalism in the negative to be clear about what it is not:

*Developmentalism is **not** an inherently "protectionist" philosophy.* Developmentally oriented industry policies, by definition *goal-oriented* and *strategic*, are aimed primarily at the creation of internationally competitive firms and industries. Thus, government support is conditional upon the attainment of specific targets by recipients, with exposure to international competition employed as a means of both promoting and measuring competitiveness. It follows that

Developmentalism is ***not*** *incompatible with economic openness or "globalisation".* Indeed, as Weiss has argued (2005), insofar as increasing openness intensifies competitive pressures and thus pressures for industrial adjustment and upgrading, openness may serve to enliven rather than erode a state's developmental tendencies.

Developmentalism is ***not*** *defined by a concrete set of policy instruments*, such as high tariffs, sectoral FDI restrictions, discriminatory procurement policies, or differential interest rates for strategic industries. The developmental policy mix will inevitably change over time in response to both the evolving tasks of industrial and technological transformation (e.g., the shift from low- to high-tech industry development) and external constraints (e.g., new trade rules which may render "early stage" developmental policies such as tariffs and subsidies illegal). Accordingly,

Developmentalism is ***not*** *unique to "developing" countries or limited to early or mid-stages of industrial development*. Developmentalism in mature economies is less about catching up and more about keeping up with first comers and maintaining techno-industrial leadership;[3]

Developmentalism is ***not*** *synonymous with a top-down model of industrial governance*. Although the heavy hand of the state was often apparent in early stages of East Asian industrialisation, it is cooperation with as opposed to coercion of the business community that has underpinned the ongoing success of the developmental project in East Asia and elsewhere. And finally,

Developmentalism is ***not*** *incongruous with distributive goals*, as the case of Japan amply illustrates. Nor, however, is it synonymous with social equity, a fact starkly revealed by the South Korean experience and explored by Chang Kyung-Sup in Chapter 4 in this volume.

In sum, *developmentalism* refers first and foremost to a set of ideas about the centrality of strategic industrial governance to the pursuit of national techno-industrial transformation and about the essential role that long-term, collaborative government-business relations play in that process. These ideas distinguish developmentalism from neoliberalism.

The idea of neoliberalism

Much broader than developmentalism, neoliberalism ranks alongside globalisation as one of the most overused and misapplied concepts in academic and popular debate.

In Australia, especially since the GFC, neoliberalism's most popular deployment is as a term of abuse. In a series of essays Kevin Rudd, the former prime minister, blamed the entire 2009 financial crisis on "rampant neoliberalism", which he painted as synonymous with a variety of economic sins, including underregulation, income inequality, and corporate greed (Rudd

2009). One does not have to look far, however, to find that countries with neoliberal tendencies do not have a monopoly on inequality or corporate greed; the concentrations of wealth in non-capitalist states (e.g., Russia under communist rule) and in some capitalist developmental states (e.g., South Korea) are cases in point. Nor is liberally oriented economic reform necessarily synonymous with underregulation; Australia's management of financial deregulation and its resulting resilience during the 2009 financial crisis amply demonstrates this point, as I discuss below.

When not being used as a term of abuse, *neoliberalism* is frequently used both to describe and to explain the worldwide shift towards greater economic openness since the 1980s. Australia's embrace of openness in the 1980s (discussed below) is often assumed to have been motivated by "neoliberal ideology", with the pursuit of liberalisation, deregulation, and privatisation cited as evidence of its adoption of "neoliberal policies". I suggest, however that there is nothing inherently "neoliberal" about this troika of market-oriented reforms; some developmental states have strategically adopted all three since the 1980s without wholeheartedly embracing the ideology of neoliberalism or relinquishing their commitment to strategic industrial governance (Thurbon 2001, 2007; Weiss and Thurbon 2006a).

Fundamentally, like developmentalism, neoliberalism is a set of ideas about the ideal relationship between states and markets. However, it is a much broader concept than developmentalism, for while neoliberalism certainly has implications for governing the *industrial* economy, it is not confined to the issue of industrial governance. Its prescriptions extend to almost all areas of national governance, from labour to social and welfare policy and beyond. This is arguably what distinguishes neoliberalism from classical liberalism: the extent to which the former envisages the applicability of free market solutions to almost all economic and social problems.

Neoliberalism's essence can be encapsulated in three basic, interrelated ideas:

1. The free market is the most efficient allocator of resources to their most productive end. Government intervention in allocative decisions inevitably distorts the market mechanism, leading to suboptimal economic outcomes.
2. Governments should thus limit their role to the provision of the basic framework of rules in which the free market can operate, including national security, private property rights, and laws designed to promote and enforce market-based competition. The unfettered market, left to its own devices, will take care of the rest.
3. Market-based solutions can usefully be applied to most areas of economic and social life – from the industrial economy to welfare, health, education, and beyond.

Sometimes referred to as "market fundamentalism", neoliberalism emerged in the 1970s in the context of global stagflation – an unprecedented problem that proved impervious to Keynesian-style pump-priming of national economies. In the face of massive inflation, growing unemployment, and burgeoning levels of public debt, neoliberalism represented a coherently articulated and thus compelling alternative to political leaders, policymakers, and outward-looking segments of the business community desperate for a solution to unfolding economic, social, and political crises. Reversing the Keynesian emphasis on the pursuit of full employment, neoliberalism placed top priority on fighting and then controlling inflation, deemed the by-product of unchecked government spending. Indeed, neoliberalism has become synonymous with the view that governments – with their tendencies to overspend and overregulate – are generally the cause of economic problems rather than part of the solution. For this reason neoliberalism is often described as a "small-state", even an "anti-state", economic philosophy.

However, when we look for a reflection of the validity of neoliberal ideas in the "real world", we tend to come up empty-handed. Unlike developmentalist ideas, neoliberal ideas were not derived from a process of empirical observation, testing, and refinement; the so-called neoliberal model of capitalism was not reverse-engineered from reality. Rather, neoliberal ideas reflect a set of assumptions about how markets best work and prescriptions about how they should be left to work. Insofar as neoliberalism represents an ideal to aspire to, as opposed to an empirically grounded set of claims about the essential foundations of national economic prosperity, one might reasonably describe it as an ideology, not a theory.

This is not to suggest that neoliberal ideas have not been subject to rigorous empirical testing; far from it. Robert Wade's comprehensive testing of neoliberal interpretations of Northeast Asia's rapid industrial transformation, for example, effectively refutes the conventional wisdom that the region's growth was the outcome of adherence to free market principles (1990). Ha-Joon Chang's sweeping comparative historical study reveals that no successful industrialised nation in history has ever relied on neoliberal prescriptions to achieve its transformation (2002). Joseph Stiglitz has analysed countries that *have* strictly adhered to neoliberal policy prescriptions in the pursuit of economic development (the so-called Washington Consensus set of policies prescribed by the IMF and World Bank) only to find themselves far worse off than when they began, not to mention worse off than some countries that embraced a more state-guided approach to development (2002). Other studies have revealed how the world's leading industrialised nation – which fervently maintains a neoliberal self-presentation and loudly trumpets the benefits of neoliberalism to others – regularly eschews neoliberal dictates when matters of national economic security are at stake, relying on a more developmentally

informed approach to securing its techno-industrial leadership (Weiss and Thurbon 2006b).

Interestingly however, such studies' findings have failed to prompt a revision of neoliberal ideas or to dent, in mainstream political and economic discourse, its "global" hegemony (more accurately, its hegemony in the English-speaking world and in the world's most powerful international economic organisations). The seemingly unwavering faith of neoliberalism's adherents in the face of overwhelming evidence of its practical limitations is one reason why the concept evokes such passionate responses from those less devoted to its world view. It has also served to fuel the fire of those who see neoliberalism as representing, first and foremost, the ideological foundation of Western economic and political imperialism, the thin veil used to justify and promote "Western interests" – as if all actors in the West have a homogeneous set of interests that they pursue with coordinated vigour.

In light of the many and varied usages of *neoliberalism,* it is important to be as clear as possible about one's definition when trying to discern its relative influence in Australian economic and social life. In the spirit of comparing apples with apples, I limit my discussion to the influence of developmental and neoliberal ideas in the sphere of *industrial* governance in Australia, as this is the only sphere of governance to which developmentalism meaningfully applies.

Neoliberalism, developmentalism and industrial governance

What does neoliberalism have to say about industrial governance, and how does it differ from developmentalism? Unlike developmentalism, neoliberalism maintains what Bell (1993, 206) calls a "structurally agnostic" view of the economy: all sectors and industries are equal. So long as a country focuses on its comparative advantage (which in Australia's case would be commodity resources and agriculture) and on removing domestic and international impediments to investment and trade, economic growth will be forthcoming. Developmentalism, however, holds that some sectors and industries (particularly manufacturing) are more central to national economic security and well-being than others and should therefore be actively promoted and supported.

Similarly, neoliberalism maintains what we might call a "nationally agnostic" view of economic activity. Questions of national techno-industrial ownership, control, and capacity are of little consequence to neoliberals. So long as investment is forthcoming and aggregate (economy-wide) growth is maintained, it matters not from where investment comes, how it is structured, or how it impacts the activities of local firms. Developmentalism, on the other hand, while not opposed to foreign investment in principle, maintains that the fostering of local techno-industrial capacity in certain sectors is important for a variety of reasons, both economic and political. Developmentalists are thus anxious to ensure that foreign investments

support, as opposed to conflict with, the maintenance and fostering of local capacity.

Such different ideas about the significance of economic structure and local techno-industrial capacity imply very different policy preferences, though not at all policy levels. Despite embodying such different attitudes towards the necessity and desirability of strategically governing the industrial economy, in reality it is almost impossible to distinguish developmentally and neoliberally oriented governments from each other through their macroeconomic policies. For while developmentalists tend to be reasonably comfortable about the idea of government spending (so long as it is aimed at activities that will improve the nation's productive capacity), states with developmental tendencies do not always run budget deficits, nor are they necessarily "large" states (in terms of government spending as a percentage of GDP). Moreover, countries oft cited as displaying neoliberal tendencies frequently run budget deficits and rank amongst the largest governments in the developed world.[4] Nor, as noted above, are general shifts towards liberalisation, deregulation, and privatisation useful indicators of a state's tendencies, given that states with both orientations have vigorously pursued all three since the 1980s, albeit from different motivations.

Arguably only at the microeconomic level might we meaningfully distinguish between developmentalism and neoliberalism in policy terms. For example, while neoliberals are not opposed to policies designed to stimulate economy-wide activity (such as investment or export incentives), they insist that such measures be limited to promoting such activity in the aggregate. Neoliberals are fundamentally opposed to techno-industrial promotion measures that target specific "key" or "strategic" industries or target or discriminate between local and international firms or investors.

Distinctions might also be drawn at the organisational level, both in terms of bureaucratic structure and the organisation of government-business relations. The "structural agnosticism" of neoliberal states often manifests itself in hostility towards or benign neglect of pre-existing departments responsible for "strategic industry policy" and in a preference for a more generalised approach to the allocation of economic policymaking responsibility. In Australia, one might cite the merging in 2001 of the department responsible for techno-industrial policy, the Department of Industry, Science and Technology, with the Tourism and Resources departments to create the Department of Industry, Tourism and Resources as evidence of such structural agnosticism. This measure ran counter to the developmental idea of centralising industrial policymaking responsibilities and of privileging responsible agencies within the policymaking process. In terms of government-business relations, neoliberalism is sceptical, if not hostile, towards close ties between the two, since such ties are typically assumed to invite corruption and abuse. Developmentalism sees the fostering of collaborative

relationships as central to a state's capacity to effectively devise and implement developmental strategies.

With the ideational, organisational, and policy differences between these two approaches to industrial governance clarified, let us turn to the relative influence of these ideas in Australia since the 1980s and to two popular misconceptions about the local manifestations of these competing philosophies of economic governance.

2 Neoliberalism and developmentalism in Australia: two misconceptions

It is widely held that Australia's shift towards economic openness during the 1980s reflected the neoliberal transformation of the Australian state, including the wholesale embrace of neoliberal ideology on the part of the Australian economic policymaking elite and the marginalisation of the role of the state in economic and social life. This view is encapsulated in such a title as *Economic Rationalism in Canberra: A Nation-Building State Changes Its Mind* (1991). Written by the leading Australian sociologist Michael Pusey, this widely cited book situates a variety of economic and social policy shifts of the 1980s within the context of the ideological ascendency of "economic rationalism" (Australia's pet term for "neoliberalism").

According to Pusey, during the 1980s key economic bureaucracies, including the prime minister's cabinet and the Treasury and Finance departments, came to be peopled by young, university-trained economists indoctrinated in the teachings of Hayek and Friedman and holding an ideological objection to the idea of government intervention in the economy. These newly neoliberal organs of the state soon came to dominate both the "market-oriented" departments (responsible for trade and industry policy) and the "program and service" departments (responsible for social and welfare policies), leading to major economic and social policy shifts, including the floating of the Australian dollar in 1983 and further financial deregulation in the late 1980s (Pusey 1991, 222). The depiction of the 1980s as the decade of the triumph of neoliberalism in Australia and the marginalisation of "nation-building" aspirations has since informed other scholarly analyses of this period.[5]

The "neoliberal transformation" thesis arguably paints an overly simplistic picture of the changes taking place within the Australian state during that decade. In particular, it oversimplifies the nature of the ideational battles going on within the Australian policymaking community, especially in the sphere of industrial governance, where debate during this period was cast not simply between proponents of "old-style" protectionism (which best characterises Australia's approach to industry policy to that point) and neoliberalism. The 1980s also saw the emergence of an alternative discourse within certain segments of the policymaking elite – a developmental

discourse – that drew self-consciously on East Asian and European experiences and argued for a more strategic approach to industrial governance to help Australian industry adapt to the pressures of openness. This discourse, embodied in a battery of stakeholder reports calling for a more developmental approach to industrial adjustment and upgrading,[6] soon found concrete expression in government policy. As Capling and Galligan (1992) and Bell (1993), among others, detail in their historical analyses of the evolution of industrial governance in Australia, the 1980s were the decade during which old-style protectionist policies were re-oriented towards more selective interventions aimed at promoting the structural adjustment and technological upgrading of Australia's traditional manufacturing industries (including automobiles, steel, textiles, clothing, and footwear), which prior to the 1980s owed their survival largely to the blanket application of high tariffs. It was also the decade of new industry creation and promotion programmes aimed at building indigenous manufacturing and export capacity in high-tech, high-value-added industries, particularly pharmaceuticals and information and communications technologies.[7]

Developmentalism Australian-style was unique in both organisational underpinnings and policy emphasis. Organisationally, Australian developmentalism was personality-centred – driven by and ultimately dependent upon the charisma and commitment of key individuals, such as John Button, who served as Industry Minister from 1983 to 1993. Button's public popularity and his enthusiasm for and dedication to the cause of industrial renewal were central to winning over a manufacturing sector addicted to unconditional tariff protection and anxious about the impact of tariff reductions on their future viability, regardless of the adjustment assistance on offer. Button fostered industry compliance with the government's aggressive schedule of tariff cuts through the creation of regular, extensive consultation with peak industry councils charged with the task of surveying and reporting on the strengths and weaknesses of their industries and suggesting strategies for managing the adjustment and upgrading process. While these groups' ideas often informed policy prescriptions, Button was willing to insist upon wide-reaching and unpopular policy decisions when he felt industry suggestions for reform were too modest. Indeed, Button exhibited both a willingness and capacity to "discipline" capital for the purpose of executing his developmental vision, wielding sticks as well as carrots to secure compliance with restructuring plans and growth targets (see Capling and Galligan 1992, 133).

Personality-centred developmentalism is not unique to Australia. In Korea and Taiwan, for example, similarities can be traced to the ideas and enthusiasm of developmentally minded leaders, particularly Korea's Park Chung Hee and Taiwan's Chiang Kai-Shek. As presidents and developmental advocates during periods of crisis, they were able to make industrial transformation a national priority and oversee the reorientation of the

bureaucratic machinery to reflect it. As central as he was to Australia's developmental effort, John Button was not prime minister, and whilst the PMs under whom he served were far from neoliberal ideologues – both Hawke and Keating were generally supportive of the idea of state-facilitated industrial adjustment and upgrading – Button often struggled to have his policy visions given unwavering priority amidst the economic, social, and political upheavals of the late 1980s. The developmental agenda was further marginalised as Australia lurched into recession in the early 1990s and as Keating became consumed, first, with macroeconomic crisis management, then with the pursuit of non-economic aspects of his leadership legacy, including the promotion of regional integration, multiculturalism, and a republic.

In the absence of direct prime ministerial sponsorship, developmental ideas in Australia failed to become coherently institutionalised in the 1980s. Responsibility for industry development remained divided between federal and state departments; there was no "pilot agency" explicitly charged with leading the developmental drive or coordinating, say, trade and investment policies, which as a result often conflicted. Fragmentation also frustrated attempts to engage more meaningfully with organised business interests and foreign companies.[8] Public-private engagement was also complicated by an overwhelmingly sceptical attitude on the part of the Australian business community towards government involvement in the economy. Importantly, however, this scepticism long pre-dates the rise of neoliberal ideas in Australia and elsewhere. Bell (1993, 212) traces businesses' "profound sense of mistrust" of the Australian government's commitment to and capacity for stable, long-term industry policymaking back to the 1960s, whence began decades of failed experiments with protectionism and a tendency towards ad hoc, politically driven interventions in industry affairs. The constant chopping and changing of industry and investment programmes undermined faith in the government's abilities to forge long-term strategic policymaking and proved a deterrent to local and foreign investors.

Another quirk of Australian developmentalism was its primary focus on multinational corporations (MNCs); industry-promotion strategies centred on harnessing their resources and expertise to build indigenous capacity – a natural extension of Australia's post–World War II MNC-led manufacturing development strategy. From the late 1940s, Australian MNCs, in industries from autos to textiles, pharmaceuticals, and information technology, had a sheltered existence; they were permitted a virtual monopoly over the highly protected domestic market and not required or encouraged to develop significant export capacity or domestic linkages. As Australia experimented with developmentalism in the 1980s, the lion's share of new-industry-development strategies centred on public purchasing policies aimed at encouraging MNCs to export and to enter into partnerships with local firms for the purposes of transferring technology and business and managerial know-how.

For example, the 1987 Information Industries Strategy (IIS) sought to promote the development and export orientation of the local computer industry by linking public purchasing with high-tech industry development through the Partnerships for Development (PfD) programme. Under this programme MNCs bidding for government contracts were encouraged to sign long-term agreements (7 years) to meet R&D and export targets in collaboration with local IT companies. This scheme, expanded in 1991 to cover aerospace and telecommunications equipment and other strategic industries, in 1994 was substantially strengthened, making participation for MNCs mandatory if they wanted to be eligible for government contracts.[9]

The PfD programme was not without problems and was often criticised for its lack of surveillance of MNC promises; it was easy for MNCs to demonstrate "local participation" on paper but not deliver in meaningful terms. Moreover, where local capacity was developed, small Australian players still faced significant obstacles to establishing themselves as viable players in their own right, thanks largely to the ingrained cultural bias against "buying Australian" on the part of Australian government agencies. Due to the historic dominance of MNCs in Australian manufacturing, government departments had developed a preference for purchasing from large established foreign companies, typically viewed as the "less risky", cheaper supplier option. A significant disconnect emerged between the policy of sponsoring the development of local manufacturing capacity and the enduring practice of automatically privileging MNCs in public purchasing processes. Difficulties selling directly to the Australian government denied (and indeed continue to deny) many local firms the ability to develop the reputation needed firmly to establish their business locally, let alone launch exporting efforts.

Nevertheless, the PfD programmes were relatively successful; growth and export outcomes for local participants were demonstrably higher than for non-participants (Sicklen 1998, 41). Another indicator of their success – more importantly, their perceived potential – was Australia's refusal to sign the World Trade Organization's Government Procurement Agreement (GPA) in 1995, despite Australia being a strong supporter of the Uruguay Round of multilateral trade negotiations and a key participant in the development of the WTO's other new agreements (including GATS; see Capling 2001). Australia declined to sign the GPA for fear that it would negatively impact its ability to link public purchasing with industry-development goals without delivering improved access to foreign procurement markets for Australian manufacturers.

Despite its quirks and substantial practical limitations in the sphere of industrial governance, developmental ideas competed in equal measure with neoliberal ideas about how best to manage economic openness during the 1980s, and it often won out in terms of policy influence. While Australia embraced economic openness during the 1980s, it is a mistake to interpret

the shift towards liberalisation, deregulation, and privatisation as indicative of the wholesale "neoliberal transformation" of the Australian state. To do so is to fall into two conceptual traps.

The first trap is conflating liberalisation with neoliberalism, since liberalisation in and of itself is far from indicative of a state's neoliberal tendencies. As I argue elsewhere, states are motivated to pursue economic openness for a variety of reasons, the embrace of neoliberal ideology representing only one potential driver (Thurbon 2001, 2007). Taiwan, for example, was primarily motivated to liberalise its economy to address the challenges of industrial development, including limited access to finance, technology, and export markets. Reflecting the developmental motivation driving its liberalisation efforts, Taiwan coupled them with developmentally oriented microeconomic reforms intended to help local industry meet new competitive pressures and to take advantage of the opportunities that openness can bring. One could make a similar case for Australia during the 1980s; the decision to pursue economic openness was motivated less by neoliberal ideology than by developmental desire. Economic openness was a pragmatic response to the challenges facing Australia's economy at that time as opposed to a commitment to neoliberal ideology, a fact that explains why liberalisation and deregulation were combined with the development and implementation of a relatively coherent industrial adjustment and upgrading strategy in a variety of existing and emerging industrial sectors.

The second trap is to paint an overly unitary picture of the Australian state. Rarely unitary actors, states often simultaneously display divergent tendencies in different policy spheres. As Chang Kyung-Sup notes in Chapter 4 in this volume, South Korea is at once developmental in the sphere of industrial policy and neoliberal in the sphere of social policy. And as Linda Weiss observes, the U.S. state is at once mercantilist in agriculture, developmental in some areas of industrial governance, and neoliberal in finance. It should therefore come as no surprise to find such diversity within Australia. While one may well observe a neoliberal shift in the sphere of social policy from the 1980s onwards (cf. Pusey 1991), the same may not necessarily apply in the sphere of industrial governance. This points to a key problem with the broad descriptors often employed in the social sciences, including "neoliberal state" and "developmental state". Perhaps the most one can confidently say of any state is that it displays particular tendencies in specific policy arenas. This is not to deny the significance of the rise of neoliberal ideology within some segments of the Australian federal bureaucracy and within some policy spheres during the 1980s. Rather, it is to say that the "neoliberal transformation" interpretation of the 1980s overstates the impact of neoliberalism in the sphere of industrial governance.

The second misconception about the influence of neoliberalism in Australia is that the dramatic policy shift away from developmentalism in the sphere of industrial governance following the election of Prime Minister

John Howard (1996) was motivated by neoliberal ideology. The first indicator of this shift was the massive assault on industry support programmes – or their utter scrapping – in the Howard government's first budget.[10] Even scholars who acknowledge the lively contest between developmentalism and neoliberalism during the 1980s depict the 1996 "slash and burn" as indicative of "the recent strengthening of neoliberal policy hegemony" (Bell 1997, 5) and tend to emphasise the role of neoliberal ideology in driving the major economic and social policy transformations under Howard. "In the wake of the savaging of positive industry policy programs in the 1996 Budget, it now seems that neoliberals have scored a king-hit and it is now possible to chart the rise and decline of [positive industry policy] over the last decade or more" (Bell 1997, 5). Bell goes on to paint the slashing of industry promotion programmes as evidence of the influence of powerful neoliberal elements within the new government (including Treasury and the Productivity Commission) and indicative of its neoliberal attitude towards "positive industry policy" (1997, 12).

Under Howard, Australia's experimentation with developmentally inspired industrial governance unquestionably suffered major blows: first the 1996 budget cuts and then, more significantly, the signing of the 2004 Australia-U.S. Free Trade Agreement (AUSFTA) substantially reduced Australia's industry policy options, particularly in relation to public purchasing. To what extent was neoliberal ideology implicated in these shifts? Was a fervent normative commitment to neoliberalism the most significant driver in abandoning a strategic approach to industrial governance?

The "ideology made him do it" explanation of policy shifts under Howard is not compelling, whatever its popularity. Neoliberal ideas about industrial governance were undoubtedly influential in key segments of the economic bureaucracy, yet evidence suggests that the shifts in question were driven primarily by domestic political considerations that had naught to do with an ideological commitment to neoliberalism. This point is important because it paints a more realistic picture of the influence and embeddedness of neoliberalism in Australia – at least in industrial governance – and of the true obstacles facing attempts to revive developmentalism in the post-Howard era.

Howard's shaky neoliberal credentials

There is little evidence to support the widely held belief that John Howard was a neoliberal ideologue. On the contrary, Howard was first and foremost a pragmatist, willing to change his government's policy preferences to meet changing political circumstances – particularly in the sphere of industry policy. Just prior to its 1996 electoral victory, the Howard-led opposition committed itself to not just maintaining but expanding the Keating government's industry-development programmes; it accused the Keating government of having "abandoned" Australian manufacturers in its pursuit of a

"mythical level playing field".[11] Indeed, in the lead-up to that election, the opposition went to great lengths to paint itself as more supportive of strategic industry policy than the Labor Party. Moreover, upon coming to power, Howard proved willing and able to ignore the recommendations of neoliberally oriented ministries and agencies when it suited him; he rejected, for example, Treasury and Productivity Commission calls to drive ahead with tariff reductions in the TCF and auto industries due to concerns about the impact of such cuts on employment. There is little evidence here to support the idea that developmentalism Australian-style was sacrificed on the altar of neoliberalism by the Howard government.

Similarly, although dubbed a "market fundamentalist" by the subsequent PM, Kevin Rudd, Howard proved more than capable of resisting calls from powerful financial interests, calls couched in the language of liberalism, for the unconditional deregulation of the banking sector, even as policymakers around the world, including the United States and United Kingdom, were being seduced by similar appeals. His government's refusal to relax the "four pillars" policy (designed to prohibit mergers between Australia's big four banks to preserve domestic competition and services to rural areas) in the face of finance industry lobbying suggests Howard was far from a "market fundamentalist". Unlike those of the United Kingdom and United States, the Australian government rejected the idea that fewer rules could deliver more "innovation" in the banking market; its refusal to embark upon wholesale deregulation became a key reason for Australia's resilience during the GFC.

Given his 1996 pre-election platform, it is not surprising that Howard's decision to cut existing industry-development programmes dramatically upon coming to power attracted such outrage from manufacturing industry groups. But while the scaling back of these programmes is arguably commensurate with neoliberal policy prescriptions, the ideological explanation of these policy shifts is not convincing in light of Howard's ambiguous neoliberal credentials.

A more compelling explanation for the 1996 attack on developmentally inspired policy programs lies in domestic political calculations. The budget cuts in question can only be fully understood in the broader context of Howard's domestic political strategy: delivering a budget surplus at all costs in order to paint the Labor Party as economically irresponsible and "addicted to debt". Howard fought the 1996 campaign on this line, and it proved extremely effective (though highly misleading), so much so that the Rudd government of 2007 had to fight hard to unburden itself of the image of being the party of "irresponsible economic managers". In 1996 budget cuts were not limited to the sphere of industrial policy but were mirrored across the board and accompanied by a massive sell-off of public assets designed to return the budget to surplus. However, these cuts should not be

taken as evidence of ideological commitment to the neoliberal vision of a "small" state, for Howard – immediately recommencing a massive spending programme once the surplus returned – oversaw the fastest growth in federal government taxing and spending in Australian history. Howard's increase in total per capita spending was more than 17 per cent greater than his Labor predecessor's (more than 30 per cent greater in the health and social services areas; Norton 2006). Thus, one must be wary of interpreting a shift *away* from developmentalism as evidence of a shift *towards* neoliberalism.

The next major blow to the developmental model came with the 2004 signing of AUSFTA. This far-reaching agreement impacted almost every sphere in Australia's economic and social life – systems involving quarantine, national blood supply, world-class medicine provision, intellectual property and beyond (see Weiss et al. 2004, 2007). In relation to industrial governance, one of AUSFTA's most significant aspects was its Government Procurement Agreement (AUSGPA).

Australia had refused to sign WTO's GPA in 1995 because it wanted to reserve the right to use procurement as an industry-development tool. Under AUSFTA, however, Australia signed a GPA that significantly reduced its scope to employ procurement for such purposes. It outlawed mandatory offsets, making it impossible to require MNCs winning government contracts to participate in local R&D or export activities or to involve local people or firms in their operations. The mandatory PfD programme was thus phased out during AUSFTA negotiations and replaced with a weaker set of local participation "ideals" to which MNCs could "aspire", if they wished. AUSGPA also introduced a "transparency clause", giving U.S. companies failing to win Australian government contracts the right to ask for an explanation and to appeal if they found it unsatisfactory. This clause, which served to reinforce Australia's buy-foreign bias, left bureaucrats wary of *not* awarding contracts to U.S. firms lest their decisions be subject to a drawn-out appeals process. Australia also agreed to extend AUSGPA to all levels of government – federal, state, and local.

Like many other aspects of AUSFTA, AUSGPA was remarkably lopsided. The United States refused to extend AUSGPA to its state government agencies (which account for around 40% of U.S. spending) or to abolish its small business set-asides, which reserve a proportion of government contracts for U.S. firms. It is thus unsurprising that Australian firms have made few gains. In a 2009 Australian Industry Group survey, 87 per cent of Australian exporters surveyed rated AUSFTA "low or not effective" in helping them access U.S. government contracts; 78 per cent gave it the same negative rating for creating new export opportunities (AIG 2010, 9).

Why did Howard sign a deal that so limited his industry policy options? Neoliberalism has been implicated in two main ways, neither of which are compelling. The first focuses on the U.S. practice of forcing lopsided bilateral

trade agreements upon weaker countries, deploying neoliberal language to mask a mercantilist agenda shaped by powerful corporate interests (see Ranald 2006). Yet whilst the outcome of AUSFTA was undoubtedly tilted in America's favour, the "external pressures" thesis does not convince. Because the Australian government initiated the negotiations itself – having twice previously rejected direct US. approaches for a bilateral deal – it cannot be argued to have been pressured (Weiss et al. 2004). Moreover, as noted elsewhere, many concessions went far beyond U.S. expectations, Australian negotiators frequently surprising their American counterparts with their generosity (Weiss et al. 2004). AUSFTA was hardly foisted upon Australia by America.

So was AUSFTA a reflection of the Howard government's ideological commitment to neoliberalism – its belief that free trade is always in the national interest, even if liberalisation is on unilateral or uneven terms? This explanation, too, fails to convince. That the government truly believed the agreement was economically beneficial is highly unlikely. Indeed, upon concluding negotiations, the PM's top negotiators advised him to walk away from the deal – a recommendation supported by Mark Vaile, then Trade minister and deputy prime minister. So deep was scepticism about the agreement's economic benefits that the government studiously rejected calls to refer it to the Productivity Commission – a staunchly neoliberal think tank – for evaluation, relying instead on the advice of a handful of paid consultants. Presumably the government knew that the commission would find the deal made little economic sense, in neoliberal terms or otherwise. Despite advice to the contrary, Howard took the extraordinary executive step of pushing ahead with the agreement.

How then should one explain Howard's fervent pursuit of the AUSFTA? Domestic political calculations loom large, particularly Howard's pursuit of a "special relationship" – with the USA broadly and with his conservative American counterpart, George W. Bush, specifically. (This argument is made at length elsewhere [see Weiss et al. 2007]; a full discussion is beyond the scope of this chapter.) The central point is that while it is easy to blame "neoliberal ideology" for certain policy shifts in Australia, including the shift away from developmentalism in the sphere of industrial governance, evidence is not consistent with this claim.

There are two dangers in the "ideology made him do it" explanation of Howard's policy shifts, shifts that have arguably served to undermine rather than bolster the foundations of Australia's industrial dynamism. The first is that ideology provides a convenient scapegoat for poor policy decisions, drawing attention away from less benign motivations, including the proclivity of some leaders to subordinate national interests to their own. Moreover, "ideology made him do it" misrepresents the true obstacles to the pursuit of a more developmental approach to industrial governance, many of which pre-date and have naught to do with neoliberal ideology.

3 Conclusion: a developmental revival for Australia?

Upon his election as prime minister in 1997, Kevin Rudd sought to distinguish himself from John Howard in a number of ways. The most significant, particularly from the onset of the GFC in 1999, was to paint Howard as a neoliberal ideologue driven by "market fundamentalism" and to explicitly eschew neoliberalism for a more state-centric approach to economic governance (Rudd 2009). Rudd adopted a classic Keynesian macroeconomic response to the GFC, stimulating demand via massive government spending. Australia acted more swiftly and aggressively than any other country to stimulate and stabilise its economy; cash handouts bolstered consumer spending, massive infrastructure projects boosted employment, and government guarantees stabilised major banks. As a result, Australia fared best of all developed nations during the crisis, the only OECD country to avoid recession in 2009.

In the sphere of industrial governance, Rudd's government also set out to chart a very different course from Howard's. Elite discourse, institutional shifts, and policy priorities under Rudd all pointed to an overtly developmental approach to governing the market. Discursively, Rudd, publicly eschewing the "structural agnosticism" of neoliberalism, expressed belief in and commitment to the importance of a revival of Australian manufacturing: "I don't want to be Prime Minister of a country that doesn't make things" (Rudd 2007). He also articulated his belief in a strategic role for the state in industrial governance in his first prime ministerial press conference:

> I am ... a long-term believer in industry policy. That may be heretical, but ... I know what it takes to get key industrial projects going ... it doesn't happen just by ... standing over there with your arms folded waiting for some magic to occur. Government has to have its sleeves rolled up and that goes for getting underway major infrastructure and industrial projects across the country. (cited in Carney 2008)

In the policymaking process, Rudd studiously sidelined the Productivity Commission and other neoliberal agencies by controversially granting responsibility for reviews of the status of "strategic industries" to his own new, hand-picked committees staffed by former Labor Premier Steven Bracks (appointed chair of the 2009 automobile industry review) and other developmentally sympathetic figures. Rudd also appointed to key ministerial positions long-standing advocates of the developmental approach, particularly Kim Carr as Industry minister. Rudd was also active in institutionalising a more collaborative approach to industrial policymaking, overseeing the creation of "peak industry councils" in strategic industries from automobiles to information technology. Consisting of industry, labour, academic, and bureaucratic representatives, these councils were charged

with the task of devising ten-year industry-development goals and making policy recommendations.

Policy-wise, the government took an active role in devising and participating in strategic industry-development projects – strictly contravening recommendations of the neoliberally oriented Productivity Commission. For example, in its $6.2 billion plan for restructuring the auto industry, the government put in place the “green car initiative”, which funded joint ventures with private firms in projects aimed at developing electric and fuel-efficient cars.

While such examples point towards a revival of the strategic approach to industrial governance, the longevity and effectiveness of these shifts will take time to discern, and require further analysis. Prime Minister Rudd, the driver of many of these changes, was replaced by Prime Minister Julia Gillard in 2010; while many of Rudd's reforms have been maintained by the Gillard government (such as industry councils), support for some specific industry programs has been scaled back in the pursuit of a budget surplus. Moreover, thanks to Howard and his government, future governments will have significantly less room to move than their predecessors did in pursuit of industrial transformation objectives, in no small part due to AUSFTA. For example, when the GFC hit, calls for “buy Australian” government purchasing policies (to match those being pushed in the USA) were rejected on the ground that they would violate bilateral trade obligations. The government, left to devise new ways to encourage local participation in its procurement, announced in 2009 a $20 million plan to encourage the purchase of Australian goods and services by domestic and foreign governments. This included $8 million over four years for “supplier advocates” (industry specialists employed to champion Australian industry in local and foreign GP markets), as well as the appointment of a National Procurement Coordinator to give Australian businesses a clearer sense of where opportunities lay to sell to their government. Public service departments were also required to produce “Australian industry participation plans” to show how they tried to alert local companies to contracts and give them a fair chance to compete. In the face of the cultural bias against buying Australian, however, programmes that lack the muscle of mandated set-asides face an uphill battle.

Indeed, the industrial governance challenges facing the Gillard government are remarkably similar to those facing policymakers of the early 1980s: an entrenched preference for foreign goods, problems of coordination between government departments, a local manufacturing sector dominated by foreign firms, fragmentation of local manufacturing interests, and general scepticism amongst the business community of the government’s interest in and capacity meaningfully to coordinate a coherent national development plan. Since these challenges both pre-date the oft-cited ascendency of neoliberalism and post-date its apparent 2007 demise, one concludes that

neoliberalism has only ever been one dimension of the challenges facing advocates of a more developmental approach to industrial governance in Australia.

Notes

1. Starting with Chalmers Johnson (1982), the so-called father of developmental state theorising, and continuing with such scholars as Amsden (1989), Woo-Cumings (1991), Wade (1990), Evans (1995), and Weiss (1995, 1998).
2. See, e.g., Evans (1989) on Africa, Sikkink (1991) on Latin America and Ó Riain (2000) on Ireland, not to mention the volumes of literature on the evolving experiences of East Asia's developmental states.
3. Weiss (2005) provides an overview of "developed country' industry policies aimed at fostering the "infant industries' of the twenty-first century, often labelled "science and technology policies' to render them WTO compliant.
4. For example, in 2009 government spending as a percentage of GDP in the "developmental states" of Singapore, Taiwan, and South Korea was 12.5%, 17.8%, and 28.9%, respectively – all significantly lower than spending in the "liberal" states of the United States, Canada, and the United Kingdom (37.4%, 39.1%, and 44%, respectively). The U.S. figure of 37.4% is deceptively small, with around 40% of government spending taking place at state level. (Figures compiled from the Heritage Foundation's 2010 Index of Economic Freedom.)
5. See, e.g., Kaptein (1993), Stewart (1994), Jones (1994), and Lucarelli (2003).
6. The documentary history by Snape et al. (1998) provides an excellent overview of these numerous government, trade union, and industry council reports.
7. For comprehensive overviews of such programs, see Capling and Galligan (1992, Chap. 4) and Bell (1993, Chap. 6).
8. On the problem of departmental fragmentation and its negative implications for Australian government-business relations, see Stewart (1994, 177–92).
9. See Snape et al. (1998, Chapters 4 and 5) for comprehensive overviews of this and other infant industry development programs under the Hawke and Keating governments.
10. This included the axing of 38 industry-development programs, the slashing of R&D tax concessions and export assistance, and the abolition of bounties in industries from shipbuilding to computers, and more. See Bell 1997, 12.
11. 1996 Coalition Industry and Commerce Policy, cited in Bell (1997, 11).

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Part IV

Conclusion and Prospect

14
Developmental Politics beyond the Neoliberal Era

Ben Fine and Chang Kyung-Sup

1 Twixt neoliberalism and globalisation

This closing chapter offers the opportunity to reflect more broadly, without losing sight of what has gone before, on some issues raised by the prospects for developmental politics in an era that continues to be dominated by neoliberalism. As a start, consider that over the past two decades, two concepts have dominated the social sciences and even influenced popular discourse: globalisation and neoliberalism. Each has been subject to critical scrutiny, as well as careless and self-serving application that can view whatever happens through a dual, almost tautological prism. Outcomes are interpreted as confirming the relentless dictates of either globalisation or neoliberalism, and awkward counterexamples, however successful, are dismissed as merely temporary resistance to their inevitable triumph. But by virtue of more careful scholarship, as case studies and evidence gather over time, the complexities and heterogeneities of our experiences suggest that simple nostrums around these two explanatory catch-alls are questionable. Indeed, for some, the very concepts of globalisation and neoliberalism are so riddled with inconsistent and even incoherent conceptual interpretations and empirical narratives that they need to be discarded.

For globalisation, there has been considerable debate in the literature over a number of issues: just how new is it? over what domains of economic, social, political, and ideological life does it prevail? is it homogenising where it does prevail? does it signify the withering away of the power of the nation state? if it does, is this a good or a bad thing? For neoliberalism, there are overlapping concerns – whether it is an ideology or a set of policies in practice and, not least, what forms (authoritarian or democratic) and content the so-called neoliberal state can adopt (e.g., strong, pro-market, non-interventionist) whilst still remaining true to the label neoliberal. And of course, we are increasingly being treated to the spectre of neoliberal globalisation – or is it globalised neoliberalism?

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The duality of globalisation and neoliberalism raises a number of issues, such as how to locate the role of the nation state in the contemporary world. Is it appropriate to address the global and the neoliberal in the abstract through some sort of methodological holism in which whatever happens at the national level is heavily constrained, if not predetermined? If it is, how would this situate more specific studies of the diversities of nation state experiences? Indeed, with notable exceptions, there is the paradox that the more we emphasise globalisation and neoliberalism, the more social science and popular discourse continue to rely upon methodological nationalism.

The continuing currency of methodological nationalism in this globalising era may reflect, to a significant extent, the fact that many nation states pursue economic globalisation as a nationalist project for boosting their economic and political status. (China, India, and Brazil, as shown in this volume's corresponding chapters, appear particularly distinct recent examples.) Such national efforts may differ among themselves in the degrees that neoliberal goals and policies are accommodated but, at least or especially in rhetoric, the existential ground of the nation states is often bolstered even in the neoliberally framed process of globalisation. Moreover, the recent sociological and anthropological literature (e.g., Ong 1998; Della Porta et al. 2006) abundantly show the constantly expanding and intensifying trends of grassroots globalisation (transnationally targeted migration, education, social movements, etc.), often dubbed "globalisation from below". Thus, Chang (2010) indicates "internalized cosmopolitization" to explain that globalisation has taken place at various structural levels (individuals, families, communities, nation states, global regions, the world) with mutually escalating effects. Methodologically, not nationalism nor individualism nor even globalism can be exclusively valid in understanding these processes.

At a more practical level, neoliberally driven globalisation, coordinated by the Washington-centred league of advanced capitalist states and radicalised by global financial capital, has ironically undermined – if not eliminated – the global framework of development. To a significant extent, the hegemonic power of the USA (and the USSR) in the post–World War II interstate system used to be expressed through developmental support, supervision, and control of developing countries – often experimenting with U.S.-supplied economic theories of national economic development. In the neoliberal era, particularly after the demise of the communist bloc, this global or interstate framework of national development has been replaced by a global economic disciplinary regime (epitomised by the continuing if evolving Washington Consensus) that purports to control developing countries as individually responsible debtors rather than deal with them as collective developmental dependants. In place of the interstate developmental system, transnational private economic actors such as TNCs, varieties of fund managers, migrant workers, and transnational employees (Filipino call-service workers for U.S. companies, Indian copyeditors working for British publishers, etc.) are

amongst those that have shaped the basic parameters of global economic integration. Apparently, such a decline of developmental politics at the global level is a combined outcome of neoliberalism and corporate and financial globalisation.

2 Developmental politics, neoliberalism, and globalisation: comparative experiences

Among the contributions to this volume, there are measures of agreement and disagreement across the issues raised in the previous section. Agreement certainly concerns the association of globalisation and neoliberalism with complexity and diversity of outcomes. This leaves unsettled, however, exactly what the homogenising forces are, as it were, what scope there is for them to lead to difference, and how they might do so, especially at the nation state level. Again, there is agreement over the need not to fall into any sort of economic reductionism in which outcomes are read off from the imperatives of capital, itself reduced to globalisation of some sort. But what exactly are the bounds within which national differences in politics and ideologies, in institutions and forms of governance, can exert an influence?

Such issues are more exposed than resolved by the global crisis and recession that broke towards the end of the "noughties". There can be little doubt that, in both material and ideological terms, the designs of neoliberal globalisation have been severely, if only for the moment, shaken by these events. The crisis points to the extent to which nation states are heavily constrained by a global system most notably if not exclusively under the auspices of the USA. Yet the nature and conceptual and ideological legitimacy of neoliberalism have been equally exposed by the extraordinary levels of state intervention in support of the financial system. Outcomes of the crisis, by incidence and response at the level of nation states, have continued to reflect considerable diversity and fascinating complexity. The continually unexpected seems the only prospective certainty! Even those who claim to have anticipated the crisis – they are remarkably few – do not claim to have seen how it would play out and what policy responses it would solicit – especially with regard to the rapid, if not universal, turn to deep austerity as the crisis and recession have defied attempts to manage them.

Not surprisingly in light of its nature, one of the consequences of the crisis has been to bring finance to the fore as instrument and symbol of both globalisation and neoliberalism. This has potentially implied that other aspects of economic and social development have faded into the background, even though these are heavily embroiled in the crisis itself and critically relevant to the nature of globalisation and neoliberalism. Particularly prominent in this volume, for example, are concerns with industrial policy – no less a significant marker of globalisation and neoliberalism than finance – given

its presumed decline (with trade liberalisation, privatisation, and so on) and the continuing presence of affiliates of multinational corporations as major producers in national contexts. Multinational corporations have been major beneficiaries of privatisation and deregulation to the extent that national champions have been abandoned. But as demonstrated in the chapters of this volume, reports of the death of industrial policy are premature, even amongst those nations that have been in the vanguard of pronouncing so. As amply demonstrated by the response to the financial crisis, the withdrawal of the state from intervening in finance is and has been a myth.[1]

It does not, then, take too much scratching to find that the role of the nation state remains extensive, despite or even because of globalisation and neoliberalism (see Chapter 1, by Weiss). At the very least, we have to examine the incidence and diversity of these state interventions and policies at different and more detailed levels – not only of nation states but also of particular sectors of the economy, themselves at different levels of development. Thus, in Chapter 11, Kong draws a contrast between South Korea and Latin America, in both of which a clear trend towards neoliberalism has been noted but with apparently different outcomes according to the earlier forms taken by their "developmental states". Kong sees Latin America as having failed to build up the necessary governance to promote successful mass production capacity, with correspondingly weak potential either to target industrial policies through cooperative governance or to respond to the requirements of neoliberal restructuring. South Korea, on the other hand, is perceived as having successfully developed a model for mass production but as also being ill-equipped to meet the challenges of liberalisation in view of the weight of influence of its conglomerate *chaebol* and the relative absence of consensual institutions and governance.

In spite of limits in Latin America's industrial structure and developmental governance, some countries in the region have enjoyed remarkable economic growth in the neoliberal era. By and large, this performance has been achieved not against but in conjunction with global neoliberal interests. Brazil, as seen in Saad-Filho's Chapter 6, has actively tuned its economy to transnational corporate and financial forces so that its economic growth is decisively sustained (or contaminated) by the domestically entrenched interests of those forces. To the extent that Brazil has had to complement its weak capacity in developmental governance with the inherently opportunistic business interests of transnational capital, its long-term economic structural improvement has been curtailed. Besides and concomitantly, Brazil's recent economic growth has not necessarily helped enfranchise developmentally its vast poor population in urban and rural peripheries, although their frustration has been somewhat alleviated by the social protection measures of the progressive government under Lula da Silva. According to Chandrasekhar (Chapter 7), India basically faces the same dilemma despite (or because of) its recent prosperity. The Indian economy

has been reactivated without necessarily retrieving the earlier economic activism of the post-Independence state or newly establishing a developmental state more in line with East Asian experience. Much like Brazil, India has at least partially aligned to global neoliberal interests but has by comparison achieved economic growth with more limited social outcomes. Such features of India's economic growth are more concealed than revealed by its impressive developmental performance in certain strategic sectors and regions (e.g., Mumbai's ICT industry). As vividly illustrated in Kiiza's Chapter 10, even Uganda's recent economic growth has suffered similar structural limitations. Neither this African star economy's spectacular long-term economic growth (GDP growth averaging 7.3% between 1992 and 2009) nor the incumbent Museveni government's developmental rhetoric has meaningfully transformed the economic status of its majority population in rural areas – namely, about 85 per cent of its 31 million population who remain "smallholder agriculturalists using ... the hand hoe" (p.217). It is under this condition that Museveni's developmentalist political gestures and the neoliberal influences of international supervisors and financiers go hand in hand.

The above developmental and social dilemmas of neoliberally promoted development are perhaps what makes China (in So and Chu's Chapter 8) and Vietnam (in Masina's Chapter 9) maintain a highly cautious and gradualist approach to economic reforms. Regardless of global neoliberal influences on them, these former state-socialist countries would have needed to restructure fundamentally their Stalinist economic systems. But as their reforms have taken place in the historical context of neoliberal globalisation, transnational industrial and financial interests have been eagerly accommodated, if not fully embraced, as a crucial factor in their hoped-for *compressed* transition to an industrialised market economy. In this way their new economic systems have become closely integrated with the global neoliberal economic order, and their reforms have increasingly incorporated neoliberal advice and prescription. However, the new governance system sought by these still autocratic states is modelled after their capitalist neighbours' highly successful developmental states. Such political (and economic) aspiration has been neither fully accomplished nor bluntly defeated. Their sustained high economic growth has to be reassessed against the critical tendencies of industrial and technological dependency, widening interregional developmental disparities, rapid growth of unemployed and underemployed people, and breakdown of work-based welfare institutions. These transition states have yet to prove themselves full-fledged developmental regimes, but in the meantime they tend to display much more concerted effort at social protection of economically disenfranchised groups.

The above cases are clearly able to assert the potential for a successful developmental strategy at a national level against or along the inroads of globalisation and neoliberalism. Could this prevail more generally? On the other

hand, could the crisis have been avoided wherever it struck if only financial speculation and housing booms had been avoided? There are indeed examples of economies where the extremes of financial speculation have been avoided, including the worst excesses of housing and credit-based consumer booms. Significantly, one of these is Australia, for which Thurbon (Chapter 13) demonstrates a degree of flexibility around the content of, the motives for, and the breaches with neoliberal policymaking. Is this the exception that proves the rule or the rule itself, bearing in mind that Australia has also gained considerable leeway as a resource-based economy? Evidence from the past, of both success and failure, suggests that what is traded (whether resource-based or not) does not determine the level of susceptibility to neoliberalism, as the global is filtered through existing institutions and state strategies rather than being some sort of cookie cutter (see Weiss 2003).

To address these issues comparatively across South Korea and Latin America, with resonances to the varieties of capitalism approach, Kong (Chapter 11) essentially constructs two extreme ideal types: the pure neoliberal and the less extreme liberal market economy (with supportive as opposed to minimal state institutions and governance). Economies might be ranged more or less functionally in performance across these ideal types as they seek to negotiate neoliberal tendencies whilst they retain (or are yet to construct, as in South Korea for Kong) appropriate state or social supports. In Chapter 12, Kwon's Ireland might be seen as seeking to retain a position of appropriate social compromise, whereas, for Thurbon (Chapter 13), Australia's position is considerably more mixed across different elements, both as determinants and in outcomes. Kwon argues that the Irish republic's previous success was founded upon "partnership"; despite the severity of Ireland's crisis, he considers that the response to it can be favourable if bargained compromise can be held in place. Indeed, he sees the crisis and its severity as due to external factors associated with global financialisation and the unfortunate incorporation of its effects (speculative booms, especially around housing) within the Irish domestic economy, especially in the absence of policy to develop indigenous industrial capacity.

This commentary reinforces the need, already highlighted, to disaggregate analysis not only by nation state but also by sector (even within sectors) and between global influences and domestic strategies. In case of industrial policy, there are big differences between stages of development – from initial transition from primary production, through catch-up in latecomer industrialisation, to gaining access to and remaining upon the technological frontiers. It is unfortunate in some respects that the very success of the East Asian NICs as developmental states has drawn the focus of attention to industrial policy alone and, in industrial policy, to the catch-up latecomer phase at the expense of earlier and later phases and other aspects of developmentalism (Fine et al. 2012). This has certainly served the function of challenging neoliberalism both conceptually and empirically, especially in

the context of the Washington Consensus. But it has drawn attention away from the continuing presence and successes of industrial policy at other stages of development and, perversely, even allowed for the false ascription of success to the absence of industrial policy, whether for the Indian software industry at one end of the developmental spectrum (Saraswati 2008) or knowledge-intensive sectors of advanced economies at the other end (see Weiss's Chapter 1).[2] At the very least, then, consideration of industrial policy has to be sensitive to stage of development and sector, as well as national context.

3 Development under financialised capitalism

If, as might be presumed, neoliberalism and the modern era of globalisation have prevailed over the last 30 years, there are a number of questions to resolve: what explains their longevity and interaction? what are their general features, and how do they give rise to diversity, whether national or otherwise? what explains their distinctiveness in terms of earlier periods. Fine, in Chapter 3, has attempted to address these conundrums around apparently global commonalities and yet national diversities by unravelling what he takes to be three crucial aspects of neoliberalism. First is the global spread of financialisation and its association with neoliberalism, uneven in extent and variety across countries though it be. Second is the inconsistent mix of scholarship, ideology, and policy across time, place, and issue. And third is the broad chronological division of neoliberalism into two phases: first as shock therapy and then as a potentially more moderate response in both addressing the dysfunctions of the first phase and sustaining the processes of financialisation. Further, both earlier periods of capitalism, as well as neoliberalism, have been marked by extensive state intervention (not least in the post-war boom, where the main thrust of policy was far from reducible to the rise and then fall of Keynesian demand management, as opposed to an entire sheaf of interventions).

By this reckoning, the global crisis and recession are acute manifestations of this second phase of neoliberalism – certainly not the latter's demise (Saad-Filho 2010). Even so, across its two phases the spread and incidence of neoliberalism is uneven, not least in financialisation. Financialisation has been heavily associated with dysfunctions in a number of ways: across the levels and efficacy of (real) investment; in its influence over economic (including industrial) policy; through fiscal conservatism; with corresponding constraints on welfare policy and social provision, themselves also subject to commercialisation if not privatisation. These dysfunctions, though, define the potential for alternatives insofar as the extremes of financialisation can be avoided. Or to put this another way, neoliberalism has inevitably been associated with particular pockets of development that have prospered as a result of resistance to or insulation from its less than

subtle charms. More particularly, those economies have prospered that have more subordinated finance to developmental goals than vice versa. In this respect, China offers the most stunning illustration. Its high levels of productive investment have been heavily underpinned by provision of bank finance accounting for as much as 95 per cent of corporate funding in the mid-2000s (Carney 2009). But paradoxically, this is the antithesis of financialisation, for much of this finance is state-directed, with 60 per cent state ownership of the banking sector. The contrast is to be drawn with the USA at the other extreme, where non-financial corporations are able to raise finance on their own account but have been making upwards of 50 per cent of their profits out of financial dealings rather than their core productive businesses.

Where do these considerations leave the prospects for alternative scholarship? As a point of departure, we address the developmental state paradigm (DSP), industrial policy, and social policy in turn. According to the scholarly consensus, each has been severely hollowed out or marginalised by 30 years of neoliberalism. So it is necessary to reconsider them as conventionally (i.e., narrowly) conceived.

4 Beyond the developmental state?[3]

The DSP does not originate with the East Asian NICs; Chang Ha-Joon (2007; Chapter 2 in this volume) traces it past Friedrich List and German protectionism in the nineteenth century back to Alexander Hamilton, the USA's first secretary of the Treasury, in the eighteenth century. Nonetheless, the DSP has been primarily defined by the experience of the East Asian NICs, though equally by latecomer catch-up industrial development. This focus has given rise to a number of limitations irrespective of problems of conceptualisation within the existing "declinist literature" that has, until recently, viewed the developmental state as increasingly circumscribed if not extinct (Thurbon 2011). Indeed, certain methodological and theoretical problems with the DSP approach are more fully and readily exposed once we seek to stretch it beyond its chosen, confined, and comfortable field and scope of application.

First and foremost, DSP terminology is preoccupied with *latecomer, catch-up,* and *industrialisation*. This is legitimate as a way of distinguishing a particular group of countries whose developmental ambitions were expressed through the pursuit of a strategic industrial policy focusing national effort on structural transformation of the economy. Once highlighted, each of these terms points to limitations by way of exclusion. Together they imply lack of attention to other *stages* in the process of development and other *aspects* of development. Necessarily neglected or even absented are earlier and later stages in agricultural and industrial development and the roles of urbanisation, health, education, welfare, labour, democratisation, and so on.

Second, the DSP has tended to focus on a *national* developmental model, with the international at most as one factor amongst others, and the presumption that any state can be a developmental state with the right policies. This judiciously avoids the corresponding fallacy of (global) composition, relying exclusively on methodological nationalism. It fails to take account of the systemic nature of globalisation. As suggested above, for example, financialisation has opened opportunities to a few economies, but not all can take advantage. Otherwise, we would simply be in a very different world, one without financialisation itself and the conditions that accompany it.

Third, the DSP literature can be roughly divided between what have been termed the *economic* and *political* schools.[4] The economic school focuses on identifying the right economic policies to correct market and institutional imperfections. By contrast, the political school seeks to specify the political and other conditions (usually specified by some idealised notion of embedded and relative autonomy) under which appropriate policies might be adopted by the state, irrespective of what these policies might be. Whilst some contributions do range across both the economic and political schools, this is not entirely satisfactory.

Fourth, the DSP bases its approach on a fundamental dichotomy between state and market, as opposed to paying close attention to underlying and evolving economic, political, and ideological interests, which are expressed through both state and market and through their interaction. Arguably, state and market outcomes and interactions are determined through these interests rather than market and state being taken, as it were, as analytical prime movers.

Fifth, with its primarily inductive method, there has been an undue focus, particularly within the sample selection bias of the economic school, on the instances of successful development, each of which tends to be claimed as a developmental state, with China to the fore most recently. This is at the expense of applying the DSP to failed development, through which its limitations would be exposed, as it would also be in the case of application to other stages and aspects of development. The focus upon latecomer industrialisation alone also allows for a narrow preoccupation with the relations between an established state and an established but still to be coordinated and directed set of industrialists, primarily through trade and investment policy. This leaves it particularly inappropriate in addressing the prior formation of a secure state as part of the process of development and a class of entrepreneurs effectively committed to industrialisation – decisive issues in the least developed regions of the world, some of which have been dependent upon oil or other primary commodity revenues or have been subject to endemic conflicts. It is significant that the DSP has rarely if ever been applied to such regions – for Africa, only in Botswana and Mauritius.

Despite or because of these weaknesses, the DSP did emerge and play a pivotal role from the 1980s onwards, not least in critique of the Washington

Consensus. It highlighted empirically how successful development depends upon a substantial degree of sectorally targeted state intervention – although it should be emphasised that there is no single East Asian developmental state model. It is hardly surprising that the East Asian NICs should be its star case studies, but by the same token the DSP was hit hard by a number of factors from the late 1990s.

First, as mentioned, was the East Asian crisis, with denial of the corresponding miracle in the first place. Second (and readily overlooked) was the failure to distinguish between catch-up and moving beyond the frontier in late industrialisation. There is no finishing line in industrialisation, as technology continues to move forward (see Weiss's Chapter 1) and the capacity to succeed upon achieving some degree of catch-up requires more refined capabilities to build knowledge-intensive industry, including the capacity to work with and through economic actors, rather than shift resources to new sectors or simply decree "more exports". Third, the DSP's understandable focus upon relations between the state and latecomer industrialisation – or more usually, some part of government and some section of industrialists – was increasingly strained by the broader implications of developmental success. On the one hand, it was argued within the DSP that such success was its own gravedigger; industrialisation brings with it a class of capitalists who are sufficiently strong and organised to undermine the autonomy of the state and its capacity to act in industrialists' interests as a whole. This may undermine coordinated industrial policy and release forces of internationalisation at the expense of national strategy (in the form of financialisation, as we might now put it). On the other hand, as shown in detail in Chang Kyung-Sup's Chapter 4, developmental success brings with it a strengthened labour movement, democratisation, and demands for welfare provision. These issues challenge not only the developmental states in practice but also the DSP, as such issues had been studiously neglected.

In effect, this discussion is intended to interrogate the DSP as it strains under the challenges of responding to the squeeze exerted by globalisation and neoliberalism. Both restrict the extent to which the DSP can continue to rely upon methodological nationalism. The result is to stretch the scope of application of the DSP beyond latecomer industrialisation to incorporate other aspects and stages of development.[5] And by rejecting the state versus market dichotomy as an analytical starting point, the DSP is required to examine how economic, political, and ideological interests are formed, transformed, and represented – or not – through both the state and the market. Further elements to incorporate are developments in the global economy, which set the context for possibilities for development as well as constraints on them. In this light, it is a moot point what remains of the DSP as critically reconstructed. It certainly allows for considerable investigative purchase on the role of the state, providing an empirical counterpunch to neoliberal dogma, and it strategically popularises the case for state

intervention. Yet it fails the challenge of explaining when, why, and how successful developmental states will or can emerge.

5 Industrial policy is dead, long live industrial policy

This motto provides a context within which to address industrial policy, how it has been conceived, and how it might be formulated. In particular, under the Washington Consensus, industrial policy was dominated by the doctrine of relying upon market forces, so much so that it became synonymous with liberalising trade and finance and privatising public goods and services. To some degree this approach has been discredited over the last decade or so, not least with the emergence of the post-Washington Consensus and the emphasis upon piecemeal interventions in pursuit of competitive advantage, dynamic entrepreneurship, and correction of market and institutional imperfections. Nonetheless, the Washington Consensus continues to dominate how industrial policy is conceived – in terms of the state versus (or complemented by) the market and with special attention to forms of ownership and trade (concerning levels of protection). This is inappropriate for two reasons. First, the applied literature on industrial policy (as with the earlier DSP) continues and, especially in case studies other than those in economists' hands, demonstrates just how much industrial policy there has been in breadth and content of application and also in the extent to which it has been essential to industrial success. Second, industrial policy has itself historically been conceived in many different ways and has been subject to fashions and focuses from time to time and place to place. Far from being or not being confined to trade policy and privatisation, it has ranged over technology policy, small- and medium-sized enterprises, regional policy, finance for industry, competition policy, human resource development, promotion of entrepreneurship, provision of social and economic infrastructure, and so on.[6]

As more or less any policy can have an impact upon the performance of industry, the question of how to define industrial policy as something distinctive is raised. As indicated, the answer has been to focus on particular issues at particular times, although the fashion at the moment is to be a little more wide-ranging. A different and novel approach to the definition of industrial policy is taken here, however, one that does not seek a more or less arbitrary general definition of narrower or wider scope that can be applied in specific instances. Instead, first, it allows for case study and policy analysis to identify key areas for intervention; as will be seen, this does not imply neglect of the varieties of factors that inform policymaking and industrial performance. In other words, context and specificity are understood differently, as empirically induced rather than imposed by choice of model and corresponding configuration of given factors.

Second, traditional measures of achievement (competitiveness, productivity increase, etc) of industrial success are important, but they have to

be set against wider goals related to economic and social development. These wider goals constitute horizontal or strategic factors that are both the conditions and consequences, hence the instruments and targets, of industrialisation.

Third, industrial policy does need to be targeted at specific sectors and at the location of such sectors within the economy in terms of their inputs and outputs and their impact upon economic performance narrowly conceived – most narrowly in input-output terms, more broadly in terms of the agents, structures, and processes involved in provision. This vertical approach, however, needs to be complemented by the horizontal approach, incorporating the strategic requirements and contributions attached to industrial performance. These range over finance for investment, technology, skills, environment, markets, infrastructure, employment intensity and creation, balance of payments impact, poverty alleviation, and so on. Conversely, horizontal factors need to be addressed as part and parcel of industrial policy – how the financial system functions; how technology and skills are to be generated and retained; gender, regional, environmental, and other balances; and so on.

In short, however motivated and discursively presented, industrial policy needs to be conducted (and analysed) at a sectoral level in vertical terms (the passage from inputs to outputs within the sector) to identify the appropriate interventions contextually whilst it also addresses the horizontal factors that prevail across sectors to incorporate the meeting of basic needs: generation of employment; targeting of socio-economic inequalities by race, gender, and ethnicity; education and training; infrastructural provision and measures to ensure economic and social spin-offs; reform of the financial system to secure finance for industry; macroeconomic policy; regional integration within and between countries; restructuring and expansion of state assets to play a key role; and targeting and reform of the institutions for making industrial policy so as to allocate and coordinate responsibilities across government departments rationally and coherently. In this sense, ideally speaking, industrial policy should be subject to a *coordinated territory of economic and social objectives and of all social sciences*.

Of course, conceptually and analytically, this calculus of horizontal and vertical targeting of policy instruments and outcomes is unlikely to be realised in practice. Rather, specific interests will prevail, with corresponding consequences that can hardly be reduced to the design of the policies themselves and the greater or lesser autonomy with which the state is able to adopt and implement them.

6 From industrial to social policy

Similar considerations apply in the case of social policy. Until the Washington Consensus, mainstream social policy was dominated by the

idea of creating or improving a welfare state as an aspect of modernisation. In critical literature it had its counterpart in terms of why welfare provision was adopted: because it was functional for the capitalist economy (in material and legitimising roles) or as a response to the working-class struggle to ameliorate conditions under capitalism (in the so-called political economy of the welfare state). Over the period of neoliberalism, these perspectives have been replaced by the emergence of two new ones. One is the welfare regimes approach, associated with Esping-Andersen (1990), in which three ideal types – liberal (archetypally the USA), social democratic (Scandinavia), and corporatist-statist (e.g., Germany) – are uncomfortably retrofitted to developed countries and then, even more uncomfortably, extrapolated to developing countries where – as thoroughly illustrated in respect to the South Korean situation in Chang Kyung-Sup's Chapter 4 – the lack of fit (or retrofit) between ideal types and empirical realities is cruelly exposed (whatever their legitimacy across different social policy programmes within developed countries). The other is associated with the new welfare economics, which has taken neoliberal antipathy to welfare (and its own commitment to privatisation and user charges) as the point of departure to see welfare provision as a game in which the state and citizen strategise in relation to one another on the basis of different information and objectives – meeting minimum standards of living at minimum cost to the state, for example, but trading off income for work by the individual or citizen or household.

This new approach is deficient in two respects. First, in specifying social policy as a response to individual risk and vulnerability, it overlooks the systemic nature of economic and social reproduction, comprehending the function of social policy as if it were merely a response to short-term shocks (a safety net) rather than a component part of development itself and setting aside the chronic nature of poverty in the absence of – often in the presence of – "development". Second, like the welfare regimes approach, even if based on universal deductive principles (merit goods, optimisation, market imperfections, etc) rather than ideal types, the new welfare economics is insensitive to contextual differences that mark countries and policies in terms of individual aspects of welfare provision. For instance, child education means different things in different places at different levels of development and poses challenges that differ by context.

The issue, then, is how to deal with the specificity of particular elements of social policy, in terms of their diversity of causes, content, and consequences, without losing grip of the bigger picture. For the latter, pioneered by UNRISD (UN Research Institute for Social Development), emphasis has been on locating welfare provision within the framework of the *developmental welfare state*.[7] This has the advantage of foregrounding systemic change in targeting both development and welfare. With the approach remaining sufficiently open, it is thus able to accommodate different aspects and trajectories to development and welfare provision. In addition,

it is necessary to address the specificities of different aspects of social provision and the national contexts within which they arise. Specificity is incorporated by understanding each element of social policy and social provision as attached to an integral and distinctive system – the health system, the education system, and so on. Each system should be examined by reference to the structures, agencies, processes, power, and conflicts that are exercised in material provision itself, taking full account of the whole chain of activity bringing together production, distribution, access, use, and the conditions under which they occur.

Of course, the demand for a developmental welfare state often remains aspirational in the wake of thirty years of neoliberalism and, in part, a nostalgia for the provision, ethos, and scholarship of the Keynesian welfarism of the post-war boom and the historical preconditions that gave rise to it. As Draibe and Riesco (2007, 65; emphasis added) write:

> The *Neo-LADWS* [Latin American Developmental Welfare State] project seems rooted not only in the 20th century experience, from which it will probably draw inspiration, but over the inheritance of Neoliberalism in LA as well. The emerging paradigm implies a radical change of direction away from Washington Consensus–style policies, and, in fact, it is being conceived over the criticism of that model. Nevertheless, the new project seems to inherit quite a lot from the Neoliberal period as well.

Such histories remain significant despite the ravages of neoliberalism, as is equally evident from the experiences of Asian and European counterparts.

In East Asia, the developmental welfare state has been discussed less as a prescriptive policy programme than as an empirical particularity of the region's developmental states with respect to their social policy orientations. As part of the "welfare modelling business" (Abrahamson 2002), a group of scholars (e.g., Kwon 2005; Goodman, White, and Kwon 1998) came to identify some consistent developmental (as well as Confucian) characteristics in the East Asian welfare regimes. These characteristics could then be called newly found factors explaining East Asia's developmental success. Conversely, such developmental contributions of the "East Asian developmental welfare states" have often incurred the price of minimising and distorting the social protection effects of public welfare programmes. Since East Asia's developmental dynamic began to decelerate and, in the case of South Korea, when unprepared financial globalisation led to a national economic crisis, none of the national welfare systems in the region has functioned impressively in cushioning the economic shocks and stabilising the social and familial conditions. While the economies of East Asian countries are now again considered "structurally sound" and "financially stable", their national social indicators reveal embarrassing trends of social exclusion and personal desperation – namely, "lowest low" levels of fertility,

suicide and divorce rates surpassing those of most Western societies, the incomparably high proportion of poor elderly people, etc. (Chang 2012a).

While the East Asian experiences reveal that harnessing social welfare to economic development can sometimes lead to an ironic predicament in which the ultimate objective of national development – people's welfare – is structurally sacrificed due to the very developmental contribution of the social policy regimes, the Northern European experience shows that the universally targeted policies and programmes of the social democratic welfare states can, on the one hand, function as a valuable economic instrument for taming macroeconomic fluctuations and, on the other, be an effective platform for developmentally or productively *activating* populations.[8] When the global (or cross-Atlantic) financial crisis broke out in 2008, Scandinavian countries were apparently able to differentiate themselves from the rest of Europe in terms of their relative financial, industrial, and social stability buttressed by ordinary citizens' universal access to public savings (i.e., social wage) and social services as elements of a social democratic citizenship (Gylfason et al. 2010; European Commission 2009).[9] Even the national financial jeopardy of Iceland, once a dazzling mini-economy of financial globalism, was dealt with in a Scandinavian way – by taxing economic activities in unprecedented ranges and amounts and pumping aggressive amounts of social spending into the economy.[10]

7 Finale: beyond neoliberalism but not back to the past

It is no accident that we close our volume with scholarship and with the role of the developmental state, industrial policy, and social policy. Scholarship, that of economists in particular, has too readily interpreted neoliberalism as the crude counterpart to Keynesianism, as a macroeconomics of austerity and fiscal responsibility, and as a microeconomics of free markets. This is to misunderstand neoliberalism and its corresponding politics both on these terms alone and across the broader terrain of a number of elements.

First, even on its own terms, specifying the contrast between neoliberal and Keynesian eras by reference to macroeconomic and microeconomic theory and policy is misleading, if not simply wrong. The eras share an analytical separation between the two levels as if they were sacrosanct, even if for neoliberalism the micro prevails over the macro and vice versa for Keynesianism (see Lucas 1987). But there is much, much more in policy-making that does not fit into the straitjacket of micro/macro. Industrial and social policy, for example, are interventions that span the functioning of the economy as a whole and influence household and firm outcomes. As for finance or the unacknowledged financialisation, orthodoxy has tended to treat it as macro as far as monetary theory is concerned (the supply of and demand for money and the determination of the rate of interest) and as micro when it comes to the more or less efficient mobilisation and allocation

of finance for investment or other purposes. Significantly, one of the first mea culpas issued by the IMF in the wake of the 2008 global economic crisis was that it had overlooked the macroeconomic implications of micro-insolvency – that financial institutions might go bust, with knock-on effects to the rest of the (global) economy (Blanchard et al. 2010)!

Second, the contrast between neoliberal and Keynesian periods is not simply or primarily economic by virtue of differences in micro and macro, or even "micro/macro" policy; it is also marked by different forms of "governance", comprising everything from what institutions exist and prevail to how they function and with what corresponding ethos and participation they function. As emphasised throughout this volume, neoliberalism is *not* by any means the withdrawal of the state (whose roles in reality remain extensive and diverse). But how the state intervenes (and on whose behalf) has been heavily skewed towards promoting, strengthening, and, on occasion, forming the interests of private capital in general and of finance in particular, the latter a particularly significant marker of the neoliberal era.

Third, the response to the crisis within establishment circles is indicative not only of the presence of such financial imperatives but also of the marginalisation of alternatives, as much in conception as in deed. Following the eruption of the crisis, beyond an initial knee-jerk response to blame the speculative and bonus culture of finance, the latter has totally commanded both policy space and policy thinking, with vast support to finance to get it working again. Other than in tweaking regulation out of fear of losing competitiveness in financial services, there has been little regard shown for what has caused the crisis nor for whether any rationale exists for restoring the status quo ex ante. But there is a grim determination to succeed along this path, irrespective of the costs that will be imposed through unemployment and fiscal adjustments that are simply unprecedented in the developed, if not the developing, world.

Fourth, such developments will hardly be accepted without protest. But not only has neoliberalism witnessed the transformation of policymaking's content and mode; it has also been associated with the decline of the strength, organisation, and influence of traditional progressive movements, not least those associated with social democracy in general and of social democratic parties as they have adjusted to the neoliberal era. It is striking and symbolic that the "socialist" PASOK in Greece should lead the puppet government in engineering policies primarily imposed from outside on what can only be described as an incredulous, unwilling, and potentially ungovernable Greek populace over whatever timespan.

Fifth, regarding more long-term and fundamental instances, the economic systemic adjustments of the ailing socialist states have been both forced and facilitated by the neoliberal restructuring of the global economy. The so-called Big Bang approach adopted in the USSR (now Russia) and by its Eastern European allies was fervently recommended by Western neoliberal economists and experts, whereas the gradualist approach of China

and Vietnam has been cautiously but indispensably aligned with (but not subjected to) the neoliberal corporate and financial interests of the Western economies. In both instances, the economic (or developmental) stalemate of the dead-end Stalinist economic systems and the concomitant suffering of their socialist citizenries have been handled with the economically lopsided (neo)liberal measures of the now democratically camouflaged states or the still officially socialist dictatorial states. As the national developmental effects of such (neo)liberal reforms are negotiated against social costs of increasing inequalities and instabilities, the political landscapes of many of these transition societies continue to be marred by politico-institutional irregularities and popular discontent or uproar in a mutually escalating manner.

Finally and relatedly, the prospects for neoliberalism (and the contrast with Keynesianism) are marked by the shifting nature of the national, the regional, and the international, for which the Arab Spring is even more remarkable for its confluence of the micro and macro, the local and the global, the exercise of power and the explosion of conflict and resistance, and the uncertainties of resolution and continuing dynamics (a chronic if currently acute element in the Middle East). Days before his ignominious removal from office at the IMF, Dominique Strauss-Kahn declared of Tunisia and Egypt and the Arab Spring that the macroeconomic figures were quite good but distribution of income and youth unemployment had been overlooked.[11]

On the balance of the evidence, these oversights and many others might be thought endemic to neoliberalism. Seen thus, the prospects for a developmental politics beyond the neoliberal era appear bleak unless waves of popular protest, deeply rooted and yet spontaneous, are harnessed towards equally deep-rooted transformations in the structures, relations, and processes of political participation and policymaking.

Notes

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1. For example, see Panitch and Konings (2009), as well as Chapter 1 in this volume.
2. Block (2011) even refers to the USA's "hidden developmental state" in light of its high-tech dependence on state funding of military research. See also Weiss (2008, 2010), who argues further that U.S. support for high-technology industries has gone well beyond funding for "research" by providing assured demand through defence and defence-related technology procurement. See also Peres and Primi (2009, 15), who refer to the U.S. government as "permitting exclusive licenses for patented innovations only when the innovation is to be manufactured in the United States (section 204). Selecting U.S. firms as the beneficiaries of these exclusive licenses – an action in line with the national strategy to protect the competitiveness of the country's industry – is clearly a de facto industrial policy, even though it takes the form of intellectual property rights management." Whether this is de facto industrial policy is a moot point.

3. For a more extensive discussion on the developmental state and industrial policy in the latest context, see Fine et al. eds (2012).
4. Broadly speaking, leading representatives of the economic school include Wade and Amsden, and the political school includes both political scientists and sociologists, as with *Bringing the State Back In* (edited by Evans, Rueschemeyer, and Skocpol, 1985) and *The Developmental State* (edited by Woo-Cumings, 1999).
5. In stretching the DSP's application scope, one may add other units of development: localities, global regions, and, prospectively if optimistically, the world. At the locality level, exemplary research has been undertaken on the local developmental state in post-Mao China (Oi 1995; Blecher 2008; Liu 2008; Thun 2006). At the global regional level, the European Union is now debating its collective (developmental) role in dealing with the economic problems of less developed member countries. At the world level, the publicly declared developmental functions of the IBRD (International Bank for Reconstruction and Development, or World Bank), the IMF, and many UN organisations are predicated upon the supposed necessity of a global developmental policy regime.
6. These variegated components and functions of industrial policy are par excellence illustrated in the South Korean context by Alice Amsden (1989).
7. Many analysts of the welfare state critically suggest that this concept involves a serious risk of unduly relaxing the welfare state's institutional rigours (K. Chang 2012b). They hold that, much like the concept of the developmental state, that of the welfare state should be applied to a delimited group of states that satisfy certain institutional, political, and historical conditions. According to this view, only a very few non-Western states qualify as welfare states. However, as the welfare state is an almost universal modernisation target for most non-Western countries and, in fact, their welfare policies are often modelled on Western welfare states, the conceptual extension for linking the welfare state with these countries' developmental conditions and consequences in terms of the developmental welfare state can be considered at least a heuristically useful practice. Of course, there are less controversial conceptual options: developmental welfare regime, developmental social policy regime, etc.
8. The latter aspect is discussed in detail by Peter Abrahamson in Chapter 5. At a more macrohistorical level, Kuhnle and Hort (2004) discuss "the developmental welfare state in Scandinavia", suggesting that the evolution of the Nordic welfare states has been a developmentally coordinated process.
9. The economic resilience of the Scandinavian welfare states during the 2008–9 global financial crisis became a subject for political debate in South Korea, as it suddenly became enveloped by political and ideological calls for the welfare state by major hopefuls for state leadership (*Hankyoreh*, 19 May 2011).
10. This is Peter Abrahamson's direct observation during his visit to Iceland in late August 2011.
11. See http://economicsnewspaper.com/policy/spain/the-imf-sings-the-praise-mea-culpa-by-tunisia-and-egypt-before-the-riots-14552.html.

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