

REINVENTING LEGAL INSTITUTIONS OF ECONOMIC
DEVELOPMENT AND DEMOCRACY:
THE ROLE OF THE STATE

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Introduction

Legal thought today has been challenged once again by the theory and practice of economic development. It is in the process of reinventing itself to achieve a greater degree of “economic democracy”¹ in the historical transformation of the market and its relation to the state. As I argue,

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¹ William Simon has defined economic democracy as “the idea that the norms of equality and participation to a narrowly defined sphere of government should apply to the sphere of economic life.” William H. Simon, *Social-Republican Property*, 38 UCLA L. REV. 1335 (1991) at 1335. For the further definition and the concept of economic democracy, see also, ROBERT DAHL, PREFACE TO ECONOMIC DEMOCRACY (1985). Here, however, by “economic democracy” I mean not only equality and participation in sphere of economic life but also increasing of economic productivity.

In the political economy, Keynesian welfare state did not achieve “economic democracy,” but recently, “workplace democracy” has emerged as the principle institutional reform that today commands widespread support among critics of capitalism. See, e.g., Karl Klare, *Workplace Democracy and Market Reconstruction*, 38 CATHOLIC UNIVERSITY LAW R. (1988); Henry Hansmann, *When Does Worker Ownership Work? ESOPs, Law Firms, Codetermination, and Economic Democracy*, 99 YALE L. J. 1749 (1990). For example, it is hoped that worker control of enterprise will succeed where welfare state failed in equalizing power and wealth. See, e.g., Mark Barenberg, *Democracy and Domination in the Law of Workplace Cooperation: From Bureaucratic to Flexible Production*, 94 COLUM. L. REV. 753 (1994); M. CARNOY AND D. SHEARER, ECONOMIC DEMOCRACY: THE CHALLENGE OF THE 1980’S (1980).

economic development and democracy are possible but a rethinking of legal and economic institutions is required. This is particularly important in the context of economic development.² The necessary rethinking involves establishing a more intimate link between legal and economic theory.³ This link, in turn, can only be built on the basis of a more realistic understanding of actual and potential institutions. This institutional perspective will allow an alternative vision of democratic and economic development to emerge, a vision that has embedded with detailed proposals for supportive legal institutions.⁴

The present paper is an argument about the content of a democratizing strategy of the role of the state in economic development. However, it is not an argument that can be placed on a simple spectrum of solutions ranging from privatist to statist. It resists the available ideological label, and instead, proposes how to reorganize the market economy in ways that further nonstatist socialist and privatist neoliberalism and give more effective form to liberal aspirations.⁵ The argument arises from the discovery that the market economy do not have natural and necessary

² By the term "economic development" I mean more than merely an increase in the rate of economic growth. That is to say, the term "economic development" is defined here not only in the terms of that but also productivity and the country's transition to a higher value production to compete in the world market. Because of that reason the crisis of economic development is by now quite evident, and events not only in developing and postcommunist countries but also in developed countries illustrate this.

³ What Tamara Lothian calls this is "the twin disciplines of Institutional thinking." Tamara Lothian, *The Democratized Market Economy in Latin America (and Elsewhere): An Exercise in Institutional Thinking Within Law and Political Economy*, 28 CORNELL INTERNATIONAL L.J. 169 (1995) at 210. [Hereinafter Lothian, *The Democratized Market Economy*]. Lothian also states that "an institutionally oriented practice of political economy and a style of legal analysis" would contribute to "alternative pathways of institutional change." *Id.*, at 210.

⁴ Lothian, *The Democratized Market Economy*, *supra* note 3, at 210-11.

⁵ There has recently been a variety of proposals that contribute to debates over the possibility of a "third way" between (or other than) liberalism and socialism. On the third way of legal-institutional statements concerning with "economic democracy" see, e.g., William H. Simon, *Republicanism, Market Socialism, and the Third Way*, in Gregory S. Alexander and Grazyna Skapska eds., *A FOURTH WAY? PRIVATIZATION, PROPERTY, AND THE EMERGENCE OF NEW MARKET ECONOMIES*, (1994) (exploring the notion of "economic democracy" in converging elements of the traditions of economic republicanism and market socialism as an alternative approach that is what Professor Simon calls "The Social-Republican Model". Perhaps the most revealing feature of the social-republican vision is a distinctive notion of property. *Id.* at 287. On the detailed legal analysis of this notion of property (proposing a further alternative to classical liberalism inspired by the ideal of economic development.).

legal-institutional contents⁶ and therefore substantially more open to a transformation of the usually posited conflict between growth and democracy that most theory and policy assume.

Policy makers, especially in developing and postcommunist countries, seem to converge on a single set of practices: the neoliberal project. Roughly, the neoliberal project is a program committed to macroeconomic stabilization, liberalization, privatization, and a social safety net. However, an alternative North East Asian (NEA) conception of capitalism has emerged at a time when scholars are developing new ideas about constructing the role of the state in economic development. Nevertheless, the successes of NEA economies have been purchased at the price of authoritarianism.

In the following sections, first, I shall begin critical and reconstructive analysis of the "neoliberal project," with several theoretical understanding of a series of analogous theaters of experiences. While attentive to the power of the neoliberal program, I am most interested in its failures and limits, and alternatives to it. The theme I prefer to use in outlining such an alternative is to take certain institutions as my starting points: to present a controversial interpretation of some of their aspects, to criticize them in light of this interpretation, and to suggest in what respect a revised version of their more promising features would contribute to the alternative I propose. I shall focus primarily upon certain aspects of the experience of the North East Asian economies: Taiwan, Korea, Singapore, and Hong Kong. For the moment, I shall have Taiwan and South Korea especially in mind, for they present an instructive contrast – an experience prefigured by Japan and continued, with different characteristics, by other Asian countries. I shall present conclusions a means of achieving transformative opportunities by recasting legal analysis as a vehicle for rethinking alternative institutions, which can better achieve economic development.

The mode of thinking and discussion in which we can explore and reimagine

⁶ Also the result of this discovery resists the taint of institutional fetishism. For an intellectual practice of the rebel to institutional fetishism in labor law regime see, e.g., Tamara Lothian, *Reinventing Labor Law: A Rejoinder*, 16 *CARDOZO L. REV.* 1749 (1995).

Especially in developing countries, institutional fetishism has been dominant in both liberal and social theory. See, e.g., DOUGLASS C. NORTH, *INSTITUTIONS, INSTITUTIONAL CHANGE AND ECONOMIC PERFORMANCE*, (1990) (presenting established institutions as the natural product of economic rationality, interacting with objective factors); ADAM PRZEWSKI, *CAPITALISM AND SOCIAL DEMOCRACY* (1985) [Hereinafter Przeworski, *Capitalism and Social Democracy*] (treating capitalism and socialism as indivisible social systems, subject to correction through tax and transfer policies).

these alternative legal institutions is also a methodological problem that must go step by step with the substantive themes. I refer to this methodology as institutional experimentalism. Institutional experimentalism as a methodology is inspired from “programmatically argument”⁷ and “revolutionary reformist”⁸ ideas. The approach is called institutional because until it focuses on institutions of market economy, the project shall not advance knowledge on economic growth. Yet, by the same token, the approach is experimentalist given that economic development is a process and the static nature of any theory concerned with institutions ill fits us to understand that process.⁹ *We need to construct a theoretical framework that models institutional change in the market economy to a greater degree of more experimental, decentralized and democratic.*

⁷ The idea of programmatic thought has been developed in ROBERTO MANGABEIRA UNGER, *FALSE NECESSITY: ANTI-NECESSITARIAN SOCIAL THEORY IN THE SERVICE OF RADICAL DEMOCRACY, PART I OF POLITICS, A WORK IN CONSTRUCTIVE SOCIAL THEORY* (1987).

⁸ The second aspiration, “revolutionary reformist,” has been developed in Charles F. Sabel, *Bootstrapping Reform: Rebuilding Firms, the Welfare State and Unions*, *POLITICS AND SOCIETY*, (Winter, 1995). [Hereinafter Sabel, *Bootstrapping Reform*]. What Sabel calls revolutionary reformism in his work is “bootstrapping.”

⁹ The “new institutionalism” in economic theory has forwarded strong arguments relating organizations and institutions. For overviews, see T. M. Moe, *The New Economics of Organization*, *AMERICAN JOURNAL OF POLITICAL SCIENCE* 28 (November, 1984); C. Perrow, *Economics Theories of Organization*, in ZUKIN AND DIMAGGIO, EDs., *STRUCTURES OF CAPITAL* (1990); see also T. EGGERTSSON, *ECONOMIC BEHAVIOR AND INSTITUTIONS* (1990).

Yet, I should distinguish this method from so-called the new institutional economics. *First*, the New Institutional Economics believes economic growth and institutional change is path dependent. The concept of path dependence has been pioneered by Brian Arthur, *Competing Technologies, Increasing Returns, and Lock-In by Historical Events*, *ECONOMIC JOURNAL* 116 (March, 1989). North strongly believes that “[w]hat constraints the choices of the players is a belief system reflecting the past — the cultural heritage of a society — and its gradual alteration reflecting the current experiences as filtered by that belief system.” Douglass C. North, *Some Fundamental Puzzles in Economic History/Development*, paper presented in Social Economic History Workshop at Stanford University (Fall, 1995) at 13.

Second, the Institutional Economics has failed because it lacks a programmatic intention, an intention of understanding not only how institutions change but what the actual institutions are in the light of the possible.

I. Macropolitics of the Institutional Change: Criticism of the "Neoliberal Project"

1. A Critical and Reconstructive Analysis of the Role of the State in the Market Economy as a Starting Point

The most striking trend in contemporary economics and politics is the restructuring of the state. In most cases, what appears to be a "structural" or secular devolution of power and authority from the state to non-state entities, whether supranational organizations, multinational corporations or popular movements, raises only more sharply the question of the future role of the state in economic development. The role to be adopted by the state in these changing circumstances has yet to be sufficiently theorized.¹⁰

The major restructuring of the state in the contemporary world has come about with a new "paradigm",¹¹ usually characterized as a revolution in

¹⁰ Having become fashionable again, "the black box" of the role of the state has been investigated in a long tradition of work that runs from Weber through economic historians like Polanyi, Gerschenkron, and Hirschman to contemporary work by political economists like Johnson, Bardhan, Bates, Amsden, Wade and Evans, and sociologists like Cardoso and Faletto. For references, see KARL POLANYI, *THE GREAT TRANSFORMATION* (1957); ALEXANDER GERSCHENKRON, *ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE* (1962); among Hirschman's other works, see also Hirschman *supra* note 2; CHALMERS JOHNSON, *MITI AND THE JAPANESE MIRACLE: THE GROWTH OF INDUSTRIAL POLICY, 1925-1975* (1982); PRANAB BARDHAN, *THE POLITICAL ECONOMY OF DEVELOPMENT IN INDIA* (1984); ROBERT H. BATES, *BEYOND THE MIRACLE OF THE MARKET: THE POLITICAL ECONOMY OF AGRARIAN DEVELOPMENT IN KENYA* (1989); ALICE AMSDEN, *ASIA'S NEXT GIANT: SOUTH KOREA AND LATE INDUSTRIALIZATION* (1989); ROBERT WADE, *GOVERNING THE MARKET: ECONOMIC THEORY AND THE ROLE OF GOVERNMENT IN EAST ASIAN INDUSTRIALIZATION* (1990); PETER EVANS, *EMBEDDED AUTONOMY: STATES & INDUSTRIAL TRANSFORMATION* (1995); FERNANDO H. CARDOSO AND ENZO FALETTO, *DEPENDENCY AND DEVELOPMENT IN LATIN AMERICA* (Marjory M. Urquidi, trans., 1978).

However, this somewhat traditional literature on the role of the state is, for the most part, concerned with the explanation and analysis of routinized situations. I construct my project with a conception of the programmatic ideals needed to reestablish actual alternatives of the state and market economy. I have in mind an institutionally oriented practice of political economy and a style of legal analysis devoted to an understanding of the legal agenda of alternative pathways of institutional change in the role of the state in economic development.

¹¹ I use "paradigm" in the sense intended by Thomas Kuhn: "[that] set of recurrent and quasi-standard illustrations of various theories in their conceptual, observational and instrumental applications." THOMAS KUHN, *THE STRUCTURE OF SCIENTIFIC REVOLUTIONS* (2d. ed., 1970) at 73. Kuhn explains "revolutions" in scientific thought as "those non-cumulative developmental episodes in which an older paradigm is replaced in whole or in part by an incompatible new one...They are inaugurated when an existing paradigm has ceased to function adequately in the exploration of an aspect of nature to which that paradigm itself had previously led the way." *Id.*, at 92.

technology¹² both in physical and management,¹³ and global competition.¹⁴ Now, the technological revolution has been pushing states – as well as local and international society – to redefine their roles. While the concern of the advanced capitalist states for relative economic gains is inspiring a redefinition of the state as the catalyst of technological innovation,¹⁵ post-socialist states along with developing countries are abandoning command economics and denationalizing industry. Although this new emphasis on the state as an autonomous actor has been criticized as being inconsistent with transnational influences it is also considered that it is consistent with a new appreciation of the role of the state in economic outcomes.

¹² The introduction of the factory system and the mass production with the introduction of fordist mass production techniques was the beginning of what is called the “era of industrialization”. The growth and richness meant the volume of manufactured goods, with the widespread use of the steam engine, and of iron and later steel to make machinery and railways. Ever since the beginning of the Industrial Revolution, technologies have been evolving and improving upon themselves so swiftly, with such enormous simultaneous economic, social, cultural changes. See, JEAN J. SALOMON AND ANDRE LEBEAU, *MIRAGES OF DEVELOPMENT: SCIENCE AND TECHNOLOGY FOR THE THIRD WORLDS*, (1993); see also *INDUSTRIALIZATION AND DEVELOPMENT*, (Tom Hewitt et al. eds., 1992). In the last twenty years, a new “paradigm”, a new way of doing things, seems to have emerged. This is usually characterized as a revolution in “postfordism” in the production system and its relation to the state. On the details of traditional mass production system and an alternative to it as a new organization style “flexible specialization”, of course, see MICHAEL J. PIORE AND CHARLES F. SABEL, *THE SECOND INDUSTRIAL DIVIDE: POSSIBILITIES FOR PROSPERITY* (1984); see also MICHAEL BEST, *THE NEW COMPETITION: INSTITUTIONS OF INDUSTRIAL RESTRUCTURING* (1990).

¹³ See Michael C. Jensen, *The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems*, *THE JOURNAL OF FINANCE* (1993).

¹⁴ See MICHAEL PORTER, *COMPETITIVE ADVANTAGE OF NATIONS* (1990).

¹⁵ The U.S., for example, is moving toward accepting a role for the federal government in subsidizing civilian research and technology. To counter the dramatic recent Japanese advances in computer electronics, the U.S. government has begun subsidizing civilian research consortia. The Microelectronics and Computer Technology Corporation (MCC), created in 1983, has sponsored cooperative research in computer-aided design, software, advanced computing and other areas. And even the states tried to create their own “Silicon Valley” or “Route 128” by encouraging close relationships between state universities and industry, sponsoring consortia, creating new research centers, and offering tax breaks, grants, information services and other benefits to high-tech companies. See Hugh O’Neill, *The Role Of The States In Trade Development*, in *INTERNATIONAL TRADE: THE CHANGING ROLE OF THE UNITED STATES*, (Frank J. Macchiarola, ed., 1990). See also Bobby R. Inman and Daniel F. Burton, *Technology and Competitiveness: The New Policy Frontier*, 69 *FOREIGN AFFAIRS* 116 (1990).

The Japanese¹⁶ or NEA¹⁷ model is one of three basic ideal-typical models of the more or less industrial capitalist democratic state.¹⁸ The other two are the Anglo-American liberal model, most familiar in its U.S. form, and the continental European social corporatist model, represented by Germany along with Austria and the Scandinavian countries.¹⁹

The social-corporatist model, according to the literature of the neocorporatist synthesis, features a high degree of organization and centralization of both business and labor, centralized collective bargaining, and tripartite policy making, in which the government is joined by associations representing capital and labor.²⁰ The internationalization of the world economy, for example, by removing government control over monetary policy, has eliminated many of the Keynesian instruments by which social corporatist governments sought to promote goals. As it was noted that “[U]nlike the

¹⁶ The literature on understanding of Japanese model is vast. Here, I only give some examples of “Japanese model” and its relation to economic development in general, industrialization in particular. MASAHIKO AOKI, INFORMATION, INCENTIVES, AND BARGAINING IN THE JAPANESE ECONOMY (1988) at 1-98; Banri Asanuma, *Manufacturer-Supplier Relationships in Japan and the Concept of Relation-Specific Skill*, 3 JOURNAL OF THE JAPANESE AND INTERNATIONAL ECONOMIES 1 (1989); DAVID FRIEDMAN, THE MISUNDERSTOOD MIRACLE: INDUSTRIAL DEVELOPMENT AND POLITICAL CHANGE IN JAPAN (1988) at 1-36, 177-227; TOSHIHIRO NISHIGUCHI, STRATEGIC INDUSTRIAL SOURCING: JAPANESE ADVANTAGE (1994) at 90-215; KAZUO KOIKE, UNDERSTANDING INDUSTRIAL RELATIONS IN MODERN JAPAN (1988) at 114-179.

¹⁷ By NEA model, I mean the experience of the East Asian “tigers:” Taiwan, South Korea, Singapore, and Hong Kong — an experience prefigured by Japan. See, e.g., Wade, *Governing the Market*, *supra* note 20; EZRA F. VOGEL, THE FOUR LITTLE DRAGONS: THE SPREAD OF INDUSTRIALIZATION IN EAST ASIA (1991); Alice H. Amsden, *Asia’s Industrial Revolution*, DISSENT (1993); Amsden, *Asia’s Next Giant*, *supra* note 20; Janos Kornai, *Bureaucratic and Market Coordination*, in JANOS KORNAI, ED., VISION AND REALITY: MARKET AND STATE (1990) at 1-46; WORLD BANK, THE EAST ASIAN MIRACLE (1993) (I agree with their analysis but do not necessarily agree with the prescriptions).

¹⁸ One may raise the definition of industrial capitalist democratic state. Can it be defined as “the economic system in which production for the market is controlled by the owner of capital”, whether it be the classical property owner-cum-entrepreneur or the collectivity of stockholders delegating operational control to the manager? For the excellent inquiry of these questions regarding to Japanese “capitalism,” see Masahiko Aoki, *Japanese “Capitalism” Past, Present, and Future*, mimeo, Stanford University (1993).

¹⁹ A theoretical comparison of these three systems under the welfare-state regime has been explored in GOSTA ESPING-ANDERSON, THE THREE WORLDS OF WELFARE CAPITALISM, (1990).

²⁰ See GERHARD LEHMBRUCH AND PHILIPPE C. SCHMITTER, PATTERNS OF CORPORATIST POLICY MAKING, (1982).

situation in the first three postwar decades, there is now no economically plausible Keynesian strategy that would permit the full realization of social democratic goals within a national context without violating the fundamental imperatives of the world capitalist economy."²¹ Of the three models, the European social-corporatist appears to be the most dramatically inadequate in the emerging global economy.²² In the last two decades, the liberal or "American" model has attracted favorable attention in Europe, as conservative governments pursued monetarist policies, privatized nationalized industries, and cut the rate of increase of welfare entitlements. Perhaps temporary enthusiasm of post-communist reformers in Eastern Europe and the former Soviet Union has reinforced this new influence of neoliberal ideas.

Today, thinking about development in much of the world has come to be dominated by what is often labeled the neoliberal project or the "Washington consensus."²³ The neoliberal project contends four areas typically viewed as a prepackaged institutional content: Macroeconomic stabilization, liberalization, privatization, and a social safety net.²⁴ It is the program

²¹ FRITZ W. SCHARPF, *CRISIS AND CHOICE IN EUROPEAN SOCIAL DEMOCRACY*, (Ruth Crowley and Fred Thompson, *trans.*, 1991) at 274.

²² See, e.g., Jens Alber, *Is There a Crisis of the Welfare State? Cross-national Evidence from Europe, North America, and Japan*, *EUROPEAN SOCIOLOGICAL REVIEW*, (December 1988).

²³ Paul Krugman notes that a phrase of the "Washington consensus" is coined by John Williamson of the Institute for International Economics. By "Washington" Williamson means not only the U.S. government, but all those institutions and networks of opinion leaders centered in the world's de facto capital — the International Monetary Fund, World Bank, think tanks, politically sophisticated investment bankers, and worldly finance ministers, all those who meet each other in Washington and collectively define the conventional wisdom of the moment. See Paul Krugman, *Dutch Tulips and Emerging Markets*, *FOREIGN AFFAIRS* (July/August 1995).

²⁴ See, *WORLD BANK, WORLD DEVELOPMENT REPORT 1991: THE CHALLENGE OF DEVELOPMENT* (1991). A terrific critical inquiry into the IMF and World Bank prescription see, Thomas J. Biersteker, *Reducing the Role of the State in the Economy: A Conceptual Exploration of IMF and World Bank Prescriptions*, 34 *INT'L STUD. Q.* 477-92 (1990). Biersteker starts at the right place — "In nearly every developing country in the world today, short-term stabilization measures, structural adjustment programs, liberalization efforts, and economic reforms are being considered, attempted, or adopted...[N]early all entail a reduced role for the state in the economy...and greater reliance on market mechanisms..."[477 (opening paragraph)] Biersteker then starts causing trouble — "However, despite all the evident enthusiasms for it, there has been relatively little discussion of precisely what it means to reduce the role of the state in the economy."[478] Before examining precisely what the IMF and the World Bank mean, Biersteker lays out six forms of state intervention (influence, regulation, mediation, distribution, production, planning), thus destabilizing any facile characterization of "the role of the state in the economy."

committed to orthodox macroeconomic stabilization,²⁵ which means the process of creating a stable value of the national currency both in internal terms that is ending a high domestic price inflation and stabilizing the international value of the national currency.²⁶ The second content of the project is liberalization of the economy which means removing government interventions in the market, particularly on international trade and on entry of firms into particular sectors of the domestic economy.²⁷ Third part of the project is privatization, understood both more narrowly as the withdrawal of government from production and more generally as the adoption of standard Western private law.²⁸ The second and third components of the Washington consensus, liberalization and privatization, provide the key to the neoliberal program. They invoke but do not describe a set of real institutions of property and contract and forms of partnership realizations between government and private producers, which are claimed by the defenders of this neoliberal project to be the necessary and natural form of the market economy.²⁹ Finally, the fourth part of the project is the social safety net,³⁰ namely tax-and-transfer redistribution, the deployment of compensatory

²⁵ For a systematic statement of the stabilization component of the Washington consensus, which demonstrates how mainstream ideas can be broadened to incorporate some of the heterodox appeal to social compacts and wage-price freezes as methods of dealing with inertial and expectations-based elements of high and chronic inflation, see Rudiger Dornbusch et al., *Extreme Inflation: Dynamics and Stabilization*, in BROOKINGS PAPERS ON ECONOMIC ACTIVITY 2 (1990). See also Dani Rodrik, "Liberalization, Sustainability and the Design of Structural Adjustment Programs," Kennedy School of Government, Discussion Paper Series No. 117D Harvard University (1989).

²⁶ See Stephen Haggard and Robert Kaufman, *The Political Economy of Inflation and Stabilization in Middle-Income Countries*, PRE Working Paper 444, World Bank, Country Economics Department (1990).

²⁷ These arguments have been made in an extensive literature dating from the early 1970s. Prominent names associated with it include Bela Balassa, Jagdish Bhagwati, Anne Kruguer, Ronald McKinnon, and more recently, Jeffrey Sachs; specific sources are cited as appropriate.

²⁸ See, e.g., Jeffrey D. Sachs, *Accelerating Privatization in Eastern Europe: The Case of Poland*, IBRD, WORLD BANK (1992). (advocating the need for accelerating privatization in Eastern Europe).

²⁹ TARIQ BANURI, *ECONOMIC LIBERALIZATION: NO PANACEA, THE EXPERIENCES OF LATIN AMERICA AND ASIA* (1991) at 1-27.

³⁰ See Elaine Zuckerman, *The Social Costs of Adjustment*, in VINOD THOMAS, ET. AL., EDS., *RESTRUCTURING ECONOMIES IN DISTRESS* (1991); see also Carol Graham, *The Political Economy of Safety Nets During Market Transitions: The Case of Poland*, RESEARCH PROJECT, WORLD BANK (1993).

social policies, designed to counteract the unequalizing effects of this standard package because the neoliberal project is compatible with the strengths of extreme inequality.

The neoliberal program stresses arm's-length relationships between government and industry and between industry and finance, a high degree of fragmentation within industry, adversarial labor-business relationships, diverse craft unions, and the renunciation of microeconomic policy instruments by governments. In the neoliberal view, the essential economic functions of state are to maintain macroeconomic stability; to provide physical infrastructure, especially that which has high fixed costs in relation to variable costs; to supply public goods, including defense and national security, education, basic research, market information, the legal system, and environmental protection; to contribute to the development of institutions for improving the markets for labor, finance, technology; to redistribute income to the poorest in sufficient measure for them to meet basic needs.³¹ The list of functions is not controversial as long as the state succeeds in them. The controversy comes at the time what to do in market failures in practice.³²

It is also true that neoliberal project has little to say about the issues raised by the present shift of technoeconomic paradigm, of how to exploit the opportunities opened by the new technologies.³³ In the early stages of diffusion of the technological paradigm "windows of opportunity"³⁴ open for

³¹ See WADE, *GOVERNING THE MARKET*, *supra* note 11, at 11-12.

³² Robert Wade, *The Role of Government in Overcoming Market Failure: Taiwan, Republic of Korea and Japan*, in HELEN HUGHES ED., *ACHIEVING INDUSTRIALIZATION IN EAST ASIA* (1988) at 129-163. Market failures are especially endemic in financial markets compared to markets for conventional goods and services due to the "public good" nature of the financial industry. See Zhiyuan Cui, *China's Rural Industrialization: Flexible Specialization, Moebius-Strip Ownership and Proudhonian Socialism*, paper presented at MIT (1994) (on file with the author). That is to say in this point, since financial disruptions give rise to a series of cascading bankruptcies of other banks and enterprises — known as negative "network externalities" in the economic jargon, which stem from the correlated balance sheets between banks and firms — governments cannot afford to sit idly when faced with serious problems in financial sector and usually end up by getting engaged in some forms of resource. Consequently, the government becomes in effect a residual risk, bearer, or what J. Stiglitz calls it becomes "in effect (ex post) an insurer. Joseph Stiglitz, *The Role of the State in Financial Markets*, paper presented at Harvard (1994).

³³ WADE, *GOVERNING THE MARKET*, *supra* note 10, at 12.

³⁴ Changes of technoeconomic paradigm and "windows of opportunity" are two-edged in their international consequences. On the one hand, they may give some advantage to the most advanced countries with great strength in R&D and numbers of qualified

countries which have not made heavy physical and institutional arrangements in the now superseded technology system. Newcomers which meet these difficult threshold conditions can "catch up"³⁵ with the previous leaders by early entry into the new technologies and by creating adequate economic and political institutions to respond to these technological changes. A necessary but not sufficient condition is substantial amounts of state assistance in concentrating investment and socializing risk.³⁶ Much of the assistance may have to be in a leadership and even partnership rather than a followership mode, because private firms are unwilling to take enough risk, quickly enough, to assure that the new opportunities are taken.³⁷

In modern history, there have never been cases of successful national development marked by a passive state presiding over a framework of definite and transparent property rights.³⁸ The typical instances of success

people. On the other hand they may provide new opportunities for those "catching-up" latecomers, who have already reached a certain level of development, to accelerate their progress. Moreover, some established leaders may suffer from institutional rigidities and from overcommitment to older paradigms, leading to inertia and stagnation. See Chris Freeman, *Technical Change and Future Trends in the World Economy*, in *FUTURES* (Aug. 1993) at 621-635.

³⁵ On the "catching-up" thesis, see Steve Dowrick and Duc-Tho Nguyen, *OECD Comparative Economic Growth 1950-85: Catch-Up and Convergence*, 79 *THE AMERICAN ECONOMIC REVIEW* 1010 (1989). In the paper, they develop and estimate a simple model of comparative growth, paying special attention to the sensitivity of the results to alternative sets of data, country coverage, time subdivisions, and model specification. *Id.*, at 1011.

³⁶ The government can involve in a market economy by undertaking long-term investment planning. The government can do this either through a policy of selective interest rates or by directly allocating investment funds to enterprises and making sure that these enterprises spend these credit subsidies or investment grants on mutually agreed investment schemes.

Another rationale for investment planning is evoked by John E. Roemer: "Investment is necessary for two reasons: the markets that are necessary for investment to be efficiently allocated do not exist, and there are positive externalities from investment so that even were such markets to exist, market-determined investment would be socially sub-optimal. The markets that fail to exist are futures markets, or insurance markets. It is not possible for an investor to purchase insurance against the possibility that an investment may fail to be profitable because, for instance, the economy may be in recession when the investment's gestation is completed." John E. Roemer, *Can There Be Socialism after Communism?* 20 *POLITICS AND SOCIETY* (1992) at 267.

³⁷ See, generally, GIOVANNI DOSI (ed.), *TECHNICAL CHANGE AND ECONOMIC THEORY* (1988).

³⁸ This point has been made for now new investigated Chinese success, especially on understanding Township-Village Enterprises (TVEs) and property rights. See, e.g., Zhiyuan Cui, *China's Rural Industrialization*, *supra* note 40; Thomas G. Rawski, *Progress Without Privatization: The Reform of China's State Industries*, paper (1992) (on file with the author); see also Yingyi Qian and Chenggang Xu, *The M-Reform Hierarchy and China's Economic Reform*, 37 *EUROPEAN ECONOMIC REVIEW* 541 (1993).

have been those in which government not only invested in people and infrastructure but also entered into active partnership with private firms.³⁹ Both the institutional instruments and the economic content of this partnership have varied widely: from centralized bureaucratic agencies to decentralized cooperatives and from technical assistance and facilitated credit to direct technological and educational support.⁴⁰

2. Two General Critiques to the Neoliberal Project

I want to state general sets of criticisms to the neoliberal projects. The first idea is the idea of an internal instability or like a political instability in the neoliberal context. This program cannot adequately deal with the relation between economics and politics because there is extreme inequality in developing countries. If there is a mass democracy, we exclude it and this disfavored part of society strikes back with politics. The movements and leaders who execute populist economic policies, the policies of cheap money, of subsidies and inflationary finance, economic orthodoxy and economic populism are used for populism.⁴¹ The populism regularly interrupts the character of neoliberalism until it runs itself and requires the reassertion of economic orthodoxy.⁴²

³⁹ An example of a practice that is at odds with American principles is the organization of much of American agriculture. The federal government provides independent farmers with detailed technical and commercial advice, just as regional technology centers in Japan and artisans' associations in Italy provide autonomous producers with the information they need to do business. The American family farm could not survive without the help of an infrastructure of innovation guaranteed by the national state and administered by its local agencies. See, PIORE AND SABEL, *THE SECOND INDUSTRIAL DIVIDE*, especially at 303-6. The example of flexible specialization as an alternative to mass production system presuppose a variant of individualism what Piore and Sabel call "yeoman democracy". In a society based on market liberalism, the state is restricted to enforcing the rules of exchanges; but in a yeoman democracy, the state is a partner. There is another way to put the crucial distinction between market liberalism and yeoman democracy. In market liberalism, property is to be used to the maximum advantage of its possessor; in yeoman democracy, property is to be held in trust for the community — its use is subordinated to the latter's maintenance. It is this recognition of the indispensability of community that makes yeoman democracy: a form of *collective individualism*.

⁴⁰ My understanding of the instruments of this kind of partnership has been developed in North East Asian example by WADE, *GOVERNING THE MARKET*, at 73-112, 297-381. On educational investment in these countries, see ALICE H. AMSDEN, *ASIA'S NEXT GIANT: SOUTH KOREA AND LATE INDUSTRIALIZATION* (1989) at 215-39.

⁴¹ See Rudiger Dornbusch & Sebastian Edwards, *Macroeconomic Populism*, 32 *J. DEV. ECON.* 247 (1990).

⁴² For a discussion invoking unresolved social conflict as the decisive influence upon populist distributivism, see Jeffrey D. Sachs, *Social Conflict and Populist Policies in Latin America*, in *LABOR RELATIONS AND ECONOMIC PERFORMANCE* 137 (Renato Brunetta & Carlo Dell'Aringa eds., 1990).

Imagine for the sake of simplicity of a society divided into two worlds, into two parts: the favored economy and the disfavored economy; the first economy and the second economy. The part that has a deal with the state and the part that has only a tenuous access to capital, technology, and markets. The majority of the working people in developing countries live in that second world. The redistribution from the first world to the second would have to be enormous before it could begin to deal with their problems, and long before reaching that necessary dimension, it would begin to disorganize.

Tax and transfer as a social safety net can begin to work only if it operates in concert with a second unspoken element: the political demobilization of the populace, secured from a political institutions that restrict their civic engagement and their social organization. This relation between economics and politics can be fixed only if there is a logic of growth that produces equality rather than requiring the after the fact compensation of correction of tax and transfer. And this equalizing style of growth must be sustained by both an activist government and an organized populace and the relation between them.

The second idea is that in repudiating the neoliberal project, we need not and should not commit ourselves to a state oriented merging of economic policy.⁴³ Coercive and collusive forms of political autonomy between bureaucratic and entrepreneurial elites share something important in common with the neoliberal ideas. What these coercive and collusive forms of political autonomy fail to grant the essential relationship between innovation and cooperation in economic life is that it holds innovation hostage to the self-interest of economic or political beings. The neoliberal project imposes unnecessary and unwarranted restraints upon growth. One encounters often a distinction between static and dynamic efficiency and then one comes across the same problem in a different vocabulary in the neoliberal view that explore failures of growth after macroeconomic stabilization.

3. The Restatement of the Main Argument

I want to restate my main argument about the criticism of the neoliberal project in one main area which has been the focus of this paper: the possibilities of development.

The first element in the critique is the idea that the neoliberal idea of development, the underlying political economy of neoliberalism, remains

⁴³ Two main elements composed this background: the strategy of autarchic industrialization, oriented to the development through import substitution of fordist mass-production industry, and pseudokeynesian governmental finance.

tainted by a certain evolutionary fatalism. The most characteristic manifestation of this residual fatalism is the idea that the developing countries must pass through a protracted stage of low wage export oriented production. I want to say that the evolutionary fatalism arises because of an antipathy in the neoliberal vision to the possibilities of strategic coordination within and between firms, between firms and governments (the reason yet to be explored in NEA example in the next section).

The other side of the critique of the evolutionary fatalism is the critique of dualism. The claim is that the characteristic application of the neoliberal program and the real conditions of the developing countries tends to produce or to reinforce an already existent division between two economic systems - not just industry and agriculture - but two worlds : an organized, favored world with access to capital markets and technology and a world that is behind. There is a superficial reason for this affinity and a deeper reason. Superficial reason is the willingness to accept this niche of relatively rudimentary export-oriented production as the inevitable first step of the evolutionary ladder prevents the creation of a vanguard capable of transporting the rearguard within the national economy. The deeper reason is in the neoliberal political and social circumstance of a developing country, divided and hierarchical, a large part of the economy in the society will be left behind, will have difficulty using the formal opportunities of the industry that the neoliberal program affords. They are supposed to then be taken care of by the social safety net, by tax and transfer redistribution. But the division and inequality will be so great that it will overwhelm the capacities of this retrospective and compensatory redistribution. And the state that flourishes in this situation will lack the political will for such radical redistribute reforms.

That point has been proven in the NEA example for policy reforms on economic development if one compares it with Latin America. One difference is that the NEA tigers promoted a series of equalizing structural reforms, especially agrarian reform and massive investment in education.⁴⁴ The second difference is that they developed a variety of forms of partnerships between the government and private producers.⁴⁵

⁴⁴ This has been achieved in the context of the Cold War rivalry, and often imposed by the American proconsuls. For a discussion emphasizing this kind of the path-dependent effects of NEA experience, see EZRA F. VOGEL, *THE FOUR LITTLE DRAGONS: THE SPREAD OF INDUSTRIALIZATION IN EAST ASIA* (1991). Other differences between the NEA and Latin American experience is that the NEA tigers, even in their phase of import substitution had a different approach to the role of foreign capital. They restricted the intervention of foreign capital. See WADE, *GOVERNING THE MARKET*, *supra* note 10, at 350.

⁴⁵ WADE, *GOVERNING THE MARKET*, *supra* note 10, at 73-112, 297-381 (1990).

Now, for the more constructive argument of alternatives to the neoliberal project, I examine, in the following section, NEA experience in the possibilities of economic development. My main inquiry, in the next section, is "how can we think a decentralizing revisionism of the NEA example of partnership between the government and the private producers?"

II. An Alternative to the Neoliberal Project? Decentralizing the "Developmental" State and Institutions of Government-Firms Partnership

1. The Attraction and the Problem of the Developmental State

The increasing adoption by the United States and Western Europe of research and commercialization cartels and consortia in response to NEA competition demonstrates the widespread acceptance of the idea that the modern capitalist state has a responsibility to promote the competitiveness of national industries in particular sectors.⁴⁶ The welfare state succeeded the liberal state when democratic capitalist governments assumed responsibility for macroeconomic management of the economy and the provision of many social services.⁴⁷ On top of the state's role is added the new responsibility of government to actively promote the competitiveness of national industry in certain key technologies.⁴⁸

The movement away from European social-corporatism and other variants of redistributive social democracy, and the unimpressive performance of the neoliberal economy, has produced increasing interest in the NEA economic model. While in the past they had been considered as ideal types, illustrating the validity of neoliberal approaches to economic policy formation,⁴⁹ they now appear in a new and alternative form.⁵⁰ Increasing appreciation for the

⁴⁶ See WADE, *GOVERNING THE MARKET*, *supra* note 10, at 10.

⁴⁷ See NICHOLAS BARR, *THE ECONOMICS OF WELFARE STATE* (2nd, ed., 1993).

⁴⁸ Indeed, the Japanese interpretation of capitalist state was that the government could create international competitive advantage not just to nurture a few infant industries to supply the domestic market but to push broad sets of industries toward areas of growth and technological change in the world economy. See CHALMERS JOHNSON, *THE MITI AND JAPANESE MIRACLE: THE GROWTH OF INDUSTRIAL POLICY, 1925-1975* (1982).

⁴⁹ As a typical example of such approaches see Bela Balassa, *The Lessons of East Asian Development: An Overview*, in 16 *ECONOMIC DEVELOPMENT AND CULTURAL CHANGE* 274 (1988).

⁵⁰ See, e.g., Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (1989) especially at 3-115, 269-318; Alice Amsden and Takashi Hikino, *Borrowing Technology or Innovating: An Exploration of Two Paths to industrial Development*, Paper (on file with the author); Tom Hewitt et al., eds., *Industrialization and*

role of the state in NEA capitalist dynamism has come at a time when economists are developing new ideas about the positive role of the state in promoting economic and technological development.

The available successful alternatives of NEA economies offer an inspiration for developing such alternatives.⁵¹ However, all of these successful distinguishing characteristics took place on the basis of an authoritarian developmental state.⁵² Authoritarianism turns to be sacrificing political democracy and it creates a kind of tilt to the bureaucratic centralism, to the centralized and dogmatic forms of industrial and trade policies. The instrumentalities of the authoritarian state, which may have helped the Japanese, South Korean, and Taiwanese economies during an earlier phase of catch-up industrialization, is of diminishing use in maturing economies seeking to develop indigenous capacities in the area of technological innovation. Authoritarianism — which, by suppressing labor costs, may have promoted development in South Korea and Taiwan — may be a victim of its own success, in producing educated, middle-class populations demanding political economy with greater economic development.⁵³

2. Is There A Unity of the NEA Experience?

My discussion has hitherto focused on the essential unity of the East Asian developmental states.⁵⁴ Yet a closer analysis suggests the presence of striking differences among the individual variants of the developmental

Development (1992) especially chapters 3, 4, and 6; Robert Wade, *The Role of Government in Overcoming Market Failure: Taiwan, Republic of Korea and Japan*, in Helen Hughes ed., *Achieving Industrialization in East Asia* (1988) at 129-163; Albert Fishlow, *Some Reflections on Comparative Latin American Economic Performance and Policy*, in Tariq Banuri ed., *Economic Liberalization: No Panacea* (1991); Gary Gereffi, *Paths of Industrialization: An Overview*, in Gary Gereffi and Donald L. Wyman eds., *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia* (1990) at 3-31; Gary Gereffi, *Big Business and the State*, in Gary Gereffi and Donald L. Wyman eds., *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia* (1990) at 90-109; Peter Evans, *Class, State, and Dependence in East Asia: Lessons for Latin Americanists*, in Frederic Deyo ed., *The Political Economy of the New Asian Industrialism* (1987) at 203-226.

⁵¹ See WADE, *GOVERNING THE MARKET*, *supra* note 10.

⁵² See generally GORDON WHITE, *DEVELOPMENTAL STATES IN EAST ASIA* (1988); see also Johnson, *THE MITI AND JAPANESE MIRACLE*.

⁵³ See generally SAMUEL P. HUNTINGTON, *THE THIRD WAVE: DEMOCRATIZATION IN THE LATE TWENTIETH CENTURY* (1991).

⁵⁴ However, for a discussion emphasizing, at least, the path-dependent effects of a singular history, see EZRA F. VOGEL, *THE FOUR LITTLE DRAGONS: THE SPREAD OF INDUSTRIALIZATION IN EAST ASIA* (1991).

state.⁵⁵ The Japanese developmental state in the postwar period, for example, has differed from its South Korean and Taiwanese counterparts in that it has been able to coexist with democratic political institutions.⁵⁶ Important contrasts may also be identified between the South Korean and Taiwanese models.⁵⁷ Close cooperation and interaction among politicians, bureaucrats, and business elites have been the foundation stone of the developmental state.⁵⁸ Yet, compared to Japan and Korea, Taiwan has been characterized by more of a cleavage between the government and private sector.⁵⁹ Given the weak institutionalized links between government and business, industrial policy in Taiwan has been implemented through a rigorous but very different type of policy network linking the central economic bureaus with public enterprises, public banks, public research and service organizations, universities, foreign multinationals with operations in Taiwan, consulting firms, and some "special status" private manufacturing companies linked to the party, military, and economic ministries.⁶⁰ The different policy network which prevailed in Taiwan may also be explained by

⁵⁵ For a recent study on differences among East Asian countries and their experiences in Economic Development, HILTON L. ROOT, *SMALL COUNTRIES, BIG LESSONS: GOVERNANCE AND DEVELOPMENT IN EAST ASIA*, ASIAN DEVELOPMENT BANK (1995). Part of this work was presented by Hilton Root at Stanford University in 1995.

⁵⁶ See Henry Rosovsky, *Japan's Transition to Modern Economic Growth*, in HENRY ROSOVSKY ED., *INDUSTRIALIZATION IN TWO SYSTEMS: ESSAYS IN HONOR OF ALEXANDER GERSCHENKRON* (1966) at 91-139.

⁵⁷ See Alice Amsden, *Taiwan's Economic History: A Case of Etatism and a Challenge to Dependency Theory*, 5 *MODERN CHINA* 341 (July, 1979) at 341-380; see also Tun-Jen Cheng, *Political Regimes and Development Strategies: South Korea and Taiwan*, in G. GREFFI AND D. WYMAN EDS., *MANUFACTURING MIRACLES* (1990).

⁵⁸ Preconcept of the developmental state was introduced in CHALMERS JOHNSON, *MITI AND THE JAPANESE MIRACLE* (1982). In Johnson's model of the developmental state, the bureaucracy directing economic development is protected from all but the most powerful interest groups so that it can set and achieve long-range industrial policies. On the other hand, all the East Asian developmental states, according to Johnson, depend on public-private cooperation between the managers of the state and managers of private firms. This cooperation is achieved through innumerable, continuously operating forums for coordinating views and investment plans, sharing international commercial intelligence, making adjustments to conform to the business cycle or other changes in the economic environment, deciding on the new industries needed in order to maintain international competitive ability. The resulting conservative coalition between the state and big private firm provides the social foundation for industrial policy.

⁵⁹ Amsden, *Taiwan's Economic History*, *supra* note 57, at 341-380.

⁶⁰ Chalmers Johnson, *Introduction: The Taiwan Model*, in J. HSIUNG ET AL., EDS., *CONTEMPORARY REPUBLIC OF CHINA: THE TAIWAN EXPERIENCE* (1981); on these points, see also WADE, *GOVERNING THE MARKET*, *supra* note 10, at 256, 275-76.

the relative absence of a limited number of extremely large conglomerates, characteristic of Japan and South Korea.⁶¹

Also, in the context of innovation systems, South Korea and Taiwan have quite different models.⁶² Aside from their strong support of education, high levels of investment in plant and equipment, and their pressure on firms to go for exports, these two countries have different innovation systems. In one, Taiwan, government research laboratories have been an important source of industrial technology;⁶³ in the other, South Korea, they have not, at least until recently.⁶⁴ South Korea has encouraged the growth of large industrial conglomerates, and resisted foreign ownership;⁶⁵ Taiwan has not especially encouraged the growth of large firms and has admitted foreign firms selectively. But both have been successful in building innovative competitive industry based on foreign created technologies and other latecomers are trying to learn from their experience.⁶⁶

3. Is the Developmental State An Alternative Model?

A. Is the Developmental State an Explanation for Economic Development?

At present, NEA economic rise has presented the world with a model of successful capitalism different from the capitalist systems of developed countries.⁶⁷ Many analysts have tried to explain the success of NEA capitalism as the result of adherence to the conventional neoliberal prescription of minimal government intervention in the market.⁶⁸ Others

⁶¹ One example of this study see, e.g., Dwight H. Perkins, *There are at Least Three Models of East Asian Development*, 22 *WORLD DEVELOPMENT* 655 (1994).

⁶² For more information on national innovation systems see generally RICHARD R. NELSON ed., *NATIONAL INNOVATION SYSTEMS: A COMPARATIVE ANALYSIS*, (1993).

⁶³ Chi-Ming Hou and San Gee, *National Systems Supporting Technical Advance in Industry: The Case of Taiwan*, in RICHARD R. NELSON ed., *NATIONAL INNOVATION SYSTEMS: A COMPARATIVE ANALYSIS*, *supra* note 62, at 384.

⁶⁴ Linsu Kim, *National System of Industrial Innovation: Dynamics of Capability Building in Korea*, in RICHARD R. NELSON ed., *NATIONAL INNOVATION SYSTEMS: A COMPARATIVE ANALYSIS*, *supra* note 62, at 357.

⁶⁵ For the comparison of this point with the Taiwan case, see WADE, *GOVERNING THE MARKET*, *supra* note 10, at 150-52;

⁶⁶ See Richard R. Nelson, *A Retrospective*, in RICHARD R. NELSON ed., *NATIONAL INNOVATION SYSTEMS: A COMPARATIVE ANALYSIS*, *supra* note 62, at 511.

⁶⁷ See, e.g., Alice H. Amsden, *Asia's Industrial Revolution: "Late Industrialization" on the Rim*, *DISSENT* 324 (Summer 1993).

⁶⁸ Leading examples of neoclassical development theory as applied to the East Asian

have sought the explanation in "Confucian culture."⁶⁹ The most persuasive accounts, however, stress *state structure* as an important factor in NEA capitalist success.⁷⁰ The phenomenon of "Asian late and fast industrial development" should be understood as a process in which states have played a strategic role in taming domestic and international market forces and harnessing them to national ends. The market is guided by a conception of long-term national rationality of investment formulated by the government.⁷¹ It is the "synergy" between the state and the market which provides the basis for outstanding development experience.⁷²

context include BELA BALASSA, *THE NEWLY INDUSTRIALIZING COUNTRIES IN THE WORLD ECONOMY* (1981); *See also* WALTER GALENSON, ed., *FOREIGN TRADE AND INVESTMENT: DEVELOPMENT IN THE NEWLY INDUSTRIALIZING ASIAN ECONOMIES* (1985).

⁶⁹ *See, e.g.*, RONALD P. DORE, *TAKING JAPAN SERIOUSLY: A CONFUCIAN PERSPECTIVE ON LEADING ECONOMIC ISSUES*, (1987);

⁷⁰ As outstanding examples of a growing literature-which seeks to refute the neoliberal vision of East Asian growth *see* AMSDEN, *ASIA'S NEXT GIANT*, *supra* note 10; FREDERIC C. DEYO, ed., *THE POLITICAL ECONOMY OF THE NEW ASIAN INDUSTRIALISM* (1987). *See also supra* note 25.

⁷¹ Wade notes that "[m]arket supremacy interpretations of East Asian performance have occupied the mainstream of the economics profession over the 1970s and 1980s. Ranged against them, in varying degrees of opposition, are a number of other views. Some emphasize (also) external demand generated by the rhythm of Western capital accumulation linked to some other political issues. Still others emphasize particular techniques of business management. But the most popular of the unorthodoxies stresses the importance in capitalist East Asia of a certain kind of government role in the economy, which makes for a new and more effective way of putting the institutions of capitalism together." WADE, *GOVERNING THE MARKET*, *supra* note 10, at 5-6.

⁷² The recent work which concludes that East Asian economic success has little to do with government is WORLD BANK, *THE EAST ASIAN MIRACLE: ECONOMIC GROWTH AND PUBLIC POLICY*, Policy Research Report (1993). Its conclusion is that the high performing Asian economies owe much of their growth to honoring the Bank's "market-friendly approach" and "getting the basics (a twist on prices) right." The report acknowledges that "in most of the East Asian countries, in one form or another, the government intervened-systematically and through multiple channels" *Id.*, at 5. Thus, the basics cannot tell most of the story, and the effect of government intervention on the "supernumerary" growth rate cannot be determined, other developing countries are advised to forget intervention and focus on the fundamentals. However, the *East Asian Miracle Report* reflect the Bank's internal conflict. On the one hand, the *Report* widens the scope of the debate on the role of the state in economic development, a debate muffled by the neoliberal "Washington consensus." Most chapters indicate a thorough understanding on the part of Bank staffers of East Asian institutions and how deviations from the free market model induced development. On the other hand, because the *Report* cannot prove its own conclusion, it is quintessentially political and ideological. In details of critics of the *Report see* Alice H. Amsden, *Why Isn't the Whole World Experimenting with the East Asian Model to Develop?: Review of the East Asian Miracle*, 22 *WORLD DEVELOPMENT* 627 (1994); *see also* Jene Kwon, *The East Asia Challenge to Neoclassical Orthodoxy*, 22 *WORLD DEVELOPMENT* 635 (1994).

Economic development, defined in terms of growth, productivity, and competitiveness, constitutes the foremost and single-minded priority of state action. Conflict of goals is avoided by the absence of any commitment to equality and social welfare. The market is guided with instruments formulated by a small-scale, elite economic bureaucracy, recruited from the best managerial talent available in the system. Within the bureaucracy, a pilot agency plays a key role in policy formulation and implementation. Close institutionalized links are established between elite bureaucracy and private business for consultation and cooperation. The organizational and institutional links between the bureaucratic elites and major private sector firms are crucial in generating a consensus on goals, as well as in exchanging information, both of which constitute essential components of the process of policy formulation and implementation.

B. Is the Characteristic of NEA State Based on Institutional Arrangements?

The character of the capitalist NEA authoritarian developmental state is based on the institutional arrangements.⁷³ These arrangements are characterized as following: the top priority of state action, consistently maintained, is economic development, defined for policy purposes in terms of growth, productivity, and competitiveness rather than in terms of welfare. The substance of growth, competitiveness goals is derived from comparisons with external reference economies which provide the state managers with models for emulation. The state guides the market with instruments formulated by an elite economic bureaucracy. The state is engaged in numerous institutions for consultations and coordination with private sector, and these consultations are an essential part of the process of policy formulation and implementation.⁷⁴

4. Institutions of Government-Firms Partnership

A. The Capacity of NEA States

The formulation and implementation of strategic industrial policy have been facilitated by specific political and institutional arrangements. A key distinction is introduced between the political basis for strong, autonomous developmentalist states and the institutional basis for state intervention and

⁷³ For the notion of developmental state, see *supra* note 58.

⁷⁴ See, generally, DEVELOPMENTAL STATES IN EAST ASIA (Gordon White ed., 1988); see also Charles Johnson, *East Asia, in POWER, PURPOSE, AND COLLECTIVE ACTION: ECONOMIC STRATEGIES IN SOCIALIST STATES* (Ellen Comisso and Laura Tyson eds., 1986).

effective policy implementation.⁷⁵ The former aspect draws attention to the broader sociopolitical context which facilitated strategy formulation. The strategic power of the NEA authoritarian developmental state has depended on the formation of political coalitions with domestic industry and on the curtailment of the popular groups. State intervention, in turn, has relied on organizational and institutional links between politically insulated state agencies and major private sector firms. The effectiveness of state intervention has been amplified through the fostering of state-linked private sector conglomerates, banks, and general trading companies that dominate strategic sectors of the economy. The distinction between the coalition basis of strategy choice and the institutions and structures through which policies are implemented refers to the two separate, yet fundamental, aspect of development capacity.

B. The Egalitarian Base

The major NEA economies under consideration all experienced a major redistribution of income and wealth from the outset, with the corollary that the industrialization drive in postwar period has been initiated from a relatively egalitarian base. In the Japanese case, the devastating impact of the war was such that all Japanese were made equally poor. In the cases of Korea and Taiwan, extensive land reforms was such that, not only was the distributional profile equalized, but also competition from potentially troublesome some social groups such as large landlords was eliminated. Precisely in this respect it can be observed a strong contrast with the Latin American experience. Another striking contrast which explains why the East Asian states did not experience the legitimation problems confronted by the bureaucratic-authoritarian states in Latin America, Newly Industrializing Countries incorporated labor into a populist coalition and emphasized increased wages and public services in the early stages of industrialization. The subsequent bureaucratic-authoritarian regimes in Argentina, Brazil, Chile, and Uruguay aimed to promote industrialization by excluding from power the previously mobilized economic groups and by

⁷⁵ Strong state is based on autonomy and capacity. State autonomy refers to the relative autonomy of state officials from dominant economic classes and social groups, which allows for effective implementation of policies. See THEDA SKOCPOL, *Bringing the State Back in: Strategies of Analysis in Current Research*, pp. 9-11; DIETRICH RUESCHEMEYER AND PETER B. EVANS, *the State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention*, pp. 46-50, in *BRINGING THE STATE BACK IN*, (Peter B. Evans et al. eds., 1985). East Asian states are strong because they are autonomous from classes and groups, and relatively sophisticated government bureaucracies were in place when industrialization began.

developing collaborative relationships with the multinational corporations. The fact that such regimes have been built on the exclusion of previously mobilized groups has generated severe legitimation problems for them.⁷⁶

C. Bureaucratic Autonomy

Underlying these political and institutional requirements for effective state intervention in the form of strategic industrial policy are the two central features associated with the developmental state, namely, the unusual degrees of bureaucratic autonomy and government-private producer cooperation. The coexistence of these two conditions is critical. The coexistence of these two conditions allows the state and the bureaucratic elites to develop independent national goals and, in the subsequent state, to translate these broad national goals into effective policy action. In fact, in the absence of bureaucratic autonomy government-private producer cooperation easily degenerates into situations in which state goals are directly reducible to private interests. Latin American countries are striking examples of such political economies, in which close government-private firms cooperation has materialized in the context of "weak states" which lack autonomy from powerful groups in society.⁷⁷ In Latin America, the state has been characterized as relatively weak, with development obstructed and distorted by large landholders and multinational corporations.⁷⁸

⁷⁶ For a comparative analysis underlining the relation between economic strategies and political capabilities, see David Felix, *Import Substitution and Late Industrialization: Latin America and Asia Compared*, 17 *WORLD DEV.* 1455 (1989); see also Bruce Cummings, *The Abortive Apertura: South Korea in the Light of Latin American Experience*, 173 *NEW LEFT REVIEW* (February 1989).

⁷⁷ In this regard, some recent studies of comparative economic performance in East Asia and Latin America present very interesting observations pertaining to inter country differences in the societal framework of business activity. In particular see, R. Jenkins, *The Political Economy of Industrialization: A Comparison of Latin American and East Asian Newly Industrializing Countries*, 22 *DEVELOPMENT AND CHANGE* (1991); G. GEREFFI, *Big Business and the State*, in *Manufacturing Miracles: Paths of Industrialization*, in *LATIN AMERICA AND EAST ASIA* (G. Gereffi and D. L. Wyman, eds., 1990); see also G. RANIS AND J. C. H. FEI, *Development Economics: What Next?*, in *THE STATE OF DEVELOPMENT ECONOMICS: PROGRESS AND PERSPECTIVES*, (Gustav Ranis and T. P. Schultz eds., 1990).

⁷⁸ See FERNANDO H. CARDOSO AND ENZO FALETTO, *DEPENDENCY AND DEVELOPMENT IN LATIN AMERICA*, (Marjory M. Urquidi, trans., 1978); see also Peter B. Evans, *Class, State, and Dependence in East Asia: Lessons for Latin Americanist*, in *THE POLITICAL ECONOMY OF THE NEW ASIAN INDUSTRIALISM*, (Frederic C. Deyo, ed., 1987).

D. State Elites

Government-private firms cooperation has been directly and deliberately engineered by the state elites. In both Japan and the other NEA states which have evolved along the lines of the Japanese model, the state elites have consciously sought to create cooperative relationships with private producer via the creation of a series of unusual institutions. For instance, the state has played a leading role in nurturing the peak organizations of private producer. The huge business conglomerates, the Keiretsu of postwar Japan and the Chaebols in Korea, owed their phenomenal growth to the special incentives provided by the state. Hence the extremely tight policy networks which characterize East Asia have been largely engineered by the state elites. The significant element of compulsion exercised by the bureaucrats in securing government-private firms cooperation constitutes a central characteristic of the developmental state. However, the degree of government-private firms cooperation and consensus on national goals, unique to the developmental state, is not purely the product of a given cultural environment but has been largely engineered by the state elites themselves through the creation of a special set of institutions relying on a significant element of compulsion.

E. Strategic Industrial Policy

Strategic industrial policy forms a central competent of the developmental state model. A governed market theory of NEA industrialization by Wade is a contemporary alternative to the neoliberal "free market" explanations.⁷⁹ The essence of the governed market theory may be captured by the following set of proposition. "The superior economic performance of East Asian economies is to a large extent the consequence of very high levels of investment, more investment in certain key industries than would have occurred in the absence of government intervention, and exposure of many industries to international competition in foreign markets, though not in domestic markets."⁸⁰ At a more fundamental level, these outcomes themselves are the causes of a specific set of policies which enable the government to guide or govern the process of resource allocation so as to produce a different production and investment profile than would result under a free market system. The set of incentives, controls, and mechanisms to spread risk, which may all be gathered under the banner of strategic industrial policy, are in turn supported by specific political, institutional, and organizational arrangements pertaining to both the state apparatus and private business as well as their mutual interaction.

⁷⁹ See WADE, *GOVERNING THE MARKET*, *supra* note 10, at 24-9.

⁸⁰ WADE, *GOVERNING THE MARKET*, *supra* note 10, at 26.

South Korea may be characterized as a prototype case of a guided market economy in which market rationality has been constrained by the priorities of industrialization.⁸¹ The government has performed a strategic role in taming domestic and international forces and harnessing them to national economic interests. Rapid industrialization per se has been the overriding consideration, as opposed to maximizing profitability on the basis of current comparative advantage. The state has heavily subsidized and directed a selected group of industries and subsequently exposed them to international competition. The industries apart from the priority sectors experienced policy intervention only intermittently, while the remaining industries have been exposed unaided to the rigors of market competition. Hence a high degree of selectivity has been the centerpiece of industrial policy. The state has a high degree of selectivity has been the centerpiece of industrial policy.⁸² The state has retained sufficient instruments of control so that, whatever happened in the rest of the economy, sufficient investment would be forthcoming in the strategic sectors. Thus, the market was guided by a conception of the longer-term rationality of investment formulated by the state elites. Furthermore, the state has provided a stable and predictable environment within which the firms could undertake long-term risks.⁸³

State intervention involved the creation of price distortions so that economic activity was directed towards greater investment. Hence, in striking contrast to the logic of neoliberal development theory, a high degree of government intervention has occurred to distort relative prices so that the desired levels of investment could materialize in the strategic sectors.⁸⁴ Yet the discipline imposed by the government on business behavior constituted a crucial component of the industrial strategy.⁸⁵ The government has specified stringent performance requirements in return for the subsidies it has provided.⁸⁶ As a result of the discipline exercised over the performance

⁸¹ Concerning the restructuring of industry in Korea in the 1980s, see D.M. Leipsiger, *Industrial Restructuring in Korea*, World Development (1986); Sang Woo Num, *Industrial Promotion, Restructuring and the Financial Sector in Korea*, EDI Working Paper: 310/61, The World Bank (1992).

⁸² R. W. Shin, *The Role of Industrial Policy Agents: A Study of Korean Intermediate Organizations as a Policy Network*, 6 PACIFIC FOCUS (Fall 1991) at 55.

⁸³ See W. Zeil, *Industrial Policy and Organizational Efficiency: The Korean Chaebol Examined*, Paper (1989) (on file with author).

⁸⁴ Chung H. Lee, *The Government and Financial System in the Economic Development of Korea*, paper (1990) (on file with the author) at 6.

⁸⁵ See LEROY JONES AND IL SAKONG, *GOVERNMENT, BUSINESS, AND ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT: THE KOREAN CASE* (1980).

⁸⁶ See JUHN-EN WOO, *RACE TO THE SWIFT: STATE AND FINANCE IN KOREAN INDUSTRIALIZATION* (1990).

of firms located in strategic sectors, price distortions such as heavily subsidized rates of interest on long-term credits did not lead to a waste of resources as in the case of many other middle income economies.⁸⁷ The discipline exercised over private firms involved both rewarding good ones as well as penalizing poor performers.⁸⁸ The government has deliberately refrained from bailing out firms which were badly managed in otherwise profitable industries. Hence the way in which industrial policy has been implemented differed decisively from the negative forms of industrial policy that are characteristic of a number of developing countries, which have involved subsidization of declining firms or industries experiencing financial difficulties.

F. The Government Disciplines on Firms

The discipline exercised over private firm has assumed a multitude of forms.⁸⁹ Through its industrial licensing policies the state has managed to limit the number of firms allowed to enter the industry. The policy has facilitated the realization of economies of scale but at the same time encouraged intense competition for market shares among the existing firms in the industry.⁹⁰ Hence the mixture of competition and cooperation was central to the success of industrial policy. The state has deliberately accelerated the process of industrial concentration as a basis for successful competition in international markets.

The government not only subsidized industries to stimulate growth, but also set stringent performance criteria in exchange for these subsidies. Hence government discipline over business was crucial, and this dual policy of support and discipline constitutes the core component of a Japanese or East Asian style industrial policy. Here there is a strong contrast between East Asia and many middle income economies which have made extensive use of subsidies to industry.⁹¹ Precisely because of the latter's failure to integrate

⁸⁷ Eun Mee Kim, *The Industrial Organization and Growth of the Korean Chaebol: Integrating Development and Organizational Theories*, in G. HAMILTON ED., *BUSINESS NETWORKS AND ECONOMIC DEVELOPMENT IN EAST AND SOUTHEAST ASIA* (1991).

⁸⁸ K. Kihwan and D.M. Leipziger, *Korea: The Case of Effective Government-Led Development*, paper prepared for the World Bank Workshop on the Role of Government and East Asian Success (1992) (on file with author) at 10.

⁸⁹ YUNG WHEE RHEE ET AL., *KOREA'S COMPETITIVE EDGE: MANAGING THE ENTRY INTO WORLD MARKETS* (1984) at 92.

⁹⁰ Chalmers Johnson, *Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan*, in F. DEYO ED., *THE POLITICAL ECONOMY OF THE NEW ASIAN INDUSTRIALISM* (1987) at 159.

⁹¹ Gary Gereffi, *Big Business and the State*, in GARY GEREFFI AND DONALD L. WYMAN EDS.,

subsidization with discipline over business performance, these subsidies have proved to be counterproductive and emerged as a major avenue for "rent seeking".⁹²

Conclusion

There has been the big push in the form of the central and collective bureaucratic interventionism by the authoritarian developmental state, as in the NEA tigers. Indeed, all of these distinguishing characteristics of NEA successful economic performance took place on the basis of authoritarian developmental state. Political authoritarian offers a shortcut to the hardness of the state. However, the instrumentalities of the "hard developmental state," which may have helped the Japanese, South Korean, and Taiwanese economies during an earlier phase of catch-up industrialization, is of diminishing use in maturing economies seeking to develop indigenous capacities in the area of technological innovation. Authoritarianism – which, by suppressing civil society, may have promoted development in NICs of NEA – may be a victim of its own success, in producing educated, middle-class populations demanding political rights along with distortion the range of economic and democratic experimentalism. For these reasons, in both the analysis and promotion of development, it is time to bring state back in.

A national development strategy capable of working out the partnership between business and government requires a strong state⁹³ – a state able to formulate and to implement policy with a substantial measure of

MANUFACTURING MIRACLES: PATHS TO INDUSTRIALIZATION IN LATIN AMERICA AND EAST ASIA (1990); see also Peter Evans, *Class, State and Dependence in East Asia: Lessons for Latin Americanists*, in FREDERIC C. DEYO ED., *THE POLITICAL ECONOMY OF THE NEW ASIAN INDUSTRIALISM* (1987) at 203-226.

⁹² There is an established literature on rent-seeking. See, e.g., Anne Kruguer, *The Political Economy of the Rent-Seeking Society*, 64 *AMERICAN ECONOMIC REVIEW* 291 (June 1974); Jagdish Bhagwati, *Directly Unproductive, Profit-Seeking (DUP) Activities*, *JOURNAL OF POLITICAL ECONOMY* 90 (1982). For various perspectives on rent-seeking and associated "new neoclassical political economy" see also JAMES BUCHANAN ET AL EDs., *TOWARD A THEORY OF THE RENT-SEEKING SOCIETY* (1980); and DAVID COLANDER, ED., *NEOCLASSICAL POLITICAL ECONOMY: THE ANALYSIS OF RENT-SEEKING AND DUP ACTIVITIES* (1984).

⁹³ WADE, *GOVERNING THE MARKET*, *supra* note 10, at 337, 338-39. Also Joel Migdal offers conditions and factors for "developmental" states. See JOEL MIGDAL, *STRONG SOCIETIES AND WEAK STATES: STATE-SOCIETY RELATIONS AND STATE CAPABILITIES IN THE THIRD WORLD* (1986). On the notion of "democratizing developmental" states, see also Lothian, *The Democratized Market Economy*, *supra* note 3, at 186-87, 188-192.

independence from interests of entrepreneurial and bureaucratic elites.⁹⁴ The example of NEA model has been presented as a way to reach “developmental” of the state. As Lothian points out though “[t]here is no necessary relation between developmental and authoritarianism.”⁹⁵ In order to disassociate developmental and authoritarianism, the experience of NEA states has to undergo several revisions. This experience can offer an alternative. Decentralizing the partnership between firms and governments is a necessary condition to make the example of the NEA economic success usable for the developing countries of the contemporary world.⁹⁶ The institutional form and the economic content of the partnership must be made more decentralized and experimentalist; less vulnerable to its characteristic defects of rent-seeking, dogmatism, and subordination of growth to stability.

We must find alternatives for a new role of the state in economics through intermediate institutions. We can suggest that such an alternative requires a political initiative innovation in the form of the market economy and government.

The thesis that what developing and less developed countries would mainly have to do in order to escape this fate of low wage production and resource extraction, is a combination of two things: one at the macro level and the other at the micro level. At the macro level the country has to create a state that is capable of earning and maintaining the confidence of a society, a civil society, with a fiscal apparatus that can create the revenues for investment in people. At the micro level, it has to create a practice of business, or network of firms, that are capable of expanding the frontier of learning and production. Flexible firms, capable of learning, are firms engaged in a more fluid interplay between conception and execution, and a more continuous mixture of cooperation and competition. In the satisfaction of this requirement, regional economies characterized by cooperative competition have been particularly successful. This starting point for an alternative development strategy may require the establishment of intermediate organizations between firms and the government. The intermediate agencies – such as social and capital funds – can and should be accountable to the firms and communities with which they deal as well as to the

⁹⁴ Lothian, *The Democratized Market Economy*, *supra* note 3, at 186.

⁹⁵ Lothian, *The Democratized Market Economy*, *supra* note 3, at 187.

⁹⁶ Once again the breakdown of authoritarian regimes and ensuing democratic consolidation is an important one among social scientists. For such examples see *DEMOCRACY IN DEVELOPING COUNTRIES: ASIA*, (Larry Diamond et al. eds., 1989); *TRANSITIONS FROM AUTHORITARIAN RULE*, (Guillermo O'Donnell et al. eds., 1986); See also DIETRICH RUESCHEMEYER, EVELYNE H. STEPHENS, AND JOHN D. STEPHENS, *CAPITALIST DEVELOPMENT AND DEMOCRACY* (1992).

governments under which they operate. They should nevertheless enjoy considerable independence in decisionmaking. They should remain subject to competition among themselves as well as to the discipline of bankruptcy.

A market economy depends upon long term relationships and upon trust and therefore, also upon a dense associational network in civil society. A fundamental objection to the forms of economic orthodoxy, and to their complacency in the destruction of the industrial apparatus, is that they help accelerate the tearing up of this associational network of society without putting anything in its place. In such a place there cannot be a real market economy. A real market economy will not be produced by the mere clarification of traditional property rights, enabling people to engage in one-shot transactions. Therefore any market economy, even if one wants to have the conventional form, would require a political economy capable of nurturing or re-shaping this universe of associations in which trust can flourish and long term relationships can exist.