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Locating Industrial Policy in Developmental Transformation: Lessons from the Past, Prospects for the Future

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Abstract

What can we learn from structural change of countries that successfully industrialised in the 20th and 21st century? This paper explains that current attempts at economic transformation of the structure of countries' economies, including industrial development, have to be analysed and understood within the shift to the new, financialised phase of capitalism and the imposition of neoliberal practices, interests and ideologies within countries and on their international economic and financial relations. Rather than reflecting an ideology of the reduction of the role of the state, neoliberalism has entailed the redirection and transformation of the control and role of the state in the provision of welfare, social security, industrial development and deregulation of trade, labour and finance as well as reorientation of both domestic macroeconomic policies and the global financial architecture.

The lessons that can be learned from studying late industrialising countries, such as the Asian Tigers, that had achieved relatively high levels of industrial transformation, have to take into account this context, including the analytical reduction, even implosion, of concepts such as development and industrial policy. Further, one has to understand the limitation of current mainstream economics approaches in the context of the redefined and degraded notions of development and the roles of the state that neoliberalism deployed defensively in response to ideas that developmental states played key roles in economic transformations of the late industrialisers.

First, we revisit the nature and role of industrial policy. Second, we situate these in relation to one another and what lessons we have learned from the developmental state paradigm and how we might take these lessons forward. And, third, we turn to the relationship between economic and social development. We are mindful, as already suggested, that neoliberalism, as the current stage of capitalism – now longer lasting than its "Keynesian" predecessor – is underpinned by financialisation, something that is increasingly acknowledged across the literature but which needs to be taken into account other than treating finance as one amongst many other factors.

Keywords: Development, Developmental State, Economic Transformation, Financialisation, Industrial Policy, Neoliberalism

JEL classification: G00, H11, O1, P10

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Introduction

This chapter discusses economic and industrial transformation within the context of the current stage of capitalism, which we both define as neoliberalism and see as fundamentally underpinned by, but not reducible to, financialisation. Rather than reflecting an ideology of the reduction of the role of the state, neoliberalism has entailed the redirection and transformation of the control and role of the state in the provision of welfare, social security, industrial development and deregulation of trade, labour and finance as well as reorientation of both domestic macroeconomic policies and the global financial architecture.[1] In other words, neoliberalism has entailed a shift in the boundaries of governance and the application of power within societies, which particularly favoured interests of wealthy elites and domestic and foreign big businesses. We further contend that implementation of policies aimed at development and industrial policy have been subject to neoliberal reinterpretation and dilution, as concepts related to development and the developmental state have been degraded during their incorporation into mainstream economics and scholarly and policy thinking more generally.

In the context of development, the first phase of neoliberalism was in many respects pioneered by the Washington Consensus which stunted the industrialisation and transformation of developing countries, pushing them into policies favouring the power and interests of foreign businesses, especially the financial, and the corresponding domestic interests and activities to which they could be aligned.[2] As a result, at the level of ideology and policy discourses, the conceptualisation of development itself was degraded (to the idea of simply leaving things to the market) and industrial policy tended to disappear from the policy agenda if pursued piecemeal and incoherently in practice contingent on the exercise of evolving powers and interests.

[1] This chapter brings together insights from much of our work across a wide range of issues, contributed over long periods of time. Many of these pieces offer literature reviews, including reference to our own earlier takes on the issues involved. Accordingly, we tend to restrict ourselves to citing more recent contributions from which reference to earlier work, including our own, can be accessed. In case of neoliberalism, see Fine and Saad-Filho (2016) and Boffo et al (2018). Throughout there is much shortening and updating from Fine (2011). See also Fine (1997a-c) for earlier contributions in the South African context of the time, in relation to industrial policy, privatisation and what turned out to be lost opportunities in the South African steel industry and associated value chains.

[2] For the phases of neoliberalism and their corresponding influence over development economics and policy, see Fine (2021a and b).

The extent to which countries have been transformed by neoliberalism in general, and by financialisation in particular, has been highly differentiated even if the result of common (global) forces.[3] Both the incidence and impact of that incidence of financialisation have been subject to what is now recognised in the literature to being variegated. This chapter explains that economic transformation of the structure of countries' economies, including industrial development, has to be analysed and understood within the shift to the new, financialised phase of capitalism and the imposition of neoliberal practices, interests and ideologies within countries and on their international economic and financial relations.

A natural starting point is the lessons that can be learned from studying late industrialising countries, such as the Asian Tigers, that had achieved relatively high levels of industrial transformation in the twentieth century. Doing so entails departing from orthodoxy, especially its analytical reduction, even implosion, of concepts such as development and industrial policy that emanated from the Washington Consensus. Further, one has to understand the limitations of current mainstream economics approaches in the context of the redefined and degraded notions of development and the roles of the state that neoliberalism has deployed defensively in response to ideas that developmental states played key roles in economic transformations of the late industrialisers.[4]

Prior to the Washington Consensus, pioneered by the World Bank from the early 1980s, there used to be a two-fold conventional wisdom – that development depends upon industrialisation and industrialisation depends upon significant state intervention. Whilst the Washington Consensus tended to accept the central role of industrialisation, contingent upon its being driven by market forces, it came down heavily against the role of the state in achieving it. With de-industrialisation across the developed world for a number of decades and, even with the Washington Consensus giving way to the post-Washington Consensus, there has been an increasing presumption not only that industrial policy is unnecessary, and even counterproductive, but also that industrialisation itself is superfluous as the tertiary sectors offers an alternative avenue

[3] There is now a huge literature on financialization, by topic, discipline, definition and approach. See Mader et al (eds) (2020) and Fine (2022) and, in context of development, Fine (2020b). For South Africa see collection edited by Ashman et al (2018) for some coverage.
[4] For the latest developments in mainstream development economics, in context of nudging our way to development, see Fine et al (2016) and, for the research and influence derived from the World Bank as knowledge bank, see Bayliss et al (eds) (2011).

for developmental success. The conventional wisdom with regard to finance prior to the Washington Consensus was informed by the response, particularly of western developed countries, to reign in and stabilise finance after the Great Depression of the 1930s. The regulation of finance and international financial relations was reinforced with the implementation of a fixed exchange rate system and the endorsement of capital controls by the US and other western governments.[5] Regulation of finance and international financial flows was also seen as important for the macroeconomic policy sovereignty of the interventionist welfare states of the post-WW2 industrial countries and for their efforts to maintain stable exchange rates and to rebuild a liberal international trading order (Helleiner, 1994). The USA, to some extent prompted by the Cold War and attempts to counter growth of political support for the USSR, supported and even encouraged states to use capital controls to prevent capital flight and state intervention in finance to support the post-war recoveries of western Europe and Japan, including active state roles in influencing the allocation of finance in a manner consistent with state economic imperatives.[6]

With regard to countries that gained independence from colonialism after WW2, Amsden says, ‘Nevertheless, unlike in the period after 1980, the United States did the developing world a great favor. It left it relatively alone—a new form of ‘laissez faire.’ To create modern factories and skilled employment, the developing world could use unorthodox economic policies rather than laissez-faire’ (2008: 95). Industrial policy and adoption of import substitution policies in developing countries, particularly the

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[5] Helleiner (1994: 28) says, “Although the break with the liberal tradition in financial affairs was prompted by the 1931 crisis, it was part of a reaction against liberalism that had been growing throughout the industrial world since the late nineteenth century”. He adds that even though liberalism in labour policy and international trade were challenged from the 1870s, the complexity of financial issues and their general absence from discussions in political and public forums allowed private and central bankers sympathetic to a liberal approach to finance to dominate international finance well into the 1920s. This dominance was seriously challenged after the financial crash and depression of the 1930s.

[6] It is worth noting that the role of central banks has also much changed during the neoliberal era. Not only were central banks important in the regulation of capital controls, including exchange controls, the historical role of almost all central banks was to support economic stability and direct support to industry sectors. According to Epstein (2005: 3):

> Throughout the early and recent history of central banking in the U.S., England, Europe, and elsewhere, financing governments, managing exchange rates, and supporting economic sectors by using “direct methods” of intervention have been among the most important tasks of central banking and, indeed, in many cases, were among the reasons for their existence. The neo-liberal policy package currently proposed, then, is drastically out of step with the history and dominant practice of central banking throughout most of its history.

Epstein (2009) provides case studies of the tools and policies central banks in developing countries used to promote development.

Asian Tigers, was supported by active state involvement in and regulation of financial markets and financial flows. State financial regulation increased state control over savings and direct state involvement in the allocation of finance towards industrialisation plans.

Whilst the Washington Consensus may have shifted to its post Washington version, as indicated the idea of development itself became and has remained degraded. Economic transformation or structural change is seen as merely shifting the sectoral composition of the economy; and social policy is attached to providing safety nets, either explicitly in case of what were taken to be temporarily adverse circumstances, or in making up for deficiencies in provision of health, education, housing and so on. Deregulated financial markets are not seen as inevitably destabilizing in and of themselves or through resistance to, and/or avoidance of, (re)regulation and so causal of the misallocation of finance in economies. They are presented as more or less efficient, even imperative policy-manipulable vehicles for financing development and for sustaining developed economies (with massive levels of support following the Global Financial Crisis, GFC, being indicative of the lengths to which this is taken). Instead of being seen as driving contemporary capitalism, financial institutions have become misrepresented as merely (in)efficient intermediators and allocators of capital and, thereby, largely absent and blameless in erstwhile mainstream, neoliberal explanations of the problems that plague economies, such as macroeconomic instability, deindustrialization, high unemployment, growing inequalities and the path to irreversible environmental damage and calamities.

This chapter makes its contribution by restoring what had been so notably excised from the conception of (economic) development. As indicated, across scholarship, ideology and policy (and how they combine as a world vision), the Washington Consensus so reduced the notion of development in scope and depth, that almost limited numbers of avenues have been opened up to compensate for these omissions. As it were, the new neoliberal orthodoxy has created its own ragbag of heterodox alternatives, including the post Washington Consensus and beyond. As captured by Mrs Thatcher's claim that her greatest achievement was New Labour, so the Washington Consensus' greatest achievement has been both to constrain alternatives and the confidence with which they are put forward and to promote compromises to which they are attached in principle and in practice – all despite the transparent, and self-confessed deficiencies of the orthodoxy in the wake of the GFC; it could not but did happen, and we cannot put it right.

Much heterodoxy then, and its central thrust, has compromised with the forward march of neoliberal scholarship. Much of this posturing, more or less removed from past and contemporary realities, has been caught in a two-fold pincer movement. One pinch has come from the mainstreaming of development economics, with an analytical framing around optimisation, (in)efficiency, equilibrium and the appropriate mix of institutions and policymaking to correct whatever market imperfections can be identified (this being the position of the post Washington Consensus, with its predecessor and point of departure suggesting interventions would be worse than the imperfections given market-distorting rent-seeking). The other pinch has come from neoliberal ideology, especially with the demise of the Soviet bloc and its attachment to state ownership and planning, and the presumption that markets work well and state intervention does not.

What is so striking about these conventional wisdoms is the degree to which they depart from contemporary and past realities. The historical record shows that developmental success has always involved extensive state intervention and industrial development. As Ha-Joon Chang (2002) has neatly put it, advice based on the contrary is a denial not only of the developed countries' own pasts but also the pulling away of the ladder for those that would wish to follow – do not do as we did, do as we say. Further, the more recent examples of developmental success – the East Asian newly-industrialised countries, with Japan as the lead followed by South Korea, Taiwan, Singapore and so on – have all industrialised on the basis of extensive industrial policy. And, by even a short dose of realism, China is the latest example that proves the rule.

Significantly, in response to the Washington Consensus, itself borne as the east Asian NICs' successes were coming to fruition, there was inspired a developmental state literature, the classics being Johnson (1982), Amsden (1989) and Wade (1990). These sought to demonstrate the role of industrial policy in bringing about industrialisation and industrial competitiveness. And, they were accompanied by another literature – although the two tended to reside in parallel with one another – around adjustment with a human face, in which it was argued that, whatever, the questionable developmental success of Washington Consensus policies, they were hitting the poorest hardest.[7]

These twin critiques of the Washington Consensus had specific goals – to justify industrial policy on the basis of East Asian NICs' evidence and to show, working or not (as was demonstrably so), structural adjustments and stabilisation were hurting the already poor. As such, whilst each was compelling, and successful on its own terms and in its chosen goals, at the very least they needed to be combined to offer a rounded account of economic and social transformation. Whilst the Washington Consensus may have shifted to its post Washington version (with questionable impact on policy in practice, other than to broaden the scope of coverage of policy appropriated by the World Bank),[8] as indicated the idea of development itself became degraded. Economic transformation or structural change became seen as merely shifting the sectoral composition of the economy; and social policy became attached to providing safety nets, either explicitly in case of what were taken to be temporarily adverse circumstances, or in making up for deficiencies in provision of health, education, housing and so on. Tellingly, neither WC nor PWC offered any clear or detailed conceptualisation of development, only the means by which to achieve its lack of specificity – respectively, leave everything to the market versus piecemeal correction of market and institutional imperfections.[9]

Unsurprisingly, such limitations of the mainstream have inspired more or less radical and constructive critical alternatives. A leading, and recent, contribution to the new heterodoxies that goes much further and deeper than most is the invaluable volume edited by Andreoni et al (2021), covering both general principles and their application to South Africa in targeting economic transformation, and how both to understand and to achieve it. There are considerable resonances with our own approach, but there are also dissonances that we highlight here, partially and in brief, in order to bring out the distinctiveness of what we offer in breaking with incomplete reactions against the continuing influence, if not veiled stranglehold, of the Washington Consensus. Their volume appeals to the political settlement approach in which structures of interests, within evolving institutional contexts, determine outcomes in terms of more or less

[7] For a retrospective, see Jolly (1991).
[8] See Van Waeyenberge (2009).
[9] See Fine and Van Waeyenberge (2006).

developmentally advantageous (re)distribution of rents from whatever policies are adopted. This is, however, unduly negligent of the extent to which new (structures of) interests are formed: in the global context, we would emphasise the strengthening and emergence of financial elites; and, most notably, in the South African context, there is the newly formed role of big black business elites. In addition, seeing outcomes in terms of access to and appropriation of "rents" either makes every rent sui generis in its own individual circumstances or, as is the case for the analysis in practice, unduly homogenises across what are different structures, processes, agencies and relations with, most obviously, financialisation and the appropriation of interest properly seen as distinct, for example, from both rents derived from (mineral) landed property or monopoly profits from corporate control over competitiveness. A further weakness, or absence is an understandable focus upon the cutting edge of industrial value added in the context of global value chains. But this leads to a neglect of the role played by more mundane domestic production of basic needs for domestic consumption, across clothing, food, housing, and so on.

To address such issues of developmentalism, our own approach rests upon the more longstanding understanding of South Africa, in particular, as a national system of accumulation in a global context. The former has been specified as the Minerals-Energy Complex (MEC), with the latter now incorporated into globalised, financialised neoliberalism, leading to the increasingly acknowledged presence of the MEC together with financialisation (each addressed by Andeoni et al in passing) now to be newly termed as the Minerals-Energy and Financial Complex (MEFC).[10] This is indicative of both new political settlements **and** new partners in those newly constituted means of settling, with some long-established and some dramatically emerging where previously they were absented or even non-existent.

But, in this opening chapter, our concern is less with South Africa as such, and more with general principles. In this light, first, for contemporary conditions we revisit the nature and role of industrial policy. Then, we situate these in relation to one another and what lessons we have learned from the developmental state paradigm and how we might take these lessons forward. And, third, we turn to the relationship between economic and social development. We are mindful, as already suggested, that

[10] See Fine (2019) for a recent and Fine and Rustomjee (1996) for the classic account. Unevenly and in embryonic form, the MERG (1994) report adopted the approach suggested here.

neoliberalism, as the current stage of capitalism – now longer lasting than its “Keynesian” predecessor – is underpinned by financialisation, something that is increasingly acknowledged across the literature but which needs to be taken into account other than treating finance as one amongst many other factors. In addition, it equally requires a burning of dualisms rather than shifting emphasis from one side of them to another: whether it be macro and micro (or macro/micro as against an ill-defined and grab all for everything else, the meso); state (and other institutions more generally) and market; finance and the real economy; and the economic and the political (or social more generally). Identifying the nature of economic and social transformation, and how best to achieve it, requires a specification of evolving economic, political and ideological interests and how these are represented and fought out through the dualisms just listed rather than the latter being more or less harmoniously balanced against one another as independent factors. With these insights, we conclude by reassessing the role (to be) played by macro policy (as a product of a globalised, neoliberalised, financialised economy), and the prospects for forging a developmental state, transformative industrial policy and progressive social policy, drawing upon current analyses as critical point of constructive departure.

From Defining Industrial Policy …

In relation to industrial policy, we begin by raising two questions. The first concerns how to define industrial policy. This is necessary in order to be able to assess, formulate, evaluate and reassess its role in policymaking (although this sequence of action cannot be taken for granted if industrial policy is made primarily to favour certain interests for then it is just done with minimal rationale and scrutiny). Defining industrial policy is also necessary in order to be able to address the second question; is industrial policy back on the agenda, especially in the wake of the Global Financial Crisis, GFC, of 2007/8, and the interventionist responses to the Covid pandemic, each of which has given a justifiable battering to the nostrum of leaving everything, from manufacturing, let alone finance, to healthcare, to the market (Wade, 2012).

Perversely, we are going to answer the second question before the first even though an answer to the first is needed to answer the second. This is because, with Wade, we consider that industrial policy has never been off the agenda, neo-liberal and Washington Consensus ideology to the contrary. Rather, industrial policy has remained extensive, with Wade himself suggesting that the USA (especially around military expenditure and innovation) has heavily supported industry and might even be considered a developmental state itself as a result.[11] More generally, searching on technology, engineering and business literature – rather than mainstream economics – it is readily found how much (successful) industrial policy has been deployed other than in the world of neoliberal imaginaries. What has happened, though, is that it has become more acceptable to acknowledge and promote policy as industrial policy and, in this sense, it is back on the agenda where previously it had been shunned. However, this does not turn the world back to where it was, either in word or deed. This reflects, even though industrial policy is more openly discussed, the ways of doing so are considerably more limited in scale and scope than previously (although, admittedly, there are new or revitalised issues especially around technology and the environment). Indeed, it might even be argued that industrial policy has only been put back on the agenda in mainstream circles in order to contain rather than to promote it.[12] Further, if industrial policy were seriously back on the agenda, it would not only extend to policies that have not in general been restored (such as positively promoting state ownership and reversing privatisations other than in extreme failures of the private sector) but serious attention would be paid to drawing lessons from developmental states and the role of industrial policy in their success. But, as will be seen below, the place of the developmental state in industrial policymaking has been eroded in terms of both its presence and its dilution where present.

Now, though, consider the question of defining industrial policy. Here, traditionally, consciously or otherwise, this has been done in two ways. The first is to define it very narrowly by reference to one or other particular aspect of policy affecting industrial performance, usually reflecting a particular intervention that is prominent or fashionable at the time for whatever reason. Unsurprisingly, given how many different policies and factors affect industrial performance, the list of potential industrial policies is extensive even if they only assume favoured prominence occasionally – a casual list includes trade policy, privatisation, competition, downsizing, regional development, technology, SMEs, entrepreneurship and business climate, the environment, human

[11] The idea of the hidden (US) developmental state derives from Block (2008). See also Rethel and Thurbon (2020).
[12] This is the conclusion of Fine and Van Waeyenberge (2013) in response to Justin Lin's attempt to promote industrial policy at the World Bank, itself marked by its failure to gain much support from within despite his position as Chief Economist (Wade, 2012) – much as Stiglitz's push for change proved futile, leading to his (enforced) departure.

capital and management skills, finance for industry, and so on. In some respects, highlighting one or other of these allows the others to be ignored.

The point is that almost anything can be construed as industrial policy precisely because of so many influences on performance, including economic and social infrastructure and workers' wages and living conditions. This leads to the alternative definition of industrial policy as anything that affects industrial performance, the problem with this being that it does include so much. More usually, a stance is taken somewhere between these two extremes of one thing or everything, as suggested by Chang (1994) in defining industrial policy as those that are specifically designed to impact industry. The problem with this is that it excludes much that affects industry profoundly because it was not intended to do so. In a nutshell, poor energy policy (and infrastructure more generally) may lead to power shortages and cuts that are disastrous for industry but would not count as poor industrial policy by this approach.

Our own view or definition of industrial policy is different and differently motivated, not least methodologically. The idea is not to have a more or less narrow definition of what affects industry, nor a template of factors to be ticked off or not as having been addressed in industrial policy (although this is essential). Rather, the nature, and hence definition, of industrial policy is to be accepted to be different by virtue of its context and specificity, whether by sector, country or circumstance – a recent dramatic illustration is policy for pharmaceuticals in light of the pandemic. This means that industrial policy should be inductively defined by how it is understood in situ by those implementing, assessing or seeking to contest and shift, policy. This is very different from perceiving industrial policy as, for example, correcting market imperfections although it is compatible with such an approach however much valid is such a framing.

Such a perspective on industrial policy is well-illustrated when the stakes are high or significant changes are sought – post-war or post-apartheid (re)construction, for example – for, here, the context is, or should be, prominent and unavoidable. But, to facilitate a more concrete discussion, consider the case of trade policy. Here, there has been a conventional wisdom, reaching beyond proponents of the Washington Consensus, that freer trade is good for development. Analytically, it is founded upon the policy of reducing what is called the effective protection rate, EPR – a measure that assesses the impact upon (market) competitiveness by adjusting tariffs on outputs for those on inputs (if latter are larger, the sector becomes worse off). In practice, to deploy the EPR requires that it, first, be able to be well-defined so that it can, second, be measured (to check whether policy has lowered it) and, third, drawing the conclusion that reducing the EPR will be beneficial. Significantly, across mainstream studies, as reported in Deraniyagala and Fine (2001 and 2006), the assumptions necessary to complete these three steps are mind-blowingly unacceptable. They include that: there are only two sectors of the economy; there is no unemployment at any time; there are no MNCs with inter-affiliate trade; all markets are fully competitive; there are no externalities and linkages across sectors; there are no economies of scale and scope; and there are no non-tradeables.[13]

In short, despite heavy acceptance across the discipline, as with much mainstream economics, the conditions under which its EPR prognostications are taken to be justified are totally unrealistic. But, in this case, from the definitional perspective on industrial policy adopted here, this exercise can be turned from being critical negative to being constructive positive. For, what it demonstrates is that industrial policy does need to take into account interactions between sectors, employment levels, the roles of multinationals and monopolisation, etc., something that might appear to be little more than common sense and a touch of contact with contemporary economic and political realities – but for the deadweight of neoliberal ideologies concerning the virtues of an idealised world of free markets. To these considerations can also be added other goals of industrial policy such as environmental impact, issues of gender and race and poverty alleviation, employment generation, sources of finance, and technological change and skill enhancement. Whether and how these, and potentially other, factors impinge will need to be situated contextually in defining the goals and levers of industrial policy.

… to the Developmental State as Such

As is already apparent, what we will term the developmental state paradigm, DSP, emerged to prominence in the dual context of the economic successes of the east Asian newly-industrialised countries, NICs and in opposition to the Washington

[13] Note that the unacceptable conditions necessary for EPRs to be validly deployed are identical to those for comparative advantage. Perversely, those who rightly reject the conditions often depend upon the concept of comparative advantage (even though it cannot be defined) in terms of its (dynamic) creation, appealing to the very conditions that render it invalid (such as economies of scale and scope, technological change, etc). This includes Andreoni et al (eds) (2021).

Consensus. It was at its strongest from the mid-1980s for a decade before it was eroded to some extent by the image-damage attached to the east Asian crisis of 1997 and the launch, around the same time, of the more state-friendly post Washington Consensus (which, ironically, studiously ignored the DSP even though it was prompted in part by it due to the gathering dissatisfaction with the Washington Consensus). We will return to the evolving status of the DSP later, if touching upon it from time to time in the interim, but we begin by bringing out its core features.[14]

First, and foremost, as mentioned, the DSP was inspired by establishing empirically the complete fallacy of the Washington Consensus. The East Asian NICs are shown to have enjoyed latecomer, catch-up industrialisation with high growth in per capita income and movements up and across value chains as a result of substantial state intervention in general and targeted industrial policy in particular.

Second, unsurprisingly, the DSP departed theoretically from the Washington Consensus in emphasising the importance of the positive role of non-market interventions and institutions, and of (the sources of) industrial policy in particular, drawing upon a framing that straddled the old or classic development economics (attending to the nature of, and conditions for, economic and social transformation) and appeal to the need to acknowledge and address market imperfections (as opposed to the new development economics, inspired by and underpinning the Washington Consensus, that stressed the virtues of the market and relied exclusively upon the principles of mainstream economics).

Third, more specifically, the literature attached to the DSP can be more or less roughly divided into two schools. One, the "economic" school, focuses on identifying the sorts of industrial policies that lead to success, drawing upon economies of scale and scope, targeting coordination upstream and downstream, ensuring finance for industry, expanding both domestic and export markets in sequence, providing essential infrastructure and so on.[15] The other, the "political" school is less attentive to policy as

[14] On the DSP, see Fine (2013a), although the issue is covered in Fine and Rustomjee (1997), and most recently, Fine and Pollen (2018). For South Africa as a putative developmental state, see Ashman et al (2013) and Fine (2013b and 2016a). For the stronger claims of the apartheid state as developmental, as opposed to post-apartheid, see Freund (2013 and 2018).

[15] Such is the thrust of Chang's (2002) historical work, tracing the developmentalism of state intervention from Alexander Hamilton forward. It gives rise to a law of economics – wherever there is development, it will be seen to have been the result of a developmental state! South Africa offers a perversion of the law, declaring itself a developmental state in the making as the Mbeki regime desperately sought to support itself ideologically in its death throes.

such as opposed to interrogating what are the circumstances in which a state will be developmental rather than, say, corrupt and/or inefficient, that is able to adopt developmental policies whatever they might be.[16]

Fourth, the scope of coverage of the DSP has been limited, especially for the economic school around the favoured east Asian NICs. This has two aspects. On the one hand, as its critics observe, successful case studies of state intervention to bring about industrialisation are self-selecting – maybe they would have succeeded in any case and for other reasons or despite the state, and what about all of the cases of failed state interventions. Accordingly, Africa has tended to be excluded from the DSP orbit.[17] On the other hand, as literally underlined above, the DSP has tended to confine itself to latecomer, catch-up industrialisation. This begs the question of why the DSP is not applicable to both earlier and later stages of development, the transition from agrarian economies at one extreme and to the vanguard of industrialisation at the other (get in front of, not just level with) as opposed to focusing exclusively on what are the intermediate stages of industrialisation. And, further, the preoccupation with industry reflects a narrow, if core, aspect of development with limited regard for health, education and welfare and for the role of labour (other than as "human" capital).[18]

Fifth, the DSP is primarily if generally implicitly deeply wedded to what is termed methodological nationalism, in this case the idea that the problems of development are and can be confined to intra-national considerations. At most, the global counts as at most one factor amongst others to be taken into account rather than driving the conditions under which developmentalism may or may not be possible. Consider, for example, the counterfactual in which all national states succeeded in becoming developmental states. The world would be transformed beyond recognition, not least in terms of imperialism, US hegemony let alone the division between North and South. This is not to suggest that the global renders national developmentalism impossible, only that there are systemic forces at work that heavily influence what, and how it, can be realised. And, it should be added, these change over time alongside the international environment in both economic and political terms.

[16] Thus, for example, Thurbon (2020) places considerable emphasis upon a developmental mindset.

[17] See Mkandawire (2001) but also Mkandawire (2012) for South Africa's prospects.

[18] Significantly, the pre-history of developmental states tends to be ignored, other than as a potential initial condition for success; for example, for South Korea, get yourself invaded by Japan to destroy your landlord class (and subsequent strategic US aid subsequently should not be overlooked).

Sixth, within this methodological nationalism, the DSP adopts the same analytical framing of the Washington Consensus, the better to be able to contest it – this is the dualism of state versus the market. The two sides of the dispute differ over relative emphasis on the role to be played by each and how state and market should be coordinated if at all.

Seventh, then, this is to overlook how the state and market are always heavily integrated with one another, but the relations and relative balance between the two are conditioned by how more fundamental economic, political and ideological (class or fractional) interests are formed and expressed through both state and market. In this respect, especially through the political school and empirical case studies, the DSP has tended to focus primarily on the capitalist class and its relations with the state, or even to reduce this to industry-ministry relations, at the expense of capital-labour relations and the role of labour at all other than as a factor of production.

The Evolution of the DSP

In short, in staggeringly successful opposition to the Washington Consensus (on the basis of the experience of the East Asian NICs and beyond), the DSP established a sound, if incomplete, basis on which to construct alternative policies and to address the conditions under which they might be adopted. But from the mid-1990s, the DSP paradigm went into decline. There are a number of reasons for this. First was the damage inflicted by the Asian crisis of 1997/1998, and, even before that, denials that there ever was a miracle at all just accumulation of physical and human capital.[19] To the fore in this respect was the World Bank's (1993) own Report on the East Asian Miracle, EAM, which came to the remarkably contorted, self-serving conclusion that there had been substantial state intervention in the East Asian NICs, but this only did

[19] Such a position, initiated by Young (1993) and promulgated by Krugman (1994), was based on calculations of total factor productivity – as commonly deployed as it is well-known to be completely fallacious, Fine (2016b), and Felipe (1999) for an early critique of the TFP literature as applied to east Asia. The World Bank's Report was funded by Japan at a time when it had become the world's leading donor of aid and was seeking activist industrial policy in the Asia-Pacific Rim in order to support labour-intensive assembly on the basis of its own capital-intensive domestic production. Japan must have been sadly disappointed with the Report (that set aside vast swathes of its own background papers) quite apart from the denial of Japan's own well-known history as the pioneering developmental state. For a recent, positive, assessment of the role of South Korean interventions in its Heavy and Chemical Industry, HCI, initiative, in shifting to heavy industry and promoting corresponding value chains, beyond the duration of the initiative itself, see Lane (2021).

what the market would have done if the market had been working properly (and without implications for interventionism elsewhere).

Second, again before the Asian crisis itself, literature had begun to cast doubts on whether developmental states could be sustained because of the shifting balances of (class) power brought about by their success.[20] On the one hand, in the case of Latin American import-substituting industrialisation, it was argued that this brought about a strengthening of working class populism and its demands for higher wages and improved social provision at the expense of industrial competitiveness. On the other hand, for East Asia, the argument was more that the strengthening of corporate capital (chaebol in South Korea, for example), increasingly allowed it to defy government control and coordination – from directing who would invest in what (to ensure matched capacity within and across sectors), and who would not (to allow for economies of scale and scope), and in constraining speculative financial investments in particular). Significantly, then, the developmental state is confined to a limited window of opportunity but, analytically, this signals how the DSP set aside the evolving nature of economic (and political and ideological) interests underpinning developmentalism (or not) until forced to confront them by the apparent erosion of shifting class relations and corresponding state-led developmentalism.

Third, each of these two assaults upon the DSP ultimately, and ironically, offered some paving stones along the way for the post Washington Consensus which was more state-friendly in scholarly and ideological terms than its predecessor, basing itself on the need to identify and correct, where beneficial to do so, the incidence of institutional and market imperfections. Thus, whilst the criticisms and failings of the Washington Consensus in developmental terms, with the DSP to the fore, persuaded the World Bank of the need for a change in scholarly and ideological postures, it proceeded as if the DSP simply did not exist with little or no reference to its contribution (and as if the EAM had squeezed out all there was to learn).

Subsequently, over the last two decades, the DSP has gone into decline and has been described as a failed buzz/fuzz word, as a result of its being used freely if casually and

[20] See the "death and end" literature, with more positive responses emphasing the continuing role of interventionism even if erosion of the developmental state as such – Williams (ed) (2014), Haggard (2015), Wade (2017), Pirie (2018), Wong (2020), Rethel and Thurbon (2020) and Hockmuth (2021).

imprecisely.[21] More specifically, the DSP has been subject to being a port of call whenever and wherever there is any state intervention that can be interpreted as successful, most frequently at some microeconomic level as opposed to economic transformation in general and successful industrialisation in particular. With some exceptions, if primarily at the level of local economic development, the single most successful developmental state of the neoliberal era, China, has been studiously ignored or simply set aside as an exception rather than being drawn upon to learn developmental lessons, just as the DSP garnered a similar fate in the transition to the post Washington Consensus.

Financialisation and economic structure

The changing relationship between finance and productive sectors occurs within a framework that is influenced not only by government ideology but also conflict and struggles within society (and, also with and within government). Evolving views and struggles over the role of the state in social provisioning, industrial development and macroeconomic and finance policies, including state influence over the allocation of finance, affect not only the structure but also the size of the productive and financial spheres of the economy. They also influence the level of commodification and privatisation in services and reproductive spheres of the economy. As economies become increasingly financialised, larger proportions of the nonfinancial spheres of the economy, including nonfinancial firms, households and public entities, are drawn into a context where their routine operations are increasingly influenced by financial motives and linked to financial activities.

Fine (2022: 56) says:[22]

> For me, periodisation is based upon how economic restructuring and reproduction occurs in the accumulation and circulation of (surplus) value, and how that economic restructuring and reproduction is embedded within social restructuring and reproduction.

[21] See Cornwall and Eade (eds) (2010) for buzzwords and fuzzwords in the developmental lexicon. Their success and prominence depend, even as critical points of departure, upon their adoption by the World Bank.

[22] And on social reproduction in this vein, see Fine (2020a).

The impact of financialisation is not simple; it can lead to accumulation and also constrain it. This support for, or constraint on, accumulation will occur unevenly. As mentioned by Fine (2022: 57), 'variegated financialisation is not just differentiation due to different variables and contexts being present but because of the complex interaction of underlying forces'.

Widespread liberalisation and growth of finance were integral to the emergence of the neoliberal era and growing financialisation. As observed, it has also been an important component of the degradation of the concept of a development state, including the changed, reduced role of state involvement in promoting industrial transformation, economic development and redistributive social policies. The form of this financial liberalisation was affected by countries' specific internal political and economic dynamics during a particular historical period and its geopolitical circumstances. Therefore, external compulsion and internal choices of individual countries to liberalise finance, the extent to which they liberalised finance and their experience of financialisation over time, while affected by global factors, have to be considered on a case-by-case basis.

Financial Liberalisation after the Bretton-Woods Period

The regulation of domestic financial markets and international financial relations, including cross-border financial activities, was a central function of developmental states. This role was easier when there was greater coordination of the global financial system by countries through the Bretton Woods arrangements during the post-WW2 era. However, the USA and Britain undermined the Bretton Woods arrangements in an effort to boost their financial sectors after they had lost ground to competition in global trade markets. The Bretton Woods arrangements, aimed at rebuilding economies after WW2, included an approach to finance, influenced by Keynes, that a stable global economy, and economic recovery within countries, required financial regulation within countries and of cross-border financial flows. In fact, the architects of the Bretton Woods agreement recognised that in order to rebuild the global trading system it was necessary to have a regulated, coordinated global financial architecture. According to Helleiner (1994) the USA made pragmatic political choices in support of embedded liberalism after WW2. However, the USA would drive an increasing imperialist and neoliberal global agenda as they intensified the Cold War, intervened in European politics, and made war in Korea and Vietnam. In part, the USA chose these actions to support the global expansion of their corporations and their efforts not to adjust their economy when government budget and current account deficits had grown.

Neoliberal policies did not support economic growth in the way that advocates of neoliberal policies suggest – by providing freedom from state constraints on private entrepreneurs to profit from their activities. The main proponents of neoliberal policies, including the USA and Britain, had increased industrial competition from Germany and Japan and later the newly industrialising countries of east Asia. These countries, particularly Japan and the Asian tigers, South Korea, Singapore, Malaysia, Indonesia, and the Philippines, had policies that were in many ways the opposite of policies advocated by neoliberal economists (Amsden,1989; Woo-Cummings 1999; Chang, 2002; Wade, 1990). They had activist developmental states that intervened in markets, directed the allocation of finance towards productive investments, and put in place industrial policies to support job creation and export orientation. Industrialisation and job creation were the main components of their strategies to address poverty. The state provided infrastructure not only for businesses to thrive but also to support household reproduction and education systems, which contributed to reducing poverty and improving labour productivity and skills development. Their financial and macroeconomic policies were supportive of these developmental goals and adjusted to these states' fiscal requirements. Their rapid economic growth and the direction of credit allocation by the developmental states meant that public finances stayed healthy.

The governments of the USA and Britain, faced with increasing competition in their countries' productive sectors, suffered from growing current account and fiscal deficits. Instead of adjusting their economies to support productivity and competitiveness in manufacturing, they looked for solutions to their balance of payments and government debt problems through their financial sectors. The rise of OPEC and the two oil crises of the 1970s, and the war in Vietnam exacerbated these problems. They required foreign financial inflows to offset their negative current account balances. They also used increased tax earnings from their growing financial sectors to offset tax losses due to deindustrialization (Block, 1977; Gindin and Panitch, 2012). This turn towards finance in the USA and Britain in response to loss of industrial competitiveness and associated balance of payments constraints formed an important part of the link between increased financial liberalisation, increasingly integrated international financial markets and financialisation and the growing dominance of neoliberal policies.

The US government had already experienced balance of payments pressures during the 1960s because of the Korean War and reduced industrial trade competitiveness. Instead of addressing their industrial competitiveness, the USA took advantage of having the global reserve currency to print more dollars to address their current account and budget deficits. By 1971 there was such a glut of dollars in global markets that the USA was forced to abandon its commitment to exchange dollars for gold, and so unilaterally undermined the fixed exchange rate global monetary system agreed upon at the Bretton-Woods Conference in 1944. Vernengo (2021) argues that the collapse of the Bretton-Woods exchange rate arrangements, which was supported by large US businesses and banks that had become increasingly internationalized, led to the imposition of a global fiat currency system under the hegemony of the US dollar (which at that point had already been the global reserve currency).

As they became more dependent on finance and foreign capital inflows, both Britain and the USA pushed for deregulation of capital controls and rules with regard to foreign ownership of financial institutions to allow their financial sectors to grow and to be able to draw in financial flows from other countries to offset their trade deficits and poor real sector economic performance. The USA and British governments deregulated their own financial sectors. They also showed the world that they would turn a blind eye to the growing Eurodollar market, which helped multinational enterprises and individuals to contravene capital and exchange controls of their home countries. Large corporations of developed countries that expanded through internationalisation were eager to avoid capital controls and lobbied for deregulation and the growth of offshore capital markets. The response of countries to the breakdown in the post-Bretton-Woods arrangements around capital controls was rapidly to deregulate their financial sectors and to remove capital controls.[23] Those that did not do so could face serious balance of payments difficulties because of the risk of large outflows of capital from their countries to other countries that had already deregulated their financial markets.

[23] Helleiner (1994) uses the term ‘competitive deregulation’ to refer to the frenzy of capital account deregulation that occurred.

Corporate Restructuring, Value Chains and Financialisation[24]

The rhetoric of neoliberal ideology was that if government stepped aside and markets were freed from state distortion, and red tape on businesses were removed, then economies could thrive and grow. The actual historical experience was that much of the implementation of policies related to neoliberal ideology in the advanced capitalist countries was linked to their rapid liberalisation of financial markets and their interest in reshaping trade agreements and markets to suit their own businesses. The liberalisation of trade markets in developed countries at a time when the opening of the Indian and Chinese economies brought almost a billion low paid workers into the global labour market put further pressure on their industrial businesses. One response from the industrialised western countries' businesses to changes in the global economy was large-scale restructuring of their own industrial corporations and global value chains. They moved large parts of their production assembly processes abroad to developing countries, particularly in Asia, where wages and production costs were cheaper, but kept branding, design, technology development within their home countries (Mohamed, 2010). The large corporations of developed countries were also able to use their economic power and support of their states' geopolitical, including military, powers, to become lead corporations that dominated global value chains.

There have been two waves of growth of developing country firms into large MNEs. The first wave occurred during the 1970s and continued into the 1980s (see Kumar and McLeod, 1981; Wells, 1983 and Lall, 1983 for discussion of the first wave). Many of the first wave developing country MNEs grew out of the successful East Asian 'tiger' countries. The second wave of growth of developing country multinational enterprises occurred in a much more integrated and concentrated global economy where concentration and inter-firm influence occurs throughout value chains. Goldstein et al (2006: 369) consider the recent growth in multinational enterprises from developing countries and say, 'The emergence of a "second wave" of developing-country multinational enterprises (MNEs) in a variety of industries is one of the characterizing features of globalization in the most recent years.' The movement of developed country MNEs into developing countries to reduce costs and take advantage of

[24] For this in the context of evolutionary economic geography, see Boschma (2021).

growing markets created opportunities for growing developing country corporations. In general terms, the second wave of developing country MNEs has been constrained by the form of globalisation since the 1980s and the influence of financialisation of the developed country lead firms on GVCs. Therefore, while many developing country corporations have been able to grow, it seems that they have more often than not had their growth constrained and been limited to the role of providers of raw materials and low value added intermediate products and also low cost assembly. While each value chain will take on different forms and have different forms of governance, the general picture is one where there is an inequitable division of labour where financialisation allows rentiers to extract profits through lead corporations in global value chains. These rentiers pressure the lead corporations for high short-term returns on their investments. The lead corporations then govern the value chains to ensure that they capture most of the profits by squeezing the other parts of the value chain. Froud et al (2014: 47) illustrate the difference between the first and second waves in the auto sector, and include the impact of financialisation on this second wave:

> When the Japanese sold cars in the United States in the 1970s and 1980s, the contest was a productionist one between compact nationally enclosed supply chains in Japan and Detroit with lower wages sustaining Japanese advantage so that firms like Toyota could reinvest profits and grow market share as they built their own brands. The position in the 2000s is complicated by financialisation and long trans-Pacific supply chains where power is often wielded by US firms which act as proxies for the stock market and boost profits by multiple tactics which include control of design, consumer marketing and the use of contract power to take profits at the expense of margins in their Chinese suppliers.

Financialisation of Nonfinancial Corporations

Increasing offshore operations and reorganization of global value chains were not the only way in which developed country large corporations responded to declining profits, changes in the competitive environment and the deregulation and growth of finance. During the post-WW2 period many of these large, developed country industrial corporations, in key sectors such as auto, shipbuilding, and chemicals, had high profits and were able to use retained profits to reinvest in growing their businesses. According to Crotty (2002) global oligopoly market structures in these sectors reduced the likelihood of cut-throat price competition and helped to maintain a stable environment for the profitability of these corporations. Stability was important for these large global players because expansion of these businesses required large long-term sunk costs in investments in sectors where scale and technology of operations determined profitability and survival. However, these stable oligopoly market structures broke down as a result of a changed competitive environment towards increasing cutthroat price competition at the expense of profits. As a result, large nonfinancial corporations did not earn adequate profits to reinvest to maintain competitiveness but were forced to raise more finance in financial markets.

This increased dependence on financial markets coincided with the rise of the hostile takeover and the shareholder value movements in the USA and its global spread. The shareholder value movement was driven by activist shareholders and led by institutional investors which, as a result of deregulation, had access to more money to invest and fewer restrictions on where to invest, demanding higher levels of short-term returns for their investments. Non-financial corporations, pressured to raise profits, turned towards financial activities to raise their returns. This increasing reliance on financial activities to provide the short-term returns demanded by shareholders is described as the financialisation of non-financial corporations (Crotty, 2002; Froud et al, 2007). Financialisation, however, was a broader process that underpinned the spread and dominance of neoliberalism.[25] As with neoliberal ideology the spread of financialisation, and its nature and impacts, has been uneven across the world and even across different sectors within countries. For example, on the African continent South Africa and larger economies such as Nigeria and Egypt have become more financialised but countries whose financial markets and businesses are less integrated into global markets have lower levels of financialisation overall (Karworski and Stockhammer, 2017).

Neoliberalism, Financial Liberalisation and Financialisation in Developing Countries

Hujo (2021: 346) describes the impact of neoliberal policies on developing countries:

> Developing countries were even harder hit by the systemic overhaul in the 1980s. State-led development strategies promoting full employment and public social

[25] UNCTAD (2020: vi) discussing what is needed for 'sustainable recovery' after the COVID-19 pandemic provides a succinct appraisal of the impact of financialisation and the pursuit of neoliberal policies and their role in widespread declines in productivity and aggregate demand, financial fragility and related weakening of resilience to crises within countries before the pandemic.

> services adopted by developmentalist governments concerned with catching-up (typically represented by Latin America and East Asia), as well as by newly independent states striving to overcome the legacies of colonialism (typically represented by sub-Saharan Africa), were replaced with stabilization and structural adjustment policies (SAP), what was later called the Washington Consensus.

The damage to developing countries caused by Structural Adjustment Programmes and the Washington Consensus will not be covered here as it is well documented (see for example, Beckman, 1992; Chang, 2003; Cornia et al., 1987; Mkandawire and Soludo, 1998). Industrial policy and adoption of import substitution policies in developing countries, particularly the Asian Tigers, was supported by active state involvement in, and regulation of, financial markets and cross-border financial flows. The role of the state in finance extended to increased state control over savings, development finance institutions, state influence over allocation of finance by private financial institutions towards national industrialisation plans, capital and exchange controls, and management of exchange and interest rates (Woo-Cummings, 1999; Epstein and Grabel, 2007, Eichengreen (2008). Increased state control over developing country financial institutions and allocation of finance was crucial after colonial powers and imperial banks shaped financial systems to support wealth extraction from colonies and to service colonial and settler businesses and populations (Mohamed, 2014). Mainstream economists used the term ‘financial repression’ to dismiss state regulation and involvement in finance as distortionary and said that it starved savings poor developing countries of the capital it required for investment (McKinnon, 1973, Shaw, 1973). The Washington Consensus called for the liberalisation of financial markets and the post-Washington Consensus, while recognising that unregulated finance and capital flows are dangerous, at least post-GFC, proposed continued liberalisation of finance and at best temporary use of capital controls within a mainstream approach to macroeconomic policy (see for example, IMF, 2012).

During the 1980s and 1990s many developing countries were involved in sweeping financial liberalisation, removal of capital controls and also notably establishment and rapid expansion of stock markets (Singh, 1997). Liberalisation of finance initially led to massive surges of capital inflows through foreign bank lending in the 1980s. After the 1980s international debt crisis, surges of capital into developing countries occurred largely through short-term portfolio capital flows. Palma (2000) says, ‘no matter how hard financially-liberalised LDCs have tried in the last quarter of a century to deal with the problem of sudden and massive surges in capital inflows, they have ended up in a financial crisis’. Palma’s study shows that different developing countries absorbed surges in capital inflows differently. The role of financial institutions, nonfinancial corporations and the state all influenced how surges in capital inflows were used in the host economies. For example, in Brazil much of the short-term foreign capital flows were sterilised; in Thailand and the Philippines they were directed towards financial and real estate speculation and debt-driven consumption; and in South Korea much of it was (unwisely) used to finance uncoordinated and excessive long-term fixed investments by the private sector.

Volatile short-term capital flows create systemic financial instability related to the potential for panic and capital flight out of countries by foreigners and residents. It is also associated with macroeconomic fragility as surges in short-term flows affect key macroeconomic variables, notably the exchange rate and movements in both the current account and financial accounts of the balance of payments, and it affects dynamics and sentiment in domestic financial markets, including private and sovereign debt markets. And, as many governments of developed country states realised after WW2, open capital markets reduce macroeconomic policy sovereignty to implement redistributive welfare, infrastructural and industrial development programmes. Liberalisation of capital controls has led to speculative booms and busts in stock markets that caused allocation of capital away from long-term productive investments. Currency and maturity mismatch risks make short-term capital flows unsuited for long-term investments in industry and productive sectors.

The liberalisation of cross-border capital flows is not a form of financialisation as such but has been a catalyst for increased financial activities, ‘deepening’ financial markets and financialisation in many countries. This is the case particularly where these flows have been absorbed into speculation in financial and real estate markets and increasing household debt. The increased flows have intensified the use of derivatives, including securitisation of debt. Over the past two decades, they have increased the influence of foreign institutional investors over domestically-listed firms. Developed country institutional investors have been at the vanguard of the shareholder value movement and demanded higher, short-term returns on their portfolio flows (Lazonick and O'Sullivan, 2000). Developing country institutional investors have followed this practice. In fact, institutional investors of both developed and developing countries have expanded as global capital flows have risen and they have also increasingly diversified their portfolios out of their host countries (Pazarbaşıoğlu et al, 2007; Fichtner, 2020).

Even though finance and the power of institutional investors has grown during the neoliberal era, the role of the state (and its potentially enhanced role) in the allocation of finance, financial market formation and regulation should not be dismissed or underappreciated. Finance operates under conditions and laws decided by the state. The extent to which countries have become neoliberalised, the extent of financialisation and the role and influence of finance occurs within parameters set by the state. The experience with increased numbers of financial crises since the start of the neoliberal era shows that neoliberalisation of finance and financial markets requires an active role of the state. Helleiner (1994), writing before the Asian financial crisis of 1997, made the point that neoliberalism and financial market deregulation has not led to a smaller role for the state. He says that the role of the state has grown as it changed from regulation to avert financial crises to cleaning up and bailing out finance after crises. And these remain after the GFC but also complemented by the wish to avert contagion for which the possibility of capital controls has been tentatively mooted.

The experience after the global financial crisis of 2008 has been that inadequately regulated finance requires a more active and larger role for the state. States are also able to influence the evolution of the financial system within a country through financial market formation and the structure and regulation of institutions involved in trading and price formation of financial instruments. This regulation and governance includes the role of the state and state ownership and control over these institutions and creation and transacting within these markets. A good example is provided by Petry et al (2021) who give an indication of how variegated are both capital markets and the processes by which those markets contribute to financialisation in developing countries. They examine how different approaches to regulation of securities exchanges in certain increasingly financialised developing countries affect the shape and outcomes in capital markets. They find that there is a continuum with some states choosing greater degrees of neoliberalism. They point out that "there is clear variation in the extent to which the quest for private profit is allowed to reign freely in these capital markets" (p.15). They also make the important point that profit creation does not have to be the only function of these markets but that they can also be organised to facilitate broader state objectives.

Developmentalism within the Neoliberal Era

In taking forward lessons for economic transformation from our discussion of the global/macro context, industrial policy and the DSP, we highlight the following. First is to specify the nature of contemporary, global capitalism, not least as the context within which national policymaking is proposed and implemented with corresponding outcomes. Here, as emphasised in our introduction, we point to the role of globalised production as well as the neoliberalisation of economic and social reproduction, something which renders current circumstances considerably different than those that prevailed during the golden age of the DSP. More specifically, neoliberalism has been underpinned by financialisation, and the associated proliferation and accumulation of financial assets without this necessarily leading to satisfactory levels of effective investment in either public or private sectors, quite apart from rendering the (global) economy susceptible to (financial) crises. And the presence and strength of financial interests have been considerably enhanced with corresponding effects felt across economy, politics, ideology and cultures.

Indeed, the vast majority of the burgeoning literature on financialisation across heterodox political economy and the social sciences, even if negligible within mainstream economics, has emphasised not only too much finance but, equally, the more finance there is the worse are a whole range of economic and social dysfunctions. The core reason for this is that financialisation is strongly attached to (the interests of) short-term speculative finance at the expense of longer-term productive or other functional goals. Given just how much expansion there has been of financial markets, with the spread of asset types, alongside poor economic and social performance relative to the post-war golden age, it is hardly surprising that there should be simple correlations between growing finance and poorer performance, especially in the wake of the GFC. However, we would emphasise that the association of financialisation with, for example, lesser real in favour of speculative investment is far from universal. Financialisation can also be associated with what might be termed the political economy of excess, most obvious in the expansive reliance upon fossil fuels as well as over-supply and maldistribution of food (with as many suffering malnutrition through obesity as undernutrition across the globe).

This points to a deeper insight concerning financialisation. It is not only that it can have differentiated effects across sectors of activity but the mechanisms by which it does so are themselves highly differentiated, just as is the incidence and impact of finance from sector to sector and from country to country. This is the first light in which we can upgrade, or update, the DSP. Certainly, the success of the east Asian NICS depended upon targeted finance and support from the state in conformity with industrial policies adopted but this was not seen as particularly problematic in terms of potential obstacles posed by financial interests themselves.[26] The situation in contemporary capitalism is very different, with the deregulation of financial markets, and limited and ineffective reregulation in the wake of the GFC, as opposed to state command over, and direction of, financial resources in support of concerted policymaking. Significantly, the glaring developmental success of China has been based upon unprecedentedly large-scale reliance upon bank finance of productive investments but such finance has been directed by the state in pursuit of its designated policies.

In short, developmentalism will depend upon taking command of financial resources in order to guarantee appropriate levels of investment in appropriate directions in conformity with targeted policy. Paradoxically, in what might be termed the third phase of neoliberalism,[27] and despite its ideology to the contrary, closer relations have been forged between the state, finance and private enterprise in the attempt to rekindle profitable growth through such collaborations, with economic and social infrastructure to the fore.[28] Illustrative has been the rise of Public Private Partnerships.[29] These need to be built upon and expanded but by substituting developmental goals for speculative or other profitmaking.

[26] At least until the South Korean chaebol, for example, sought to engage in speculative and international financial markets in conflict with state policy, some considering this to underpin the Asian financial crisis of 1997/98.
[27] The first phase might be shorthanded by the moniker, shock therapy, and the second by Third Wayism (with financialisation as a common motif). In a South African context, these phases have tended to overlay one another, see Fine (2016a and 2019).
[28] For this in the context of the DSP and its latest incarnation as piecemeal intervention, see Bohrt et al (2020).
[29] See Gideon and Unterhalter (eds.) (2020).

Such initiatives point to a second aspect for upgrading the DSP, and that is to extend its scope beyond industrial policy as such to other sectors of the economy, even if industrialisation as such is taken as central to economic and social transformation. But that is not to denigrate the role to be played by agriculture, services and economic and social infrastructure. One reason to incorporate these into the DSP is because there is both convergence and overlap between them and “industry”, especially in light of new technologies. Manufacturing can both subcontract and incorporate services; agriculture is (increasingly) industrialised; and social and economic infrastructure is vital for industrial performance from research and development through energy and transport to a healthy, housed and educated workforce.

As observed, one of the major limitations of the DSP has been its neglect of social policy. Significantly, this neglect, as Mkandawire (2010: 50) observes, is complemented by the presumption that developmental states no longer offer the potential on which to construct social policy let alone to include it as part of the developmental state:

> One quite remarkable feature of the new social policy focused on MDGs … is that the status and the requisite capacity of the state differ radically from the historical “success stories”. Thus far, these policies are tethered to the demise of the “developmental state”, both as a reality and as an aspiration.

In response, first, as observed, there is no need to treat social policy as different from industrial policy as outlined previously, once recognising that social policy does itself offer general or horizontal and social provision. The education, housing and health systems are imperative for industrial performance and industrial policy neglects them at its peril. Second, by the same token, even if often primarily within the public sector, social is akin to industrial policy because it is sectoral, using inputs through a chain of provision to provide outputs even if these might be designated as public goods (and subject to various degrees of commercialisation including privatisation).

Until the Washington Consensus, mainstream social policy was dominated by the idea of creating and/or improving a welfare state, as an aspect of developmental modernisation. It had its counterpart in critical literature in terms of whether welfare provision was adopted to be functional for the capitalist economy (in material and legitimising roles) or as a response to working class struggle to ameliorate conditions under capitalism (the so-called political economy of the welfare state). Over the period of neo-liberalism, these traditions have been lost and two new orthodoxies have emerged. One is the welfare regimes approach associated with Esping-Andersen in which three ideal types (liberal, Scandinavian and authoritarian) are uncomfortably retro-fitted to developed countries and then, even more uncomfortably, extrapolated to developing countries where the lack of (retro-)fit between ideal types and empirical realities is cruelly exposed (whatever their legitimacy across different social policy programmes within developed countries). In short, the welfare regime approach does not work for developing countries, is insensitive to differences across sectors, and does not form the basis for developmental or transformative policy since policy is caught within a designated regime with no apparent escape clause![30]

The second now less than novel approach to social policy is associated with the new welfare economics which has taken neo-liberal antipathy to welfare (and its own commitment to privatisation and user charges) as point of departure to see welfare provision as a game in which the state and citizen strategize in relation to one another on the basis of different information and objectives (meeting minimum standards of living at minimum cost for the state, for example, but maximising income for minimum work by the individual). This approach is deficient in two respects. On the one hand, in specifying social policy as a response to individual risk and vulnerability, it overlooks the systemic and enduring nature of economic and social reproduction, treating social policy as if it were the response to short-term shocks as opposed to a component part of development itself. On the other hand, like the welfare regime approach even if based on universal deductive principles (merit goods, optimisation, market imperfections, etc) as opposed to ideal types, the new welfare economics is insensitive to the contextual differences that mark both countries and policies in terms of individual aspects of welfare provision. Child education means different things in different places at different levels of development, and is also provided 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, emphasis has been on locating welfare provision within the framework of the developmental welfare state. This has the advantage of foregrounding systemic change in both targeting development, welfare and the role of

[30] See Fine (2016c and 2017).

the state. The approach also remains sufficiently open to be able to accommodate different aspects and trajectories to development and welfare provision.

Where does this leave the promotion of social policy and alternative public sector provision into the future?[31] Initially, we can draw two general lessons. First, there is a need to insulate public provision from financialisation (the direct or indirect effects of turning provision into a financial asset however near or distant). Privatisation does incorporate finance directly with provision becoming subject to the vagaries of stakeholder value on the stock market; subcontracting does it indirectly as the firms involved require their own financial imperatives to be observed. In short, the vulnerability of public sector provision to erosion and distortion is a consequence of the absence of broader supportive institutions and policies in the wake of three decades of neoliberalism. Alternative public sector provision, and new, broader policy capacities, and corresponding means and sources of finance, must be built in tandem in the differentiated context of specific locations and of what is being provided, across the water, health, energy, transport, housing systems, etc.[32]

Concluding Remarks

Drawing on both developmental experience and developmental scholarship, we have attempted in this chapter to push for a more critical and rounded approach to economic and social transformation, especially in light of the reduced and skewed terms and content in which the issue has been confined despite the varieties of responses to the extremes of neoliberalism that have been prompted by its unavoidable travails, from GFC, the environment to pandemic … and beyond. But we are equally mindful that this remains a necessary if academic exercise. There is a view, held with greater or lesser conviction, that economists rule the policy world, even beyond the economic,

[31] For an interesting take on neoliberal social policy, see Laruffa (2021):

> the promotion of social policy … is largely informed by logics that make this agenda compatible with the epistemological and distributive aspects of the neoliberal framework: the application of the economic rationale and the cost–benefit logic to all domains of society and the protection (if not the promotion) of the interests of the economic and financial elites. Hence, contrary to the widespread assumption that promoting social policy is enough to overcome neoliberalism, this study corroborates the view that it is insufficient to focus on social policy generosity: it is necessary to investigate also the underlying rationale and goals informing social policy promotion, interrogating the extent to which these challenge the epistemological and distributive core of neoliberalism.

[32] See Bayliss and Fine (2021) whose beginnings can be found in an introductory section to the MERG Report on social and economic infrastructure which was not published but is available as Fine (1996).

and the demise of Keynesianism and interventionism more generally, and the corresponding rise of various versions of monetarism, are closely reflected in neoliberal policymaking.

Our view is different, placing much less emphasis on the role of economists as such. When Mrs Thatcher first pioneered the British version of monetarism, it was intellectually inspired by one or two academic economists held in low regard by their peers, with 364 professors signing a letter to the Times deploring the policies involved. If we still remain convinced of the influence of academic scribblers, consider two other major issues of our time. One is the environment, where we can only be astonished by the extent to which well-established climate science continues to be ignored in the breach in practice. The other is social policy where, for most academic practitioners, the Scandinavian model of welfarism remains the gold standard even though it is being eroded on its own turf, with privatisation, commercialisation and austerity the order of the day. We might also add, to put it polemically, that South Korea had no idea it was a developmental state until told so by western social scientists, and its success, and subsequent "death", were based upon the absence and then presence of ATKEs, American-trained Korean economists, respectively.[33] In Japan, its period of developmentalism was also marked by the absence of (western) economists, other than Marxists!

The point then is not that academic endeavour is without influence or even futile. But it has to be placed within the context of which ideas are liable to be picked up and acted upon in contemporary conditions. Here, neoliberalism has done its work in ways that have gone far beyond the world of ideas. The supposed rolling back of the state in deference to the market has been nothing of the sort. Rather, the state has continued to be highly interventionist if more attuned to the needs of capital in general and of finance, and financialisation, in particular. What has been rolled back are the institutions, and the powers that informed them, associated with more progressive policymaking, not least with the decline in the strength and influence of trade unions. And, subsequently, what has been rolled out are more centralised, authoritarian and closed forms of governance in which the revolving doors between politics, policymaking, commerce and the media have come to the fore together with more or

[33] ATKE became an acronym as students sought their training abroad with the orthodoxy.

less maverick and corrupt leaderships as progressive forms of checks and balances have been eroded.[34]

It follows that the prospects for developmental transformation in progressive directions involves building and rebuilding progressive movements for change, in detail across specific issues and in coordination with one another. Where these opportunities will arise, and how successful they can be, remains uncertain. But opportunities will derive from what will be the increasing inadequacies of globalised, financialised, neoliberalised economic and social reproduction, and the increasingly transparent deployment of the state to promote the interests of the few at the expense of the many.

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[34] For how this has impacted upon the South African developmental state, or lack of one, in the context of BEE, see Mabasa (2020).

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