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Beyond Institutional Fetishism: From the Developmental to the Regulatory State

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What became of that great debate between the revisionists or the 'statists' and neo-classical economists on the causes of the Asian miracle on which so much ink was spilt? Something curious happened. In the wake of the Asian economic crisis, neo-classical economists crossed the floor and discovered in what they had previously termed 'market-conforming intervention' the existence of malevolent political interference in the economy.¹ But, if neoclassical economists had uncovered the effects of malign state intervention in the now distinctly tarnished Asian miracles, their erstwhile opponents underwent an equally remarkable conversion and discovered that the much vaunted policy capacities of East Asian developmental state had in fact been sapped by progressive financial liberalisation.² East Asian political economies, after all, were much more market-oriented than claimed by the statist. All of this confirms the insight of Lakatos that declining research programmes will strive to protect their hard core – the key assumptions of their theory – from falsification through *ad hoc* hypotheses.³ And one of the things the Asian crisis produced was *ad hoc* hypotheses by the dozen.

This essay suggests that something more is at stake here. The 'statist' response to the Asian crisis reveals the problematic understanding of the state as an institutional ensemble endowed with a set of transformative capacities.⁴ Trapped within an unhelpful binary of strong and weak states, for statist the fundamental problem posed by the Asian crisis was to account for the pursuit of financial liberalisation and, through it, the progressive decline of policy capacity in countries that supposedly had 'strong states'. For example, Wade and Veneroso, in an otherwise persuasive argument of the link between financial liberalisation and the Asian crisis, resort to explaining the origins of this financial liberalisation as a policy error.⁵ This explanation amounts to the claim that, while the state itself was strong, it was weakened only by technocrats buying into the orthodoxy of neo-liberalism in collaboration with the US Treasury or the International Monetary Fund (IMF). This is characteristic of a more familiar argument gaining popularity within International Political Economy (IPE), namely, that globalisation is primarily (or, sometimes, merely) ideational. Therefore, the argument goes, while the state and/or state power themselves have not declined, any limitation on state capacity arises from the operation of the ideological dominance of ideas about globalisation on state elites. But these explanations only serve to

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underline the fact that the statist, confronted with the Asian crisis, were unable to account for the propitious decline in the capacities of the developmental state – so well documented by Wade and Veneroso and Weiss⁶ – within the terms of their own conceptual framework of state capacity.

This essay contends that we need to replace this framework with a conceptualisation of states and their associated strategic capacities as products of social and political relationships both inside and outside the state.⁷ Adopting this view of the state highlights the process of state transformation – as opposed to the enumeration of the features of strong and weak states – as the crucial problem of contemporary political science and political economy. The strong state so beloved of the statist is a chimera that obscures the more important process of state transformation that is taking place under the pressures of global economic and political change. From this standpoint, this essay argues that the crucial transformation in East Asia is from the developmental to the regulatory state, not the weakening or otherwise of the capacity of the strong state, and that our research agenda needs to be reformulated in this light.

The developmental state and institutional fetishism

Boiled down to its essentials, the developmental state research programme is based on an understanding that a state has ‘core’ strategic capacities to plan, monitor and enforce key developmental objectives, which will shift the comparative advantage of national economies towards those sectors that are of strategic value in the global economy. The first generation of developmental theorists, building on the work of economic historians of late industrialisation such as Gerschenkron,⁸ sought to identify the presence of these strategic capacities in key pilot agencies such as Japan’s Ministry of International Trade.⁹ The thread running through this idea was of state capacity enhanced by autonomous agencies insulated from the cut and thrust of political and social interests. In the second generation of scholarship on the development state, these ideas of state autonomy gained greater nuance with a more complex analysis of the relationship between society and the state. Intellectually, much of this work was heavily influenced by the neo-Weberian statist paradigm that has so strongly influenced the comparative politics and political economy literature in the last two decades.¹⁰ Within the developmental state literature, it was captured in the various ideas of ‘governed markets’, ‘governed interdependence’, ‘misunderstood miracle’, ‘reciprocal consent’ or ‘embedded autonomy’.¹¹ Whatever the term used, the hard edge of the late industrialising developmental state was softened by a focus on state and society partnerships in the pursuit of developmental objectives.¹² Emblematic here was Peter Evans’ idea of embedded autonomy which best captures the almost schizoid nature of the developmental state: autonomous but at the same time embedded in social networks and partnerships.¹³ In these neo-Weberian accounts the state itself becomes an actor that intervenes in or acts upon society to produce certain desired outcomes. Institutions become the key to explaining developmental outcomes.

Indeed, some scholars working within institutionalist frameworks seem to reify institutions to such an extent that they have almost given birth to a form

of 'institutional fetishism'. Developmental state institutions for these neo-Weberian developmental state theorists come to be endowed with almost magical properties of social and industrial transformation. Where this institutional fetishism falls down is in the way it occludes the deeper social relations that underpin those kinds of institutional capabilities seen to be so central to the developmental state. Institutions are accentuated and social relations are attenuated. The core of the problem with such neo-Weberian categories as 'embedded autonomy' or 'governed markets' is that they consider state or institutional capacity as a set of institutional attributes that can be readily identified. They depend on a model of capacity that seeks to identify the key endowments or attributes that a state or public agency may possess and which impart to it a set of transformative powers over policy and structure.¹⁴ In turn, it is these transformative powers that frame the extent and limits of state strength.

But how this state power is produced and the form it takes remain beyond the horizon of the research programme. State power for the neo-Weberians becomes a kind of *deus ex machina* that is unable to grasp the way in which state power and capacity is produced and transformed over time. More to the point, developmental state theorists, because they understand 'policy capacity' as a set of fixed institutional endowments or attributes, are unable to grasp how these capacities change in response to broader changes in the constellation of social and economic interests. What we require is a more constitutive conception of the state and policy capacity that recognises that the state is not an 'entity', but a complex and constituted set of relationships between frameworks of political authority and the international political economy, domestic social forces, and the broader ideational notions of authority or stateness.

Look again at the seminal article by J.P. Nettl which inspired so much of the statist literature on strong and weak states.¹⁵ Admittedly, Nettl does provide ample grounds for a neo-Weberian reading, but his article also allows us a glimpse of a constitutive understanding of the state as a set of constituted relationships rather than a fixed entity. In particular, Nettl sought to give conceptual clarity to the various multiple analytical dimensions – international forces, state–society relations and conceptions of public authority – that constitute what he calls 'stateness'. Using the conceptual framework of stateness, rather than seeing the state as an 'ensemble of institutions', enables us to explore how 'state transformation', or indeed 'state building', is always a socially constituted and dynamic process.

The real advantage of this understanding of statehood is that it allows us to see how these various projects of statecraft are enabled or constrained by the broader structural forces in the global political economy. For example, the developmental state project of the Cold-War period in East Asia was enabled by both the system of security alliances between the United States and East Asia *and* the Bretton Woods system of financial regulation that created the possibility for a regime of national developmentalism. The transformation of the global order in the post-Cold-War era made military alliances much less important to the US; more crucially, the globalisation of finance rendered problematic the very notion of 'national' economic development that was so central to the evolution of the developmental state.¹⁶ The developmental state was an artefact of a particular Cold War- and Bretton Woods-based regime of international governance.

At the same time, these transformations in the nature of the global political economy facilitated the emergence of changed conceptions of statehood, aligned with new projects of statecraft that sought to develop means and technologies of state power, and frameworks of public authority that were more congruent with a more globalised political economy. The benefit of this 'historicised' formulation is thus that it allows us to focus on state transformation, state building and the processes through which new notions of stateness are created. Instead of locating the impact of globalisation on some quantum of state power – as neo-Weberian statisticians would have it – this approach allows us to explore in a more nuanced and appropriate way how globalisation changes the internal architecture of the state. It is the production and reorganisation of state authority that is important, not the diminution of state power or capacity.

The new regulatory state and a new research agenda

Pivotal to these new forms of statehood is the emergence of the new regulatory state, which is directed towards the production of economic and social order within a globalised economy. In particular, this model shifts the function of the state from the direct allocation of social and material goods and resources to the provision of regulatory frameworks within the economic order.¹⁷ The main features of the regulatory state are: (a) separation of policy from operation through, for example, contracting out of services; (b) creation of new and autonomous regulatory institutions such as independent central banks; (c) the increasing role of the state as the regulator of regulation – that is, it attempts to regulate directly but only as far as shaping the institutional context of regulatory institutions; and (d) the shift from a discretionary to rules-based mode of governance in a range of economic and social policy areas.

Recent changes in South Korea provide a neat illustration of the way in which new regulatory forms and relationships are being elaborated. For example, the Bank of Korea Act effectively entrenches its autonomy from the Ministry of Finance. While mechanisms of consultation between the Ministry and the Bank of Korea have been established, the executive is unable to impose a particular course of monetary policy on the Monetary Board. Thereby it removes the power and capacity of central economic agencies to direct the kind of industry policies that have been a marked feature of the developmental state. Another such important regulatory institution is the Financial Supervisory Commission (FSC) which operates autonomously and has acquired considerable power to regulate and monitor the Korean financial system.¹⁸ Iain Pirie provides an excellent account of how the post-crisis Korean state has been substantially restructured to promote order and regulation within the neoliberal global economy; more importantly, he shows that it is through the internal transformation of the state that neoliberal disciplines are imposed.¹⁹

One of the features of the new regulatory state that differentiates it substantially from the developmental state is its role as provider of regulatory frameworks, or what might be termed its role as meta-regulator. Governance in this sense becomes the very business of the state as it seeks to constitute new arenas of governance. Nothing illustrates more the transformation of the developmental state than the

way its panoply of 'administrative guidance' and executive discretionary power has given way to a flowering of assertive legalism and constitutionalism in economic and political decision making. Take central bank independence. The significance of this independence lies not so much in the privileging of monetary stability – important as it is – but in the way in which new arenas of governance are being created through an increasing process of legalisation or proceduralisation. This is not an isolated example: Korea and Japan have implemented systems of administrative review and appeal, and established avenues for appealing administrative actions. Korea has established an administrative court system and expanded the scope and basis on which administrative action can be taken. Taken together with the growing influence and jurisprudence of the Korean constitutional court, the 'hard'-edged developmentalism of the statist looks simply out of date.²⁰ In fact, the growing importance of the new legalism in East Asia, as exemplified by Korea's Administrative Law, creates new state practices and arenas; even more significantly, it transforms established notions of public authority and purpose, as well as the public language around which political claims and contestation occurs. To use Nettl's terminology, this new public language reflects a shift in conceptions of stateness or statehood.

This legalism in turn reflects the importance of a form of 'proceduralism' in economic policy making within the new regulatory state. Proceduralism, in this context, refers to the fact that, as these new and relatively autonomous sites of governance take shape, they come to be constituted not by direct application of state law, regulation or authority, but through more indirect means that enhance or generate the self-regulation capacities of these sites of governance. Policy capacity lies in the efficacy with which these indirect techniques enable self-governance. Proceduralism, then, transforms stateness or statehood in two respects: first, governance strategies are seen as establishing the self-regulating capacities of independent agencies; second, and perhaps more importantly, they establish something resembling 'meta-procedures' that govern the linkages between various sites of governance. The broader point to note here is the way structural changes in the global economy are felt in the emergence of new regulatory arenas of governance.

What this very brief analysis underscores is the fact that a focus on the transformation of the state enables us to develop a broad research agenda that goes beyond the simplistic strong/weak state binary that has blunted the analytical edge of the neo-Weberian statist research programme. None of this is to suggest that the regulatory state is a functional response to the imperatives of the global economy. As indicated, changes in the global political economy provide the enabling conditions for new forms of statehood, but the actual transformation of these forms of statehood depends on political actors who are able to mobilise various projects of statecraft. Certainly, in Korea, it was the mobilisation of a new project of statecraft that included not just changes in economic governance but also significant changes in both the organisation of political authority (such as the new constitutional court) and new forms of social contracts (such as in health care) that established the political foundations of a new regulatory state. Compare this with Japan, where change has been slower and more diffused than in Korea, although, even in the Japanese case, significant moves towards a new

regulatory state are evident.²¹ The regulatory state, just like the welfare state, is likely to come in all shapes and sizes; the important dimension of the regulatory state research project is exploration of these differing versions of the model.

It needs to be acknowledged that the statist's research programme was, for a period, a very progressive one. It generated a series of interesting research questions on the nature of state intervention, the relationship between particular types of intervention and, especially in the work of the second generation of developmental state theories, the ways in which different patterns of state--society linkages shaped the effectiveness of state intervention. However, it now shows all the hallmarks of a degenerating research programme that is no longer capable of setting out an interesting or relevant agenda. In contrast, the regulatory state programme and the conception of state that it embodies provides the basis for a new, progressive and challenging research programme for students of comparative politics and political economy. By means of its focus on the process of state transformation, adopting this regulatory research agenda has the advantage of transcending some of the unproductive debate on the role of the state in the international political economy. Certainly in East Asia, it is the emergence of the new regulatory state that needs to be placed at the heart of the study of the new regional political economy.

Notes

1. Kanishka Jayasuriya & Andrew Rosser, 'Economic Orthodoxy and the East Asian Crisis', *Third World Quarterly*, Vol. 22, No. 3 (2001), pp. 381-96.
2. Robert Wade & Frank Veneroso, 'The Asian Crisis: The High Debt Model Versus the Wall Street--Treasury--IMF Complex', *New Left Review*, No. 228 (1998), pp. 1-24.
3. Imre Lakatos, 'Falsification and the methodology of scientific research programmes', in: Imre Lakatos & Alan Musgrave (eds), *Criticism and the Growth of Knowledge* (Cambridge University Press, 1970), pp. 91-196.
4. The best survey of the developmental state hypothesis is to be found in Meredith Woo-Cumings (ed.), *The Developmental State* (Cornell University Press, 1999).
5. Wade & Veneroso, 'The Asian Crisis'.
6. *Ibid.*, and Linda Weiss, *The Myth of the Powerless State: Governing the Economy in a Global Era* (Polity, 1998).
7. See Bob Jessop, *The Future of the Capitalist State* (Polity, 2002); and Jens Bartleson, *The Critique of the State* (Cambridge University Press, 2001) for critical analyses of the idea of the state as an entity with a given quantum of power.
8. Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Harvard University Press, 1962).
9. Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy* (Stanford University Press, 1982); and Alice Amussen, *Asia's Next Giant: South Korea and Late Industrialization* (Oxford University Press, 1989).
10. Peter Evans, Dietrich Rueschemeyer & Theda Skocpol (eds), *Bringing the State Back In* (Cambridge University Press, 1985) is the significant work that stimulated much of the research agenda on the role of state institutions in shaping political and economic outcomes. The title of the book is apposite because it brought back the state into mainstream political science but without the critical edge of the debates on the state of the 1970s provided by such figures as Ralph Miliband and Nicos Poulantzas. See Nicos Poulantzas, 'The Problem of the Capitalist State', *New Left Review*, No. 58 (1969), pp. 67-78; and Ralph Miliband, *Class Power and State Power* (Verso, 1983). Despite their differences, both Miliband and Poulantzas would have been surprised at the way the theory of the state has been blunted by its incorporation into a form of institutionalism.

11. Respectively, Robert Wade, *Governing the Market: Economic Theory and Role of Government in East Asian Industrialization* (Princeton University Press, 1990); Linda Weiss & John Hobson, *States and Economic Development: A Comparative Historical Analysis* (Polity, 1995); Weiss, *The Myth of the Powerless State*; David Friedman, *The Misunderstood Miracle: Industrial Development and Political Change in Japan* (Cornell University Press, 1988); Richard Samuels, *The Business of the Japanese State: Energy Markets in Comparative and Historical Perspective* (Cornell University Press, 1987); and Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton University Press, 1995).
12. For a more general outline of this neo-Weberian state in society view, see Joel Migdal, Atul Kohli & Vivienne Shue (eds), *State Power and Social Forces: Domination and Transformation in the Third World* (Cambridge University Press, 1994). But the problem with this perspective is that it ends up reifying both 'state' and 'society'. The 'state' is viewed as an entity that intervenes in society.
13. Evans, *Embedded Autonomy*.
14. See Peter Evans & James Rauch, 'Bureaucracy and Growth: A Cross-National Analysis of the Effects of "Weberian" State Structures on Economic Growth', *American Sociological Review*, Vol. 64, No. 4 (1999), pp. 748–65; and Weiss, *The Myth of the Powerless State*.
15. J.P. Nettl, 'The State as a Conceptual Variable', *World Politics*, Vol. 20, No. 4 (1968), pp. 559–92; and Peter Evans, 'The Eclipse of the State? Reflections on Stateness in an Era of Globalization', *World Politics*, Vol. 50, No. 1 (1997), pp. 62–87.
16. Kanishka Jayasuriya, 'Globalisation and the Changing Architecture of the State: The Regulatory State and the Politics of Negative Coordination', *Journal of European Public Policy*, Vol. 8, No. 1 (2001), pp. 101–23.
17. See *ibid.*; and Kanishka Jayasuriya, 'Authoritarian liberalism, governance and the emergence of the regulatory state in post-crisis East Asia', in: R. Robison, M. Beeson, K. Jayasuriya & H. Kim (eds), *Politics and Markets in the Wake of the Asian Crisis* (Routledge, 2000), pp. 315–30.
18. Iain Pirie, 'The New Korean State', *New Political Economy*, Vol. 10, No. 1 (2005), pp. 25–42.
19. *Ibid.* This article is especially useful in delineating the new institutional architecture of financial regulation within the Korean state.
20. Tom Ginsburg, 'Comparative Administrative Procedure: Evidence from Northeast Asia', *Constitutional Political Economy*, Vol. 13, No. 3 (2002), pp. 247–64.
21. Mark Beeson, 'Japan's reluctant reformers and the legacy of the developmental state', in: A. Cheung & I. Scott (eds), *Governance and Public Sector Reform in Post Crisis Asia: Paradigm Shift or Business as Usual* (Curzon Press, 2002), pp. 25–43.