KEY ECONOMIC AND POLITICO-INSTITUTIONAL ELEMENTS OF MODERN INTERVENTIONISM

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ABSTRACT

This paper discusses important economic and politico-institutional features of the 'desirable' modern state intervention. It is recognised that the public sectors of most countries have undergone major changes since the 1980s, as governments try to respond to the challenges of the new millennium. Recent years have seen wider-ranging reforms than any other period of the twentieth century, although both the pace and extent of these reforms is greater in some countries than in others. This represents a paradigm shift from the 'traditional' model of public administration, dominant for most of the century, to 'new' public management.

The first section of the paper discusses the 'era of change' while considering the changing role of government. The second examines an institutional system which appears to have been used with enormous success –the 'Developmental State': the case of state which takes on a central developmental role in the economy without directly owning most of the productive assets. The final sections pursue aspects of the 'Developmental State' model and deal with 'key'-elements of the 'desirable' modern state and its new role.

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[**] Paper prepared for the XXXII Annual Monetary Studies Conference.

1. Introduction

What governments should or should not do, as well as the essential 'opposition' between market and state, have always been at the heart of major debates in economic theory. The dividing line between those activities that fall in either the government sector or the private sector varies between different nations and at different times.

The 20th century has seen some profound changes in thinking about the economic role of government. The first quarter century of the post-war period was largely characterised (at least among the OECD countries) by economic growth, high levels of employment alongside state activism and a widely held belief in the beneficial powers of government. The second quarter century in contrast has been characterised by much lower rates of growth in the OECD nations (though with rapid growth in the Newly Industrialized Countries), persistent or even rising levels of unemployment, and a general decline of support for the role of government. In country after country the state is being rolled back, and "let the market decide" has become the main policy gospel for both developed and developing countries (Arestis and Sawyer, 1998; p. 1).

Since the late 1970s, most OECD nations have undertaken a reassessment of the role of their government sectors. The current debate on the role of government mainly concerns its economic aspects. The same broad debate may be behind attempts to reform public sector management and to control public spending better. But it would be undeniable that the intellectual and policy climate has shifted from one which saw an active role for state in economic and social matters towards a generally more sceptical view of the role of government. In all parts of the world, people are legitimately questioning what their governments ought to do. All these questions ultimately raise the most fundamental questions of political organisation. At the same time, none of these issues can be decided on political principal alone; the issues are deeply philosophical and intensely practical.

This chapter discusses important features of the 'desirable' modern state intervention. It is recognised that there have been some major and important changes in the industrialized economies which are often seen as changing the possibilities for government action. In particular, major shifts have been under way in the management of the public sectors around the world, although both the pace and extent of these shifts is greater in some countries than in others. The first section discusses the "era of change" while considering

the changing role of government. The second examines an institutional system which appears to have been used with enormous success –the 'Developmental State': the case of state which takes on a central developmental role in the economy without directly owning most of the productive assets. The final sections pursue aspects of the 'Developmental State' model and deal with 'key'-elements of the 'desirable' modern state and its new role.

2. An era of change

Since the mid-1980s, the public sectors of Western developed countries have undergone major change as governments try to respond to the challenges of the astonishing pace of technological innovation, globalisation and international competitiveness. Indeed, the process of globalisation has continued apace. This is reflected not only in the increased financial flows across the foreign exchanges (which have in fact increased dramatically in size) and higher levels of foreign direct investment, but also in the degree of integration between financial markets in different economies and in the organisation of production on a transnational basis. These changes (alongside many others) may actually limit the ability of national governments to pursue independent and effective economic policies, and make government control more (or much more) difficult (Arestis and Sawyer, 1998; pp. 1-2).

Perhaps, it is self-evident that the capitalist system of, say, Japan or France or Sweden is substantially different from that of, say, the USA or the UK. Yet, the institutional arrangements are clearly different, no matter whether institutions are seen "in terms of norms and standards of behaviour or in terms of organisations" (ibid, p. 3). Although the existence of institutional differences may seem self-evident, this notion stands in some contrast to the implicit view developed within the neoclassical analysis. In this analysis, a perfect market economy in a position of general equilibrium is adopted[1] and the state is treated as a 'neutral agent' acting in some social interest (as so often is the case in the neoclassical 'market failure' tradition). In this regard, state policy is directed at removing so-called market imperfections and correcting market failures (Arestis and Sawyer, 1998; p. 5). In addition, there has been the recent development of the 'new institutional' economics (Williamson, 1985; among others) seen by its proponents as lying within the

neoclassical school of thought, which has largely retained the view of an 'optimal' set of institutional arrangements on the basis of efficiency considerations.

In contrast, the Post-Keynesian and Radical tradition supports the view that institutional arrangements are relevant for policy and decision-making and economic performance. In fact, this analysis does not have any belief that 'optimal' institutional arrangements will necessarily emerge and, consequently, would doubt that there is any single set of optimal arrangements. The institutions of the government sector are important, according to the Post-Keynesian and Radical approach, in numerous ways. This is not just a matter that the government sector is usually a major provider of important services (e.g. education and health) and infrastructure or that the central bank underpins the financial system; it is also that the public sector can play an important role in the moulding of the institutions of the private sector (ibid, p. 4). However, features and specific institutional arrangements of one economy cannot be easily transplanted into another, especially where socio-political and cultural elements are involved.

In the late 1970s, a harder-edged set of views (the 'New Right') was brought to general attention. The 'New Right' is generally associated with 'laissez-faire' and anti-big-government philosophy, a desire to avoid active government and a belief in the inherent stability of the private sector. New Right theorists claimed that the growth of government results in significant reductions in long-term growth and employment and hurts overall economic performance. Hence, less government would improve aggregate welfare by improving economic efficiency. Instead of governments forcing people to do things through the bureaucracy, markets were superior in every respect, with expressions like 'freedom' or 'choice' to replace the 'serfdom' of government (Friedman and Friedman, 1980).

In complete contrast, the Post-Keynesian and Radical analyses do not follow the 'New Right' in believing that there is no constructive role for the state, and that state activity is detrimental to economic development and prosperity (and that the free working of the market system is crucial for economic growth and prosperity). The experience of Japan and a number of Newly Industrialized Countries is in harmony with Keynes' suggestion that planned development is the 'most efficient' alternative which combines plan and market in a creative partnership. Indeed, this experience (of Japan and NICs) suggests the

importance of the state as a powerful engine of that progress and, in particular, of the long-term economic growth and production-oriented industrial development. "At a minimum, the process of development requires the guiding hand of the state, and does not come about through the market system alone" (Arestis and Sawyer, 1998; p. 9).

However, since the early 1980s, there have been attacks on the size and capability, scale and scope, of 'bureaucratic government'. For this reason, and perhaps for others, there has been a transformation in the management of the public sectors of a number of advanced countries. The rigid, hierarchical, bureaucratic forms of public administration (based on Weber's ideas), which have predominated for most of the 20th century, are changing to (relatively) flexible systems of public management. These changes in the government sector may have occurred as a response to several interrelated imperatives, including: firstly, various attitudes toward the bureaucratic government; secondly, modern developments in economic theory; thirdly, the impact of rapid changes in the private sector, particularly globalisation; and, fourthly, rapid changes in technology (and, especially, in information systems) (Hughes, 1998; p. 8). History suggests that, unless pushed, public organisations and government-owned enterprises usually lag behind in technological progress and innovation. In a rather similar vein, the Al Gore Report argued (1993, p. 3):

> "From the 1930s through the 1960s, we built large, top-down, centralised bureaucracies to do the public's business.[...] With their rigid preoccupation with standard operating procedure, their vertical chains of command, and their standardised services, these bureaucracies were steady –but slow and cumbersome. And in today's world of rapid change, lightning-quick information technologies, tough global competition, and demanding customers, large, top-down bureaucracies –public or private- don't work very well".

Moreover, the 'new' public management is not similar to public administration, and the change of concept (public management or entrepreneurial government instead of public administration) points to the same phenomenon; at the replacement of traditional government bureaucracy by a 'new model'[2] based on better and more efficient state action. In fact, public administration is concerned with office management, processes and procedures, rules and regulations, usually *ad hoc* decision-making, and with translating policies into action. It has an inward focus and short-term perspective. In contrast, the new public management does include public administration, but also aims to achieve results and improve accountability and skills. It shows more concern with longer-term

strategies and focuses on management and planning, strategic goals, performance appraisal and efficiency, output targets and outcomes, and disaggregation of government bureaucracies into agencies. Furthermore, strategy considers the public institutions and/or government organisations in their 'external' environment functions, sets objectives (not just by politicians, but by the agency and its various parts)[3] and addresses "a crucial concern: positioning the [public] organisation to face an increasingly uncertain future" (Nutt and Backoff, 1992; p. 58).

Perhaps, using longer-term considerations in the public sector is the best way towards 'reinventing government', and national governments are realising that administrative competence can be a substantial competitive asset and are borrowing ideas from each other at an increasing rate. In a 1990 report, the OECD argued that "a shared approach can be identified in most developed countries in which a radical change in the culture of public administration is needed if the efficiency and effectiveness of the public sector is to be further improved" (1990a, p. 1). This change in culture is indeed required to change government bureaucracies into results-based institutions in which managers, policy- and decision-makers, technocrats, etc. are accountable for achieving targets and results. The OECD further argues that many of its members "are trying to make their public sectors more managerial" with a common feature being the introduction of a more discretionary and participative style of relationship: "between levels of hierarchy; between control agencies and operating units; and between producing units, be they public or private" (1991, p. 11). Instead of regulating administrative action by rules and hierarchical authority, many countries appear to follow two broad 'avenues'.

First, they seek to raise the production performance of public organisations: improve the management of human resources including staff, development, recruitment of qualified talent and performance pay; involve staff more in decision-making and management; relax administrative controls while imposing performance targets; use information technology; and stress operations and service quality. This 'avenue' is aimed mostly inside the public institution to improve skills, performance and incentives for civil servants, given that an important problem with public institutions is the 'incentive structure' in which they operate. Indeed, civil servants and/or government employees find themselves in a situation in which the reward signals are perverse and their efforts are

often misdirected. Thus, the new public management is supposed to restore the incentives for efficient operation and quality products and services. Second, most countries seek to make greater use and enhance the 'creative dynamics' of the market system (even though the ways and methods vary from one country to another; there are, for example, 'high roads' and 'low roads' which modern capitalist economies can take).

Moreover, the debate over new public management and entrepreneurial state raises larger questions about the nature and role of the public service (and even the role of government in society).[4] As Harcourt (1997) argues:

> I do not wish to deny that there are aspects of the growth of bureaucracies and of the power and influence of policy makers that are disquieting, to say the least. Keynes optimism that disinterested and highly intelligent persons desire the common good more than their own good (except indirectly by obtaining satisfaction from making the world more rational and just than they found it), has not always been borne out. The structures of many government departments –the hierarchies, the motions, that have to be gone through for promotion, the drive and ruthlessness needed in order to reach the top- are not necessarily the ideal incentives or channels for ensuring that altruistic, charitable, and tolerant people (as well as intelligent ones) make it to the top. Bureaucratic empires built for their own sakes, rather than to serve useful social purposes, are also not unknown. Those who favour intervention, as I do, and a flourishing public sector must seriously come to grips with these problems (pp. 172-3).

It is worth noting here, however, that building bureaucratic empires for their own sakes is not limited to the public sector.

Public administration in developing and less-developed countries is rooted in the colonial systems which were inherited from their colonial governments. These systems were based on highly centralised authorities using bureaucratic means to administer their colonies.[5] Despite the different models of economic development followed in Africa, Asia, Latin America, the Caribbean or in the Pacific, the familiar Weberian precepts were to be found. Hence, the public sectors of developing and less-developed countries can be characterised as following the 'traditional', bureaucratic model of public administration. Polices, rules and regulations were formulated to standardise the system of administration throughout the colonies in Africa, Asia and the Caribbean. An elaborate system for documenting correspondence was devised, and the use of paper became fundamental in the administration and management of the colonial systems. However, this led to the compilation of volumes of paper into a filing system of enormous proportions and a number of problems: managers were poorly trained and lacked direction; there was an inefficient organisational structure with overstaffing common; weak oversight by the

government; harmful political interference and the 'opportunistic misuse' of state-owned enterprises (Jorgensen, 1990; p. 62). But this system of documentation, in conjunction with the legal system, called for a highly literate and regimented officialdom.

Particularly in the period following World War II, 'development administration' for less developed and developing countries was the most powerful institutional factor. The idea was "to apply to developing [and less-developed] countries the administrative [...] procedures derived from the former colonial countries" to modernise their economies and accelerate development in order to catch up with the leading ones (Hughes, 1998; p. 213). "This approach included the various features of the best administrative practice available in the developed nations and this, naturally enough, was the traditional model of public administration" (ibid). In addition,

> "The bureaucracy was the sole employer of professional experts, most often trained in the country of the former colonial master, and maintained sole ownership of technical knowledge in the various sectors from agriculture to mining and industry. As the sole source of knowledge, it is easy for the bureaucracy to assume that it knows best, that its experts need to be able to impose their solutions to the various problems of development" (ibid, pp. 210-1).

As Smith (1996, p. 227) also argues:

> "Development planning has consequently tended to be highly centralised, technocratic and of the 'top down' variety, where the experts at the top make the decisions about what the masses need in terms of programmes of development ..."[6]

Bureaucracies are particularly important in less-developed and developing countries, and are usually intimately involved in the economy and society. However, they often operated at a remove from their own societies and constituted an elite with more in common with their counterparts in the developed nations and with foreign corporations than their own people. Yet, in the less-developed and developing world, most bureaucracies served themselves and often looked after their own interests first. In fact, public administration itself has been susceptible to corruption since officials exercise a substantial amount of power. Although not part of the traditional model, corruption appears to have become endemic as public servants followed their own interests.[7] Coupled with this has to be considered the fact that politicians quite often use jobs with the public sector and government enterprises to reward political friends, so payrolls swell with people whose qualifications for employment are principally political connections. Consequently, the

largest share of the government current expenditure has been dedicated to wages and salaries and debt repayments, whilst the level and share of government capital spending have been (very) low. Yet, to meet their interest obligations, countries mired in debt squeezed critically important programmes in education, health and infrastructure. According to Smith (1996, p. 221), public employment accounted for over 50 per cent of non-agricultural jobs in Africa, more than 36 per cent in Asia and 27 per cent in Latin America in the late 1980s.

In the 1970s and 1980s, and in response to the attack by economists on the role and size of government, many less-developed and developing countries have sought to redefine the role of government and change its management. Some of this was in response to demands made by international agencies which required market reforms and public sector cuts. Less-developed and developing countries found themselves undergoing various kinds of structural adjustment through international agencies, notably the World Bank and the IMF. Financial assistance to governments "comes with a panoply of conditions; it is in no way a gift" (Haynes, 1996; p. 84). The IMF requires debtor governments to take action in five main areas: firstly, trade barriers are to be reduced; secondly, subsidies and price controls are to be cut or withdrawn; thirdly, financial systems are to be restructured by withdrawing controls on capital movements; fourthly, state-owned enterprises should be privatised and foreign investment controls cut; and fifthly, state intervention in both the management of the economy generally as well as in the provision of social services is to be minimised (ibid).

However, the shift to 'less state' did not work as intended. "One difficulty in the reform process has been that the advocates of reforms have assumed that 'one size fits all' and that any government could be improved by the institutionalisation of their preferred new patern" (Peters, 1996; pp. 17-8). The message of experience since then is rather different: the state is central to economic and social development as a partner, catalyst and facilitator. Markets require or need a competent and appropriate public sector to work at all. Hence, what was more important was that government be efficient, facilitative and appropriate to its circumstances rather than merely small. In addition, a major part of the new public management as applied to less-developed and developing countries is the increased attention paid to what governments do.

In its 1997 development report the World Bank called for three fundamental building blocks. First, "strong central capacity for formulating, coordinating [and implementing] policy", including visions, goals and strategic priorities on the place of politicians and the public service alike; secondly, an efficient and effective delivery system, setting the balance between flexibility and accountability on the one hand, and better performance and quality service on the other; and thirdly, motivated and capable staff, with incentive structures to motivate them to perform well (1997, p. 81).

All these elements are to be found in the new public management approach, compared to that of the traditional model of public administration. As mentioned before, strategy was not a matter for emphasis in traditional public administration, neither was performance nor incentives for staff to perform. The composition and complexity of the new public management will play a critical role in determining the rate and pace of development, and governments should increasingly become more concerned with providing a vision of future economic direction. It is therefore fundamental that the public administrative system to be modified in order for countries to compete and exist in a rapidly changing global environment. Modernising governments may (or, better, should) also involve forging integrated and dynamic partnerships with the private sector, and limiting state action to the strategic oversight of development and growth. This is the main concern of the 'Developmental State model', which is discussed below.

3. The 'nature' of the Developmental State

The development experience of Japan, South Korea, Taiwan, Hong Kong, Singapore and, recently, Malaysia has overall shown that there exists a new kind of state intervention as they moved toward a more industrialised stage. In the transformation process, the state interacts with the rising enterprises, works with and often promotes the private sector (i.e. a plan-oriented market economy). "The intimacy of the Developmental State with the private sector and the intensity of its involvement in the market provide directional thrust to the operation of the market mechanism" (Johnson, 1981, pp. 9-10; quoted in Leftwich, 1995).

Selective intervention constitutes a fundamental characteristic of the Developmental State, and was organised around government directives. But planning for manufacturing

on the one hand, and bureaucratic power and accountability, on the other" (i.e. correspondence between "state autonomy" and "state capacity") (Onis, 1991; p. 115).

The common denominator in both the 'authoritarian' and 'democratic' forms of the Developmental State is "institutionalised public-private cooperation in the process of economic policy formulation and implementation" (ibid, p. 119). In other words, the formulation and implementation of strategic industrial policy have been facilitated by specific political and institutional arrangements. In the case of Japan, although there have been conflicts among various interest groups within its political system, and competition among firms within its economy, "... extensive economic and political agreements have been as important to Japan's economic dynamism as competition" (Nester, 1991; p. 57). The mainstream opposition parties often vote with the government and have a say in most policies.

Therefore, the strong NICs' Developmental States have had relative autonomy from dominant classes and interest groups, and the state technocracy (i.e. well-educated, well-trained and efficient technocratic planners) has played an important and active role in export-oriented development. Indeed, the generally positive strategic roles that the States of the NICs have played in economic and, especially, industrial development cannot be explained solely in terms of 'strength' or "relative autonomy", but by their strong commitment to industrial development and economic growth. Thus, the 'nature' of the Developmental State may be defined by the following features :

1. a relatively 'strong' state;
2. an effective and productive state-investor;
3. a state which is not (over-)influenced by interest groups; and,
4. a strategic state.

If we suppose that a state which uses its military power or a military government is at one extreme (although a military government may not necessarily be a 'strong' state) and a (very) weak state influenced by interest groups is at the other (Myrdal, 1968), then the 'nature' of the Developmental State should be somewhere between these two extremes. Its relative position is, indeed, a reflection of and/or depends on the relative strength of the existing political forces (i.e. social classes, local governments, interest groups, trade

unions, etc.). Furthermore, three 'key-notions' are very important when analysing the concept of the Developmental State :

1. the role of the market and the State;
2. emphasis on investments (and particularly government investments); and,
3. the strategic programme.

In drawing on the comparative literature, it is thus the main purpose of this chapter to elaborate on elements of the 'desirable' state intervention, based on developmentally-driven political purposes and institutional structures. This notion forms the subject matter of the following sections.

4. Elements of modern interventionism

The state can, and should, play an important role in improving the social and economic conditions of a society, and can actively and adequately contribute to development. This has been apparent, both in theory and in practice, since the writings of F. List and the German industrialisation effort in the latter half of the 19th century. About a century of facts prove the historical involvement of the government sector in important development efforts. For example, a package that entails spending on roads, schools and airports will certainly add to total output and current employment (even without multiplier or accelerator effects).

Apart from the three traditional functions of the state and the fiscal budget (i.e. allocation, stabilisation and distribution), recent attention has been focused on its new developmental role; the 'quality' of state intervention rather than the 'extent' of such intervention. But the view that the state remains the 'main engine' of economic development, structural change and the process of policy reform inevitably raises the important issue of state capability and capacity (Ahrens, 1997; p. 114). As Evans (1992, p. 141) argues:

> "The consistent pursuit of any policies, whether they are aimed at 'getting prices right' or implanting local industry, requires the enduring institutionalisation of a complex set of political machinery".

In the new millennium, therefore, the role of government in adapting to and managing the needed changes will be critical, even though government action will be constrained by the pressures of globalisation and other forces. The search for the appropriate role of government needs to take seriously into consideration the importance of institutions as

well as the 'environment' and incentives they create. Besides international competition, it is the organisational design of, and the incentives within, the public sector and the institutions linking the public and private sectors (i.e. the institutional environment) that are crucial to the developmental consequences of state policies (Ahrens, 1997; p. 117).[8] In fact, effective economic policies "not only require credible commitments [...] but crucially depends on the administrative, technical, and political capacity and capability of policy-makers" (ibid, p. 115). Furthermore,

> "Different kinds of state structures create different capacities for action. Structures define the range of roles that the state is capable of playing. Outcomes depend both on whether the roles fit the context and on how well they are executed" (Evans, 1995; p. 11).

The outline of the above argument can be essentially recapitulated in four points:

(1) the ability to craft and adopt specifically tailored institutional structures is as important to effective governance as the formulation of policies;
(2) effective governance structures and hence developmental outcomes depend on the roles that policy-makers pursue and the general character of state structure;
(3) while the initiation of economic reforms may be facilitated by discretionary authority of government, elites and political institutions that insulate policy-making from distributive claims of interest groups, their consolidation requires stabilised expectations regarding a new set of incentive structures and the confidence that these cannot be discretionarily altered; and
(4) policies need to match institutions and *vice versa* (Ahrens, 1997; pp. 118-9).

What will interventionism be like in the 21st century? Even if the goal now is to make state action better, through 'reinvention', the nature of government involvement has changed (and is likely to change further). Although prediction of any kind has its risks, there are several characteristics of the 'modern' state intervention (which will probably be paid particular attention to in the next century) compared to the 'old' one.

First, there will be increased focus on improving relations between the public and private sectors. More governments might seek to ensure the evolution of institutional frameworks characterised by integrated and dynamic public and private sector partnerships with the capacity to capitalise on strategic and tactical alliances. In fact, the public and private sectors can cooperate in a range of different arrangements, each contributing what it does best and both participating in the financial returns, within the context of socially defined agendas. The complementarity between them can enhance the operation of markets, and can create opportunities which would not otherwise exist.

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Second, modern intervention should be strategic. 'Traditional' government bureaucracies required little conception of strategy and serious forward planning was either not carried out or carried out in rather limited ways. Hence, strategy of any kind would have been considered 'political', if thought of at all (Hughes, 1998; p. 149).

The essence of strategy is to achieve results. The role of strategy is to try to specify what the results should be and to set out how achievements aggregate into the overall purpose ('national purpose' in the case of Japan and NICs). Strategic planning gives direction and purpose to public organisations; without strategy, policy-making is without direction. In fact, it is the planning process not the plan itself which is more important; that is, the use of long-term parameters allows the public institutions from top management down to develop a shared vision for the future. Just as there are systemic arguments for relying on the 'creative dynamics' of the market forces to play a centrally important role in modern economies, there are parallel arguments for imposing on these market forces coherent strategies, within which they are allowed to operate (Cowling, 1990; pp. 11-2).

Furthermore, strategic planning may be seen as essential for efficiency; but the nature of planning is all important. In this regard, Bozeman and Straussman (1990, p. 54) argue that there are three major features of a "strategic approach": defining clear goals and objectives; developing an action plan that mediates between public institutions and the 'environment'; and designing operational methods of effective implementation (on the basis of the organisations' capacities).[9] Nevertheless, planning should not get involved with the operational detail (comprehensive centralised planning is both infeasible and undesirable). In fact, planning should be strategic and (pro)active rather than passive; selective rather than comprehensive; but wherever possible based on some notion of consensus (Cowling, 1990; pp. 16-7).

Third, a system of accountability should be required by any government, as the two forms of accountability, political and managerial, are tightly related (even though this link has quite often been problematic). Indeed, "the system of accountability is what ties the administrative part of government with the political part and ultimately to the public itself" (Hughes, 1998; p. 225).

In the traditional bureaucratic administration there is some form of accountability. This form of accountability relies upon the formal links provided through the hierarchical

structure. It is accountability for avoiding errors rather than achieving outcomes (ibid, p. 233). Hence, improving accountability should be a specific aim of the move towards entrepreneurial intervention. The public institutions would then be responsible for the effective implementation of strategic plans and monitoring the progress of these plans, as well as for their own performance. In fact,

> "... institutions can formalize the commitment to such [strategies], and their structure, procedures and personnel can act to ensure that such commitments cannot easily be reversed, but they are simply ratifying [plans] already established. The history of planning [in many countries] shows how fragile was the commitment, despite the creation of many new institutions, [and the lack of teeth of these institutions was obvious]. With clear goals, and a determination to pursue them, institutions with teeth should be forthcoming" (Cowling, 1990; p. 23).

Fourth, quite often, public sector reforms and capacity-building programmes have been introduced in many countries without the benefit of systematic and disciplined diagnoses of institutional capacities. This has resulted in wasted investments, inadequate levels of skill and competence, ineffectiveness and performance shortcomings. In contrast, the economic success of Japan and NICs could not have been achieved without the decisive role of their competent 'technostructures' and their determined developmental elites in economic and social planning. Indeed, an important feature of these technocracies has been their technical competence, and many of the top officials of Japan and East Asian countries have received advanced training abroad.

Obviously, capacity building and competence might be important strategic goals that will determine the extent and pace of fundamental changes within the public sectors, within institutions. Strategic human resource management and planning coupled with investment spending in human resource development (i.e. high quality and timely education, training and the continuous development of scientific manpower) should be strongly linked to the modernisation process of the public sector and institutions towards better and more effective state action.

Furthermore, competitive wages for well-educated, well-trained technocrats can attract more talented individuals and increase integrity and professionalism. On the other hand, external pressure on appointments and patronage should be eliminated.

Fifth, modern interventionism and new public management require increased attention on better use of resources. This involves directing resources to emphasise those programmes which most assist the attainment of strategic objectives. It also involves more government

spending on infrastructures and the modern factors of development and competitiveness, and less spending on unnecessary and non-essential kinds of public expenditure (i.e. an appropriate redistribution of available/existing funds from government consumption to government investment).

Furthermore, with the advent of modern information technology, the need for a highly centralised public administration with paper as the focal point of communicating became obsolete. With the computer, fax machines, electronic mail, satellite transmission and the internet, new types of communication tools are widely used. This is expected to lead to reductions in clerical staffing levels and/or dislocations in the work force of the public sector and public institutions. Nevertheless, these reductions and dislocations may be inevitable, but should be based on 'rational', efficient and effective human resource management and planning. For instance, less employees (but well-educated and well-trained) may replace those civil servants who retire or resign. Such a decision and policy action is expected to bring about twofold benefits: (i) it will improve skills, efficiency, effectiveness, competence and operations quality, especially when combined with better utilisation of new technology; and, (ii) it will release resources for higher levels of public investment (which will improve the environment for productive activities to take place).

These important suggestions and policy considerations (along with "decentralisation and participation" which are discussed in the following section) have attracted the support of many (if not most) governments of developed, developing and less-developed countries, and are probably irreversible. However, the wider effects of "modern interventionism" on "not only the public sector [and institutions] but the entire political system still have some distance to travel" (Hughes, 1998; p. 261).

5. Decentralisation, participation and regional policy

The concept of decentralisation which is considered here is one of governance between levels of central and local government, i.e. to shift responsibilities downwards from central levels to local governments. The notion of decentralised government is often based on the belief that there is a systematic relationship between the quality of administrative performance in government activities and local government efficiency. Decentralisation may increase the accountability of political decision-makers and make

their commitment credible. In fact, decentralisation can be a means of overcoming the severe limitations of central administration and can lead to more flexible, innovative and creative administration. Consequently, the efficiency of a central government could be increased through decentralised forms of governance. Decentralisation can also facilitate coordinated planning between the various government departments and/or agencies and make plans more relevant to local needs (i.e. the demand for decentralisation to regions). Whatever its ideological foundation or level of intervention, the contemporary state must localise its governmental apparatus.[10] According to Smith, the following facts may result from decentralisation (Smith, 1985; pp. 47-52) :

i) Decentralisation to regional or local levels allows officials to disaggregate and tailor development plans and programmes to the needs of heterogeneous regions and groups. Democratic decentralisation is an effective way of meeting local needs and can result in a variety of policies, as there is an imbalance of resources and requirements between levels of government. Decentralised structures may be favoured because they promote diversity in public policies and may allow better political and administrative penetration of national government policies into rural areas.

ii) Decentralisation may lead to the development of greater administrative capability among local governments and private institutions in the regions. Local governments' role can be quite supportive and facilitative through local infrastructures, environmental improvement, and by increasing and improving the provision of public goods and social services at local levels (the developmental role of local and 'regional' authorities). It can generate additional resources, encourage more efficient use of existing resources and give local authorities the opportunity to improve and expand the infrastructures in regional and rural areas (i.e. local development and regional growth).

iii) Local government can identify and even define service requirements and deliver, plan or regulate public services. By reducing diseconomies of scale, decentralisation can increase the number of public goods and services, and the efficiency with which they are delivered, at a lower cost. The main sources of revenue available to local and regional governments are taxes, charges, grants and loans. But tax decentralisation (its concept and measurement) is not straightforward, because it involves sub-national controls over all aspects of tax policy. This does not imply a denial of a useful role for active local

participation in the administration of policies to assist the poor (i.e. welfare policies); to promote regional and industrial development; and, to improve R&D, innovation, etc.

iv) Decentralisation can increase participation in planning and development, and may also allow greater representation for various political and social groups and unions in development policy decision-making that could lead to greater flexibility in the allocation of government resources and investments. If political decision-making is decentralised among sub-national units, each unit may tailor its tax and spending package to the preferences of its citizens. Efficiency and social welfare are thus likely to be maximised under highly decentralised political structures.

Decentralised structures of government require political choices, and the governance values might justify whether the political decision-making is decentralised or centralised (to what extent/degree). Decentralisation is desirable because by devolving real decision-making to local levels, higher levels of interest and participation in local government result. It also provides for greater speed and flexibility of decision-making, as regional/ local development requires such flexibility.

Obviously there is a strong link between decentralisation and participation, which may be considered as a requisite for high quality government polices. Participation in the design and execution of work can improve efficiency. Uphoff and Esman (1984, p. 13) define participation as: "before-the-act involvement in [both] the choices and efforts producing benefits". In order to make government action more effective, the state's institutional capability needs to be invigorated by establishing effective and transparent rules and procedures, better operations quality and increased participation while being relatively independent of societal pressures. In fact, with more participatory systems of public administration and management, governments can become more open and manage better public responses to new initiatives while restraining arbitrary action and corruption.

Participation in policy decision-making can take many forms, and government-business-society relations at all levels establish the 'participatory' component of the 'desirable' Developmental State. Democratic participation clearly requires a decline in the power of central administration. In this regard, the Developmental State view should be concerned with fuelling institutional change in order to facilitate the emergence of development plans in a decentralised way.[11]

Such a radical approach may pay particular attention to the enhancement of democracy in at least two dimensions. First, it argues that participation by local authorities, unions, etc. can improve the organisation of production. It can also contribute to a less inequitable income distribution among its goals, to more efficient economic and social development, to substantial regional development and regeneration, etc. and, hence, social efficiency may be intimately bound up with democratic participation (i.e. the active involvement of all the 'social partners'). Furthermore, local authorities/governments and trade unions should be fully involved in the formulation, evaluation and implementation of proposals. Secondly, a more open and transparent style of government can help restrain the power of small groups who have access to government decision-making, and can discourage these groups from certain activities or operations.

6. Building the technostructure

It has been often argued that Developmental State policies are concerned with promoting domestic development (especially industrial development). However, it is unlikely that significant government intervention would be warranted given that there are major constraints on developmental policies (e.g. the nature of the civil service, its outlook, etc.) and that public institutions are limited in their abilities to perform certain tasks (e.g., the ability to react to changing technology, and hence the adoption of the appropriate technology in a changing environment).[12] For this reason, the pursuit of a Developmental State strategy requires specific politico-institutional structures, whose task would be to organise the critical interactions between state and industry.

To implement its industrial policies in manufacturing industry, the Japanese government has relied heavily on the Ministry of International Trade and Industry (MITI); indeed, MITI was a necessary -but not sufficient- condition for its economic success. Although the Japanese institutional structure cannot be easily transplanted, something akin to MITI will have to be instituted in any country seeking a successful, proactive developmental role for the state (Cowling, 1990; p. 19).[13] What is important to learn from the Japanese experience is the approach to the problem (ibid, p. 18).[14]

First of all, a central core is needed, a Bureau of Industry and Trade (BIT) composed of a small, entrepreneurial team of well-educated, well-trained and efficient technocratic

planners. This new Bureau should be organized around the requirements of a dedicated and determined Strategic Planning Agency (SPA), with a long-term commitment, the independent capability and the powers to implement the interventionist strategy. This 'embedded autonomy' (to use Evans' (1995) term) may represent the institutional basis for effective government involvement. With the assistance of consultants from leading corporations, banks, trade unions, and universities, such an institution can form a consensus on the best policies to pursue (ibid, pp. 24-5).[15]

Sectoral Agencies (SA) should also be part of the BIT, close to the firms and industries with whose future they will be intimately concerned and responsible for the strategic direction in their specific sectors; hence, the sectoral agency will perform a key role in the industrial regeneration of the region. "The process could be started off by the SPA within the BIT" identifying sectors in which strategic intervention is warranted and advantageous. Yet, the act of putting the strategic decision-making machinery within the regions would allow officials to disaggregate and tailor development plans to regional/ local needs (ibid, p. 25).

Obviously, whilst having a strong core, the approach is clearly entrepreneurial, and the proposed type of planning should be neither comprehensive nor centralised. Loose and transparent links between the core planning agency and Government Ministries and Departments involved in the industrial strategy (e.g. Treasury, Education, Training, etc.), and sectoral agencies and regional authorities and boards would decentralize much of the work of the central bureau. "To be successful our planning must be democratic, and our institutional structure must allow for participation at all levels". Indeed, participation by the 'social partners' can improve the organisation of production and help restrain the power of small groups which have access to government decision-making (Cowling, 1990; p. 28).

Therefore, such a network of institutions, as advocated before, must be derived from a prior commitment to fundamental changes in policy-making. Indeed, institutions with a strategic planning role are necessary, and short-term perspectives should be replaced by long-term ones that are much more favourable to productive investments and production-oriented sustained economic growth. Furthermore, the institutional structure must provide continuity, consistency and commitment to the direction and pace of development. This

may require a high degree of incentive-compatibility of state policies and development and economic performance, as well as the creation of institutional arrangements that constitute a stable economic and political environment -in which consensus building concerning developmental strategies works (Ahrens, 1997; pp. 119 & 126). Without such commitments, accountability, 'embedded autonomy', effectiveness, competence and capacity, the Developmental State policy-making will founder on short-term expedients; the power of transnational and other capitalist interests; the conservatism, ineffectiveness and inefficiency of the civil service; or the resistance of the people (Cowling, 1990; p. 23).

7. Concluding remarks

In most capitalist economies, the State undertakes a number of functions. Its role can be defined either in terms of institutions or in terms of its functions. But in both cases, the government has a certain role to play with substantial effects on the economy and society. There are also many cases where the range of state activities extends beyond the passage of laws and the levying of taxation; from facilitating and/or promoting industrial growth to its direct involvement in the productive process.

From a comparative perspective, the ability of the Developmental State to undertake selective strategic intervention was based on the formation of strong administrative capacity, and the system was designed in such a way as to attract the best managerial talent available to the ranks of the bureaucratic elite (which in numerical terms was quite small by international standards). In fact, the consolidated strategic power of the East Asian Developmental State has relied on both bureaucratic autonomy and close public-private cooperation. It is quite obvious that, unless the 'autonomy' and 'cooperation' requirements are satisfied, attempts to implement Developmental State policies may prove to be counterproductive. In such an environment, the inability of the state elites to discipline private businesses in exchange for subsidies may lead to a situation where selective subsidies can easily degenerate into a major instrument of rent seeking by individual groups. A central lesson that emerges from this 'new experience' is that the transfer of specific Developmental State policies and strategies to new environments will

be self-defeating in the absence of the political and institutional conditions required for their effective implementation.

An important question concerns the lesson to be drawn from the East Asian development experience which can subsequently be generalised to and applied in other developing countries. In fact, the available evidence demonstrates quite conclusively that the East Asian Developmental State model is the product of specific historical circumstances with the logical corollary that there may exist major constraints on its transferability to or replicability in different or alternative national contexts. Another fundamental question centers around the compatibility of the Developmental State with political liberalisation and democratic forms of governance; whether the transfer or replicability of the East Asian Developmental State forms is compatible with widespread political participation. Hence the question whether East Asian type political economies can coexist with a liberal 'western' type political system emerges as a central problem for comparative political economy during the next decade.

However, calls for 'good governance' or 'democratic governance' -which focus on good administrative, judicial or electoral practice- seem to entirely miss the point: few societies in the modern world will be able to resolve deeper problems or make speedy transitions from poverty without active state intervention which approximates the model of a Developmental State (ideally, but not necessarily, the western democratic type). Contrary to the current orthodoxy, developmentally-driven institutional structures and political purposes can better be achieved from Developmental State policies.

FOOTNOTES

1. Provided that imperfections which restrain perfect competition were removed.

2. The 'market supremacy' views emphasise the notion that the 'collective good' could be better served by introducing private management styles, lock, stock and barrel into the public sector domain.

3. In many countries, politicians now demand that public institutions and agencies should consider the longer term implications of programmes and policies even if this involves them in 'political' matters. On the other hand, public institutions and agencies themselves seek to "develop [long-term] objectives and priorities rather than assuming policy only derives from politicians" (Hughes, 1998; p. 150).

4. Obviously, the 'specific' type of approach should seriously and thoroughly consider the conditions and requirements of the 'specific' public sector.

5. The Weberian bureaucracy was a successful export to developed and lesser-developed countries alike.

6. Some of these problems occur in developed economies too, particularly where bureaucracies involve technical experts.

7. While not unknown in developed countries, problems of corruption appear to have been worse in less-developed and developing ones (Hughes, 1998, p. 214; Huque, 1996, p. 23).

8. See also Evans, 1995; World Bank, 1997; and Stiglitz, 1998.

9. When discussing capitalist financial systems, post-Keynesians have long argued that asset prices in deep capital markets are heavily influenced, if not entirely dominated, by the activities of speculators, whose only concern is to outguess the market, not to evaluate a firm's productive potential. Thus, far from enhancing the flow of useful information between owners and managers, a deep and freely functioning financial market is more likely to encourage intensive short-termism and chronic bouts of speculative financial excess –that is, pervasive 'co-ordination failures' in contemporary terminology (Pollin, 1998; p. 169).

From this perspective, over a range of measures, the 'bank-based' financial systems appear to have out-performed the 'capital market-based' systems of deep and liberalised financial markets, because the former resolve problems of asymmetric information, co-

ordination failure and uncertainty, and class conflict and other incentive incompatibilities more successfully than the latter. As a result, the bank-based systems achieved superior performance in three crucial areas: encouraging financial stability; promoting longer time horizons; and providing a framework for the successful implementation of government policy (Pollin, 1998; p. 169). In this regard, the notion of bank-based financial structures is fully compatible with the "strategic approach".

10. The localised State is a controversial topic. Liberalism argues a normative case for political democracy at the local level on the basis of a political model of man. Neo-classical view predicts behaviour under specified conditions on the basis of an economic model of man, though providing some analytical confirmation of some of the positivist elements in liberal theory. Neo-marxists are concerned with social movements and collective interests within specific historical circumstances.

11. The Japanese Governments tried to create 'winners'; thereby there was centralisation and consolidation of state power. On the other hand, the Korean State has not been so democratic.

12. The inadequate capacity and competence of state institutions.

13. The Japanese planning, its various instruments, institutions and mechanisms are "a product of its own history and culture". Nevertheless different countries are characterised by "quite different historical and cultural circumstances", (quite) different socio-political elements (Cowling, 1990; p. 18).

14. This approach allows "considerable autonomy in determining the mode of operation, and adjusting it as experience accumulates". The main objective is "a dynamic economy rather than sticking to a set of rigid rules imposed by a central bureaucracy". We must avoid squandering people and resources (Cowling, 1990; p. 25).

15. As Cowling argues: "Economic policy will be built around the twin pillars of Treasury and Industry; the former with a relatively short-term demand perspective, the latter with a longer-term supply perspective" (1990, p. 24).

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