

DEVELOPMENT AND THE STATE :  
A CHANGING VISION

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## INTRODUCTION : DEVELOPMENT AND THE STATE

The role of the state in social and economic development is a very controversial subject. Margaret THATCHER and Ronald REAGAN consider that “the state isn’t the solution but the problem” while the CHINESE planner who looks on the market as a “precious bird that must be kept in a cage so that it doesn’t fly away”, is opposed to the market openings that TENG TSIASO PING advocates. Meanwhile, in the case of Taiwan, an American author (WADE 1989) speaks of “governing the market.”

Before embarking upon this discussion, let us specify that we consider that “development” means more than simply the growth of material wealth ; that it should have a favorable effect upon the individual as well as upon society as a whole. This broader definition is taken into account in the research undertaken by the UNDP towards the measuring of Human Development. We are aware also that the concept of state, itself, is at issue : a centralized nation-state or a state that, on the one hand, allows its regions some autonomy and, on the other, takes into account aspirations and issues that have a continental or world scope?

### I- AN ENDURING DEBATE

As early as the 18<sup>th</sup> century, the issue at stake was not so much “the state and development” as “the state and the market”. QUESNAY was already asserting that “*the total freedom of commerce had to be maintained, for the most secure, precise, and profitable regulator of foreign and domestic commerce is the complete liberty of competition.*”<sup>1</sup>

At about the same time Adam Smith was defending the free market in the following terms : “*the makers of projects trouble the operations of nature in human affairs, whereas it should be left to itself and allowed to act freely so as to achieve her goal. Every government that is opposed to this natural course, that wishes to give capital another direction, rebels against nature and becomes, in order to maintain itself, oppressive and tyrannic.*”<sup>2</sup>

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<sup>1</sup> Quoted by F. List in *National System of political economy*, 1851

In the same vein, A. SMITH and J.B. SAY declared that “*the United States, like Poland, would be agricultural*”. Nature also determined that Portugal would be a producer of wine, Germany would produce wheat and timber, France would specialize in wine and silk goods, and Tunisia would produce olive oil and citrus. In 1955, the director of the economic Plan for colonial Tunisia wrote : “*it is time that Tunisia, presently overindustrialized, came back to its agricultural vocation.*”<sup>3</sup>

LIST vehemently denounced the constant British strategy of domination that used the doctrine of freedom of trade and non-intervention of State to, in the words of British parliamentarians “*nip foreign manufactures in the bud*” or “*nip the continental factories in the bud*”<sup>4</sup>.

LIST put all his energy into defending the late-comers, in particular Germany, encouraging them not to give in for the sake of a plate of lentils (the opening of the British market to German wine, wood, and wheat), their only chance of building an industry resting in state intervention, by protecting and supporting it.<sup>5</sup>

The French economist F. PERROUX pointed out that, in the 1960s, Great Britain, while proclaiming itself the motherland of liberalism, underwent long and decisive state interventions, from the Navigation Act<sup>6</sup> to the constructing of canals, etc... The United States built their industrial power in the same manner as Great Britain. Before becoming the champions of the free market these states undertook vast measures of intervention and played protective roles.

After the first world war, a new wind blew. In the USSR, the first authoritarian economic plan, wholly dependent on the budget and decisions of the centralized state, was conceived and implemented. Administered and imperative planning was adopted a bit later by the popular democracies and by the Popular Republic of China.

Softer forms of “indicative” planning became widespread after the second world war. This sort of planning was characterized by a greater frequency of state interventions, in particular nationalizations. At this juncture, KEYNES provided much inspiration.

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2 Quoted by F. List, p. 482. J.-B. Say subscribed to the same school of thought. According to List, no author created as much scientific terror. If anyone expressed the slightest doubt as to the infallibility of his doctrine he would be punished with the stigmatizing term of obscurantism.

3 *Tunisia economic and social report*, 1955. Tunisia then had about 30,000 factory workers.

4 The declarations made in the British parliament by M.H. Brougham in 1815 and M. Hume in 1825.

5 List is the inventor of the “Protection of Infant Industries”

6 Promulgated in 1651, the Navigation Act ensured British maritime supremacy. It wasn't abolished until 1849 once the industrial and commercial power of the country was secured.

## II. THE ASIAN MODEL OR THE CAPITALIST STATE AS DEVELOPPER

In the second half of the twentieth century, Japan as well as East and South-East Asia introduced a new reality of great consequence : an accelerated growth rate that increased during the 1980s, considered to be a “lost decade” for Latin America and Africa. For these countries and Japan, of course, but also the NICS<sup>7</sup>, the dream of catching up - with the economic leaders - became reality. Thus, South Korea, initially at the same level as Cameroon in terms of GNP, surpassed Greece ; Taiwan surpassed Spain ; Hong Kong and Singapore surpassed the countries of Western Europe. According to the ranking of the UNDP, these countries are among the top-scoring countries of the developing world in terms of “human development”. According to liberal economists linked to the World Bank (in the 1970s and 1980s), the success of these newly industrialized countries would be due in great part to the measures of economic liberalization implemented between 1962 and 1964. One of these economists, WESTPHAL, declared that : “ *South Korea presents an almost classic example of an economy conforming to its comparative advantage and pocketing the benefits thanks to the revisions of economic theory.*”<sup>8</sup> Thus, at the end of the twentieth century just as at the end of the eighteenth century, the free market “school” is still right!

Many studies have revealed the caricatural nature of this sort of demonstration : not only have non-uniform protection rates in South Korea unveiled very selective industrial policies, but also it is clear that the state has not ceased manipulating prices and favoring investments in sectors considered to have priority : by implementing modulating interest rates, by linking importing rights to previous importing success, by creating national investment funds, etc... In South Korea during the 1970s, the President himself disposed of two economic secretariats assigned with the responsibility of regularly informing him of the progress of big industrial projects, sometimes daily and even several times a day !

This attitude of the state towards infant industry is comparable to that of the ricegrower who first carefully looks after the seeds in the seeding ground to be sure that the rice plants take well before replanting them in the field. In the same way, the state is present at each phase of the country’s industrialization, so as to help its companies get through them all.

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<sup>7</sup> The New Industrial Countries : Hong Kong, Korea, Taiwan and Singapore

<sup>8</sup> Westphal, “The Republic of Korea’s experience with export led industrial development”, *World Development*, 1978.

These industrial policies borrowed more from the ricegrowing experience than from the teachings of neoclassical economics. On the other hand, the newly industrialized countries have faithfully applied the initial teachings of F. LIST for whom the protection of infant industries was to be looked upon as a preparation of limited duration for international competition. Their very selective methods were a far cry from an Anglo-Saxon model requiring that the state should limit itself to fixing and enforcing the rules of the game, since it is only responsible for the conditions within which the development is undertaken. To more effectively take into account the interventionist state's proximity and involvement in its companies' affairs the notion of "the capitalist developmental state"<sup>9</sup>, whose main strength lies in the collaboration between government administrations and companies, has been introduced. The state doesn't give orders, but rather suggests and influences companies through a system of administrative guidance, with informal and rarely written down recommendations, requiring the maintenance of close links between the administration and companies. The companies that respond to the signals that are provided are guaranteed various advantages... C. SAUTTER, referring to Japan, speaks of a "pro" state, that is successively or simultaneously, producer, protector, prospector and programmer<sup>10</sup>.

In any case, whether "developmental" or "pro", the Asian state has proven to be an efficient instrument for catching up. It has proved to be a better performer than the socialist state despite the fact that the latter also claimed to be bolstering its economic players so as to catch up. Even the World Bank, that for many years declared that development resulted from the free movement of market forces, began to reevaluate the role of the state and its interventions. In the 1993 report "the East Asian Miracle", the Bank, albeit with many reservations, admitted that there had been useful state interventions. Similarly, in the 1997 annual report on world development, "the State in a Changing World" one can read that "an efficient and competent state is preferable to a minimal state" or "development without the state will fail."

### III- THE QUESTIONING AND REEVALUATIONS OF THE ROLE OF THE STATE

And yet the role of the state was seriously undermined during the preceding twenty years:

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9 Chalmers Johnson, "The Japan problem", *Foreign Affairs*, Waite, 1986

10 C. Sautter, *Le prix de la puissance*, Paris, Le Seuil, 1973, and *Les dents du géant*, Paris, Olivier Orban, 1987.

When, at the beginning of the 1980s, the debt crisis brought to light the seriousness of the situation of many countries of the Third World, the response that the IMF and the World Bank produced were the Structural Adjustment Programmes that demanded liberalization and the reduction of state intervention, a generator of waste and revenues benefiting a minority ;

In 1989 the Berlin Wall collapses and the death knoll sounds for the centralized and theoretically imperative planning systems. Around the world, remaining economic plans are abandoned, while in some places in Eastern Europe the liberal wave knows no bounds : in Poland, for example, under the minister BALCEROWITZ ;

Finally, in 1997, when an economic crisis sweeps across East and South-East Asia, the state stands accused : in South Korea, Thailand, Indonesia, the Philippines, and Japan. The role of the erosion of the organic system of complicity established between states, banks and companies is ascertained. The “iron triangle” is recognized as having been, for over thirty years, an efficient system that enabled several countries to create a modern industrial base. But what was once a factor of success has become with time a factor of decomposition :

- companies allowing themselves to overinvest and sink too deeply into debt ;
- banks, whether privatized or not, remaining not much more than cash dispensers controlled by the government, with no independent decision-making faculty in the evaluation of projects and assessment of risks.
- administrations overwhelmed by the magnitude of the sums of money at stake and undermined by corruption.

Nevertheless, though the state is identified as the main culprit, its disappearance isn't called for, nor even its dwarfing, as is attested by the new positions of the World Bank that we signaled above. A number of recent experiences reveal that “development without the state will fail.”

Today we recognize that poor countries that, in many cases, are continuing to grow poorer, are not poor as a result of lack of resources<sup>11</sup>, but rather as a result of the weakness or virtual absence of the state. It is also generally agreed upon that the creation of market economies in our countries was preceded by a centuries-long construction of a stable political and judicial order.

Furthermore, in a global context, characterized by liberalization, direct state intervention continues to be called for and agreed to :

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<sup>11</sup> We sometimes refer to the “curse of raw materials”.

In East Asia where Taiwan, Korea and Singapore are launching the construction of silicon foundries and the production of microprocessors with the participation of the state and the total backing of large public research institutes with each investment comprising more than a billion US dollars.

Similarly, in France, the construction of the “Microelectronics” plant at Crolles, near Grenoble, receives financing from the state, the region and the local community councils (“collectivités locales”) amounting to 900 of the necessary 3400 million francs, representing 1.5 million francs for each new job created. There are even more traditional industries receiving such financing, for example a paper mill in the Centre region that is receiving public funds that amount to 500,000 francs for each new job created.

Finally, it is interesting to note that AIRBUS and BOEING accuse one another of receiving public funds from their respective states : the United States, on the one hand, and France, Germany, Spain, and Great Britain, on the other. Thus, state intervention in industry building has not disappeared. Furthermore, while the “full market” (*le tout marché*) has proven incapable of correctly distributing available resources, a renovated state, though often still considered wanting in transparency, agility and competency, continues to play essential roles. Among these should be stressed :

- the role of **stabilizer**, overseeing transitions and applying necessary controls so as to avoid the pitfalls of an unbridled opening of markets. Floating capital has demonstrated its blindness and unconsciousness in Mexico, then in Asia, but not in the countries that were able to protect themselves, like Chili and Malaysia.

- the role of **guarantor**, in a spirit of openness and not secrecy, of the solidity of financial systems, e.g. banks and investment firms. This is a necessary foundation in the prospect of developing their ability to evaluate projects and assess risks;

- the role of **promoter of the collection and processing of external and internal data for use**, particularly, in the identifying of future activities so as to develop new comparative advantages ;

- the role of **beacon for future orientations and activities** ; for only the state is capable of involving all the national players in long-term schemes : schemes on a national scale that take into account the international context and all the possible combinations it has to offer. As a high-ranking civil servant in the Tunisian Ministry of the Plan put it : “Even if it’s not the

state that decides, thanks to its beacons, it helps professions identify their goals and strategies... The state should succeed at stimulating a new movement of energies... new 10-year perspectives”<sup>12</sup>

- the role of **organizer of national solidarity**. “By developing actions aimed at building solidarity, national states defend their existence in the current globalization process. After 1945, states reconstructed their economic infrastructures. Today, a similar effort should be made to renovate the big social apparatuses. If the state withdraws from its entrepreneurial role it should be in order to better proceed with the renovation of big social infrastructures : health, education, training. For globalization, far from erasing national boundaries, creates, within each society, a de facto form of solidarity. A country’s competitiveness is due as much to the quality of its political system as to the level of its labor costs. The risk of decline is due, however, to the slow, but continuous, erosion of our social capital, e.g. the symptoms of distress in poor neighborhoods, or the problem of economic alienation. Our place in the world economy depends as much on the quality of our elected officials, civil servants and journalists as that of our entrepreneurs.”<sup>13</sup>

- the role of **organizer of solidarity between the North and the South**, as structural adjustment is not restricted to the countries of the Developing world. Developed economies will also have to organize, progressively but systematically, the opening of their markets to productions, particularly industrial productions, from the South (and the East). This sort of adjustment can only be contemplated once long-term strategies, anchored in clearly defined perspectives and intentions, have been determined and implemented. This is not linked to the “unhindered movement of market forces”, but rather, the vigorous and energizing intervention of stable and determined powers. In these conditions, how can any progress occur without disposing of the means of “governing the market”?

The recital of these roles of the state isn’t complete and it doesn’t seem too optimistic to conclude that a renovated and restructured state still has a future.

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<sup>12</sup> Interview of highly-ranked civil servant of the Plan at Tunis in 1990. The 10-year perspectives are in reference to the 10-year Perspectives of 1961/1970 in the era of A. BENSALAH.



#### IV- QUESTIONS ASKED AND BUMBLED RESPONSES

The state is being asked more and more questions to which it cannot supply satisfying answers. These questions follow two directions.

In one direction, the national state must face, more and more frequently, global problems that concern the whole but that also have repercussions on a national and local level. These include in particular:

- climate, and more generally, environment,
- energy, its sources and its effects,
- oceans, fishing and water,
- the protection of nature (and health : OMGs, bioethics),
- drugs, their production and circulation,
- hunger and disease (epidemics),
- exchanges : the circulation of goods, capital (the Tobin tax), and people,
- the debt of developing countries (in particular that of less advanced countries),
  
- child and slave labor (linked to North/South adjustment),
- human rights, freedom of opinion, religion, political choice..., i.e. democracy.

All of this raises the issue of interference in interior affairs (and that of the sovereignty of each state) as well as the problem of the participation of national states in what is dubbed world government.

In a second direction, the national state must, more and more, take into account what we call today civil society, whose role is asserted through increasingly pressing demands. All sorts of associations and non-governmental organizations take action at every level : local, regional, national, international ; the World Trade Organization summit in Seattle, the Prague summit, the Nice summit. According to some<sup>14</sup> *“the practice of common law (customary, unwritten, jurisprudential) provides Anglo-Saxon countries with an advantage in this particular world context”...* *“Given the important role accorded in the United States to associations and*

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14 Thierry De Montbrial in “RAMSES 2000” Dunod for the IFRI (Institut Français des Relations Internationales), Paris 2000

*foundations, it isn't surprising that this country is more comfortable, culturally, with globalization."*

The nation state is thus pulled in different directions between planetary problems and civil society ; its own and the others, without forgetting the role and responsibility claimed by regions, nor the difficult construction of continental states : the recent Nice summit has provided us with an illustration of this.

The state does have a future, it must continue to play an indispensable role, but its redefinition and its conception are, as we can see, presently in a phase of momentum.