Towards a Developmental State
Implications for local government globally

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ABSTRACT

Local government is one critical component of governments globally, charged with the responsibility of discharging services to the citizens. The significance of local government lies in power concentration within a state. The article will focus on the assessment of the local government level/tiers/spheres towards the achievement of a developmental state, in various countries. The article highlights a discourse on the centralisation and decentralisation in developmental states. Thus, the debate focuses on the importance of using local government as the immediate agents for achieving a developmental state.

INTRODUCTION

Developmental states arise at particular conjunctures in the history of a nation, they vary considerably, but in all cases they are market based capitalist states. What distinguishes developmental states from liberal and neo-liberal states is the degree to which they concentrate power in a bureaucracy, intervene in the market, seek to regulate/guide the market and the active support they provide to economic elite as the state pursues its economic growth and development objectives almost to the exclusion of other objectives. The implications of the centralisation tendency for local government will be explored in this article. Accordingly this article is divided into two parts. The first part will explore the characteristics of the developmental state (its evolution and development) and the second part will explore the implications of the developmental state for local government.

DEVELOPMENTAL STATE

There are many different states that claim to be developmental and though they share characteristics in common, no two are the same. Developmental states are strong
centralising states characterised by a very high degree of *embedded bureaucratic autonomy* and insularity, a capable small bureaucratic elite in a pilot Ministry given the political space to set national development objectives, public-private co-operation and the ability to secure compliance (at least initially) of all fractions of the economic elite with the national development objectives that advantage only some of those fractions of the economic elite. Given this degree of centralisation it is not at all clear if there is a substantial role for local government to play in the establishment of the national development agenda.

Chalmers Johnson in his work on Japan first used the term the *capitalist developmental state* (Johnson 1982). Since Johnson pioneered the concept, analysts have posited a number of variants of the developmental state, including the bureaucratic developmental state, the flexible developmental state, the *hard* authoritarian developmental state, the *soft* authoritarian developmental state, strong developmental states and the democratic developmental state. In addition, particularly in the aftermath of the 1997 economic crisis, and the 2007-10 global fiscal crises, analysts have been questioning the continued viability of the developmental state. The viability and stability of the developmental state, its portability, its compatibility with democracy, whether it requires a particular political regime within which it can thrive and whether it needs particular socio-political conditions in which to emerge, are all intriguing questions for ongoing research.

Johnson used the term *developmental state* to characterise the role the state played in the post war phenomenal growth and development of Japan,

> [A] state’s first priority will define its essence … for more than 50 years the Japanese state has given its priority to economic development … A state attempting to match the economic achievements of Japan must adopt the same priorities as Japan. It must first of all be a developmental state – only then a regulatory state, a welfare state, an equality state, or whatever kind of functional state a society may wish to adopt. (Johnson 1981).

For Johnson, this high growth state driven agenda poses a challenge for the relationship between the state bureaucracy and privately owned businesses, which benefit or lose from those policy directions.

Johnson identifies four essential features of the Japanese developmental state. The first element is a small, inexpensive elite state bureaucracy “staffed by the best managerial talent available in the system”. They choose the industries to develop, identify the appropriate policy instruments to develop the industries, and structure competition in the selected sector(s) so as to maximise effectiveness. The state consciously chooses to cartelise or compartmentalise each industry and acts as a gate keeper barring new entrants into the priority sector. In affording certain sectors of industry protection the state effectively used its power to shield those sectors from both internal domestic and external global competition.

The second element is the existence of a political system in which the bureaucracy is given sufficient scope to take the initiative and operate effectively. In this political system bureaucrats *rule* and politicians *reign*. Central control in the executive opens space for expanded bureaucratic rule in key sectors of the economy. The third element is related to the “perfection of market-conforming methods of state intervention in the economy” (time bound tax incentives, indicative plans that set goals and targets for the entire economy, feedback
loops to deal with challenges that are identified, extensive use of public corporations, mediating the public-private interface) (Johnson 1892:317-19).

The fourth element is the role of a pilot organisation like the Japanese MITI – the Ministry of International Trade and Industry. A planning agency like MITI has to be small and has to control industrial development and has to have the capacity to

... combine at least planning, energy, domestic production, international trade, and a share of finance, (particularly capital supply and tax policy) ... the key characteristics of MITI are its small size ... indirect control of government funds, (thereby freeing it of subservience to the Finance Ministry’s Bureau of the Budget), its think tank functions, its vertical bureaus for the implementation of industrial policy at the micro level, and its internal democracy. It has no precise equivalent in any other advanced industrial democracy (Johnson 1982).

Developmental states create country specific institutional structures, articulate political purposes and harness nationalism and a sense of national cohesion towards economic growth and development and towards overcoming late and uneven development. They are characterised by regular interactions between state structures (particularly the pilot Ministry) and the targeted sectors of industry (Johnson 1999, Leftwich 1995, Seán Ó Riain 2000; Woolrock 1998; Huff 1995). The state concentrates power and autonomy in the pilot Ministry in order that the explicit developmental objectives can be pursued in an enabling environment free from threat and competition. This results in a structured intimate relationship between the state and the private sector where the state plays a significant interventionist role in the market.

After surveying the literature and studying a number of different developmental states, Saloojee and Pahad identify the major components of the developmental state as including:

- a small, coherent, capable highly trained bureaucratic elite located in a pilot Ministry that is insulated from outside pressure;
- movement, and circulation between the political, bureaucratic and economic elites;
- weak civil society;
- an ideological impetus to overcome late and uneven development;
- clear articulation of economic objectives;
- political structures that enable the insulated bureaucrats to pursue clearly articulated national development objectives;
- political mobilisation of nationalism towards realising the objectives (the use of repression if necessary);
- intervention in the market, but not controlling it and using it to promote economic transformation; and
- the use of state resources to build up the economic infrastructure of society, and raise the levels of education and training so as to provide the country with a significant competitive advantage; promote social cohesion (and if necessary as in the case of Korea, use repression to deal with labour and other forms of unrest); promote macro-economic stability as a precondition for growth; and use state resources to create competitive advantages for certain target certain industries. This close relationship between state/bureaucratic elites and fractions of capital is initially a source of
strength of the developmental state but eventually becomes a source of contradiction in the social formation; and

• its ability to coexist with a variety of political forms of governance – from authoritarian to democratic (Saloojee & Pahad 2011).

One of the most significant characteristics of the developmental state identified above is the taken for granted close links between the bureaucracy and big business, which often results in movement, and circulation among political and bureaucratic elites and economic elites (see Leftwich 1995:405). For Beeson (2003) “Not only were contacts between ‘the state’ and big business in Japan regular and institutionalised in corporatist-style arrangements that allowed precisely the sort of interaction, monitoring and feedback … crucial for effective development, but such relationships were further cemented when former public servants joined private sector companies upon retirement”.

Movement and circulation notwithstanding, the bureaucracy is not homogenous or free from internal tensions. The relationship between key bureaucratic actors and private capital is central but also not always free of tensions. Bureaucrats in developmental states interact with other social actors in society – to the extent they formulate policies designed to advance certain development goals. They act in the interests they have identified as important and critical.

The priority setting agenda of the state enhances both the interpenetration of elites and the potential for corruption of public officials. One of the contradictions of the developmental states is that the very strength it exhibits (an efficient, goal oriented bureaucracy interacting with the economic elite to advance a developmental agenda) is also one of its most critical weaknesses.

The 1997 East Asian financial crisis called into question the ability of the developmental state to deal with a global crisis and its aftermath, with the imposition of structural adjustment policies (for example on South Korea), and with the calls for reform in the face of pressures resulting from rampant globalisation. The internal focus of developmental states, coupled with the insularity they afforded sections of capital meant that the state was vulnerable to these forces of globalisation and to the imposition of the Washington Consensus. According to Beeson (2003) the financial crisis called into question one of the defining characteristics of the developmental state – the state-private capital relationship:

Not only were such relationships routinely disparaged as forms of ‘crony capitalism’ and synonymous with corruption and inefficiency, but they were seen as incompatible with the sort of dynamic competitive pressures associated with ‘globalisation’. In short, the sort of business structures, political practices and social relations that had formerly been seen a source of competitive advantage in countries like Japan were now seen as self serving obstacles to necessary change (Beeson 2003).

Woo-Cumings (1999) goes further arguing that Southeast Asian (aspiring) developmental states were protection rings which propped up particularistic economic and political elites and their interests.

By the 1990s the contradictions of Asian developmental states were laid bare (Beeson (2003); Evans (1989, 1992 & 1995); Kim (1993); Leftwich (1995), Moon and Prasad (1994),
Weiss (1998 & 2000); Woo-Cumings (1999)). Saloojee and Pahad summarise these contradictions as including:

- corruption and collusion;
- arbitrary actions by powerful state managers;
- the lack of transparency in the relationship between the bureaucratic elites and the economic elite;
- the imposition of structural adjustment policies;
- reform of global trade rules and regulations;
- international regulatory standards;
- internal changes in the composition of bureaucratic elites (the change to US trained bureaucrats in South Korea for example);
- an inability or unwillingness to release control of some of the policy tools that served them well in the early phases of catch up development; and
- domestic capital wanting emerge from beneath state control and enter the wider arena of global competition (Saloojee & Pahad 2011).

According to Beeson (2003), the shortcomings of the bureaucratic elites were becoming evident - they were “... simply incapable of guiding the development process beyond a certain critical point”. For Weiss, South Korea’s move to dismantle the developmental state and move along a neo-liberal path was more a function of domestic political and economic pressures than it was of the forces of globalisation. The “newly empowered US trained neo-liberal bureaucrats spearheaded a battle to dismantle the Korean model that became conjoined with the aims of financial liberalisation” (Weiss 2000).

The developmental state was weakened from within and the weight of internal contradictions was only added to by the 1997-98 financial crises and not the other way around. According to Seán Ó Riain, these “bureaucratic developmental states were initially seen as major alternatives to western neo-liberalism and as possible vehicles for development for countries on the periphery of the world capitalist system. However, by the 1990s they were seen as too inflexible “ ... to cope with the changing informational industries and decentralized ‘post-Fordist’ industrial structures ... The developmental states also appeared too weak to manage the increasingly internationalised economies over which they presided, as evidenced in the financial crisis of 1997 and 1998” (Seán Ó Riain 2000).

The post 1990s crises forced many developmental states to change and the most successful ones were those that transformed from being a bureaucratic to a *flexible developmental state*. The latter says Ó Riain is defined by “ ... its ability to nurture post-Fordist networks of production and innovation, to attract international investment, and to link these local and global technology and business networks together in ways to promote development” (Seán Ó Riain 2000). Ó Riain points to Ireland as the success story where local capital was encouraged by the state to compete globally and global corporations were able to establish a strong presence in Ireland and to use the country as an entry point to the United Kingdom and the European markets. Both were made possible because of the state’s willingness to invest heavily in education, training and development. The Irish state was successful in attracting foreign capital and embedding it in the local economy. Simultaneously the state promoted the “growth of indigenous Irish-owned firms that compete internationally and are increasingly closely integrated into international technology and business networks” (Seán Ó Riain 2000).
The flexible Irish developmental state was (at least until the 2008 global financial crises) able to successfully mediate these local and global fractions of capital in largely the same sector of the economy and in the process restructure that relationship. The Irish, Industrial Development Agency (IDA) is the state agency with the closest ties to foreign capital and the one that targeted computer hardware companies to locate in Ireland. Through the IDA the state implemented an important component of its industrial development strategy that resulted in massive foreign investments by Microsoft, Lotus, Novell and Corel.

The flexible developmental state, in an era of globalisation was initially able to “… connect networked and fragmented labour to networks of international capital” (Seán Ó Riain 2000). It sought to attract foreign capital in the computer sector into Ireland and to simultaneously promote the competitiveness of Irish software and hardware firms abroad:

These globalisations have occurred within the context of a macroeconomic stabilization secured since 1987 by a national neo-corporatist social partnership compromise. Rising inequality has created significant tensions between the institutionalized globalization of software (and similar industries) and the institutions of neocorporatism (Seán Ó Riain 2000).

The Irish success story came to a grinding halt in 2008 with the global financial crises gripping Ireland and the banking sector. At the beginning of October 2010, the government of Ireland admitted that the financial crisis was not over and that the cost of bailing out its stricken banks could be as high as €50 billion (£43 billion). Finance minister Brian Lenihan said the final bill for supporting one bank, the already-nationalised Anglo Irish Bank, would equal the country’s annual tax income of €34 billion under a worst-case scenario. Even under a best-case scenario, the total bailout would reach €45 billion, with Anglo needing €29,3 billion. The cost of the bailout has increased the Irish national debt to nearly 100 per cent of annual economic output (The Express.co.UK, 4/10/2010).

Though the Asian Tiger economies were severely impacted by the 1997–8 crisis they were relatively less affected by the global financial collapse of 2008. In part this is attributable to the lesson they learnt a decade before. The more flexible Irish developmental state was severely affected by the 2008 crises as it was global in scope and it affected financial capital including Irish Banks. In all cases, whether global led or local led, the capacity of the developmental state (in its bureaucratic or flexible form) to mediate the foreign-local integration into the global economy is very important.

DEVELOPMENTAL STATE AND THE CENTRALISATION–DECENTRALISATION DISCOURSE

Much has been written recently about the developmental state and its universality/particularity and its evolutions since the 1950s from the bureaucratic to the flexible and now the democratic developmental state. Much has also been written about local government and decentralisation suggesting the state has to shed its layers and services need to be devolved to the local level where local government has a bigger role to play in service delivery. Generally, central governments are viewed as very powerful by the citizenry, but it is local governments that are the crucial day to day service delivery agents and hence are
closest to understanding and meeting the needs of the citizenry. Both these debates about the developmental state and decentralisation are occurring in the context of globalisation, particularly in the post 2008 crisis where there is a renewed interest in the importance of *inter alia* state regulation of banking; the environment; protectionism; national resources; foreign ownership.

The tensions inherent in the centralising tendency of the developmental state result in local government often arguing for more power and resource decentralisation. This can prove to be challenging for both levels/tiers/spheres of government. In federal systems where power is shared among different spheres of government, the local one is the immediate and pressing face of government – especially as it applies to service delivery (e.g. crime prevention, refuse collection, sanitation, provision of affordable housing). At another level there is the perception of the importance of national government - and all this in the context of globalisation. Herein lies one of the most intriguing tensions for the developmental state in the contemporary era – the developmental state needs the local level of government to implement the priorities set by the bureaucracy, but the local level has had no say in the development of the priorities.

Decentralisation, downsizing, and delayering have a huge impact on local government and these are exacerbated by global crises (1997, 2001, 2008). In a developmental state, a small tightly knit bureaucracy sets national priorities that impact local communities. The developmental state needs the local level of government for service delivery, but provides no space for local government to inform national priorities. So how likely will local governments be able to carry out priorities they have no say in developing? How likely are they to do it in the context of a crisis where resources are scarce? Interestingly in course of the 2008 crises as governments around the world provided significant “stimulus money” it is the local that has to implement the stimulus initiates that are essential to mitigating the impact of the crisis.

The priorities of the developmental state will not succeed unless authorities at local levels have a say in and knowledge of national development objectives and have both the financial resources as well as the administrative resources to implement development projects which further national development objectives.

A government committed to a strong developmental state while at the same time recognising that the coal face of service delivery is local government, faces the classic challenge: a central bureaucracy sets national priorities but there is a need for strong local governments which engage citizens in meaningful ways.

However in many countries there is substantial evidence of service delivery, capacity and fiscal challenges faced by local government. Thus the obvious question – to what extent would a developmental state undertake to strengthen the capacity of local government?

Here is precisely where the discourse on the developmental state intersects with the centralisation-decentralisation discourse. There is no doubt that the centralisation-decentralisation debate has deep implications and serious policy concerns with respect to sustainable growth, macroeconomic stability, social cohesion, service delivery, and most important, poverty reduction. Does a strong developmental state hold greater promise to achieve results in the fight against poverty and underdevelopment than does administrative and fiscal decentralisation? In the case of South Africa for example, the first democratically elected government committed itself to a strong developmental state while at the same time
recognising that the coal face of service delivery was local government and therefore there is a need for strong local governments which engage citizens in meaningful ways. At the same time there is substantial evidence of service delivery, capacity and fiscal challenges faced by local government (thus the need to strengthen them).

Decentralisation, as the World Bank and academics have pointed out, refers to “the transfer of political, fiscal and administrative powers to sub-national governments” or “the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organisations and/or the private sector” (Litvack and Seddon n/d 2). Undoubtedly, decentralisation has both a global and a regional reach and many developed and developing countries have and continue to experiment with it to varying degrees (Manor 1997; World Bank 1998; Cooke and Sverrison 2001).

The argument that the central government is increasingly becoming irrelevant in the face of competing pressures of decentralisation and globalisation is premised on the former version of the centralisation-decentralisation discourse. The nation state is not going to wither away and national governments are not going to be displaced by decentralised sub-national entities. Instead of putting up false dichotomies it might be more instructive to determine how centralisation and decentralisation combine in specific circumstances and how they get played out in:

- the politics-administration interface;
- the citizen-politician interface;
- the citizen-public servant interface; and
- service delivery.

Aside from the political, the forms decentralisation can take are many including decentralisation of public administration and of the market – deconcentration, devolution, deregulation privatisation and all in the context of the post 1980s minimalist state with its preoccupation with organisational anorexia and the singular obsession with private appropriation of publicly delivered services in the name of greater efficiency and effectiveness. But the central issue in this move along the decentralisation continuum is accountability. As services are deregulated and even privatised can the profit motive be easily reconciled with the public interest? Put another way when services are deregulated, outsourced and or privatised does the desire to make profit seriously compromise and outweigh other important considerations for example public safety or equity? And for countries of the South an added dimension missing from the decentralisation thesis relates to what discernable impact it can have on poverty reduction.

Cook and Surla Sverrison assessing what they call the “predictable and general link between decentralisation of government and the development of ‘pro-poor’ policies or poverty alleviating outcomes …” found that responsiveness to the poor was “… quite a rare outcome determined by politics of local-central relations”. Instead pro-poor policies and outcomes were “… mainly associated with strong commitments by a national government or party to promoting the interests of the poor at the local level …” (Cook and Sverrison, 2001).

In the twin fight against the effects of poverty and underdevelopment the role of the developmental state is pivotal. However, it is clear that failure to substantially engage local government with the national priority setting agenda could result in a huge setback for
the objectives of the developmental state. The developmental state does not take on the
tasks of development, rather it articulates a set of clear achievable national development
objectives and then implements policies to secure the desired outcomes. In the process
the state intervenes in the market and restructures state society relations. The success
of the developmental state is augmented by its embedded autonomy and its insularity
from competing social forces in society. Thus a developmental state with a complement
of highly capable bureaucrats in a pilot Ministry (MITI in Japan, IDA in Ireland) can have
a huge measure of success with a country in the periphery of the neo-liberal global
economy and having it play catch up as a late developer. A developmental state with its
centralising tendencies therefore need not spell the end of local government. Quite the
contrary, it needs an efficient, capable local government as a major deliverer of services to
the citizenry.

Johnson notes that in the context of the Japanese developmental state and political system
bureaucrats “rule” and politicians “reign”. Central control in the Executive opens space
for expanded bureaucratic rule in key sectors of the economy. In this model, democracy
inverted, expediency trumps democracy, the central trumps the local and there is no room
for local government.

It took the 2008 crises of globalisation to throw the national-local tension into sharp
relief. The global economic crises of 2008 exposed the weaknesses of unregulated financial
markets, an unregulated banking sector and unregulated credit markets. It exposed to the
vulnerability of capitalism to the simultaneous collapse of the housing bubble in the United
States, the United Kingdom and Europe, the commodities bubble, the credit bubble and the
equities bubble. Financial capitalism is primarily responsible for the current global economic
crisis and there has emerged a moral as well as a political-economy critique of the excesses
of financial capital and its lack of concern for the public good.

The deepest impact of the 2008–12 fiscal crises is at the local level – e.g. unemployment,
increase in poverty, flight of industry, erosion of the local tax base and erosion of the social
infrastructure. Local governments do not have the authority or the capacity to deal with a
crisis of globalisation, thus it is left to the developmental state to intervene (in the form of
stimulus packages for example) and intervention impacts local levels unevenly.

Developmental states face challenges as they set national priorities that they expect other
spheres to carry out. They are geographically distant from local government, often they lack
comprehensive knowledge about local circumstances, and then there is the psychological
distance of government bureaucrats from citizens. As a result central governments can often
make policies that ignore local community needs yet it is up to local government to carry out
those policies or risk the fiscal wrath of the central state.

The developmental state in the post-2008 crises has to advance the collective and public
interest rather than the vested interests of elites. This is equally true as deadlines to achieve
the Millennium Development Goals loom on the horizon. The state has to simultaneously
provide for the well being of the citizenry and empower that citizenry to be active agents in
their own socio-economic development. The focus and by extension the measures of success
must be on public sector reform aimed at an anti-poverty equity agenda that measures
public spending (and the performance of public sector managers) in every department and
in all three spheres of government against tangible results – e.g. poverty reduction, gender
equality, literacy levels, skills development and retention, employment creation.
The role of local government in the post 2008 crises has also changed. It is unquestionably the main delivery agent of the developmental state. Local governments are often better placed as decentralisation of services poses a new range of questions:

- What role would local government have in decision making to set the priorities of the developmental state and does this not run counter to one central feature of the developmental state – a small highly capable well knit bureaucracy setting the national agenda?
- Will consultation mechanisms and feedback loops be set up?
- What fiscal resources will be provided to local governments to realise the national development objectives of the developmental state?
- What will be done to enhance the capacity of local governments to deliver on what is prioritised centrally?
- How will the state convince local government to deliver on priorities that they had no part in deciding – will the fiscal levers of the developmental state be sufficient?
- How will the central state deal with service delivery challenges at the local level that threaten to derail the national project?

With respect to the last question, certainly the developmental state has to spend public funds to advance inter alia the public good, end poverty, create employment and stimulate the economy. However, the effective developmental state will be one that undertakes a public service reform agenda where there is a plurality of service provision. Public complaints of “lack of service delivery” represent a legitimate reaction against the impulse to see service provision as the sole prerogative of a central state. This is really the point of greatest contestation between the developmental state and local government.

In a developmental state, the interpenetration of elites, the close relationship between an elite in the bureaucracy and certain fractions of capital, the restricted and preferential access by organised groups in society (particularly capital) to the state and its resources pose interesting questions about local government. This is about the tension between the centralising tendency of the developmental state and local government, which delivers services in a decentralised manner. As many observers of the Asian Tiger economies have pointed out, the potential for corruption and for conflict of interest is great and at the local level it is greatest in the following areas:

- local governments & tenders;
- local governments and service delivery agents;
- local governments and privatisation of services;
- local government & the revolving door of senior bureaucrats to the corporate sector;
- local government & the revolving door of senior bureaucrats to the other levels of government; and
- capacity issues.

CONCLUSION

Increasingly there is, as the World Bank emphasised, the need for an effective democratic developmental state without which sustainable development and social justice efforts would
not be possible. The evidence on the pro-poor benefits of decentralisation is mixed at best. This is not to suggest that decentralisation ought to be eschewed. Rather that seeing decentralisation as a normative ideal is problematic.

The state ought not to a priori undermine its capacity to meet its national objectives either by pursuing decentralisation at all costs or by ignoring the potential of local government as a significant player in the realisation of the goals on the developmental state. The reality is that in the contemporary era different mixes of decentralisation and the continuing role of a strong developmental state committed to poverty eradication, the realisation of MDGs, political and economic stability and sustainable development are likely the most promising routes for nations in the global South to follow.

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