The concept and evolution of developmental state

Science, Biology

Fundamental to the design of the developmental state for these countries was the creation of an alliance between politics and the economy, which materialized in the establishment of a specialized bureaucratic apparatus that had ample powers and coordinated the developmental efforts, at least in their initial stages. The developmental state and its associated policies are not unique to Japan or East Asia. A similar type of model, albeit a more restrictive one, was also followed in Latin America during the period that lasted from the end of World War II to the beginning of the asses and, in some cases, the asses.

During this time, the state intervened in a number of areas and indeed made use of fiscal, exchange rate, monetary, and sector's policies to promote the industrialization of Latin America. Neither are developmental state policies a feature limited to the twentieth century. European countries used the same policies throughout the seventeenth and eighteenth centuries and the United States during the Estates P©raze Escalated is an Economic Affairs Officer at the Economic Commission for Latin America and the Caribbean (ECLAT) in Santiago, Chile.

The opinions here expressed are the author's and might not coincide with those of ECLAT. 27 8 International Journal of Political Economy nineteenth century. Moreover, other regions such as Latin America did very much the same thing in the second half of the nineteenth century. The available historical record suggests in fact that the developmental state and its associated policies are a recurrent feature of government policy during different historical times, under different circumstances, and in different geographical locations.

Notwithstanding the recognized successes of the developmental state, the Latin America debt crisis of the asses, the spread ofglobalization, and the East Asian financial crisis in 1997, Jointly let ten overarching Ideological powers AT ten Washington consensus, nave severely called into question its usefulness. As things stand, the developmental state has been overtaken by a state preoccupied with macroeconomic stability, property rights, and contract enforcement and partial intervention ineducation, health, and pensions.

A General Characterization of the Developmental State The term developmental state refers to a state that intervenes and guides the direction and pace of economic development. The developmental state is mainly associated with the type of economic policies followed by East Asian governments in the second half f the twentieth century and, in particular, with the post World War II Japanese economic model. L Central to the developmental effort in the case of Japan was the creation of the Ministry of Trade and Industry (MIT) in 1949.

Initially it coordinated the " Policy Concerning Industrial Rationalization," which sought to counteract the deflationary regulations of the Supreme Commander of the Allied Powers. The MIT was also given the power to negotiate the price and conditions for the import oftechnologythrough the approval of the Foreign Capital Law. In 1952, the MIT gained rather preponderance as it took effective control of the rights to import merchandise and of the foreign exchange budget. The effective control of imports led the government to adopt a system of import control for the protection of domestic industry.

For its part, the control of the foreign exchange budget allowed it to stimulate and foster export growth. The MIT also widened and cheapened the access to credit facilities through the establishment of the Japan Development Bank. The Japan Development Bank pursued a credit policy to develop key domestic in- fall 2008 29 dustier (energy and metal production). This policy was complemented by a very generous lending policy involving both the Bank of Japan and commercial banks. This fostered vertical and horizontal concentration of firms producing the keiretsu, an industrial conglomerate reminiscent of the earlier subtask (Coates 2000).

The example of MIT was followed by other " late industrialization" countries such as South Korea. Following the end of the Korean War (1950-53), the South Korean government pursued a government-led, export-oriented policy. Following the example of Japan's MIT, it created the Ministry of Commerce and Industry through the adoption of the first five-year plan (1962-66). Through the ministry of commerce and, in particular, the recently created Economic Planning Board, the elected government adopted an exchange rate policy that combined periodic devaluations and export subsidies to make the exchange rate competitive for local producers. The management of the exchange rate regime was accompanied by the control of credit policies and financial resources. Toward this end, the government nationalized the major banks of the country, which allowed it to supply cheap credit to targeted industries. Finally the manipulation of interest rates was used to induce firms to change production techniques. As in the case of Japan, the adoption of developmental policies fostered the concentration of industry. Developmental state policies were not conceived as rail ones. Ratter teeny patted over time to NT canalling circumstances.

Between 1950 and 1960, the state intervened to engineer and monitor the industrial catch-up process of Japan. In the asses and asses, the developmental guidance became more indicative and turned to the creation of export industries, the production of consumer durables, and the creation of technologically sophisticated consumer products. Finally, in the asses, the MIT turned its attention to the development of sigh-growth technology industries. At this developmental stage, the MIT turned to tax incentives and public-private sector collaboration.

At the same time it had to deal with industries that were " structurally depressed" such as textiles, sugar refining, cardboard, chemicals, steel, and others (Coates 2000: 213-23). In the case of South Korea, the first two five-year Economic Development Plans centered on the establishment, identification, and perfecting of state instruments and on self- reliance. The third plan (1971-75) focused on the " dynamic development of the rural economy, a dramatic ND sustained increase in exports and the establishment of heavy and chemical industries" (Lie 1998: 52).

At this stage the focus of the Korean developmental state turned to corporate growth through the establishment of chasubles (family-owned conglomerates) that ended up controlling a significant share of the economy of South Korea. Later on during the asses, the development of a high technological industry captured the attention of the government. This brief sketch of government intervention in two source cases, Japan and South Korea, highlights some of the key features underpinning the notion of the developmental state. First, the developmental state was conceived as an interventionist state.

Second, this did no imply that it made heavy use of public ownership. Rather, the developmental state tried to achieve itsgoalsthrough a set of instruments such as tax credits, breaks, subsidies, import controls, export promotion, and targeted and direct financial and credit policies instruments that belong to the realm of industrial, trade, and financial policy. Third, the degree and type of government intervention varies over time in scope and content. It can depend on different factors, such as external/ internal resistances, and on the life cycle of the industry the state is trying to develop.

For example, in the asses Japan adopted a more open economy stance; it reduced its tariff and looked toward administrative guidance instruments to pursue its " developmental policies. " In the same vein, Kimono (1989) goes further, arguing for a time pattern state intervention. He argues that state intervention in Japan was much more pronounced at the early and later stages in the life cycle of the products. State intervention was needed at the early stages to develop the product and the later stages to scrap the declining industries.