Title
Reviving the Developmental State? The Myth of the National Bourgeoisie

Author
Chibber, Vivek

Publication Date
2004-10-14

Reviving the Developmental State?
The Myth of the National Bourgeoisie

Vivek Chibber

Speaking at a meeting with domestic bankers in the fall of 2003, in the wake of the calamitous implosion of his country's economy, Argentine President Nestor Kirchner announced his intention to rescue the Argentine economy from the ruins of neo-liberalism. But, he declared, "it is impossible to build a national project if we do not consolidate a national bourgeoisie".[1] In fact, this speech was only one among many he made following his inauguration in May, stressing the need for a "national capitalism". Kirchner has not been alone in this. In Brazil, the rise to power of Luis Inacio Lula da Silva and the Worker's Party has revived talk of a social pact between labor and capital, and the possibility of carving out a space for Brazilian development through an alliance with "national" industrialists – represented, most pointedly, in the choice of textile magnate Jose Alencar as Lula's Vice-President. And both Kirchner and Lula follow in the wake of Venezuelan President Hugo Chavez, who, in the face of open hostility from the United States, has railed against neo-liberal orthodoxy, exhorting developing countries to reclaim the legacy of national development models.

All this talk of national capitalisms and social pacts alludes to an era that appeared to be buried, once and for all, under the weight of the Washington consensus. This was the half-century of "developmentalism", spanning the years of the Great Depression to the debt crisis of the 1980s. In the immediate aftermath of the debt crisis, it did seem that the drive toward liberalization and privatization had acquired an irresistible force in the developing world. There was an ineluctable quality to the dismantling of the policy apparatus handed down from the years of development planning, enough to make even the mention of "national projects' seem somewhat quaint. But matters are different today. After the dismal economic record of the quarter-century under neo-liberal hegemony, the experience of the 1950s and 60's has gained respectability – as indeed it should. For despite its somewhat ignominious end, the developmentalist era out-performed its successor on most every measure.[2] Politically, the dismal record of neoliberalism has meant a steady loss of legitimacy in the South. Thus, it is not altogether surprising to find a revival of the ambition to construct national development.

The call for a return to a kind of "developmentalism" is not only to be found among political elites. It also emanates from a powerful and articulate wing of the anti-globalization movement – critical intellectuals, NGOs, and trade unions. In a period when free market policies have little credibility, but labor is not strong enough to pose a serious challenge to private property, some kind of statist development project appears to many to be the "transitional programme" of our time. Defending a space for national capitalist development, under the direction of domestic groups, at least seems consistent in *principle* with conscious direction of the economy – even if under the hegemony of the national bourgeoisie.

This nostalgia for the bygone era is certainly understandable. In many respects, I am sympathetic to it. But we also have behind us a half-century of experience with just such models of development, models which relied upon, and fostered the growth of, domestic capitalists. It may, therefore, be of some relevance to turn to the historical record, in order to examine closely the political preconditions for, and consequences of, developmentalist projects.

I have already noted that in many crucial respects the record of the developmentalist years is superior to that of the years that followed. But any acknowledgement of its successes must also take account of its internal contradictions – since these contributed powerfully to the model's eventual disintegration. In fact, I will argue that the economic weaknesses of the model can in large measure be explained by kind of political alliance that was required to support it; in particular, by the ways in which capitalists were able to impose limits on the scope of state power. Further, the political conditions which made the developmentalist alliance possible at all required concessions from workers which may, in current conditions, well be unacceptable. Hence, even if national development projects of the kind alluded to may be possible, they may not be *desirable* – at least not to progressives. The whole matter turns on the nature, the interests, and the power of the class to which Kirchner made his overture upon taking office in 2003 – the national bourgeoisie.

Three sets of expectations have traditionally been associated with national capitalists, especially within the Marxist tradition, where they are sometimes elevated to the status of historic 'missions'. The main expectation is that, because they derive their profits from the domestic market, national capitalists have an interest in the expansion of capitalist relations, and in rapid economic growth; hence their status as the linchpin of national development strategies in the modern era. Deriving from this are two other putative interests. They are expected to spearhead, or at least accede to, the abolition of pre-capitalist relations, since this is the precondition for the spread of capitalism. This was the basis for the expectation, among Marxists of the Third International, that the bourgeoisie was a natural ally in the "anti-feudal stage" of the national liberation movements. A final expectation was that this class would also have a natural interest in opposing imperial economic encroachment - again, because of its dependence on the domestic market. In this, the national bourgeoisie was inevitably contrasted with the local 'compradors', who, because of their links with metropolitan firms, were seen as irredeemably tied to imperial interests.

Political and economic developments over the past decades have called all this into question. National capitalists showed very little inclination to participate in attacking feudal landed classes. Further, thatthere was a clear separation between the 'national' and 'comprador' wings of the domestic bourgeoisie has also been called into question. No doubt, there were distinct interests associated with different relations to metropolitan firms. But capitalists seem to have been happy to play both roles simultaneously – trying to protect their domestic market, while striving for lasting ties with metropolitan firms. Interestingly, while both of these roles have been thrown into doubt, the fount from which they spring – the assumption that national capitalists are a natural ally for initiating rapid development – has not been questioned. If anything, the trend in recent scholarship - in the work of Peter Evans and others - has been to press it into service even more.[3] And it is present in many of the declarations of the anti-globalization movement.

It is this assumption about the national bourgeoisie – its status as the natural social force for rapid development – that needs to be challenged. Over the past decades a quite powerful set of myths has come to obscure the real experience of twentieth century capitalism in developing countries, papering over the actual dynamics, the roles played by key actors, and their interests. This essay aims to make a start in clearing away some of these myths. If developmentalism is to be revived, these are myths from which it need to be free.

THE BASIS OF DEVELOPMENTALISM AND ITS WEAKNESS

Three ‘stylized facts’ are taken for granted in most discussions of post-war development strategies. First, that these strategies were centered around the idea of rapid industrialization, a massive push to catch up with the developed countries and the industrial frontier. In this, they sought to repeat the successes of the previous generation of late developers – Germany, Japan, Russia – which had also placed industry at the center of their economic strategies. At the core of the mid-twentieth century initiative was the process of import-substitution, aimed at fostering the growth of local industries by a two-step process: first, by limiting the entrance of imports through the erection of tariffs and quantitative controls, in order to create a market for local firms; and second, by providing support for the rapid growth of these firms through a process of heavy subsidization. Subsidies and tariffs were the chief instruments through which the domestic capitalist class cleared out a space for itself to grow, protected from competition from the more advanced countries.

The second ‘stylized fact’ is that the industrialization drive was undertaken as a “common project” between political elites, state managers and the domestic capitalist class; to this, some add a measure of inclusion for labor as well. The critical members of the power bloc, of course, are taken to be the newly emerging industrialists and political elites. For the industrialists, the reasons to support such an ambition are obvious; what was remarkable was their dramatic ascent into the domestic ruling bloc in so many countries at around the same time, especially when landed elites were still very much in place, and had exercised a vice-like grip on power for decades. Indeed, the *political* eclipse of landed oligarchies in South America, South Asia, and parts of the Middle East, even though they still maintained considerable economic power, is one of the more remarkable aspects of the story.

The third generally accepted notion is that, within the alliance between the state and business, the state took the role of senior partner. Hence the common description of rapid industrialization projects as “state-led development”. One explanation for this points to the youth and small size of the local industrial sector, the generally uneven and quite patchy development of markets, and the shallowness of financial markets; for these reasons states had to take the lead in initiating industrialization. Another view places the source of state dominance not on the weakness of capital per se, but on its weakness *relative* to the elephantine development of the state – as a peculiarity of the post-colonial inheritance (Alavi’s ‘overdeveloped state’[4]), or a legacy of statist traditions, as in post-Ottoman Turkey. Two interpretations emerge from this general assumption, depending on where the emphasis is placed as to the source of state dominance. In some cases capitalists are taken to have abdicated some of their autonomy to state managers, in recognition of their need for the latters' guidance and assistance in the industrialization process; in others, they are simply seen as being in no position to resist when planners and political elites impose the new strategy upon them. In this case, the state is seen as a paternalistic agent, shepherding local entrepreneurs onto an accumulation strategy which is, in any case, consistent with their interests.

The notion that rapid industrialization strategies were "state-led" is arguably one of the pillars of development literature. What is difficult to reconcile with this view, however, is the indisputable fact that, over the course of the developmentalist era, these states found themselves struggling to achieve what they had taken to be their central mission -- directing the flow of domestic private investments into sectors with high social returns, and away from those in which returns on investment may have brought enormous private profits, but were of less developmental significance. In South America, the Middle East, and South Asia, state-led strategies did bring about a transformation of the economy in the *generally* desired direction. But this was achieved haltingly, at enormous public cost, with much of the work being done by public enterprises, and often resulting in highly inefficient private sectors. The most visible signs of the expense at which it was achieved was the expanding fiscal burden on these states -- as they had to absorb much of the losses incurred by the private sector, while at the same time continuing to funnel public resources to the private sector in the form of subsidies; and a growing imbalance on the external account – as the enormous inflow of imported capital goods was not balanced by a flow of investment into exportable lines, with which the external debit could have been balanced.

The question therefore arises: if the developmentalist era was indeed *state-led*, then what explains these states' weakness relative to the tasks at hand – leading to the eventual collapse of developmentalism, and its replacement by neoliberalism? Why was the quality of state intervention so much below what was needed to push local industry to the technological frontier? The most compelling answer would appear to be that, if state managers did not succeed in their mission, it was because they lacked the *capacity* to do so. And this is plausible. Industrial policy requires a certain level of institutional capacity on the part of the policy apparatus. There is no warrant at all to assume that states come equipped with this, especially in developing countries. Simply embarking on an interventionist development strategy does not, therefore, mean that the state will have the institutional muscle to succeed. So perhaps the reason industrial policy met with at best patchy success was that political elites were not able to equip their states with the right kind of policy apparatus.

It is indisputable that developmental states in much of the South lacked the institutional capacity needed for industrial policy to fully work. This has been the main discovery of a veritable avalanche of case studies over the past decade or so. But this simply raises the next, and quite obvious, question. If *dirigisme* requires some degree of state-building, then why did political elites not build the necessary institutions? I will argue that the main source of resistance to building strong and supple policy apparatuses turned out to be the national bourgeoisie itself. I should make clear at the outset that I am using this term in the sense handed down by its originators, the Marxists of the Second and especially the Third Internationals: it refers to the segment of local capitalists who are oriented to the domestic market, seek autonomy from metropolitan control, and ally with the state around industrialization.

Given this description, it may seem paradoxical to suggest that national capitalists opposed state-building for rapid development. Certainly, theorists at mid-century did not expect this, and much of the current literature on developmentalism has taken it as so unlikely that its very possibility has not been explored. For those coming out of the Marxist tradition, it was always that *other* segment of the bourgeoisie, the compradors, who were the villains of the story. These were the local capitalists with close ties to metropolitan capital, often based in trading and speculative activities, other times in agri-exports, but always suspect in their commitment to national development. The national bourgeoisie was suspect on labor issues, to be sure – and why wouldn't it be? But on allying around an impeccably bourgeois model of development, they were not only taken to have been reliable, but were expected to be the pivot on which the whole game turned.

THE NATIONAL BOURGEOISIE AND THE STATE

The key to understanding the vicissitudes of post-war development strategies is that state managers didn't simply nurture domestic firms by offering them protection and subsidies; these measures were part of a larger policy package, central to which was an attempt at *capitalist planning*. While capitalists did certainly have a direct and immediate interest in the former, this was not so clear cut with respect to the latter. Indeed -- and this is the crucial point – the institutionalization of import-substitution made it rational for capitalists to resist, and reject, any attempt at genuine economic management. So, far from reinforcing each other, as political elites expected them to, and as students of the era have taken them to, import-substituting industrialization and state management of industrial development were in deep tension with each other. And this in turn implies that there was also the possibility for real conflict between the two central actors of the developmentalist drama, state managers and the national bourgeoisie. Opposition to strengthening the policy apparatus thus did not need to come from bureaucrats or from landed classes – it issued from the very agent the policies were meant to favor.

The motive that animated political elites in South America, India, and parts of the Middle East at mid-century was to industrialize their economies as rapidly as possible. There was plenty of experience to show that, if left to their own, industrialists had no proclivity to invest in those lines that were best for long-term growth. Products that yielded high individual profits were often those which had little or no social returns. The point of industrial policy and planning was in part to encourage firms in a direction that brought the two kinds of returns in line with each other. It was aimed at ensuring that investments were consistent not only with immediate profits, but also with national economic development. For the most part, planners intended to use "soft" methods to prod firms in the desired direction – subsidies, cheap loans, tax breaks, etc. But industrial policy also included an irreducible element of coercion to compel them, where necessary, and to ensure that public monies were being utilized in the desired fashion. It was taken for granted that, in return for the subsidies that were being funneled to them, industrialists would have to submit to a certain measure of accountability – they would have to accept being disciplined.

For planners, the need to discipline private firms was a natural feature of import-substitution. For capitalists, however, the incentive structure pointed in a different direction. As is well known, the immediate effect of import-substitution industrialization (ISI) is to protect domestic markets from competition from imported foreign products. But the exclusion of imports meant that in many manufacturing lines local markets came to be dominated by a small number of producers. This was partly because of the small size of the local market, but it was also because the scale requirements of modern manufacture called for larger outlays of fixed capital, and hence, firms with considerable market power. There was thus an enormous advantage to being the first entrant in any new line, as it was relatively easy to hold off the threat of potential competitors. Further, this advantage was reinforced by other peculiarities of ISI, one of which was to intentionally limit the number of producers in any sector by administrative means -- precisely because of the small market, policy makers tended to be wary of the possibility of excessive or "ruinous" competition.

The consequence of this state of affairs was that, once the threat of external competition was extinguished, local capitalists were given virtual monopolistic control over their markets. And this in turn meant that, for any such dominant firm, the compulsion to innovate and invest in best-practice techniques dissipated – since it had markets handed over to it. Given this production regime, the subsidies flowing to firms from the state did not need to be reinvested to upgrade existing plant and equipment. Market dominance obviated the need to minimize costs. It made better sense, instead, to use the resources to start operations in altogether new lines and acquire a 'first-mover' advantage there. What made this especially attractive was that industrial firms in the leading 'late developing countries were typically part of large, diversified business groups, which had expertise in numerous sectors, and maintained diverse investment portfolios.

For the national bourgeoisie, ISI thus presented the possibility of enormous gains. The problem was that, in order to maximize these gains, it made good sense to accept ISI's subsidization components, while rejecting the ambitions of state managers to control what industrialists did with the subsidies. The critical factor underlying this resistance to discipline was the attenuation of competitive pressures in ISI. It may be wondered why firms would resent demands made by the state to perform at competitive standards, which, in many respects, was certainly in their interests. The reason is that, with the entry of international competitors blocked by protectionist measures, and with internal competition muted owing to the small size of the market, firms were under no systematic pressure to constantly upgrade their operations. With each influx of newly acquired credit or subsidies from the state, managers felt no compulsion to increase the efficiency of existing undertakings, since there was no imminent threat of losing market share. Hence, while state policy agencies granted subsidies to firms on the basis of a development plan with particular priorities, business houses made their own investment plans, based on *their* prognoses and *their* priorities, which often did not coincide with those of planners. For this very reason, they regarded the disciplinary component of ISI as an unacceptable encumbrance; in order to exploit their opportunities fully, firms would need maximum latitude to make their own decisions as to which sectors they would expand into, where new investments would be made. The best way to use ISI was to encourage the state's commitment to subsidies, while insisting that private capital should have the maximum latitude in their actual disposition.

In sum, whereas planners saw ISI and industrial policy as two sides of the same coin, for capitalists, ISI generated an incentive to *reject* the discipline of industrial policy. Those institutions intended to further the subsidization process were supported by capital; but dimensions of state-building aimed at enabling planners to monitor and regulate firms' investment decisions were stoutly resisted. At the surface level, the conflict between the national bourgeoisie and the economic planners was not always apparent. It was common to find industrialists joining the chorus calling for planning, economic management, and the like. But what they meant by this was a process in which public monies were put at their disposal, and at their behest. To them planning meant the socialization of risk, while leaving the private appropriation of profit intact. Business groups in these countries accordingly waged a campaign in which they called for, and supported, central coordination of economic policy while at the same time fighting strenuously against measures which would give planners any real power over their investment decisions.

THREE HISTORICAL CASES: INDIA, TURKEY, BRAZIL

These lines were more clearly drawn, and the dynamics were visibly played out, in the region where the political elite had the clearest and deepest commitment to a state-led development model – the Indian subcontinent.[5] Under Nehru's leadership, the Indian National Congress began formulating an agenda for post-colonial planning a full decade before the departure of the British. The leading lights of the business community, for their part, not only announced a commitment to participate in post-independence planning, but even called for it, also before full autonomy was achieved. What became clear very quickly, however, was that the two groups had very different conceptions of the appropriate range of power to be enjoyed by the state. Business groups launched an all-out offensive against all instruments designed to give teeth to the planning apparatus, while clamoring all the while for more subsidies and more protection. State intervention in industrial development would be tolerated, but only if it was on the invitation of business groups – not at the discretion of planners. The campaign, waged through an intense lobbying effort and backed by an investment slowdown, was large effective. The new government did install a planning apparatus, but one in which the central Planning Commission had little power to oversee, let alone directly influence, private investment.

The gestation of a planning regime was not nearly as long in Turkey. Whereas in India the commitment was enunciated more than a decade before its initiation, the turn to planned industrial policy was rather rapid in the Turkish case, where it was first proposed at the end of the 1950s, and installed less than five years later. It is true that Kemalist *etatism* can be traced back to the 1920s, intensifying in the years after the Great Depression. But state protection and promotion of industry was rolled back in the 1940s, so much so that the industrial sector's weight in the economy declined from 18% of national income at the end of the 1930s to less than 12% by 1952. It was only in the late 1950s that the liberalizing interregnum ended, and import substitution was put back on the agenda, this time with an eye toward planned development. The movement was quick. A restructuring of the state apparatus was initiated, somewhat hesitantly, in 1958; it accelerated in 1960 after a military coup removed the Democratic Party from power, and was completed before the middle of the decade. As in India, domestic capitalists were in favour of both ISI and central coordination of economic policy. The new military junta thus had considerable autonomy to design the institutions for industrial policy and restructure the state around them

On the advice of well-known experts like Jan Tinbergen and Alvin Hanson, a State Planning Organization (SPO) was established as a nodal agency for economic policy. Tinbergen and his supporters within the Turkish state proposed that the SPO should have powers to not only draw up plans, but also to ensure that all allocative decisions were in line with plan priorities. They signaled that the direction of investment would have to be very different from that which firms had been choosing over the past decade; further, they proposed that state enterprises, which had been used since the 1930's as a milch cow by private firms, should be rationalized in a way that would pressure the latter to upgrade their own operations. All this pointed in the direction of a planning regime committed to streamlining accumulation for national capital – which naturally entailed imposing discipline on the proclivity for speculative and short-term gains.

What immediately emerged, however, was that the industrialists had a very different conception of planning. Under pressure from business, state enterprise reform was put in cold storage; proposed tax reforms aimed at enhancing compliance from the very wealthy and increasing national savings came under violent criticism; efforts to elicit information from firms regarding their investment plans met with stiff resistance; and most centrally, initial attempts to steer the flow of investment toward more strategic sectors and away from those preferred by local firms came to naught. Seeing the writing on the wall the planners in the SPO issued a collective resignation in late 1962. The planning apparatus remained formally in place, as in India, but was never given the power to oversee effective control over local industry. In fact, in studies of Turkish economic policy, one comes across the argument that the decline of the planning regime set in as early as 1965 – only three years after the SPO was installed!

In India and Turkey capitalists attacked, and then rolled back, what were rather radical designs at state restructuring. The Brazilian experience was different, in that the political leadership never had the same level of commitment to planning, and hence never drew up comparably ambitious blueprints to which capitalists had to respond. Import substitution was consolidated after 1930, under the first Vargas regime. But the post-war dispensation witnessed, as in Turkey, a initial retreat on that front, as the Dutra administration liberalized controls and international trade. It was only with the return of Vargas in 1950 that ISI was consolidated, only this time with more explicit talk of central coordination and some planning. But while post-war Indian and Turkish leaders moved to install nodal planning bodies with sweeping powers – which then came under attack – there were no direct parallels in Brazil. This was because a decade-long, and quite intense, campaign by domestic capital had already made it clear that a planning regime would not be tolerated.

Brazil also contrasts somewhat with India and Turkey, in that its developmentalism was shaped in part by a powerful wing of capitalists linked to foreign, especially American, capital. This current coexisted with an newly formed stratum of capitalists, led by Roberto Simonsen and Euvaldo Lodi, who personified the so-called national bourgeoisie. Simonsen in particular led a long struggle to legitimize ISI and an interventionist industrial policy in the eyes of Brazilian industrialists. But he had to fight a constant rearguard action against the liberal wing of local capital which, in alliance with U.S. firms, demanded a minimal regulation of industrial investment. The point to note, however, is that the narrow space for development planning was not simply a reflection of this split within the local bourgeoisie, or of the weakness of its nationalist segment. It is that, when it came to the state's power to demand compliance from local firms, or to restructure investment patterns, or to punish speculative profit-making activities – it lost the support of even the nationalist wing of the business class. Simonsen himself announced the prudential limits to state planning in the same text in which he defended state intervention, warning that planning must never restrict "private initiative", or come into competition with it through public investments.[6] The reality of these limits was made very clear when state managers dared to transgress them. When the state did move to discipline business practices after the war – through anti-monopoly legislation, inquiries into price-gouging, and the like – it was firmly rebuffed by the national capitalists themselves.

In this context, efforts to restructure the state around the needs of industrial planning tended to be hesitant and episodic, always careful not to trigger an attack. Brazil was unusual among developmental states in never having a real nodal agency for planning. If ever one was proposed, it was always with utmost hesitancy, and short-lived. A National Economic Council was promulgated in the 1946 Constitution, which was initially slated to have wide-ranging powers over development planning, but though the provision was allowed to pass, the Council was rendered toothless.[7] Instead of genuine planning bodies with effective powers, state managers resorted to decentralized and ad hoc policy agencies, assigned particular tasks – islands of planning in a sea of hostility. The Brazilian developmental state in fact never even aspired to the same range of power over local capital as did the Indian or Turkish variants. It was slower to consolidate, weaker in is foundations, and more timid in its ambitions – at least with reference to state-building. Underlying this was a far more hostile national capitalist class than in the other cases.

THE ROLE OF ORGANISED LABOR

It is important to note that in none of these cases was capitalist intransigence driven by the fear of an energized Left. In the early 1960s the Turkish labor movement was no threat at all. The military junta that came to power in 1960 had no truck with unions, and the return of the Republican party soon thereafter did not herald an opening for unions to gain in power. In Brazil too, while unions were given new-found legitimacy by Vargas, starting in 1930, they were quickly subordinated to a labyrinthine corporatist state structure in the Estado Novo, and marginalized even further under the Dutra administration. In neither case did domestic firms have to worry about a political elite under the influence of an energized and mobilized working class.

Of the three, it was only in India that there was any real sign of a threat from labor when developmentalism took off. But this threat was swiftly eliminated by Nehru and the Indian National Congress. Almost immediately after Independence, the labor movement was split by the creation of a new union federation allied to the Congress party, a federation constitutionally committed to industrial peace and the planning regime. Within a few years, aided by the ruling party's patronage, it emerged as the most powerful wing of the labor movement, and in so being, largely abdicated independent political action.

The marginalization of labor was in part an attempt by political elites to curry favor with the national bourgeoisie. It was hoped that a narrowing of the political space would allay any fears that business might have of a slide from capitalist to socialist planning. But it was also driven by the political elite's own disdain for labor, and their abiding belief that national development could not be trusted to the laboring poor. Policy would be trusted to the natural leaders of the nation – industrialists and state managers. It never seems to have occurred to this group that an alliance with a mobilized labor force might have bolstered their leverage against a resistant business class.

On the other hand, it cannot be denied that the ease with which unions were sidelined was partly due to some of their own choices. There was a tendency to be seduced by all the talk about planning and coordinated development. Even more, labor leaders were aware of their weakness as a social force and accepted with alacrity their incorporation into state structures. There was a hope that their formal incorporation into the state and its planning bodies would make up for their lack of power on the shop floor. This, of course, turned out to be a fantasy. Once they demobilized, the balance of power shifted even more decidedly toward business, narrowing further the political space, and increasing the ability of capital to set the terms for policy and state-building.

THE PATHOLOGY OF DEVELOPMENTALISM

The examples provided above are simply meant to illustrate the basic principle: in the paradigmatic "state-led" industrialization strategies, the actual power that states were able to accumulate was severely limited, and it was limited because of a very firm hostility on the part of national capitalists. Planners could very well funnel resources to firms, and attach to them stipulations and conditionalities regarding their use – but they had little chance of ensuring their enforcement. Capitalists were able to divert funds away from targeted sectors and into their own preferred lines. To give just two examples: a survey of Turkish planning from 1968 to1980 revealed that, of the total subsidies received by firms, less than 20 per cent was invested in accordance with plan directives.[8] Similarly in India, at the height of planning, not only were plan targets consistently under-fulfilled, but no less than 25% of all subsidized investments ended up in lines that had been *banned* outright by the planners.[9] The only sectors to which investment did flow readily in these countries, and in fact exceeded plan targets, were consumer goods – which were typically a low priority for the planners. State managers could go on making their forecasts and draw up plans with high-minded rhetoric, but the fact was that they had very little ability to ensure their actualization. Capitalists, on the other hand, comfortably ensconsed in a protected and highly subsidized environment, could take the money and divert it to the sectors that they favored.

This generated a political economy in which accumulation proceeded at a fairly rapid pace for close to four decades. But it did so in a fashion that progressively undermined the conditions of its own existence. On the one hand, state expenditures grew at a faster pace than incoming revenue, a direct consequence of the asymmetry between subsidization and planning in ISI. Not only was the state expected to continue its commitment to subsidies and transfers to private firms, but, as the latter ignored plan signals and diverted investment elsewhere, the slack had to be taken up by state enterprises, which increasingly came to embody a safety net for the private sector: providing cheap inputs, purchasing private sector products at inflated prices, and moving into lines capitalists considered unattractive. All this was supported, in the last analysis, by a continual drain on the public exchequer. Hence, even when the economy grew at an impressive clip, it was in a race with the fiscal deficit, which often grew even faster.[10]

The fiscal drain was paralleled by an increasing imbalance on the external account. Although ISI is today pilloried by neoliberals as a withdrawal from the world economy, the fact is that its onset generated a further integration into world markets – ironically, by an escalation of imports. It is true that imports of consumer goods were blocked, but the acceleration of domestic production in turn required a growing inflow of imported capital goods. In principle, however, the upward trend in capital imports was to be balanced by commensurate increases in exports. Here again, we encounter a pervasive myth among exponents of the Washington Consensus, viz. that ISI consistently ignored the importance of exports. In point of fact, by the late 1950s a large number of import-substituting countries implemented export promotion programs, in explicit recognition of the importance of exports for further growth. Indeed it was none other than Raul Prebisch, the apostle of ISI, who stressed this as an imperative at the close of the decade.[11]

The problem was not resistance from *planners*, but from *firms*. The strategy in ISI was to oversee a transformation of the industrial structure, and as a part of that, to change the composition of exports, from primary goods to higher-value manufactures. But again, precisely because of their inability to discipline capital, states failed in this ambition. Safe behind their protective barriers, capitalists simply preferred the inflated domestic market to highly competitive export markets. Time and again export promotion efforts came to naught thanks to the persistent lack of interest on the part of local firms. Exports thus either remained dominated by traditional products, or moved into higher value lines very slowly; in either case, they were simply unable to generate the revenue required to offset the growing import bill. States were thus confronted with a choice: either slow down the rate of investment to bring it into line with the external account, or forge ahead on a precarious route, hoping to acquire the needed revenue through borrowing. Many opted for the latter in the seventies, when the world was awash in petro-dollars – only to finds themselves bankrupted a decade later.

The weakness of state planning apparatuses thus played a critical role in the unraveling of national development projects in the 1980s. This is not to say that there were no other causes of the economic crises. But it is remarkable how, as time passes, the blame has come to be laid on bureaucracies and planners – leaving the role played by business entirely unacknowledged. There is something of an irony in this, since, in essence, developmentalism amounted to a massive transfer of national resources to local capitalists. The aims of industrial policy in the post-war period can be understood as a sort of implicit contract: public funds would be funneled to firms in the short term, on the understanding that the state would, in exchange, hold them accountable to certain performance standards. So over the medium term, the community would gain from the initial coddling of local capitalists. But with states left weak and fractured, the equation was reversed. Capitalists were able to initiate a half-century long process of primitive accumulation, socializing their risks and losses, while privately appropriating the gains. The end result was that there was development and industrial growth – but at an enormous cost to the public.

THE SECRET BASIS OF THE KOREAN MIRACLE

Korea is perhaps the one case where local capitalists *did* ally with political elites around state-led industrialization.[12] In Korea, just as in India and other late developers, institutions for development planning had to be built anew, especially those which would be used to discipline capitalists. But unlike their counterparts, Korean industrialists did not react against the state-building effort. Instead, they joined in the project. Why did they do this, while capitalists elsewhere did not?

The basis for the alliance with the state lay in the fact that Korean economic strategy after 1960 grafted export-led industrialization (ELI) onto ISI, and in doing so, generated a different set of incentives for the national bourgeoisie. At the core of export-led industrialization was a commitment by firms to direct at least a part of their product at export markets. So unlike firms in ISI, which produce for an insulated domestic market, producers in ELI were thrown into the vortex of international competition. This created a corresponding difference in political incentives with regard to the state. Whereas firms in

ISI could ignore the demand for investing at peak levels of efficiency, their counterparts in ELI could not, for fear of losing position in export markets, where competition was far more severe. So while firms in ISI had an incentive - once they had already taken the state's money - to resist state demands for productivity enhancing investment, those in the latter had an incentive to comply with such demands, precisely in order to survive in export markets. Further, the Korean *chaebol* needed the state's assistance to unpack technology, coordinate investments between complementary sectors, impose uniform quality standards, and so on, without which export success would have been highly unlikely. So unlike the case in ISI, firms in ELI had an incentive to abide by the state-building project, for a strong state was an important ingredient in acquiring success in export markets.

Korea was not alone in putting greater emphasis on exports at this time. This change was attempted in a number of countries in the early 1960s, but it failed time and again, against resistance by local producers. Why should they hazard the highly competitive export markets, when they had a comfort of guaranteed profits at home? The shift was made possible in Korea by a highly fortuitous circumstance, which brought together factors unavailable to other countries. First and perhaps most importantly, Japanese firms were entering Korea at this time to set up partnerships with Korean producers around an export strategy. They brought with them extensive sales and marketing networks, as well as plentiful lines of credit – precisely what firms in India, Turkey, and Latin America lacked. Korean capitalists thus had a critical entry barrier removed, as they were shepherded into lucrative export markets, with networks of clients ready and waiting. But while partnership with the Japanese firms could offer them *entry* into U.S. markets, *surviving* in those markets required more – it needed the helping hand of the Korean state, in the manner described in the preceding paragraph. Park Chung Hee's ascension brought to power a ruthless regime, but one which, to Korean capitalists, was desirable precisely because it was committed to building a state capable of coordinating their success in export lines. When Park signaled thathe was going to push for an export strategy as well as for a developmental state, he found a ready ally in the Korean national bourgeoisie.

With this partnership secure, the results of Korean developmentalism were very different from those elsewhere. Because the state was able to effectively steer the flow of private investment and to ensure its effective utilization, state enterprises did not have to pick up the slack as they did in Latin America and India. Further, because of the effectiveness of state intervention, industrial growth was very rapid, making for a spectacular rate of economic growth, which kept state revenues high. These two factors contrasted with the outcomes in our other cases, and in turn greatly eased the fiscal burden. Hence, while state expenditures in Korea expanded rapidly, this rarely resulted in high deficits, since revenue expansion was able to keep pace. On the external front, again, the state was able to steer investment toward newer, high value lines, and in particular, toward tradable goods. This made for a very different outcome than in Latin America; in Korea the import bill and external debt rose very rapidly, but export rates increased even more rapidly, allowing the country to escape constraints on its external and financial sectors.[13]

The arrival of the Japanese was crucial in inducing Korean capitalists to turn to export markets, which in turn made them willing to abide by Park's switch to ELI, which in turn made them ally with Park around building a developmental state. Capitalists in India, Turkey, or Brazil did not have the benefit of patrons like the Japanese firms. Indeed, foreign investors in India – mainly British and U.S. multinationals – went out of their way to *discourage* exports, reinforcing reliance on domestic markets. The secret of Korean success in building a powerful developmental state is thus the anterior switch to a different accumulation model, export-led industrialization, which created an incentive for the bourgeoisie to accept the state-building project. In India and elsewhere, conditions conspired to present ISI as the only viable accumulation model; the cost of this was that the model undermined the conditions for effective state intervention, since it pitted capitalists against the state. The conditions which allowed Korean capitalists to make the switch, and hence accept a developmental state, were simply not available elsewhere.

THE MYTHOLOGY OF THE NATIONAL BOURGEOISIE

The claim that the national bourgeoisie is an unreliable agent of rapid development goes against some deeply held convictions, not least among Marxists. During the period when the concept gained currency – the years of the Third International – it was *agrarian* classes that were the major cause for concern on the Left. The extent of capitalist production in agriculture, the economic classification of rural producers, the political orientation of the peasantry toward socialist parties – these were issues that exercised the minds of European, and soon afterwards, Asian Marxists. To be sure, there were areas of ambiguity with regard to industrial capitalists too. On two issues in particular – their orientation towards the imperial powers, and toward alliances with labor – capitalists were seen either as straightforwardly unreliable, or as "vacillating" (as Stalin would so delicately put it). But when it came to the interests of national capitalists with respect to industrialization, there was a general understanding that they were firmly in favor of it. More confident still was the appraisal of the relation between modernizing political elites and national capitalists – they were seen as natural allies, collaborating on a shared project of domestic development. So much so, that figures like Ataturk, Nehru, Vargas, and later, Peron, were frequently presented either as direct representatives of the "national bourgeoisie", or, if the latter was considered to be too weak, as their de facto guardians. In any case, while room might have existed for tension between modernizing elites and domestic capitalists on some issues, Marxists rarely if ever considered that there would be tensions around the process of domestic capitalist development itself.

What explains this? Why did Marxists so rarely consider the possibility that capitalists would revolt against core elements of a developmentalist project? One quite natural reason was that the historical experience of twentieth century state-led development was yet to come. Hence, the antagonism between economic planners and capitalists on state-building had not been witnessed. It is true that there was the experience of early modern mercantilism, and of the nineteenth century's state-led developers – Germany, Japan, and of course Russia – to draw upon. But it is critical to register that, on the issue that divided the bourgeoisie and the state, this generation of late developers differed a great deal from those of the twentieth century. State intervention in Germany, Japan, and others of the Victorian era had very few measures aimed at regulating and monitoring the investment activities of private firms. The role of the state was far more passive, having been confined basically to the tasks of subsidization and protection. The politics of state-building therefore differed commensurately, focusing on the accretion of institutional capacity for raising revenue, and not for disciplining capital. Naturally, in this context the ties between planners and industrialists were not nearly as strained. When theorists as late as mid-century considered the likely dynamics of development planning, they had behind them a historical experience which simply did not offer a good guide as to what they should expect.

There was also a second weakness in Marxist thinking on this matter, however, which had to do with political theory. Early theorists of development worked with a fairly one-sided understanding of the state and its relation to capitalist interests. For this generation, the capitalist state was an institution which basically *reflected* ruling class interests – it was a state at the service of the rising capitalist class. It posed a problem and a potential threat to capitalists only if it was under the influence of *another* class – declining landlords trying to shore up their power, a growing and mobilized working class, colonial or imperial rulers, etc.. In these scenarios, it would be natural for the bourgeoisie to cavil at any strengthening of state capacity, in that it would be at the service of forces hostile to them. The state's orientation was taken to reflect this the balance of political forces. It is not surprising, then, to find that Marxists gave little consideration to the tensions that state-led development would actually give rise to. The national development project was supposed to be led by and in the interests of the national bourgeoisie. There was thus, on this theory, no room for tensions between them and the state – after all, it was *their state*.

If we move from this instrumentalist view to one which allows for some independence of the state from capital, the conflicts surrounding developmentalism become less mysterious. The very fact of the state's relative autonomy meant that its powers were not under the direct control of the national bourgeoisie. The state of the mid-twentieth century was also very different from that of the mercantilist era, or of the Victorian years. It was endowed with a set of technical and administrative instruments which made an interventionist strategy far more worrying to domestic capitalists. The distinctive feature of development planning, what distinguished it from interventionism of the nineteenth century, was that it was aimed at directly reducing industrialists' autonomous power over investment. If instrumentalist state theory were true, then this would not have posed a problem – capitalists would, through their control over the state apparatus, ensure that intervention was restricted to those instances where they called for it, and they would ensure that its claws were never drawn against them. But precisely because of the state's genuine, albeit limited, independence from their control, capitalists regarded the whole enterprise as fraught with danger. They therefore adopted the strategy of encouraging and fostering the broad developmental agenda, while at the same time pruning away the elements which might encroach on their investment prerogatives.

Given these liabilities – the difference between first and second generation developmentalism, and the commitment to an overly simplistic understanding of the state – initial arguments about the national bourgeoisie were unable to anticipate its contradictory position in the development process. What is interesting that it was not simply the theorists of development who missed the structural basis for this conflict. State managers too seemed to have labored under the impression that, since their agenda was devoted to strengthening national capitalism, it would elicit the support of national capitalists. Of course, they did not believe the instrumentalist story about state power, since they were quite aware of the independence of their initiative and often regarded capitalists with quite a bit of disdain. But they do seem to have thought that, given the bourgeoisie's own declarations in favor of rapid development, they would cede to state managers the autonomy they needed to build the needed policy instruments, and then to use them. This is one reason political elites moved with such alacrity to marginalize and demobilize labor. It was only partly done to gain the confidence of their business classes; the other reason was that it was just taken for granted that the active and hegemonic members of the "modernizing bloc" would be the state and capital, the natural partners in the venture.

Capitalists had a very different idea. Rather than ceding to state managers the autonomy to build a powerful planning apparatus, they set about *decreasing* it. This was what the attack on state discipline was all about. If elites were to in fact build the appropriate policy instruments, they would have to *usurp* the needed autonomy – having it ceded to them was not on the cards. The irony is that the very force which might have boosted their power over capital, and generated enough independence from it to push through their reforms, was the very force that they took pains to demobilize – labor.

CONCLUSION

Looking back today from the ruins of the neoliberal revolution, it is understandable that there may be a certain nostalgia toward the developmentalist era, and toward that storied class, the national bourgeoisie. The intervening years seem to have left us with a sturdy mythology about that period, one in which states had the power and the vision to navigate a path to autonomous development, in which the business class hitched its wagon to the national project, and labor had a place at the bargaining table. There is some truth to this story. Considerable progress was in fact made by the developing world in the era of developmentalism, much more than in the quarter century of neo-liberalism. States did play an important role in this, and national capitalists did collaborate with policy-makers to some degree in planning a development path. Nothing in this essay is meant to question that.

What is important to recognize is that, while there was a social bloc that cohered around developmentalism, the fate of the whole project cannot be understood if we ignore the enormous contradictions and costs that it brought in train. Capitalists simply would not countenance the installation of policy instruments that would have enabled planners to hold firms accountable to plan priorities. And in the absence of such instruments, state guidance turned out to be a quite different creature than originally intended. Instead of being the embodiment of capital's commitment to national development, it became a conduit for a monumental transfer of national resources into the pockets of local industrialists. Industrial structures did change slowly, but not at a pace or in a direction that would offset the growing drain on the exchequer, or which would bring in revenues fast enough on the external account. Slowly, the project unraveled as an accumulation model – but at little cost to national capitalists.

Korea was unusual in escaping this route. But here too, it was the internal dynamic of the accumulation model which led to a turn to neo-liberalism. An exceptionally united capitalist class had, by the early 1990's, outgrown its need for state support as a condition for export success. The partnership that had supported the developmental state therefore dissolved, and the chaebol began calling for a dismantling of the planning apparatus. The end of the developmental state was not brought on by the IMF or the U.S. in the aftermath of the 1997 crisis. That was only a denoument to the critical events. The old apparatus had fallen into disrepair much earlier under the pressure of the *chaebol*, and it was in fact its prior dismantling that brought on the crisis. The point worth noting is that even in Korea, where there was some kind of business support for a national development project, indeed, where this partnership with capital was crucial to the project's success, capitalists remained in the alliance only so long as state intervention was a central precondition to their profitability.

For most countries, a key political consequence of the project was the organizational enfeeblement of the labor movement. This was in some measure engineered by political elites, partly because of their own paternalism toward, and distrust of labor; it was also demanded by capitalists as a condition for their (promised) cooperation with the interventionist regime. But it is impossible to ignore the fact that this whole process was hugely enabled by labor's own seduction by the rhetoric of national development and planning. Too often, unions reposed an altogether unwarranted confidence in the state's ability to protect their interests, to discipline the capitalist class, and to manage class conflict through an adroit manipulation of plan priorities. Labor was in many cases too eager to take its place at the table, so to speak, and to agree to the corporatist structures that are common to industrial relations in developing countries. The long-term consequence of this demobilization was a steady enfeeblement of the working class as a political actor. Hence, when the turn to neo-liberalism came, labor lacked the organizational muscle and experience to fight effectively against it.[14] Ironically, it was the very absence of such opportunities for inclusion that may have contributed to the Korean labor movement's extraordinary development and radicalization. Whereas unions in many countries coming out of ISI remained dependent on state support, the Korean unions established a militant independence early on, and mobilized at a level that has few parallels in the developing world. While they were unable to block the onset of liberalization, they have been able to intervene in the transition to a new accumulation model with considerable force.

So while the nostalgia for the developmentalist era is, to some extent, understandable, a more sober assessment suggests different lessons. The last time political elites and subaltern classes looked to the national bourgeoisie for spearheading a development project they got something less than they wanted, and much less than they deserved. If left to its devices, there is no reason to think capital will react differently on another occasion. Indeed, if the reasoning of this essay is correct, the resistance to state intervention will most likely be even stronger in future.

It is not clear how the ongoing process of economic integration affects the very possibility of national projects. For some, globalization makes any such idea quite implausible, since it has so completely integrated domestic firms with multinational corporations. But while the fact of cross-national integration is indisputable, its extent is very much a matter of debate. It is even less clear whether this process, even where it has progressed considerably, makes national projects unworkable. What this essay has argued is that, to the extent that developmental projects are possible, their advocates will be well advised to take a hard look at the experience of their predecessors. Future national development strategies will have to generate a new kind of politics capable of extracting concessions that were rarely even demanded last time around – concessions over investment flows, the movement of capital, labor standards, and much else. In an era where the political momentum is in precisely the opposite direction, this is no mean task. But that is no reason to continue laboring under the influence of myths that are demonstrably false, and with hopes that are sure to be dashed.

Endnotes

[1] Quoted in Raul Zibechi, "Globalization or National Bourgeoisie: an Outdated Debate", *Focus on Trade*, #94, November 2003.

[2] For a good comparison of the two periods, see Mark Weisbrot, Robert Naiman, and Joyce Kim "The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization", Center for Economic and Policy Research Briefing Paper, May 2001.

[3] Peter Evans, *Embedded Autonomy: States and Industrial Transformation*, (Princeton: Princeton University Press, 1995).

[4] Hamza Alavi, 'The State in Post-Colonial Societies', *New Left Review* 74, July-Aug. 1972.

[5] See my book, *Locked in Place: State-Building and Late Industrialization in India*, (Princeton: Princeton University Press, 2003).

[6] Ricardo Bielschowsky, *Brazilian Economic Thought (1945-1964): The Ideological Cycle of Developmentalism*, unpublished Ph.D. Dissertation, University of Leicester, 1985, pp. 392-393.

[7] Sonia Draibe, *Rumos e metamorfoses : um estudo sobre a constituição do Estado e as alternativas da industrialização no Brasil, 1930-1960*, pp. 306, 321. I would like to thank Cesar Rodriguez for summarizing portions of this book for me, as part of our research on Brazilian development.

[8] Vedat Milor, "Planning the Market: Structural Transformation of the Economy in Turkey, France, and Korea, 1950-1990", unpublished manuscript, p. 295.

[9] See my "Bureaucratic rationality and the developmental state", *American Journal of Sociology,* January 2002.

[10] For Latin America, see Christian Anglade and Carlos Fortin, *The State and Capital Accumulation in Latin America*, vols. 1 and 2, (Pittsburgh: Pittsburgh University Press, 1985 and 1990).

[11] See the account in Cristobal Kay, *Latin American Theories of Underdevelopment*, Routledge, 1987.

[12] This section summarizes arguments developed elsewhere. See my "Building a developmental state: the Korean case reconsidered", *Politics and Society,* September 1999 and "Bureaucratic rationality and the developmental state", *American Journal of Sociology*, January 2002.

[13] See Jeffrey Sachs, “External debt and macroeconomic management in Latin America and East Asia”, *Brookings Papers on Economic Activity*, Vol. 1985, No. 2. (1985), pp. 523-573.

[14] For a good account of this dynamic, see Nicola Christine Pratt, *The Legacy of the Corporatist State: Explaining Worker’s Response to Economic Liberalization in Egypt*, University of Durham, Centre for Midle Eastern and Islamic Studies, November 1998.