

## CHAPTER 1

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### Introduction

AMID THE ENORMOUS diversity of experience across developing countries since the Second World War, India has managed to stand out. At mid-century, in the years following its independence from British rule, there was a tremendous sense of anticipation as the nation embarked on its first development plan, perhaps the most ambitious yet witnessed in poor countries. Despite the grinding poverty of the bulk of the population, the expectations were that India had some of the basic ingredients required for a great leap forward economically: a rich stock of natural resources, an industrial base which, by the standards of the South, was fairly broad and advanced; a bureaucratic and administrative apparatus which was—again by the standards of the developing world—quite competent; and, lastly, a political leadership genuinely committed to launching an industrial transformation.

Adding to the sense of drama was that this massive nation of four hundred million, with its enormous diversity and history of conflict, was choosing to push forward within a bourgeois democratic framework—a fact of some significance in a continent that already boasted two large nations committed to Communism, hence making the Indian experiment all the more significant to the capitalist world. India was to be an exemplar, demonstrating the possibility that planning need not presuppose the abolition of property, but could, in fact, be harnessed to the engine of capital accumulation.

Fifty years later India still stands out, but only as a lesson in disappointment. Development planning, once seen as the instrument that would launch the country onto a path of industrial dynamism, is now regarded as having been an impediment toward that same end. The 1990s have witnessed a turning away from the statist economic policy of previous decades, ushering in a process of concerted liberalization, a dismantling of the vast panoply of controls and regulations that had slowly accumulated over the years. But the sense of ennui had, in fact, set in much earlier, during the 1970s, when the economy slowed down perceptibly, settling into the famous “Hindu rate of growth.”<sup>1</sup> It had become clear that the state’s ambition of pushing the country into the front ranks of the developing world had fallen far short of its target, with seemingly few prospects of changing in the near future. By the time liberalization set in during the 1990s, India had fallen from being the

prospective beacon for the developing world to what one scholar has called "the most dramatic case of a failed developmental state."<sup>2</sup>

This book seeks to explain why the Indian state failed so conspicuously in its mission to transform India into an industrial dynamo. It does not pretend to offer a complete analysis of the development experience since 1947. My focus is quite narrower: I wish to provide an explanation of why the Indian state failed in the specific domain of industrial planning and policy. Why, when it boasted a political leadership of considerable quality and commitment, the apparent administrative wherewithal, and the requisite industrial base, did India not succeed in propelling a successful industrial transformation? To Jawaharlal Nehru and the Indian National Congress (INC), the path to development was virtually synonymous with industrialization. That they met with relatively limited success in achieving it merits an explanation.

That the failure was a *relative* one needs to be emphasized at the outset. My intention is not, by any means, to portray the Indian experience as an embodiment of the caricatures that populate neoliberal strictures against interventionist economic policy. State intervention, whatever its shortcomings, did manage to widen and deepen the country's industrial base considerably and to move the economy along the technological ladder. India today can boast significant competence in many of the cutting-edge sectors of the world economy. This is an achievement that ought not to be slighted, especially in light of the numerous, and quite spectacular, development disasters that decorate the international landscape. But while the Indian state did manage to oversee a somewhat respectable industrial transformation, it cannot be denied that its performance as a developmental agency fell far short not only of the expectations of policy elites but also of the standards set by the states of other countries—in particular, those of Northeast Asia.

Asking why the Indian state failed in its ambitions presumes having some idea of what kinds of policies or choices *would* have been more successful. Toward this end, my examination of the Indian experience is framed by a comparison with South Korea, perhaps the exemplar developmental state in the postwar period. The fortunes of industrial policy and planning in Korea stand in glaring contrast to those of India: whereas in the latter case the state's efforts to promote a dynamic industrial sector fell prey to the twin evils of bureaucratic paralysis and capitalist rent-seeking, Korean efforts were rewarded by unprecedented success. What makes the comparison interesting and possible are not just the divergent outcomes; there are similarities in background conditions that make it possible to draw meaningful comparisons. Both countries started their development efforts soon after World War II, making their experiences largely concurrent; both were at broadly similar levels of industrial

TABLE 1.1  
Share of Manufacturing and Allied Activities in GNP, India (1950) and Korea  
(1960–62)

Sector	Share of GNP India (1950) (%)	Share of GNP Korea 1960–62 (%)
Manufacturing and Construction	15.4	17.1
Utilities	a	1.1
Mining and Quarrying	0.7	2.0
Total	16.1	20.2

<sup>a</sup>Included in the figure for Manufacturing and Construction.

Sources: For India: Raymond Goldsmith, *The Financial Development of India, 1869–1977* (New Haven: Yale University Press, 1977), table 3.2. For Korea: Edward Mason et al., *The Economic and Social Modernization of the Republic of Korea* (Cambridge, Mass.: Harvard University Press, 1980), table 13.

development at the start of their rapid industrialization programs, as shown in table 1.1; in both countries, the industrial sector was dominated by a small number of business houses, which accounted for a disproportionate share of output and investment;<sup>3</sup> in both cases, the policy design was heavily interventionist, relying on extensive government intervention in, and regulation of, the private sector; and in each case industrial policy was directed by the central government, and nominally concentrated in a few key ministries and agencies. Hence, despite many differences in other dimensions, these similarities allow for a meaningful comparison, and indeed have generated some efforts in this direction in recent years.<sup>4</sup>

The enormous success of Korea in making its traversal to a dynamic and efficient industrial economy has generated significant rethinking in development studies. When I first began thinking about the political economy of development in the late 1980s, the dominant trend among scholars evinced a strong suspicion of statist or *dirigiste* economic strategies. The decade had witnessed the derailment of several prominent experiments in state-led development, most notably in Latin America but also in India, Turkey, and other countries.<sup>5</sup> Although there were many reasons for the downturn in these countries, it was impossible to ignore the fact that their maladies were at least partly generated by the domestic political economy. And most heavily implicated in this drama was the state itself. With a public sector that was often operating with large losses, a private sector bloated from state subsidies and virtually immune from competition, and bureaucracies rife with corruption and venality, the ground was laid for the suspicion that it was state intervention in the economy itself that lay at the heart of the crisis in these

countries.<sup>6</sup> The natural conclusion flowing from this position would have been that India's mistake was its very turn toward development planning in the first place, an economic strategy that relied so centrally on state intervention in markets.<sup>7</sup>

At around this same time, a series of studies began to emerge that demanded a rethinking of the reigning consensus. Led most notably by Alice Amsden and Robert Wade, whose case studies have quickly acquired classical status, a number of scholars pointed to the extraordinary growth of the (North)East Asian economies, which they insisted was a fact of great significance for development theorists.<sup>8</sup> For these economies—Japan, Taiwan, and South Korea—had engineered their spectacular success not through any fidelity to free-market policies but with a reliance on highly interventionist industrial planning. The Korean and Taiwanese states had actively manipulated trade and exchange rates,<sup>9</sup> the allocation of finance,<sup>10</sup> as well as the price structure of the domestic economy;<sup>11</sup> it was also shown that both countries not only had developed a large public enterprise sector<sup>12</sup> but had also been active in directing the structure of private investment.<sup>13</sup>

These studies have triggered a disintegration of the consensus on the role of the state in development. It can no longer be argued confidently that a reliance on an interventionist state in developing countries was a mistake. State intervention is a phenomenon that has been common *across* the development experience, in the successful cases as well as the failures. This fact has led several prominent scholars to conclude that the East Asian experience differed from that of other developing areas, not in the *fact* of state involvement in the economy but rather in its *quality*.<sup>14</sup> The state in the newly industrializing countries (NICs) intervened in the domestic economy just as its counterparts did elsewhere, and even toward the same ends; however, it managed to succeed in prodding local industry toward greater efficiency and productivity, whereas others, like the Indian state, did not. States in these regions thus differ not so much in their orientation toward the economy—for in both cases they were committed to “governing” the market<sup>15</sup>—but in their *capacity* to bring about the desired results. This is not to say that the chief responsibility for the extraordinary growth rates in Taiwan and Korea goes to development planning. Observed rates of economic growth are driven by a combination of a host of factors—cultural, institutional, economic, geographical, and so on.<sup>16</sup> What the scholarship under discussion stresses is that the state has turned out to be one of those factors after all, and a significant one at that.

The debate on the developmental state has thus come to a conclusion much like the one reached about capitalist welfare states a decade before: that much of the interesting variation in outcomes (in this case,

success in fostering industrial development) depends on the state's having the capacity to fulfill the tasks assigned to it. *State capacity* itself has been decomposed into two broad dimensions: an intrinsic component, namely, the state's *cohesiveness* as a strategic actor, which can formulate and implement policy in a coherent fashion;<sup>17</sup> and an extrinsic component, which is the state's ability to *extract performance* from private firms—setting standards, monitoring performance, and influencing the direction of investment—in exchange for the subsidies that are doled out to them. Alice Amsden, who has argued this more forcefully than anyone else, puts it aptly:

All governments know that subsidies are most effective when they are based on performance standards. Nevertheless state power to *impose* such standards, and bureaucratic capability to implement them, vary from country to country. . . . The state in Korea, Japan, and Taiwan has been more effective than other late-industrializing countries *because it has had the power to discipline big business*.<sup>18</sup>

The difference in quality of intervention is thus explained in large measure by the state's ability to formulate and implement policy in a coherent fashion, and to impose discipline on private firms. Where Korea and Taiwan succeeded in this task, the states in South Asia and Latin America typically did not.

Hence, in answer to the question posed above—namely, what kind of policies or choices would have been more successful in India—the recent literature does provide us with some guidance, pointing to the centrality of adequate state capacity. And the arguments about East Asia, particularly Korea, certainly do contrast in appropriate ways with what we know about the Indian state: its excessively bureaucratic style, lack of coherence in policy, and utter inability to discipline domestic business are well known.<sup>19</sup> But while I affirm this understanding of the Indian case in the analysis to come (in chapters 7 and 8), I direct much of my attention to two other questions, which flow immediately from the recognition of the state's inadequacies.

#### THE INSTALLATION OF THE DEVELOPMENTAL STATE

First, if the Indian state lacked the capacity to succeed in its developmental tasks, how do we explain this? In other words, why did Indian political leaders and bureaucrats fail to build the institutions adequate to the task? After all, the idea that policy needs to be coherent and that governments have to be able to impose discipline on firms is hardly a deep, arcane truth known only to intrepid social scientists. It is common

knowledge to every politician and state functionary, and mid-century Indians should have been no exception; indeed, as I show in chapters 4 and 6, they were keenly aware of the issue, and the idea of building such institutions was very much on the immediate political agenda. That the state ended up without the requisite institutional capacity, despite the national leadership's awareness of its necessity, and despite the leadership putting it on the agenda, requires explanation.

Let us call this—the lack of success in putting a developmental state in place—the question of the *installation of the state*. It is surprising that, on this issue, there has been very little discussion in the recent work on development.<sup>20</sup> This is perhaps a measure of the extent to which the neoliberal challenge has been able to set the terms of the debate of late. Scholars doing empirical work on East Asia have put considerable effort into showing that states need not fall prey to the pathologies their critics predict.<sup>21</sup> It is for this reason that we have accumulated so much detail on just what these states did in their “miracle” decades, and what kinds of institutions their success required. But one consequence of the dedication to this research agenda is that the anterior issue, of why the East Asian regimes were able to build such states in the first place, has suffered from relative neglect.<sup>22</sup>

In the chapters that follow I offer an account of the Indian experience that seeks to explain why the political leadership did not install a developmental state, despite the fact that they were aware of the need to do so. This is set in contrast to the Korean experience, examined in chapter 3, where the outcome was very different, in that a state with the appropriate institutional backbone was put into place. It needs to be noted here that, despite the comparative frame, questions such as this—in which the concern is to explain the absence of particular institutions—are often more easily posed than answered. Such questions have rightly drawn criticism from some quarters as subtly teleological, in that they presume that there is a “normal” end state (in this case, a developmental state) toward which all paths lead, so that the divergence from such a path requires explanation. But why presume, the criticism goes, that any such end state exists, and why presume that the absence of particular institutions, or types of institutions, requires explanation? There are instances where such worries have proven to be justified; I hope to show, however, that this study is not one of them.

Two conditions suffice to defuse the charge of teleology in analyses such as this one. First, it must be shown that the institutions in question—which were not, in the end, installed—were, in fact, on the political agenda at some critical juncture;<sup>23</sup> second, it needs to be shown that the actors in the drama were aware of this agenda and acted in cognizance of its implications. If these conditions hold, then we are fully

justified in asking why, despite being among the menu of options, the desired institutions were not installed. The Indian case meets these conditions handily. The years immediately following Independence, 1947 to 1951, constituted just this kind of critical juncture, in which a strong developmental state was very much on the political agenda. It is therefore an ideal setting to examine the constraints that exist in actualizing the project of installing such states, and I devote chapters 5 and 6 to its examination.

The argument I offer as an explanation for why Indian elites failed to actualize their state-building agenda while their Korean counterparts succeeded departs somewhat from the dominant tendency in the literature. More through default than by dint of theoretical commitment, the prevailing approach to the study of state building in development studies has been statist in orientation. Scholars have been primarily concerned to show that, given the requisite state capacity, patterns of intervention in the economy need not fall prey to neoliberal worries. The process of how such states were installed often serves as a quick, and hence somewhat perfunctory, narrative of the sequential implementation of policies. The focus therefore remains on political elites and dynamics within the governmental apparatus, giving the overarching impression that what matters is the goings-on *within* the state. This has been reinforced by some scholars who do, in fact, have a theoretical commitment to statism, taking the view that, indeed, it is the state that is the main actor in this drama; and it is the main player because it is more powerful than any other.<sup>24</sup>

I argue, in contrast, that the critical conflicts for building state capacity occur not *within* the state but *between* the state and societal actors, particularly the capitalist class. I show this through a detailed analysis of the Indian case, but it is also strengthened through a new interpretation of the relevant period in Korean history. The explanation itself consists of two nested claims. First, the divergence in outcomes with respect to state capacity depended crucially on the orientation of the business class toward the state: the Indian state managers' agenda was frustrated by a well-organized offensive launched by domestic capitalists, whereas in the Korean case the state was able to harness capitalists to its project. Indian capitalists in the years immediately after Independence refused to countenance a state with wide-ranging regulatory and interventionist powers, and organized effectively against it. In so doing, they reduced the autonomy and power of political elites to build the institutions they had proposed. Conversely, it was the success in striking an alliance of sorts with its domestic business class that gave the Korean political elite the space to build appropriate state institutions. Naturally, having the autonomy to put the institutions in place was not sufficient for success;

for this, the facts internal to the state, on which much of the literature has focused, were of great importance. The argument presented in this book does suggest, however, that the antecedent autonomy garnered by the alliance with business was necessary for the state-level processes to be effective.

So the first argument states that the state-building project is critically mediated by the nature of state-capitalist relations. But this, in turn, raises a question, to which the second argument is addressed: why did the capitalist classes in the two countries react differently to the idea of a strong developmental state? Was the difference generated by contingent historical factors, or was there, in fact, a deeper, structural factor that might explain it? In other words, could we specify the circumstances in which business classes would react favorably or unfavorably to building a developmental state? I argue that, indeed, it is possible to adduce a deeper mechanism that was responsible for the diverging reactions by domestic capitalists to the state-building agenda. This mechanism is, for lack of a better term, the development model the respective regimes chose to adopt. In India the state opted for import-substituting industrialization (ISI), whereas in Korea greater emphasis was placed on export-led industrialization (ELI).<sup>25</sup> I suggest that the two models generated different political incentive structures for the capitalist classes: ISI made it possible, and even rational, for Indian capitalists to resist the effort to build a state that could impose discipline on private firms; ELI, on the other hand, made it rational for Korean business to acquiesce to its own disciplining by a developmental state.

The emphasis on the autonomy of the state from the capitalist class brings into our analysis the same categories and concerns that have framed the discussion of the welfare state in past decades. I believe that this is to be welcomed. For too long, discussions of the state in developing countries have been bracketed off from the analytical concerns that animate the study of advanced capitalist states.<sup>26</sup> A central concern of the latter debates has been to uncover the constraints that social forces impose on state action, and the conditions that govern the variation of these constraints. Of particular interest has been the manner in which capitalist class interests, and class organizational power, limits the autonomy of the state.<sup>27</sup> While these questions do enter concretely into discussions of the state in developing countries, they are not commonly conceptualized in a self-conscious fashion. Hence the possibility of research in the two settings being used for the advancement of a common framework is not fully utilized. This book is intended to contribute toward bridging this divide and bring discussions of the developmental state into the broader theoretical ambit of the capitalist state.



## THE REPRODUCTION OF THE STATE

Thus the argument about the installation of the state is that it is governed in the first instance by the state's relation to the capitalist class, which is, in turn, conditioned by the adopted development model. This brings us to the second question: even if an adequate developmental state is not installed initially, why is it not reformed once its inadequacies are discovered? Why is an unsatisfactory state reproduced over time? Analyses focusing on the origins of particular institutional configurations sometimes leave their subsequent reproduction unexplained, and into this analytical vacuum step such notions as "bureaucratic inertia" or "historical momentum" in place of real explanations. This is regrettable in any setting, but in the analysis of state failure it is especially so. So long as political elites are at least nominally committed to a genuinely developmental agenda, and aware that the existing state apparatus lacks the capacity to serve this function, it is of some interest to ask why, despite their commitments, elites abide by a weak state.

This is the issue around which the last two chapters revolve, and the issue that dictates the historical end point of the book. Why the state was not restructured to better serve the purpose of industrial transformation is most easily answered if, like in the case of state installation, we can find a point at which reform was on the agenda but did not ultimately come to fruition. In India, such a window of opportunity opened in the mid-sixties, when, after the death of Jawaharlal Nehru, calls were made within the political elite as well as the bureaucracy for overhauling the planning institutions, in clear recognition of their inadequacy. Methodologically this presents an excellent opportunity to examine the hurdles, which, in the end, made state transformation a non-starter. The reform episode turned out not only to be fleeting but also one in which the very meaning of reform took on a particular cast: from making the state better at industrial planning to considerably reducing the scope of development planning itself. I offer explanations for both phenomena—the construal of reform as liberalization, as well as the squelching of even this impulse.

Once the reform episode was past, Indian development policy continued within the old groove for another decade and a half, until liberalization was initiated haltingly in the 1980s, and then on an accelerated pace in the decade that followed. The lapsing of the initial opportunity for reform was thus of some historical importance, in two ways: first, because another such window did not open again for another fifteen years; and second, because it showed that, even if reform were to occur in the future, it would not be toward *better* state intervention but *less*

intervention. The analysis of the mid-sixties conjuncture thus provides a convenient point at which to terminate the story. A close analysis of why the state and economic elites finally did undertake a path toward dismantling the policy regime in the 1980s is a task I intend to undertake in future work. For now, I hope it is enough to explain why India became saddled with an inadequate developmental state, and how, once installed, it became locked in place.

The architecture of the book is structured around answering the three main questions that have been introduced in this chapter: What do developmental states do? Why was Korea able to install a state with the ability to carry out the required tasks, while India was not? And, lastly, why was the Indian state not reformed in appropriate ways after its inadequacies became clear? Chapter 2 probes more deeply into the nature of the developmental state and into existing approaches to its study. It also presents a summary of the basic argument developed in the chapters to come. We then enter part 2 of the book, which is concerned with the installation of the state: chapter 3 examines the origins of the Korean state, in order to frame the subsequent examination of India, and chapters 4 to 6 present an argument as to why, in the Indian case, the attempt to put a developmental apparatus in place failed. Part 3 of the book attempts to answer why the state was not reformed: chapter 7 examines how its institutional structure generated a particular pattern of intervention in the economy, and chapter 8 argues that this pattern of intervention affected both the power of the planning authorities and the legitimacy of the planning process itself, which, in turn, affected their ability to fight for reform.