

# **The state as a developmental actor: state forms for social transformation**

Celia Lessa Kerstenetzky & Jaques Kerstenetzky

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## **Abstract**

From power states to welfare states, we track the history of ideas and practices of state developmental action, through ebb and flow of arguments for intervention. Justifications of state intervention based on the need to overcome economic discontinuities are compared with arguments pointing to risks of as well as antidotes to state capture by private interests and with Amartya Sen's broad approach to development. Significant national experiences of development and welfare states illustrating the different views are also reviewed. The outgrowth of an integrated social, political and economic defense of state intervention for welfare achievement is identified, indicating democracy and welfare state regimes as emerging themes in the development discourse.

## **Keywords**

developmental state; democracy; welfare state; capability approach; economic development; social development; state forms.

## **1. Introduction**

The topic of the state as a developmental actor is as vast as it is under-theorized, for alongside the absence of a theoretical corpus, a plethora of ideas and practices reflects the fragmentation of the experience and plurality of perspectives. Benefiting from this rich ideational reservoir, our narrative focuses on a broad notion of the developmental state as that which pursues well-being – not merely power, let alone ill-being – and highlights contemporary welfare states as core actors.

Thus, taking an historical perspective, we begin in section 2 by noting a shift in views on state forms from power to development and justifications of states' progressive involvement in economic transformation. In section 3 we point out a change in perceptions on intervention, from positive to negative, which invites a political approach of the state, introduces democracy as a subject of attention and qualifies the welfare state as a critical state form for economic transformation. Following that, in section 4 we pause to remark that historical processes and the variety of experiences reposition the perennial question regarding what development is or should be about, so we review the Capability Approach's objections to development as economic transformation and the view of development as social transformation, as these are consequential to (welfare) state models. In section 5, a short presentation of the Danish socioeconomic model illustrates new state ways and strategies of capability-delivery in recent decades. Finally, in section 6 we close with hints of what is ahead.

## **2. Towards well-being, economic transformation and the need for the state**

Historical accounts of the origins of the modern state trace it back to the 1648 Westphalia Treaty, which set a new political topography of the world as a system of nation-states: the Treaty formally

established the sovereignty of the state over its territory. Expansions on this power-state notion later included the claim for legal limits to be imposed on the sovereign ruler (as in Bodin and Locke), and Enlightenment's and French Revolution's notion that power entails responsibility. Henceforth, ideas spread that the business of the state goes beyond defense and order and comprises sheltering the freedoms and well-being of the individuals in the territory, even warranting assistance and work when needed, as in Article XXI of the French Declaration of Human Rights. And eighteenth century liberal views of a natural order, which emerged on both sides of the English Channel, represented the legal system in its capacity of securing individual freedoms and public assistance as pillars of that order.

According to historical-comparative studies, negative and positive duties of the state invited its involvement in economic transformation, if anything, to secure revenues and advance interests that converged with state purposes (Evans 1995, Chang 2002). Evidence of this development are the myriad mercantilist policies that were undertaken in Europe, and commercial and industrial policies that were amply utilized to assist nascent industries in the British catch-up and Industrial Revolution in the nineteenth century (Chang 2002).

Hitherto mostly driven by revenues, state-assistance to economic transformation found yet a new style with the Meiji restoration (1868-1911) in Japan. In fact, forced into trade openness and facing poor private entrepreneurship, Japan turned to industrial policies as the centerpiece of a strategy of structural change that led the state to play many roles, as entrepreneur, financier, facilitator, coordinator and regulator of economic activities (Wade 2003, Chang 2002). Economic (industrial) transformation appeared to stand as much for material prosperity as for the affirmation of national independence and self-determination in the system of nation-states. By tracing out a path that it would lead to much success after World War II with the MITI experiment (Johnson 1982), Japan

set an example to be followed by other countries in the twentieth century, one which was especially appealing to ones, such as South Korea, whose development initiatives were undertaken under duress, after the ravages of war.

While being transformational, states have diverged when it comes to planning changes. Some of them established “development plans” with explicit and coherent objectives, strategies and coordinating agencies, whereas others were non-planners that nonetheless undertook industrial, commercial and technological policies, on a pragmatic basis (e.g., pre-World War II England, Germany, France, the Scandinavian countries). Among the planners, some were ‘holistic’, with a comprehensive plan, but lacking effective feedback (Soviet Russia and post-war Eastern European countries), and others took more ‘piecemeal’ approaches, making room for learning and experimentation (post-Meiji Japan, Korea, Taiwan, and arguably most of the developed nations after World War II). Unsurprisingly, the need for a plan was mostly felt by countries that had a long way to catch up with the industrial leaders. But, if it seems quite clear why the search for material prosperity captured the imagination of leaders – self-financing, self-determination, and internal legitimacy being the more likely candidate-reasons – there still remains the need to figure out, both in actual practices and more abstract theories, in which ways and for what reasons the state was necessary for economic transformation. Most countries turned into planners after the World War II, and while this was for reconstruction reasons in those directly involved in the war, it was for outright construction reasons in the limitedly independent and newly independent nations that had escaped the war’s destruction (Judt 2008).

It was then that the “problem of development” drew the attention of economists: economics of development emerged as a theoretical field in its own right soon after the war. Prima facie, economic development means increasing the domestic output; thus, growth models, such as Harrod-

Domar's and Solow's, which identified capital accumulation as a requirement for economic change, could be of use. However, these models originally applied to the case of early industrialized countries and thus represented economic transformation as a natural consequence of market allocations from given endowments. This encouraged the emergence of additional theoretical frameworks, which envisioned a discontinuous transition from a backward to a modern economy, to fit the case of latecomers – the so-called structural theories of the first generation of development economists (Agarwala and Singh 1958). In most versions, structural change, i.e., industrialization, needed state intervention to coordinate investments that due to externalities would otherwise (i.e., through sheer market forces) not materialize. Famously, a Latin-American ramification emerged in the United Nations Economic Commission for Latin America and the Caribbean (CEPAL/ECLAC) under the lead of the Argentine economist Raul Prebisch, illustrating a case of two-way interaction between practice and theory: the CEPAL “school”, through its policy-oriented inductive account of Latin American underdevelopment, influenced policymakers, intellectuals and entrepreneurs in the region (Bielschowsky 2009) at a time when many countries there were trying out import substitution industrialization to varying degrees of success.

Even as the problem of development was being detected by the theoretical radar of economics, giving rise to analytical justifications for the economic action of the state, the need for the state was reinforced by authoritative historical observation. Remarkably, the Russian economic historian Alexander Gerschenkron (1962) identified, in nineteenth century Europe, a continuum of situations in which institutions, such as the state, were instrumental to overcome economic backwardness. While in Germany universal banks had performed the role of coordinating investments, cases of extreme backwardness such as Russia and other East-European countries, where entrepreneurs, a disciplined labor force and finance were all lacking, required intensive and extensive state intervention. Later, his nuanced account of state activism would, alongside structural theories,

fertilize numerous late twentieth-century historical-institutional approaches (Hirschman 1958, Herrick and Kindleberger 1983, Chang 2002, Evans 1995). Structural theories also echo in contemporary “new-structural theories” (Lin 2011), which advocate state activism only as a complement to market allocation.

In the end, except for the pure market view, the need for the state in economic transformation found justification along a variety of perspectives, and much of the theoretical thinking resulted from the observation of the development practices more than the other way around, though indirect ways of diffusing theories should not be underestimated, as the case of CEPAL suggests.

But precisely what state capacities were involved? This question, though not drawing much attention from economics, resonated in historical-institutional studies. Inattention is rooted in public choice theory’s warning about the dangers of state capture by private maximizing agents – and that public interest is but private interest in disguise (Krueger 1990). Others would contest the sequitur. In fact, historical-institutional studies took a subtler approach and looked into actual state capacities and connections that were enlisted for the big leap of industrialization and their effects. Early contributions came from studies of the East Asian takeoff in the 1960s and 1970s (Johnson 1982, Wade 2003, Amsden 1989, Chang 2002) and originated the concept of ‘developmental state’ (Johnson 1982). And the Asian experiences were rich in innovations and invited different representations. In a World Bank report (1993), for example, Asian tigers exemplified the benign workings of free markets, the lesson to be learned. But institutional studies would establish that state action was pervasive and multiform, less in ownership or control, more in enabling private capital to thrive. As it turns out, the experiences stimulated a refined study of structure and agency aspects of the state. Paramount among these was the presence of an autonomous, coherent and cohesive Weberian bureaucracy and state connections with civil society, especially with entrepreneurs – “synergy” (Evans 1995).

Different roles of the autonomous but connected state were spotted in actual transformation processes: “custodian”, “demiurge”, “midwife” and “husbandry” (Evans 1995), as the state acted, respectively, as regulator, owner, birth-giver or facilitator, with private capital. Some of the former experiences of industrialization relied more on regulatory roles, while later ones, such as Korea’s and Taiwan’s, resorted to birth-giving, through credit and other facilitating interventions. Generally speaking, it is the existence of certain preconditions that define the appropriate role: bureaucracy and connections in combination with external circumstances, which at different junctures would indicate the dynamic sectors (Evans 1995). In short, even if state protagonism is retained, in keeping with the Gerschenkronian historical tradition, no roles, sectors or set of policies are advocated in abstraction from circumstances and actual state capacities and connections.

However, insofar as national projects in the narratives conflated with industrialization, state-society relations reduced to bureaucracy-private capital links, i.e., ‘elite connections’, a move that posed new problems. For even though in some cases it was quite clear that an autonomous and capable bureaucracy was lacking and hindered sustained growth, as Brazil in the 1970s and 1980s, in others, such as Korea, where an autonomous and capable bureaucracy was in place, top-down development strategies were insulated from the influence and control of broad sections of the population (which was also the case of Brazil). Unsurprisingly, then, the industrialization synergy ended up raising concerns and indeed political protest contesting the legitimacy of the particular path undertaken towards capital accumulation. The question relates to the appropriate means to define the content of the public interest in a development context. In the next section, we explore two alternative mindsets – public choice theory’s market view (and skepticism about political life) and potentialities of democratic experiences.

### **3. Politicizing the state for economic transformation**

Starting in the 1980s, two circumstances contributed to discredit the intervention of the state for economic transformation. First and foremost, many experiences of state-led capital accumulation, though conducive to economic growth, did not translate into sustained growth, let alone well-being, failing on theoretical expectations and political promises of alignment. This was particularly true of Latin American, African and South Asian countries, which experienced non-sustained growth paths with growing inequality and/or poverty and slow improvement of social indicators during the state-led import substitution industrialization of the 1960s and 1970s (Lin 2011, Sen 1983), followed by a debt crisis later in the 1980s. And although historical-institutional studies would at some point argue that the failures had roots in the lack of proper state capacities and weak civil-society connections (Evans 1995), the new mood, reverberating public choice theory's mantra, was that the economic intervention of the state was to blame for interfering with market forces and creating opportunities for capture and bad political economy. Secondly, stagflation and fiscal crises spread in the developed world as early as the 1970s and these too were largely attributed to government mismanagement. It was under this changed ideological climate that a second generation of development economists emerged, this time from within neoclassical economics, forcefully arguing that development should be about reinstating market mechanisms and thus "get[ting] all policies right" (Meier 2001): liberalization of foreign trade and investment, stabilization programs, privatization of state-owned enterprises and restoration of the market price system.

Among the countries that were first influenced by this strand of thought and got their policies right – with relative success if growth rates are the focus, much less so if inequalities and democracy are factored in – is Chile. Even more consequential was the redirection of the World Bank lending policy towards structural adjustments in indebted countries, accompanying the substitution of economist Anne Krueger, of the second generation of development economists, for first-generation

chief economist Hollis Chenery in 1982: at a certain point indebted countries were paying back more than they were gaining from the loans (Goldman 2005). And yet, by the end of the decade, and in spite of criticism including a famous UNICEF report of damage to health and education of Third World children associated with the adjustment programs (Goldman 2005), the idea of getting policies right had the upper hand and was absorbed in the ten recommendations of the Washington Consensus (Williamson 1990).

In time, however, persistent problems of bad economic performance – poor or no growth, volatility, poverty and inequality – following the adoption of the recommendations, while inflating criticism and protest, also had the effect of turning international financial organizations’ attention to the developing countries’ institutions. New Institutional Economics (Williamson 1985) had for some time been claiming that markets do not emanate from a societal vacuum; its account of the development trajectory of industrialized countries (North 1991) and the obnoxious construction of market economies out of the ashes of East-European socialist societies contributed to make clear that, for better or worse, “institutions matter”. Despite theoretical uncertainty as to which institutions qualify as “good” (Bardhan 2005), institutions in developing countries, as they were seen as differing from the ones in developed countries where markets thrived, became the object of variable reform recommendations (Williamson 2004; Singh et al. 2005). Integrated into international financial institutions’ arsenal of policy reform, an enlarged list of recommendations now included liberalization of labor markets, financial codes and standards, independent central banks, elimination of capital controls, good corporate governance practices, and targeted social policies (Williamson 2004; Rodrik 2006). Eventually, after a failed “decade of reform” (the 1990s), a reassessment by the World Bank in the 2005 Development Report recognized that advice should definitely turn away from the “one size fits all rule”, focusing less on efficiency and more on the dynamics of growth (Rodrik 2006).<sup>i</sup>

As it turns out, the “new structural” perspective of the World Bank (Lin 2011) briefly referred to in the preceding section is an indication of the search for new orientations; a twist of ideas from within the institutionalist field, suggesting a ‘contextual’ alternative to ‘universal’ institutionalism, is yet another one. While accepting that something went wrong with state intervention in the failed development cases, the new perspective claims that countries should be permitted to build their own institutional solutions to self-perceived development problems, drawing on their own experiences and circumstances (Rodrik 2000, Woolcock et al. 2010). It is, in one version, a matter of emphasizing “small scale”, community or group level development projects, to the detriment of state-led “big development” (Woolcock et al. 2010). In another version, it is a matter of deepening democracies (Rodrik 2000). Even though a major impact of small development initiatives is yet to be reported, the political strand managed statistically to identify in a large sample of cases that ‘participatory’ democracy has fared better than alternative regimes in promoting growth, especially ‘high quality growth’, i.e., stable, predictable, resistant and more equal economic growth (Rodrik 2000). Seemingly, democratic regimes that give voice to non-elites are more effective mechanisms than alternative arrangements for the aggregation of preferences, pooling of knowledge and free experimentation with institutional solutions.

The ‘deepening democracies’ perspective contributed an ‘effectiveness’ argument to rehabilitate the political dimension of the state to development thinking: it established participatory democracy as a more appropriate framework to settle notions of public interest and developmental priorities than both ‘elite connections’ and ‘state capture’. The analysis of the success stories of developed countries, where the alignment of capital accumulation, sustained growth and well-being roughly occurred, adds a ‘legitimacy’ argument. There, on prominent accounts, economic transformation was assisted by broad negotiation on the distribution of its bonuses: co-evolving with democracy,

a politically negotiated welfare state helped spread well-being through income redistribution and public goods provision while the economy was booming (Kuznets 1955). As many have noted, in Continental Europe, the new state form was as much a set of social policies of risk-sharing and servicing as an extra-parliamentary mechanism of expression of organized demands of elites and non-elites alike evolving in tandem with the political system. The cases of Germany, a risk-sharing welfare state pioneer, and Korea, an emerging welfare state, illustrate the point.

Bismarck's Germany featured fast industrialization, urbanization, demographic change and increasing mass political participation. Social security was introduced as a top-down initiative from a conservative central government aiming at social control and taming socialist penetration. But the welfare system evolved as the resulting vector of class negotiation and parliamentary representation, with contributory social policies extending beyond industrial workers to other occupations, taking on new forms, and increasing benefits, so that it was erected as part and parcel of the development process – even as the complex political environment in Germany, and broadly in Europe, could not at the time fully reconcile emerging capitalism with civil societies, giving rise to decades of turmoil (Berman, 2001). Post-war Germany's "social market" reconstruction economy, in contrast, embodied a successful conciliation of market forces and democracy, with roots in the now longstanding corporatist tradition, producing booming growth at least up to the 1980s. A high degree of coordination between social and economic issues secured risk protection for banks, industry and labor, including a welfare state based on employment contributions that guaranteed workers' income replacement in the risky circumstances of a capitalist market society. Under the German-style "social partnership" arrangement, unions and employers bargained autonomously over wages and employment, with spillovers in terms of growth, inflation and unemployment, while unions had a voice in the management of individual firms and in the administration of the social security system (Streeck and Hassel 2004).

The relation between development and democracy also sheds light on emerging countries' trajectories, such as Korea's and Brazil's (Kerstenetzky, forthcoming), which have transitioned from authoritarian to democratic regimes. The Korean story began with fast capital accumulation during the 1960s through to the 1980s, led by a nationalist and authoritarian government (Woo-Cumings 1999). Devising rapid industrial growth, the 'midwife' state nurtured industrial groups and formed a close relationship with them, where scarce resources were channeled in exchange for a commitment to economic performance and technology absorption (Amsden 1989). The fast economic growth that increased incomes (also aided by previous investments in education and an early land reform) came at the price of authoritarian government in the form of political repression, weak union activity and lack of social welfare. True, the military government directed public social policies at selected segments of the population (teachers, soldiers and civil servants), but it was up to employers to provide mandatory welfare benefits to employees (Sook 2004), and families (especially women within families) to take care of the inactive and unemployed (Gough 2004). Eventually, the model of pressure-containment broke up in the 1980s. Mounting dissatisfaction with the government brought political mobilization and democratization and opened the path for social welfare (Sook, 2004, Evans and Heller 2012), which increased especially after the Asian crisis in the late 1990s. In spite of capital accumulation and growth in the catch-up period, it was with democracy and a new orientation towards a universal welfare state that social protection and well-being spread even as the economy was able to keep growing (Evans and Heller 2012).

Now, leading accounts established that if the welfare state was a critical factor to secure well-being in the industrial era, and thus to legitimize economic change, this remains true of the contemporary knowledge economy. In this new setting, economic processes in combination with demographic and social changes have superimposed new social risks over the uncertainties of life and economic

cycles: precarious labor market connections, heterogeneous family compositions, population aging (Esping-Andersen 1999, 2009). Heightened levels of social risks were a likely thrust for welfare state expansion in the central economies in the 1980s and 1990s, and for its diffusion to regions such as East Asia and Latin America in the 2000s, where it combined with democratization (Castles et al. 2010, Haggard and Kaufmann 2008). It has also been noted that the welfare state is directly consequential for wealth production, a critical function in the face of increasing demands and requirements of the knowledge economy. In fact, accounts of economic development indicate more directly productivist functions such as exchanging productivity efforts for social entitlements (Chang and Kozul-Wright 1994, Kaspersen & Schmidt-Hansen 2006), promoting productivity through investment in human capital (Esping-Andersen 2009), and stimulating innovation by guaranteeing economic security and lifelong learning (Kangas & Palme 2005). These actions, which are a hallmark of the Scandinavian social-economic model, are examined in the case study of Denmark in section 5, after we review an additional and fundamental perspective in the next section.

#### **4. Re-conceptualizing development and the developmental state towards social transformation**

Failed and successful development experiences alike elicited a normative reflection on what development should be about. For one, when observing what on economic grounds are generally considered successful experiences, such as the Asian tigers' catch-up, one might argue that these countries could have done much better had democracy, not only elite connections, been in place. For another, when considering cases of economic growth with poor well-being achievements, of "unaimed opulence" (Drèze and Sen 2002), such as Brazil's in the 1970s, one might feel reluctant to consider them cases of "development". Also, when assessing different developed countries trajectories and achievements, one might want to make statements regarding their relative success

vis-à-vis one another, in matters beyond per capita GDP, a metrics on which they tend to differ little. These include different degrees of social inequality due in part as a result of different welfare state configurations, in the comparison, for instance, of Germany with Denmark or the USA with Continental European countries. Generally speaking, the normative reflection catered to an increasing dissatisfaction with the conflation of development with capital accumulation and per capita GDP growth, and a somewhat intuitive emphasis on ‘people’. The so-called Capability Approach (CA) stands out for providing one such benchmark (Sen 1983).

The CA reclaims the original idea that development is about promoting well-being, and formalizes this notion as expansion of the real freedoms or “capabilities” people have to lead meaningful lives. These, it claims, are not reducible to per capita GDP growth. Real freedoms have opportunities and agency aspects: they need social conditions that allow people to make autonomous decisions on life plans, including taking part in collective decisions that affect their planning, and to follow the plans. In the end, if, as suggested, development boils down to freedom (Sen 1999), development policies should be about creating the enabling conditions, and per capita GDP is not the only important factor.

Actually, from the CA perspective, the displacement of the real objectives of development for something that should remain as a means to it, and sometimes a poor means at that, is consequential. Real freedoms seem not to be purchasable and may be lacking while GDP is growing and policies are fixated on it. The health status of a population is best served by taking care of the population’s health rather than pursuing growth policies (Sen 1989, Drèze and Sen 2002). Freedom from hunger has more to do with the presence of entitlements – ownership and exchange ones, social and political provisions such as social protection, rights, democracy – than with people’s purchasing power (Sen 1983, 1999). More generally, social protection, rights and democracy are central to

promote capabilities that are poorly related to income, such as ‘health, education, social equality, self-respect or freedom from social harassment’ (Sen 1983). Hence, development seems more aptly described as social change, where ‘the domination of circumstances and chance over the individuals’ is replaced by ‘the domination of individuals over circumstances and chance’. (Marx, in Sen 1983). A shift of attention from markets to politics then follows, as social change seems to depend more on collective decisions than on markets (Sen 1983, Rodrik 2000). And also by recognizing the multidimensionality of capability, the CA, while offering a general orientation in lieu of a complete list and an exact metrics, raises democratic choices on items and priorities in the capability set to the highest rank.

But does GDP help?

Some studies have analyzed the relation between economic growth and well-being (Drèze and Sen 2002, Stewart et al. 2011) and concluded that growth without a previous level of capability promotion (basically, health and education) seems not to be sustained or to have led to capability expansion (Stewart et al. 2011); and that policies that attempt to boost growth are unlikely to lead to sustained growth unless capability improvements are also undertaken (Stewart et al. 2011). These results are consistent with new growth theories inferences, which emphasize education and R&D investments as reproducible factors through which current growth can be converted into future growth (Stewart et al. 2011). Other supportive studies note that some level of education must be attained before an economy escapes from a low level income trap, after which economic growth will enhance capabilities (Stewart et al. 2011). Among the measured impacts of capabilities on growth are the productivity-increasing effects of health and education, and education and health spending on private investments. An illustration is provided by Korea’s early investments in education (Evans and Heller 2012, Chang and Kozul-Wright 1994), but references are also made to

education investments of other piecemeal planners, such as Germany and the Scandinavian countries (Chang 2002). But, as a more general approach, the CA builds a framework where instrumental purposes do not exhaust the value of education. The same goes for democracy, which is viewed as a development objective in itself, beyond its utility for other valued purposes (e.g., high-quality growth). That this should be so can be seen from the many aspects of real freedom whose greatest value the CA presupposes.

When it comes to the influence of income on capabilities, the record is mixed. There is empirical support for the notion that, for example, reductions in mortality and increases in life expectancy have been induced by technology improvements and, indirectly, by improved incomes (and thus by previous investments in education and health) (Stewart et al. 2011), but the historical record also lends support to the view that capability improvements are consistent with a direct, non-income mediated approach. It has been shown that even though interactions between both of them are strong, basic health and education achievements are poorly related to income (Drèze and Sen 2002).

Known cases of non-growth mediated development counted on state action. To the extent that it helps elicit social mobilization to promote basic capabilities, state action may start a virtuous cycle of achievements, where other freedoms are also enhanced, including the freedom to participate in social change. This is suggested by the much cited development case of the densely populated (32m people) Indian state of Kerala. Public action (Drèze and Sen 2002), undertaken by state actors in conjunction with political and social organizations, started in the 1950s a process of redistribution of entitlements and reallocation of priorities that involved, in the following decades of mostly left-wing governments, land reforms, mass literacy and school enrollment and generated an educated and politically active citizenry, demanding social opportunities and empowerment. The viability of this non-growth mediated progress, it is claimed, has been helped by the inexpensive nature of the labor-

intensive public provision of primary education and basic health care in a low wage economy and by complementarities between educational attainment and health status (Drèze and Sen 2002) – but arguably also by sheer mobilization, as the cases of the mass literacy campaign of 1991 and local level participatory planning started in the 1996 demonstrate (Isaac and Franke 2002). Outperforming India on many social counts and displaying comparable accomplishments to Korea's in life expectancy, child mortality and literacy, Kerala achieved social development in spite of low per capita GDP. This illustrates the strength and efficacy of political factors – a well-functioning democracy, a committed and accountable ruling party, and an intense political and social mobilization of non-elite organizations – in the redirection of development priorities. In most interpretations of the Keralan experience, participation and outright empowerment of the underprivileged are considered developmental objectives in themselves (Isaac and Heller 2003, Isaac and Franke 2002, Veron 2001).

Now when we turn to growth-mediated cases, again, it is public provision of opportunities to capabilities, not growth per se, that is considered to make the difference (Drèze and Sen 2002). As it redistributes income to fund the provision of opportunities that affect people's well-being and life chances, the welfare state is the state form that suits the cases. And insofar as it assists economic progress, the welfare state also helps to increase the resources the state needs to finance an enlarged public provision. In a democratic ambiance, with civil and political rights in place, welfare states may deepen democracy by institutionalizing mechanisms of negotiation, coordination and deliberation among societal groups, as noted in the case of Germany. Moreover, to the extent that they help minimize social imbalances, welfare states also contribute to increase the value of the rights for the citizens. In this regard, it has been reported that while welfare states reduce inequalities of market income everywhere, especially the robust European ones (OECD 2008), the universalistic North-European countries deliver the lowest level of both inequalities of post-fisc

income and of social opportunities among 24 European countries (Checchi et al. 2009).

With the help of the CA and thus under a broader light, the welfare state now appears as a general means of delivering opportunities to multiple capabilities. In the next section, we focus on these broad effects in the Danish experience, one of the most robust social states in the contemporary era, which coexists with a burgeoning market economy. There, capabilities translate into an extensive and generous cover of social risks and provision of social opportunities, and a highly decentralized and ‘participatory’ kind of democracy.

### **5. Case study: Denmark, a power- and growth-sharing developmental state**

Three features have often called the attention of students of the Danish development model: the high standards of guaranteed well-being and democracy; the fact that well-being delivery is supported by very high rates of economic activity; and that capability delivery and economic activity are embedded in an intimate network connecting the state and civil society. The evidence includes high indices of satisfaction with democracy (Demokratiudvalget 2004, apud Kristensen 2011); total, female and elderly employment (OECD 2009); social and economic equality and low post-fisc poverty (Checchi et al. 2009, OECD 2009); work satisfaction (European Commission 2004); and conciliation of family life and work (European Commission 2004).

The story goes back to the late nineteenth century, when official support for voluntary associations and important institutional and policy innovation started. It was then that Danish-style social partnership emerged and institutionalized. It involved increasingly dense and organized interest groups and the state in a long-standing tradition of consensual policy making (Obinger et al. 2010<sup>ii</sup>). It was also then that the roots were laid down of the notion that economic transformation should be negotiated, including a quid pro quo between wage restraint and social entitlements. But political

mobilization and the 50-year-long social democratic rule in the twentieth century up to the 1970s were also key ingredients. In fact, the mature contours of the Danish welfare state took shape under social-democratic leadership after the Second World War: after a short flirtation in the interwar years with German-like insurance principles, the Danish turned to universalism, combining high levels of adequacy with a comprehensive view of social protection (Obinger et al. 2010, Esping-Andersen 1990). Myriad universal benefits and quality services funded by general taxation were designed to protect the whole citizenry from life cycle, intergenerational and economic vicissitudes.

In the ‘golden years’ between 1945 and 1973, the welfare state was also instrumental to achieve high levels of employment and economic activity. It was an important source of jobs (about 30 per cent of employment, most of it female) and it facilitated female economic participation, with the introduction of universal daycare and family policies, such as paid maternity and paternity leaves and family allowances. The dual-earner family model that was then being encouraged later proved to be a potent shield against child poverty and a poor future, placing the Danish in a privileged position among its OECD peers. Investment in early childhood education also turned out to be an equalizer of life chances. Finally, the creation of a public employment system, another important innovation of the period, also turned out to be strategic in the coming decades.

When the crisis of the 1970s hit and the need for structural changes in the economy and society became clear, the Danish, while sticking to their egalitarian and consensual style of policy making legacies, liberalized their economic policies and expanded and recalibrated their social policies – much to their advantage. In fact, Denmark, even while continuously increasing social spending up to more than half of the total public spending and a third of GDP in the 2000s, greatly benefited from the knowledge economy and globalization (Kristensen 2011), achieving the highest scores in the World Economic Forum Index of Competitiveness and per capita GDP in the 2000s (Kristensen

2011) and peak levels of labor force participation and low unemployment already in the 1990s (Kenworthy 2004).

Based on the high degree of policy autonomy of the Danish state in an era of economic liberalization and European integration, two policy innovations seem to account for the launch of Denmark to the avant-garde of nations with knowledge economies and prosperous societies. Flexicurity is one of these: the combination of a flexible labor market and generous welfare benefits with active labor market policies. While accommodating competitive markets' yearning for flexibility with workers' yearning for economic security, these policies provide long-term training and retraining, thus adding a higher skills-better quality jobs-lifelong learning perspective to labor flexibility. The public support for private investments in innovation is another one. It combines coordination and funding with, again, welfare state spending: universal public education, training and retraining of the labor force, lifelong learning and cognitive-skills-generating early childhood education, in combination with cash benefits to help ensure the continuing activity of the population (Huo and Stephens 2012). These policies positively interacted with "discretionary learning", the upmost degree of worker autonomy in the workplace, which has disseminated to most Danish jobs (Huo and Stephens 2012) and whose introduction was facilitated by the high union-density typical of the Danish welfare state (Esser & Olsen 2012). Discretionary learning, even as greatly valued in the cutting-edge Networked Innovation Systems of cooperation among firms, employees and locales (Kristensen 2011), brought a high level of job satisfaction (EC 2004).

While the state has performed new roles – actually, updating risk sharing and servicing under the new circumstances – more of its inner workings have become apparent. Nordic bureaucracies are known for their quality, but an additional feature is that they have flourished within democratic traditions of negotiation and partnership with major organized interests. In the myriad commissions

and committees of consultation, legislation preparation and policy implementation, in tandem with the political system, Danish state officials practice their relative autonomy while “sharing the political space” (Crouch 1994 *apud* Kaspersen and Schmidt-Hansen 2006) with major societal actors. These, in turn, also thrive in public deliberation on welfare, firm organization and major social and economic issues (Boyer 2008) – a process that while not avoiding conflicts, minimizes stalemates and the need for top-down intervention. Lately, ‘power-sharing’ has extended to a variety of citizens’ associations and agendas and has become less centralized, strengthening the degree of directness of the Danish democracy (Kristensen 2011, Boyer 2008). This peculiar type of ‘stateness’ may be one explanation for the low degree of dissatisfaction with globalization among the Danish (Kristensen 2011), by facilitating the negotiation of social entitlements for competitiveness, ‘growth sharing’. A case in point is precisely the labor market reform of 1994 that introduced flexicurity (Kaspersen and Schmidt-Hansen 2006).

It has been noted that the life-course human-centered investment the Danish chose means that their egalitarian orientation does not so much translate into equality here and now – as a lot of people move from employment to unemployment and back to employment or education or training – but also into equality of life chances and protection (Esping-Andersen 1999), especially as the Danish economy embarks on the innovative, “experimentalist” economies (Kristensen 2011), with all the change and uncertainty this entails. In the end, while the socioeconomic model seems firmly rooted in an ethos of strong mercantile activity and mobility, it remains to be seen whether it will be able to keep resisting the increasing inequalities, and their solidarity-eroding quality, which daunt knowledge economies. Up to now the process has been mostly negotiated so that the alignment of means and ends of development, the very soul of the Danish regime, keeps warranting a supportive political economy.

## 6. What's next?

As the idea of development travels over time, understandings of state action evolve, so that development analysis cannot help continuously re-signifying past experiences as it looks ahead to future challenges. In the face of expansive and non-convergent meanings of development, hardly any experience appears solidly established as a standard to be followed. Under the light of new ideas, so-called developed countries may appear less so and less developed ones may teach one or two lessons. The concept of development as capability-enhancement, providing a framework to think of the elusive notion of well-being, tries to capture this plasticity of meanings even as it attempts to remain faithful to the notion of the ends of development. Among the many aspirations it seems able to accommodate is ecological sustainability, as the notion of real freedom reaches beyond existing generations to future ones, for whom there is no legitimate reason to deny the same possibilities. As a consequence, the new concept recalls that as a collective endeavor development cannot dispense with democratic procedures regarding the setting of priorities, strategies and actions. To the extent that the category that designates this endeavor, “public interest”, still makes sense, the place of the state is vindicated, for all the pitfalls and temptations that accompany its existence. And insofar as widespread political participation is accredited as a superior mechanism of decision making concerning what qualifies as the public interest, democracy attracts general attention, being charged with protecting the state against predatory raids as well as warranting open deliberation on the content and form of the development agenda even while keeping its intrinsic value.

Looking to what we already have on the shelves, the state form that in the post-war decades appears most conducive to capability delivery is the welfare state, for its ability to neutralize the grip of circumstances and chance over the real freedoms of individuals, and render economic

transformation legitimate and effective as a means to social transformation. Its emphasis on people-intensive public goods may influence production and consumption patterns in an environmentally friendly direction. When coupled with democratic regimes, the welfare state has the potential to deliver what the majority in a vast constituency expresses should be the elements in the development set – and this includes productivist and non-productivist experiments alike (which we might still consider a welfare state of sorts, as redistribution, provision of public goods and political mobilization are all there). Reciprocally, welfare states may help deepen democracies by raising the value of political freedoms, through equalizing interventions, and increasing the directness of democracies, through mechanisms of political negotiation, deliberation, coordination, and participation. And when this happens, as in the Danish experience, democratic welfare states display a high degree of flexibility to deal with challenging new circumstances.

But, of course, welfare states and democracy exist under many guises and with varying accomplishments. Hence, questions of interest include features of the socially chosen capability sets, comprising provision and distribution of their key elements, and tensions and complementarities between, e.g., political participation and representation, participation and inequalities, market generated inequalities and political support for redistribution. Also, there is the question of scale involving the successful stories of Kerala and Denmark: are these accomplishments likely to occur in big countries, such as Nigeria or Brazil, where concerted social action may prove more difficult to achieve? This is an empirical question that no doubt should attract a great deal of attention. But while these cases leave open the question of whether there is a maximum scale for successful social transformation – even though Kerala stands as a success story of a big region within a huge country -- they nevertheless show there seems to be no “minimum scale” for decentralization policies and participatory democracy, two strategies that were central to the positive outcomes. This suggests that a similar path should be followed in all cases. In any case, future development studies might focus

on forms of democracy, decentralization and welfare state configurations.

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## **Questions**

- 1) In an historical perspective, what have been the major justifications for state economic intervention and the major challenges involving large scale intervention?
- 2) What kinds of new problems and opportunities are introduced when taking into account the political sphere in the analysis of state intervention in the development process?
- 3) Provide and discuss additional national experiences of the relationship between democracy and development (suggested cases: Japan, China and Brazil).

4) To what extent do features of contemporary capitalism (e.g. globalization, technological revolution, unstable and segmented labor markets, market deregulation) and the fiscal strain facing the state in the last decades challenge welfare states as viable strategies for development?

5) In which ways might the size/population of a country interact with arguments for and against state intervention for development? Consider actual examples.

### **Further readings:**

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<sup>i</sup> This move famously marked a separation from the IMF's universal institutions blueprint at the time (Rodrik 2006, Singh et al. 2005).

<sup>ii</sup> To be sure, the consensual style draws on other sources besides social partnership, including a sequence of minority governments and a tradition of decentralization.