Social Transformation and the State
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The role of the state in developing countries raises a number of questions that are of particular interest in terms of economic development. What are the functions of the state in developing countries in accelerating economic development? Why do states perform differently in this respect? My work on the state provides some tentative answers to these questions (and these are very different answers from some answers to similar questions provided by Chibber, Harriss-White and others in this series). It also raises many more questions for further research.

Observations of the role of the state in developing countries suggests that i) there are many trajectories of capitalist development. All developing countries have capitalist sectors characterized by private ownership, production for the market, the employment of wage labour. But equally, the capitalist sector does not dominate in developing countries, and the growth of the capitalist sector varies enormously. Performance ranges from high-growth state-led capitalist transformations as in the North East Asian countries to intermediate cases of moderate growth as in Thailand and now in South Asian countries like India and Bangladesh, to very low growth or collapse in some countries. The role of the state is obviously different in these different types of trajectories, and too much of the developmental state debate is conducted on the assumption that the North East Asian model is the only one available.

ii) States have very different political constituencies and follow different strategies. The state strategies and governance structures that work are not a simple policy variable as some readings of the new work on the state suggests. It is not the case that if India, say, adopted South Korean state policies in full, including say export orientation (as Chibber suggested) that the results would be anything like South Korea. This is because institutions are only as good as their effective management and enforcement and these in turn depend on the underlying social organization and power structures. Ignoring these can result in poor analysis and bad policy.

iii) But this does not mean that state policies are determined by social structure. The same social and class structure can support many different patterns of factional organization and state policies, and class structures are themselves changing over time. The task of analysis is to ask if specific state structures and policies are the most conducive for economic development *in that social context.* Such an analysis cannot but be political because the analysis of the implications of factional analysis is central to an analysis of the economy.

To understand the state better, I propose to look at 3 interdependent areas of analysis that need to be developed and integrated to provide the analytical framework for a proper analysis of the state.

Before we begin, I define the state as the set of institutions that protect, transform, and enforce rights, both over assets and over politically generated income flows (that are also known in the modern literature as rents). These institutions are not necessarily under the control of any class but the factions that control the state do respond to class and factional mobilizations in their own self-interest both in order to maintain political stability and to accelerate the state's own access to economic surplus.

The three areas that I want to focus on are as follows:
1) the intense instability of property rights and rents in the context of transformation, and the debates over the analysis of this instability.
2) the institutions of compulsion required for rapid productivity growth in developing countries and their role in catching up.
And 3) the role of political power in explaining institutional performance and the categories appropriate for the analysis of power in developing countries.

We will deal with these three areas in turn.

1) The first major area of my analytical contribution is to analyze the implications of property right instability, rents and transfers in developing countries. By any measure of property right instability, or expropriation risk, rights in developing countries are contested to a significantly greater extent than in advanced countries. Rents on the

other hand, are ubiquitous in both, rents defined in the modern sense of politically created incomes rather than in the classical Ricardian sense. But in developing countries, a greater proportion of rents take the form of illegal transfers and expropriations. The economics of this period of property right instability and illegitimate rents is very contentious and its adequate analysis goes beyond both neoclassical economics but also classical political economy with its emphasis on value theory and the capitalist mode of production.

The emerging consensus in mainstream policy circles is that the property right instability is itself the source of the problem in developing countries. The good governance agenda is about how to reduce this property right instability and expropriation risk. The mechanisms are reforms of the legal and political system of developing countries, anti-corruption drives, and policy reforms that reduce the amount of rents that developing country states can generate. The intellectual origins of this approach go back to New Institutional Economics and the new political economy. These methodologies identified the importance of lowering transaction costs and stabilizing property rights for efficient markets to emerge.

However, these approaches are based on a misunderstanding of the implications of the New Institutional Economics framework itself, as well as of the economics of catching up.

One of the few significant contributions of the New Institutional Economics was actually to point out that the transaction cost sector in advanced countries like the US amounted to as much as half of the economy. The point is that efficient market exchanges require low transaction costs at the point of exchange, but this requires the socialization of transaction costs, not their elimination, which is impossible. The more sophisticated transaction cost theorists in fact point out that the zero transaction cost neoclassical model is a useless benchmark for analysis. From this perspective, if you ask why private transaction costs are high in developing countries, the answer is obvious. The existing use of assets is such that they do not produce enough surplus to pay for a public enforcement of property rights that could lower the transaction cost at the point of production and exchange.

So we have a chicken and egg problem. Do we first have to reduce transaction costs so that an efficient market economy can emerge or does social productivity have to increase so that a surplus is available for property right enforcement that can *then* make the market economy even more efficient in conventional terms? The first option is simply implausible unless a surplus is available externally and the historical evidence, contested though it is, suggests that the second is the route that capitalist developers actually followed.

From this perspective alone, the good governance agenda is doomed. But this leaves us with a critical question: why does the non-market transfer of assets that is the result of high market transaction costs lead to the emergence of a dynamic capitalist economy in a few cases, and social and economic collapse in others? There is a massive literature here that I do not propose to summarize.

First, there is the consensus good governance opinion that is backed up by a very dubious use of cross-sectional regression analysis. This has been recently backed up with an equally dubious historical analysis based on proxy variables such as that by Acemoglu, Johnson and Robinson. These statistical exercises systematically ignore the experience of catching-up countries that drop out as outliers, a problem that I have pointed out in my work on state failure.

Secondly, there are intelligent developments of this analysis that look at possible factors that could explain the lack of fit between the theory and evidence. Prominent amongst these is the work of Danny Rodrik and his group who argue that while stable property rights and low expropriation risk are indeed required for rapid development, the way they are achieved in developing countries may sometimes give the impression that they have not been achieved. This is because Rodrik rightly points out that the enforcement of rights depends on the underlying political conditions of countries, and the political realities of developing countries may mean that developing countries often enforce property rights through unconventional methods such as using local power networks. I think on this Rodrik is essentially right (and my own work on patron-client networks is in this vein) but he does not go far enough.

This is because Rodrik is working within the market paradigm of development, where development is accelerated if the market is more efficient. Market efficiency in turn requires across-the-board property right stability that is measured by low transaction costs. In fact, if we look at the context of asset non-viability that characterizes development, the problem is that across-the-board reductions in transaction costs are not feasible by definition. Even if they were magically possible, they would not solve the problem because if there are significant differences in productivity between current and future uses of an asset, market transactions become subject to hold-ups and high transaction costs that have nothing to do with enforcement. This is why when we look even at the most dynamic developing countries; we find that it is not the case that property rights *across the board* have been stabilized through unconventional means. Rather, what we find is that *some* property rights have been stabilized through unconventional means (namely the rights of the emerging capitalists) while other groups have very weakly defined rights and indeed rapidly lose their assets to emerging capitalists. In other words, by looking at TVEs in China, and the way they have stabilized their rights, Rodrik ignores how the power structure in China actually allows peasants, workers and municipalities to be *deprived* of their rights without much opportunity for resistance. This aspect of the Chinese story is just as important for explaining China's staggering success in its transformation and important to remember if we are to avoid the mistake of believing that China has mysteriously achieved property right stability for everyone through some unconventional methods.

So we have a materialist explanation of property right instability in developing countries, and the question then is to explain the directions in which asset ownership and control evolve given that there will be losers and winners in the non-market processes through which assets are re-allocated during this period. These types of observations lead us in the direction of Brenner and Wood type of analysis of the organization of power and conflict that drives primitive accumulation in particular directions in different contexts, and I think any analysis of the state has to have this kind of class analysis as one of its core components. I will have some more to say on this later. Parenthetically, we should note that while Marx was way ahead of his time in recognizing the importance of the expenditures on maintaining property rights he did not provide any analysis of how to assess the *degree* of waste implied in different structures of transaction costs. In Capital, he simply wrote off all expenditures that protected property rights as unproductive (and these included not just policing and legal sectors, but also finance and trade). Baran and Sweezy's work on the waste of monopoly capitalism in advertising and military expenditures was an extension of this tradition. In a sense, Marx is saying that a significant part of the activities of advanced capitalist countries consists of transaction cost activities, but this does not help us to assess to what extent they are avoidable. Baran and Sweezy argued that much of this was avoidable, but their counterfactual was a notional socialist economy.

2) The second area in which the conventional understanding of the role of the state in developing countries fails is in the economic analysis of catching up. The mainstream analysis can best be understood using Wood's distinction between markets as systems of opportunities versus markets as systems of compulsion. In early capitalism, the achievement of capitalist property right structures together with market competition was sufficient to create compulsions for rapid productivity growth in the way analysed by Marx in Capital. In late capitalist development, capitalist property rights and the market do not maximize technological progress without further institutional conditions. Part of the reason for this has been identified in the developmental state literature as the problem of learning. Rents have to be created to accelerate technological progress, with the associated problem of managing these rents. Here is the problem identified by Amsden, Chibber, Chang and myself, with different answers about the conditions that are required for the effective management of these rents.

The early literature on the capacity of the state to discipline, coming from Amsden, Chang and others stressed the strength of the state, its insulation from society, the vision of its leaders, and other characteristics internal to the institutional structure of the state in defining its developmental capacity. While there are clearly minimal institutional conditions required of the state, subsequent comparative work showed that there were many institutional similarities between some of the countries that did well and others that did not. This evidence inspired Chibber to focus on the capacity of capitalists in India to avoid discipline. I do not find his emphasis on the difference between economic policies of export promotion versus import substitution very convincing. Nevertheless, I agree that the answer to the differences in the disciplining outcomes have to be sought not just in the internal organization of the state but also in the state-society relationship that allows or prevents the effective disciplining of a range of critical rents, of which learning rents are an important variant.

In my work I focus on the interdependence of rents of different types that factions organize to capture in developing countries and the implications of different factional organizations for the management of different patterns of rents. To proceed with this analysis, I need to say something about factions and patron-client networks.

3) While I think class must be the starting point for an analysis of social organization, it is obvious that in most developing countries classes are not actors in the sense of being classes for themselves. The good governance analysis points out the prevalence of patron-client networks in developing country states but explains this using a neo-Weberian analysis of neo-patrimonialism. This argument suggests that the state is penetrated by factions and economic interests because of an insufficient separation of the private from the public, an insufficient development of democracy and an insufficient formalization of procedures. Ultimately, the neo-Weberian analysis appeals to cultural explanations of different traditions of state formation. The widespread manifestation of corruption and personalized rule in developing countries is then explained in these terms.

However, I argue that there are powerful materialist reasons for the persistence of patron-client politics in developing countries. This explains why this type of state-society relationship dominates in a vast variety of developing countries irrespective of cultural and policy contexts. It also explains why patron-client networks and patrimonial styles of politics can be identified in virtually all developing countries, irrespective of economic performance. The property right instability and transformation that we began with has a lot to do with the persistence of this type of political organization.

a) when property rights and other rights are contested and weakly defined, an important source of accumulation is through the exercise of political power. Groups that can organize a more strident exercise of power are likely to capture more.

b) the organization of political power is not likely to take place along class lines because classes can only be players when credible class strategies of transformation can be presented. If the accumulation strategy is the capture of specific resources, assets or subsidies, class action is less likely. Nevertheless, *the organization of patron-client networks, depends critically on the underlying class structure*. The latter determines the class origin of leaders and followers within these factions, the strategies they are likely to follow, how fragmented or consolidated they are and so on. Thus, to identify the structure of these networks, which I think is critical for subsequent analysis, we need to begin with class analysis of a society, but class analysis alone will not tell us all that we need to know about the organization of political power in developing countries.

c) the organization of patron-client factions is particularly suited for these types of political accumulation strategies. Faction leaders want to maximize organizational power at the least cost. They therefore seek members of lower social status than themselves who can be purchased at a lower cost. Pyramids rapidly build up and they are also unstable as factions keep realigning as subfactions recalculate the payoffs they are likely to get by belonging to insider or outsider factions.

d) there are also materialist reasons why the exercise of power by patron-client networks is usually extra-legal and not formalized. Most of the assets and rights that factions organize to capture (though definitely not all) are not legitimate market transfers. Even the transfer rents that groups organize to capture are typically not fiscal resources but off-budget transfers. This is simply because the fiscal resources do not exist in most developing countries for legal budgetary transfers. Political stabilization requires off-budget transfers to the most troublesome factions and their inclusion in the coalitions operating the state.

While the factions controlling the state are therefore typically not capitalist, it is possible to see why out of self-interest ruling factions may support the growth of capitalist sectors and indeed use state power to transform themselves into capitalists. The task here is to identify the conditions under which this happens and when it does not. The complicating factor here is that we find many different trajectories of capitalist growth, and many others where growth is blocked.

At the most general level, we can say that the emergence of a high-growth version of a capitalist economy emerges when the factional structure in control of the state and state policies (primarily those determining types of rent creation and rent management) are compatible with

a) the emergence of a class of asset holders who own sufficient assets to undertake viable capitalist production and

b) this class faces institutional and market compulsions for rapid technological upgrading.

However, the problem is that we can identify a number of different trajectories of transformation, some more dynamic than others, and each trajectory has conditions of success and failure.

The table on the following page summarizes some of the results of our case study analyses. Here I will focus on the comparison of South Korea and India offered by Chibber and show how our analysis differs from the emphasis on the contrast between export-led growth and import substitution that Chibber focuses on to explain why the disciplining of capitalists was more difficult in India. In Chibber's argument, South Korean capitalists who were engaged in export promotion conceded power to the state to discipline them because they saw the collective benefit of productivity growth which was required (because of interdependence) for their individual survival. In contrast, in import substituting India, capitalists did not concede power because productivity growth was not necessary.

This argument is not convincing because for the individual capitalist, the collective good is not a sufficient argument to give up resistance if the state tries to withdraw their subsidies. Clearly, in South Korea, they did not have the *political capacity* to resist, while in India, individual capitalists did have such a political capacity. To understand why, we have to look at the details of factional and colonial history. While Chibber is right to criticize Kohli for saying that Japanese colonialism did not just set the groove into which South Korean development fell, because this undermines the role of the South Korean state.

Instead, we would argue that Japanese colonialism created the political conditions, which, when appropriate state policies emerged, proved to be critical. They allowed the emergence of a compatible set of institutions and political power for the rapid creation of a structure of capitalist property rights and institutions of compulsion that ensured the rapid movement of capitalist enterprises up the productivity ladder. Thus, our focus is not on the state in itself, and here we agree with Chibber, but we disagree with Chibber on the modelling of the state-society relationship that explains why capitalists proved much more difficult to discipline in India compared to South Korea. In India, and Pakistan, capitalists could form alliances with many competing patron-client factions the could each protect their rents for a low price, but in South Korea, these factions were absent or very weak and no such protection could be purchased by capitalists facing discipline from institutions of compulsion.

	Redistributive Conflicts/ Redistributive Rents	Primitive Accumulation/ Capitalist Rights	Developmental Institutions	Transformation Outcomes
South Korea 1960s	Limited political power of redistributive coalitions. Limited redistributive rents.	Rapid emergence of very large capitalists backed by the state	Industrial Policy: Targeted Learning Rents.	Rapid growth and capitalist transformation.
Malaysia 1980s 1990s	Powerful intermediate classes but centrally organized. Centralized transfers.	Small capitalists taxed and MNCs protected. Capitalists cannot buy protection	Public sector and MNC-led technology acquisition	Rapid growth and capitalist transformation.
Indian subcontinent 1960s 1970s	Powerful and fragmented intermediate classes. Many redistributive rents but still many dissatisfied factions.	Redistribution too broad-based for significant capitalist primitive accumulation.	Industrial Policy: Targeted learning rents but capitalists can buy protection by sharing rents with political factions.	Many infant industries fail to grow up. Moderate growth and slow pace of transformation.
Indian subcontinent 1980s 1990s	Powerful and fragmented intermediate classes. Growing political fragmentation.	Primitive accumulation still slow and property rights of many small capitalists contested by mafias.	Liberalization and slow withdrawal of subsidies for learning.	Growth led by niche sectors and comparative advantage. Higher growth than before but limited to small-scale technologies.

Conclusions: i) The state in developing countries is not a policy variable that can be chosen by leaders with vision: Amsden, Wade, Chang. Institutions and policies that are incompatible with the power structures embedded in patron-client networks can do more harm than good. Since power structures differ, institutions that work in one country can fail in another. Therefore, my interpretation of the contrast between South Asia and North East Asia is more sociological than that of Chibber. The comparison with Pakistan is even more instructive than with India because of the similar size of the internal market and therefore similar export orientation strategies.

ii) Equally, the patron-client networks have more degrees of freedom than the class structure, and since political organization can change the operation of patron-client networks, the role of the state in accelerating economic development does not have a one-to-one relationship with the class structure of a society. This is simply saying that the role of the state is not entirely determinate.

iii) The rapidity of capitalist development in late developers depends on how power and institutions interact to assist the transformation of property rights in ways that are compatible with capitalist production, but also in assisting technology acquisition strategies and maintaining political stability. These are not goals that an omniscient state has, but rather outcomes often unintended of the play between different factions trying to enrich themselves. The example of South Korea has dominated the discussion of the state too much in development circles, leading to the discussion of state autonomy, insulation and so on, which assumes that the state has some Hegelian tasks that society can block it from achieving. In South Korea it is true that a small clique was in control of the state, but it was not necessarily any more farsighted or less selfishly motivated than cliques in other countries. If we look at South East Asia, and in particular at Thailand, we can see more clearly how the balance of power between self-seeking and shortsighted factions can nevertheless also result in rapid accumulation strategies of a very different type from that of North East Asia.

iv) The research agenda that this approach opens up is twofold> We need better economic theories of rent management and the implications of different patterns of transfers for accelerating capitalist growth in late developers. This involves more progress in quantifying rents and categorizing rent management strategies. We also need to work on different types of patron-client networks, their processes of change and how they constrain or allow different strategies of capitalist development in early developers.