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The Capability Enhancing Developmental State: Concepts and National Trajectories

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ABSTRACT

After setting out some of the conceptual issues involved in re-thinking the developmental state, this paper embarks on a comparative-historical discussion of developmental performance in the neoliberal era, focusing on three pairs of states. First, I look at two major developing countries that have experienced contrasting trajectories in terms of their ability to deliver capability expansion over the course of the last two decades: South Africa and Brazil, offering an explanation for their divergent performance with respect to capability expansion post-democratization. Then, I examine two global hegemons: rising China and the declining United States, trying to explaining why the performance of both countries with respect to capability expansion has declined in during the neo-liberal era relative to their earlier performances. Third, I consider two original archetypes of the developmental state, which have, for reasons still not fully understood, managed to shift in the direction of capability expansion: Korea and Taiwan. The general hypothesis offered is that performance in all three cases appears to be related to the character of state-society relations, both relations with a broad cross-section of civil society groups and with capital.

In the old centers of nineteenth and twentieth century development, policy debates have taken on a disturbingly anachronistic thrust. In Washington, ideological tropes from early triumphalist neoliberalism are repeated in an exaggerated form. The most fervent political clarion calls invoke the return to a caricature of eighteenth century America. In London, faith that shrinking the size of the state will generate renewed economic dynamism is again in fashion. It is tempting to see this discourse as simply a signal of the fading relevance of Anglo-American political thinking, but effective dismissal of regressive rhetoric requires a credible and coherent alternative analysis.

If a credible and coherent alternative paradigm is to emerge, it almost certainly must come from what is broadly defined as the "Global South" – the countries of Asia, Africa, and Latin America that suffered from colonialism and underdevelopment for most of the twentieth century. In the "emerging economies" of the Global South, political debate on the contributions of public institutions to social and economic progress no longer mimics Northern debates. While advocates of the virtues of the market abound in the Global South, policy makers and politicians also assume that the state has an important role to play. In Korea, as in Taiwan[1] and Brazil, democratic pressures have nudged state action toward policies constructing a version of social protection that echo the policies of the "golden age of capitalism" in Northwestern Europe, rather than mimicking Anglo-American neoliberalism.

While policy in the Global South diverges from neoliberal theory and ideology, the divergence presents itself as pragmatic and situational rather than as grounded in a coherent analytical vision. Politicians and policy makers pull justifications from a grab bag filled with variegated theoretical and ideological tools. Within this grab bag, invocations of the twentieth century industrializing developmental state continue to find strong political resonance, but a coherent policy paradigm, based on historical experience but adapted to the conditions of the twenty-first century, has yet to emerge as a significant force in global development debates. The aim of this paper will be to argue that solid intellectual, empirical and analytical foundations for such a

[1] In UN parlance, this is "Taiwan Province of China," but I have used the shorter, indigenous nomenclature here.

paradigm already exist and that more aggressive efforts to build on these foundations are essential to countering the disturbing revival of outmoded Anglo-American anti-statist ideologies.

Focusing on the idea of the developmental state is a good way to start building new empirical and analytical foundations for a more realistic and efficacious policy paradigm. Historically, some version of the developmental state has always played a central (if often unacknowledged) role in economic growth and social transformation. But it is not enough to reassert the importance of the developmental state. Indeed, it would be seriously misleading if this reassertion took the form of trying to resuscitate a vision based on industrial transformation strategies of the 1970's and 1980's.

Understandings of the role of the developmental state have changed, first of all, because development theory has changed. In addition, the historical context of development has changed. Viewing shifts in the historical character of economic growth through the lens of modern development theory suggests that state capacity will have an even greater role to play in societal success in the coming century than it did in the last century. It also suggests that the specific kind of "embeddedness" or "state-society synergy" that was crucial to twentieth century industrial transformation – dense networks of ties connecting the state to industrial elites –will have to be replaced by a much broader, much more "bottom up" set of state-society ties to secure developmental success in the current century.

This paper will build on earlier work aimed at conceptualizing the "21st Century Developmental State" (Evans, 2008; 2010a; 2010b). It is divided into two parts. Part I sets out some of the conceptual issues involved in re-thinking the developmental state. I will begin by outlining some of the conceptual issues involved in re-conceptualizing development as capability expansion and the challenges of empirical measurement that result from such a reconceptualization. I will then consider some of the conceptual issues involved in thinking about the role of the state once development has been reconceptualized as capability expansion. In Part II: I will turn to a comparative-historical discussion of developmental performance in the neoliberal era, focusing on three pairs of states. First, I look at two major developing countries that have experienced contrasting trajectories in terms of their ability to deliver capability expansion over the course of the last two decades: South Africa and Brazil. Then, I examine two global hegemons: rising China and the declining United States. Third, I consider two original archetypes of the developmental state, which have, for reasons still not fully understood, managed to shift in the direction of capability expansion: Korea and Taiwan. I will close by laying out some priorities for future analysis and empirical research that will need to be tackled in order to build a more sophisticated and compelling theory of trajectories toward the twentieth century development state.

I. Conceptual Challenges

Ever since the term "development" began to be systematically applied to the comparative evolution of national societies in the mid-twentieth century, an "accumulationist" paradigm of the process of economic and social change has dominated global thinking. This vision privileged the role of capital in generating change and was symbiotically tied to the discipline of economics at the time. At roughly the same time, Kuhn (1962) showed us how difficult it is to change paradigms, even those less thoroughly connected to dominant interests. While empirical anomalies are crucial to changing paradigms, empirical anomalies have no traction unless alternative conceptual frameworks are available. In the case of the old accumulationist paradigm of development, alternative conceptualizations are still multiple and contested. Among them, the capability perspective seems the most promising.

A. Reconceptualizing Development: The theoretical underpinnings for reconstructing our visions of the developmental state are grounded in the convergence of Amartya Sen's capability approach to development with modern reconstructions of traditional economic models of growth. Amartya Sen (1999: 18) argues that "well-being" involves more than increasing contentment or reducing suffering; it involves the capacity of human beings to do the things that they want to do. Thinking in terms of "capabilities" rather than just "well-being" draws our attention to the fact that human capabilities are both ends in themselves and the key means to intermediate goals, such as economic growth and the construction of democratic institutions that help us to "lead the kind of lives we value".

Sen's focus on well-being as the active exercise of capabilities dovetails perfectly with the insights of modern growth economics, which make it clear how fundamentally a society's ability to produce the goods and services it needs and wants depends on the exercise of the "human capabilities" of its people.[2] The theoretical argument and empirical evidence put forward by new growth theorists made the case that creating and utilizing new ideas was more important to twentieth century growth than the accumulation of plants, equipment and other tangible capital. If this was true in the twentieth century, ideas and "human capital" are even more central to twenty-first century growth. Twenty-first century value creation is becoming increasingly "bit-driven" in the sense that value added comes from new ways of arranging bits of information in formulas, software code, and images, and less from the physical manipulation of materials to make tangible goods.

In the twenty-first century, job growth has moved to the service sector. The total number of manufacturing jobs is not growing in either the North or the South. Even in China, the new "workshop of the world," the official tally of manufacturing jobs showed declining dynamism at the end of the twentieth century (see Evans and Staveteig, 2009). The new centrality of services forces any state that wants to be "developmental" to focus more intensely on people and their skills, instead of machines and their owners. The service sector is the site of capability expansion, but, paradoxically, jobs involved in nurturing and sustaining general human capabilities, in building the foundations necessary for capabilities of all kinds, are as badly under-remunerated, as they are numerous. If the expansion of human capabilities is both the key means and the central goal of development, then rewarding capability-expanding services and increasing their supply should be a developmental priority. Yet, in practice, capability-expanding services like health and education are under-supplied as well as being under-rewarded.

Before focusing on the specific implications of using a capabilities approach to development for thinking about the state, it is necessary to acknowledge the weaknesses of existing crude empirical proxies for capability expansion, especially for countries that have achieved high

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[2] The "new growth theory" as put forward by theorists like Lucas and Romer, built on early work by Solow and has been subsequently developed by a range of economists like Aghion and Howitt (1998) and Helpman (2004).

levels of literacy and low levels of infant mortality. It is also worth briefly reviewing what existing research tells us about the general interaction of "growth" (defined in simple income terms) and "human development" (used as a proxy for capability expansion).

In traditional, mid-twentieth century economic thinking, empirical proxies for capabilities were treated as "dependent variables" with the accumulation of capital being the driver of growth, and growth being the cause of improvements in health, education and well-being. While this was not an unreasonable assumption, it ended up being seriously misleading. Obviously, increased income is associated, in general, with improved health and expanded capabilities, which is why the HDI (Human Development Index) contains income as one of its components. At the same time, simplistic "wealthier is healthier" algorithms obscure more than they reveal (e.g. Pritchett and Summers, 1996). If we take longevity as an empirical proxy, the general correlation between income levels and capability expansion is undermined in two ways (see Evans, 2009). First, there is almost no relation between increased income and improved longevity once PPP GDP per capital passes $4,000 per capita. Second, even if poor countries are included, other indicators predict longevity as well as income. For example, a combination of reductions in inequality and the provision of education predicts longevity as well as income levels do (Evans, 2009: 115).

Current empirical research questions conceptualizing capabilities as "dependent variables" whose levels are determined by income. It suggests instead that it is equally valid to view improvements in human development indicators as causing growth in income. In a series of econometric papers, Ranis, Stewart and their collaborators looked at the interactions between growth and human development.[3] Their data analysis "contradicts the conventional view that HD [human development] is purely a result of, as opposed to being a critical input into long run expansions in EG [economic growth] (Boozer, Ranis, Stewart and Suri, 2003: 25). They conclude that "HD [human development] improvements must precede growth-oriented policies if growth is to be sustained."

[3] See Ranis, Stewart and Ramirez, 2000; Boozer, Ranis, Stewart and Suri, 2003; Ranis and Stewart, 2006.

Research findings in support of a capability-oriented approach to development help shift our attention away from accumulationist models and toward a focus on processes of capability expansion. Shifting focus makes us immediately aware of how much additional research is necessary before we can claim to have an empirical command of capability-oriented development that is comparable to the sophisticated and compelling analytical discussion of this approach that has emerged over the course of the last twenty years.

To begin with, we have still not been able to move very far beyond the original longevity-literacy duo that was the empirical core of the HDI. Sen's favorite empirical case is the relative incidence of famine, an empirically plausible case, but one that now only differentiates among very poor countries. Once longevity passes 70 and basic education is close to universal, we lack empirically sensitive, intuitively plausible measures of capability expansion. International comparisons of morbidity are notoriously unreliable and hard to interpret. As differences in the provision of education become more focused on tertiary education, the question of how they should be interpreted also becomes more difficult.

The empirical challenges raised by the transition to capability-centered development should not be exaggerated. Even comparisons using traditional indicators like the HDI still reveal interesting differences, even among rich countries. Nor should empirical challenges be taken to undercut the legitimacy of moving to a capability-centered conceptualization of development. Nonetheless, finding ways to better match theoretical reconceptualization with empirical analysis must be a central element on the agenda of development research.

One promising addition to the empirical arsenal of capability-focused development theory is a return to the classic concern with the relation between inequality and development. While an inequitably distributed increase in wealth may still count toward growth, it is much more problematic to count an inequitably distributed increase in capabilities as a contribution to development defined as capability expansion. There is a vast literature on the destructive consequences of inequality for individual and community well-being, even in the most affluent societies (see Wilkinson, 2005; Hacker, 2006; Zuberi, 2006). Cross national data shows a relation between lower levels of inequality and increased longevity. The recent inclusion of

"Inequality-adjusted Human Development Index" in the UNDP's *Human Development Report* constitutes recognition that lower levels of inequality may be, in themselves, useful indicators of capability expansion.

Moving to a capabilities approach entails greater attention to the socio-political determinants of development, which may well not be the same as the determinants of income growth. Shifting from an accumulationist to a capability-oriented focus on development also shifts attention to new kinds of political dynamics. For example, while the relationship between democratic political forms and income growth remains a long debated and still unresolved theoretical issue, existing research does come down in favor of a connection between accountability from below and capability expansion. The correlation at the most rudimentary level is illustrated by Sen's proposition that independent countries with even modestly democratic political institutions do not suffer from famine. A careful econometric study by Besley and Kudamatsu (2006: 1) concludes: "The data show a strong (conditional) correlation between life expectancy and democracy. This relationship is robust to controlling for the initial level of human capital as well as political histories. The data also suggest that health policy interventions are superior in democracies."[4]

Additional research connecting particular institutions of political accountability from below with improved performance with regard to capability expansion is badly needed. This task is made more difficult by the fact that the relationship between particular policies and capability-related results is not as straight-forward as one might hope, even where the simplest definitions of capability expansion are employed. Unfortunately, numbers of hospital beds per capita and numbers of doctors per capita do not translate neatly into reductions in mortality or morbidity. Nor do amounts spent on "education" necessarily translate into improved capabilities with respect to access to information.

[4] Another recent paper by Kudamatsu finds that even in Sub-Saharan Africa, where most assume that the implantation of electoral democracy has had little developmental payoff, "democratization has reduced infant mortality" (2007: 34).

Whatever the challenges of building a program of empirical research that reflects a capability approach to development, they should not distract us from the conceptual bottom line. "Growth policy" cannot be analytically separated from the kinds of capability-enhancing efforts that have been traditionally called "social policy" or "welfare policy." Such a division is untenable given contemporary research on the way in which income growth is inextricably linked to human development. Policies that expand capabilities may look like "social policy" or "welfare policy" but they are essential to income growth.

This recognition requires a different conceptualization of "growth" policies. It also requires a different conceptualization of "social" or "welfare" polices. Mkandawire (2007) captures this in his idea of "transformative social policy." Arrighi, Aschcroft and Scully (2010: 435) make the case nicely with regard to South Africa, arguing that without "structural reforms that re-invent the welfare state on foundations that can be generalized to the vast majority of the population, the economic and social performance of the South African state will continue to deteriorate".

All of this suggests that a bold program of research and theoretical refinement is necessary to build a theory of the developmental state that responds to the challenges created by reconceptualizing development as capability expansion. The only thing that is irrefutably clear is that development as capability expansion makes the state's role even more central than its role in development as accumulation.

B. Re-conceptualizing the "Developmental State": Once development is conceptualized as capability expansion and it is acknowledged that the old separation between "growth policies" and "social" or "welfare" policies must end, the agenda for reconceptualizing the developmental state follows. Guidelines for thinking about the characteristics of a twenty-first century developmental state that follow from reconceptualizing development can be usefully summarized in four points:

1) Capable public bureaucracies are even more important than we thought they were. Without competent, coherent public bureaucracies, capability-expanding public services will not be delivered.

2) The ability of the state to pursue collective goals coherently, rather than responding to the subjectively defined immediate demands of individual members of the elite, or particular elite organizations, is even more essential than earlier work on the developmental state suggested.

3) "Embeddedness" – the dense sets of interactive ties that connect the apparatus of the state, administrative and political, to civil society – not only becomes more important but must focus on a broad cross-section of civil society rather than focusing simply on industrial elites.

4) The problem of state effectiveness is even more clearly a political problem, and state-society relations are at the heart of the politics involved.

While state bureaucratic capacity remains crucial, questions of embeddedness and state-society relations move to the fore in the twenty-first century developmental state. The internal organizational challenges that must be addressed in order to accomplish a twenty-first century agenda are formidable, but building a more encompassing embeddedness is the bigger hurdle. Since more efficient administrative structures ultimately depend on new forms of embeddedness, state-society ties are the crux of the problem of constructing a twenty-first century developmental state.

For a developmental state focused on capability expansion, the need for information and engagement from societal partners is even greater than it was for a state focused on industrial transformation, but the interlocutors and the character of the networks are more complicated. Information must be gathered from constituencies that are more numerous and less organized. The value of a project cannot be assessed on the basis of a simple technocratic measure. Whether a project is worthwhile depends on how well its results correspond to the collective preferences of the communities being served. Without multiple channels getting accurate information, the developmental state will end up investing inefficiently and wasting precious public resources. The centrality of accurate information makes deliberative institutions key contributors to development as well as building blocks for democratic politics. While organizational and institutional forms will vary depending on the cultural and historical context, effective mechanisms of deliberation that include a broad cross-section of society will be the foundation of effective public policy (see Evans, 2004).

Effective state-society linkages depend on the organization of civil society as well as on the capacity of the state, but the state can help facilitate the organization of "civil society." The twentieth century developmental state's interaction with industrial elites gave these elites a reason to become a more collectively coherent class. The twenty-first century developmental state needs to undertake a similar but more difficult task: constructing shared coherent goals whose concrete implementation can then be "co-produced" by public agencies and the communities themselves (Ostrom, 1996). Education is co-produced by students (and their families). Health is co-produced by patients, their families and their communities. The active engagement of families and communities in the delivery of those services is necessary if the investments are to produce the desired effects.

Articulating shared interests in capability expansion is a politically demanding task. "Civil society" is a complicated beast, full of conflicting particular interests and rife with individuals and organizations claiming to represent the general interest. Nonetheless, without the effective engagement of a broad spectrum of civil society, state-initiated efforts to promote development as capability expansion are unlikely to succeed.

The importance of building engagement with a broad cross-section of civil society is increased by the contradictions between the increasingly globalized agenda of capital and a project of development as capability expansion. The old model of a shared national project of transformation uniting capital and the state looks increasingly anachronistic. Even if the profit-maximizing strategies of capital were still nationally focused, the logic of private profit is harder to harness to capability expansion projects. Since social returns to the expansion of human capabilities are substantially higher than private returns, private markets under-invest in human capabilities. Instead, markets channel investment to areas where total returns are lower but private returns appear higher. The large "collective goods" element in capability-expansion makes it harder to construct productive alliances with private capital.

Given the disjunction between private and social returns, capital may actually be hostile to devoting state resources to capability expansion, especially if projects are designed in response to community preferences rather than narrowly focused on job skills. In this case, dense, robust ties to private elites may become channels for the pursuit of private agendas that undercut the state's ability to expand capabilities. Old forms of embeddedness may impede rather than facilitate effective state action. Once capability expansion becomes the core of the development agenda, private capital is no longer a dependable ally.

If the lesson of the twentieth century state is that capacity depends on a complementary combination of competent, coherent public bureaucracy and dense sets of systematic ties to relevant civil society actors, then building state capacity has become a more challenging task in the twenty-first century. Diminished complementarity between developmental goals and the interests of private capital raises the level of state capacity required. Worse still, while the intersection between the twenty-first century development project and the interests of private capital shrinks the ties between the state and capital do not become less tight. Indeed, the growth of the influence of capital on politics and state policy is a generic feature of neoliberalism. At the same time, embarking on a twenty-first century project of development forces the construction of new, more active forms of embeddedness that encompass a broad spectrum of civil society actors.

II. Comparing National Trajectories in the Neoliberal era:

Analytical conceptualizations are the first step toward imagining what a twenty-first century developmental state might look like. Comparative historical analysis is a way of examining state performance in relation to capability expansion and connecting variations in performance to characterizations of the state's role. Here, I will use a strategy of comparing three pairs of countries: 1) South Africa and Brazil: two major middle-income developing countries with political economies that are similar in important respects but that have experienced contrasting trajectories in terms of their ability to deliver capability expansion over the course of the last two decades; 2) China and United States: two global hegemons, one rising and the other declining, both of which appear to be faltering in their ability to deliver development as capability expansion; and 3) Korea and Taiwan: two archetypes of the twentieth century developmental state, which have, for reasons still not fully understood, managed to deliver exceptional performance with regard to capability expansion in the neoliberal era.

A. South Africa and Brazil – Cases of Divergent Capability Performance: Brazil and South Africa are sometimes paired as major actors in the Global South. They are both middle-income countries with substantial industrial capacity, but neither country had exceptional growth performance in the period during the neoliberal era (though South Africa grew slightly faster that Brazil in the period from 1995 to 2008). Both democratized over the course of the last twenty to thirty years, despite historical legacies of extremely inegalitarian social structures and exceptionally high levels of economic inequality. Starting in the 1990's, newly-elected democratic political leadership in both countries shared the goal of remedying the injustices of historical inequality and expanding capabilities.

Yet, despite their similarities, South Africa and Brazil have diverged in terms of delivering well-being during recent decades of democratic rule. Instead of growth bringing greater social disparities in Brazil, as it had under the military in the 1970's, it was "accompanied by rising average earnings, more formal employment, greater social protection for the population as a whole, greater equality in household income and wages, and a reduction in poverty" (Kerstenetsky, 2009: 15). "Bolsa Familia," Brazil's conditional transfer program, was small in terms of overall expenditures, but transformed the lives of tens of millions of poor Brazilians, almost a quarter of the entire population. Access to health care and education expanded as well.

In South Africa, massive investments in health and education have not delivered the same kind of returns. In Brazil, the rate of infant mortality was cut almost in half between 1996 and 2006. In South Africa, it increased in the same period. In Brazil, the proportion of girls in primary school rose from 83% to 95% between 1991 and 2004. In South Africa, it dropped from 92% to 88% in the same period [see World Health Organization, WHOSIS Database, http://www.who.int/whosis/en].

The divergence was even more dramatic in terms of levels of inequality. While the two countries started their democratic transitions with similar levels of inequality, by the turn of the millennium, Brazil relinquished its 400 year old claim to being a world champion of inequality. As Appendix B shows, Brazil's efforts at reducing its historic levels of inequality have begun to show up in the Gini Index. In South Africa, in contrast, the turn of the millennium saw a disturbing shift from historically high levels of inequality to levels that were even higher.

What accounts for the ability of the Brazilian state to gain traction as a 21st century developmental state and the inability of the South African state to do likewise? It is probably not differences in traditional bureaucratic capacity. The South African state began the period with relatively high administrative capacity of the traditional developmental state type, certainly not clearly inferior to Brazil's. A variety of explanations might be put forward.[5] Patrick Heller (2011) offers one very consistent with my emphasis on state-society relations.

Based on extensive research in both South Africa and Brazil, Heller argues that even though South Africa and Brazil are both consolidated electoral democracies, they are characterized by a very different set of democratic institutions and practices. He focuses particularly on the relationship between "political society" [roughly the state as a political entity and political parties] on the one hand and "civil society" [associational forms and movements with autonomous organizational capacity organized around a politics of citizenship and capable of engaging the state and holding it accountable].

Despite the fact that both countries have vibrant civil societies in which subordinate groups have organized and engaged in aggressive efforts to make claims on the state, the relation between political society and civil society is quite different. In South Africa, according to Heller, civil society organizations representing ordinary citizens have "become estranged from political society" and "decentralized despotism" (Heller, 2011: 15, see also Mamdani, 1996) has been reinforced in rural constituencies and even in urban areas. Consequently, "subaltern civil society, and especially the urban poor, has more or less been sidelined from the political process" (Heller, 2011: 25). Whereas in Brazil, a "relatively autonomous civil society that can effectively engage the state" has emerged, generating "clear instances of civil society projecting itself into the state

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[5] It is tempting to point to the devastating effects of AIDS in South Africa as a simple explanation for the divergence. The divergent trajectory of AIDS in the two countries is, however, endogenous to differences in political institutions. Brazil's greater effectiveness at dealing with AIDS is in itself a result of very different relations between civil society groups affected by AIDS and the state, and consequently, sharp differences in policy responses. (See for example: Gauri and Lieberman, 2006).

to shape policy" as well as "the institutionalization of a wide range of participatory structures and the strengthening of local democratic government" (Heller, 2011: 27).

In an important analysis from a different perspective, Arrighi, Ashcroft and Scully (2010) complement Heller's analysis by looking at the relationship between the South African state and capital. They start by pointing out that the current global boom in demand for natural resources has the potential to "provide natural-resource-rich South Africa with significant opportunities to generate jobs, incomes, and taxable surpluses, as well as preferential market arrangements." If captured by the state rather than left in the hands of capital, these revenues could "be used to promote and generate activities capable of re-inventing the welfare state on foundations that can be generalized to the vast majority of the population". But Arrighi *et.al.* warn:

> These opportunities may not be taken advantage of and, even if they are, they may not result in the creation of new developmental opportunities in fields other than natural-resource based production. They may, for example, be appropriated by foreign capital and never made available for use within the South African economy; or they may be squandered in expanding activities of little social or economic value; or they may be used to consolidate the exclusive welfare state inherited from apartheid for the benefit of a multiracial minority (2010: 434).

Unfortunately, in the view of Arrighi, Ashcroft and Scully, the South African state ended up "betting on capital," focusing its demands on "Black Economic Empowerment," which meant making the capitalist elite more multi-racial, rather than claiming a larger share of the windfall profits from the resource boom. Thereby, the state (2010: 435) "forfeited the kind of investments in the welfare of the population (housing, public transport, health and, above all, mass lower and higher education) that would have been key developmental objectives in themselves and may well be the most essential, though by no means sufficient, condition of renewed economic expansion."

These two complementary analyses of Heller and Arrighi *et.al.* focus the explanation of the South African state's failure to play a more effective role in capability expansion clearly on state-society relations. On the one hand, the state has not enabled civil society to engage in the "co-production" of capability expansion. On the other hand, there is a failure to challenge the prerogatives of capital and gain an increased share of the resource revenues for investment in capability expansion.

B. The U.S. and China--two hegemons with faltering performance in capability expansion: Forty years ago, the United States and China looked like polar opposites: the richest and most powerful capitalist country on the globe on the one hand and a poor socialist giant on the other. Over the course of four decades, China has become the epitome of economic dynamism as the U.S. has suffered increasingly from bubbles followed by ever more severe economic contractions. Yet, curiously, both states have shared a relative decline in their ability to support capability expansion (masked, in China's case, by rising individual incomes).

The data in Appendix A show China and the U.S. both experiencing increasing levels of inequality. The data in Appendix C show the U.S., which had levels of life expectancy comparable to average European levels thirty years ago, gradually falling behind its European counterparts on this indicator over the course of the neoliberal era. Likewise, China, which enjoyed levels of life expectancy comparable to those in Korea thirty years ago, despite its much lower levels of income, has falling increasing further behind Korea over the course of the last three decades, despite its more rapid economic growth.

Table 1 (taken from Dreze and Sen, 2002) shows a divergence in the performance of China and Korea in terms of basic health indicators during the neo-liberal era that is as dramatic as the divergence between Brazil and South Africa. Infant mortality trends provide one illustration. In the period from 1960 to 1981, when China's performance in terms of income growth was significantly inferior to Korea's, China outperformed Korea in terms of reductions in infant mortality. In contrast, in the period from 1990 to 1999, improvements in infant mortality collapsed in China, despite spectacular rates of income growth while Korea's performance in terms of infant mortality

China entered the neoliberal era with a level of performance on standard capability expansion variables that far exceeded its levels of individual income. Consistent with Boozer, *et.al.* (2003), China's early investments in capabilities provided a propitious foundation for world historical increases in income from the late 1970's to the present. Exceptional income growth during the neoliberal era has not, however, had a commensurate effect on capability expansion. While China's performance in terms of standard measures of capability expansion remains enviable, as Sen and Dreze (2002) point out, the rhythm of improvement in provision of key collective goods has slowed down with the transition to a more market-oriented approach. In areas like health care, where a poor China delivered a level of health performance that was extraordinary for a country at its level of income, current performance has become a source of concern (see for example, Wang, 2004). Chinese society has also suffered from sharply-rising income inequality and a withdrawal of prior social protections (see Davis and Wang, 2009). As Appendix A shows, "Communist Capitalism" has erased the exceptionally low levels of inequality and contributed relatively little to the high levels of social protection that had characterized China in the socialist period.

China's trajectory in this respect stands in contrast to the Brazilian case. It is tempting to suggest a variation on the Heller thesis. In this case, it is hard to argue that civil society had the capacity for "projecting itself into the state to shape policy" during the socialist period. What has changed is not so much the overall political efficacy of civil society as a shift in the pattern of access to the state. During the "communist capitalism" period, as a combination of foreign corporations and local private capitalist elite groups that, in the socialist period, either didn't exist or were considered political pariahs, became increasingly important to China's political economy. They gained increasing access to the party and the state at the national level and, equally important, at the local level, in the most economically dynamic regions of the country. It would be difficult to prove that this political shift accounts for the state's diminished priority on capability expansion, but it is certainly a hypothesis worth exploring.

Curiously, the declining hegemon – the United States – has experienced a similar evolution during the neoliberal period. During its rise to hegemony in the first half of the twentieth century, the U.S. amassed an admirable record in the provision of collective goods (see

Skocpol, 1992), especially in the provision of mass education. Over the course of the neoliberal era, the U.S. remained one of the world's wealthiest nations and the unquestioned military superpower, but began to lag in its ability to provide capability-enhancing collective goods. The inability of the most powerful country on earth to provide a universal system of public health care coverage became an embarrassment. In the 1970's, the rapid expansion of public education ground to a halt, leaving non-elite Americans unable to satisfy their educational aspirations!

The trajectory of the United States in terms of inequality is even more striking. The now classic 2003 analysis by Piketty and Saez (2003) captures the dramatic change in U.S. inequality during the neoliberal era nicely. The contrast between the evolution of income inequality during the Golden Age of embedded liberalism and the neoliberal era could hardly be more striking. The Golden Age continued the "great compression" of U.S. wage inequality that began prior to World War II (see Goldin and Margo, 1992). The Neoliberal era reversed it, taking inequality back to levels not seen since the First World War.[6] Thus, we can see in Appendix A that over the course of the neoliberal era, the U.S. moved from being a relatively egalitarian country to being a relatively <u>in</u>egalitarian one, matching China's new inegalitarian social structure. If the trend toward increased inequality in the U.S. were to continue into the future, it would raise the prospect of the U.S. becoming more unequal than Brazil, a prospect that would have seemed like a science fiction story forty years ago.

The negative social effects of rising inequality in the United States are broad, variegated and well-documented. The rising incidence of risk among the middle- and working-classes (Hacker, 2006), and the erosion of social protection, may well be more profound and socially corrosive than the shifts of income inequality *per se*. Frank, Levine and Dijk (2010) provide a nice quantitative analysis of the secondary effects of inequality. Comparing high and low inequality jurisdictions in the U.S., they find that high inequality situations are associated with a tendency to "live beyond ones means" and therefore experience financial distress as measured by levels of bankruptcy. Their data also confirms the less obvious argument that "financial distress

[6] It should be underlined that the contrast between the two periods involves no "growth-inequality trade-off." U.S. citizens were not compensated for getting a smaller share of the pie by being able to enjoy a faster growing pie. To the contrary, the pie grew more slowly while the rich took a bigger share.

may increase the level of stress in personal relationships, thus increasing the likelihood of marriages ending in divorce" (2010: 17).

How do we explain the odd convergence of rising and declining hegemons in terms of their apparently diminished capacity to support capability expansion? Straightforward economic explanations don't help very much. Diminished U.S. capacity to deliver capability-enhancing collective goods might be attributed to declining economic dynamism, but if income growth is the key to the performance of capability-enhancing policies, China's trajectory makes no sense. Conversely, absolute levels of wealth are clearly not the issue. Both countries did a relatively better job delivering collective goods when they were poorer -- dramatically poorer in the case of China.

The almost complete contrast between political institutions in the two hegemons would seem to make the Heller thesis a bad candidate for explaining convergence as well. Nonetheless, an explanation centering on the shifting character of politics in the two countries may still make sense. A combination of Heller with Arrighi *et.al.*, similar to that used in the case of 'South Africa, and in explaining the relative downgrading of the priority of capability expansion in China and offers a provocative candidate for explaining convergence.

In the case of China, I have already argued that the most obvious political shift over the course of the last 40 years has been the increased access of capital to the party-state. The evidence for a parallel shift during the same period in the United States is even more compelling. An ideologically diverse set of analysts, ranging from Marxists like Harvey (2005), to dissenting economists like Simon Johnson (2009), to political scientists like Hacker and Pierson (2010a; 2010b) agree that the increasing political power of corporate capital, especially finance capital, has constituted a fundamental shift in the structure of U.S. politics – with profound consequences for policy, and hence, for American society. Johnson (2009) puts it most starkly, asserting that "the finance industry has effectively captured our government." The shift from the immediate post-World War II period, during which labor and other non-elite civil society groups could hope to compete with capital's ability to "project itself into the state to shape policy" is clear-cut. The connection between this shift and state policy, especially in the case of the policies that have generated increasing inequality, but also in the case of diminished capacity to deliver collective goods, is not hard to draw.

While the rising and declining hegemons may have converged in terms of diminished emphasis on capability expansion, continued convergence seems less likely as a prospect for the future. Current U.S. politics make low growth (or worse) seem almost inevitable as a future economic trajectory, and the same politics make reversal of the negative effects of the neoliberal era seem very unlikely. China, on the other hand, has proved itself resilient in the face of the crisis that is rocking the U.S. and Europe, and its continued economic dynamism will give it more policy flexibility. In addition, there appears to be increased awareness of the negative consequences of not paying attention to social protection on the part of political elites. Whether this portends a real political shift is unclear, but if China were to decide to modify its approach to social protection and try to reverse current inequality trends, it might find that it could learn a great deal from the recent evolution of its small but dynamic Northeast Asian neighbors.

C. Korea and Taiwan as Capability Enhancing States: Studies of the archetypal twentieth century developmental states, Korea and Taiwan, agreed overwhelmingly that the state was one of the institutional keystones of their remarkable success. The capacities exhibited in these successful cases of industrial transformation have been well-specified, with the coherence and quality of the bureaucratic apparatus taking pride of place along with the ability to create dense ties to industrial elites.

The centrality of capability expansion to the success of the East Asian tigers has taken a back seat in the literature on the East Asian developmental state, and deserves more attention. In fact, even during their initial drives for industrial transformation, these states were pioneers in capability expansion, renowned for their levels of investment in human capital. They began their periods of accelerated economic growth with education levels that made them outliers for countries at their income levels and continued to invest massively in the expansion of education throughout the period of their rapid expansion.

If we refocus on these states in the final decades of the twentieth century and the first decade of the twenty-first century, the centrality of capability expansion to their development strategies becomes more explicit. As both Korea and Taiwan moved toward democratization in the 1980's, these states began a notable expansion of social protection (see Wong, 2004; Peng and Wong, 2008; Dostal, 2010; McGuire, 2010). In Taiwan and Korea, the last quarter century has been a period of socio-political transformation that looks like an effort to construct a 21st century Asian version of the post World War II Golden Age.

Siddiqi and Hertzman (2001: 331) sum up the lessons of the Asian Tigers as follows, "The Tiger economies of Southeast Asia seem to be an example of economic growth and increasing parity in income distribution occurring together over time, concurrent with a dramatic improvement in population health." Between 1985 and 1995, state expenditures as a percentage of GDP increased by 25 percent in Korea and over 30 percent in Taiwan, largely because of increased welfare programs.

The performance of these states in terms of capability expansion is nicely summed up in Appendices A and C. In Appendix A, Korea and Taiwan stand out in terms of their ability to preserve low levels of inequality.[7] Korea is particularly impressive in that, in contrast to China, it has managed to combine growth with falling inequality. Appendix C does not include Taiwan, but Korea's capability expansion performance is even more striking. Starting in the 1980s with levels of life expectancy comparable to China's, Korea ends up at the end of the first decade of the new millennium with levels comparable to the EU and higher than the U.S.

Does the exceptional performance in terms of capability expansion in Korea and Taiwan lend itself to the kind of explanation that has been offered in the prior sets of cases? At first glance, an explanation that focuses on effective engagement of civil society might seem implausible. While both countries have consolidated democracies with power being transferred via electoral contestation, most characterizations of the political systems of these countries would not feature the kind of "relatively autonomous civil society that can effectively engage the state" or "clear

[7] There are, of course, countries that have consistency achieved even lower levels of inequality, with the Nordic countries being the prime examples, but in the set of countries considered here, Korea and Taiwan stand out.

instances of civil society projecting itself into the state to shape policy" that Heller invokes in the case of Brazil.[8]

While arguments for the importance of state-society ties in the capability performance of Korea and Taiwan must be considered unproven, they should not be dismissed out of hand. Joseph Wong (2004), who chronicles the shift toward greater public expenditures on health, argues for a strong connection between extension of welfare spending and democratization. Three-fourths of Wong's elite respondents in the two countries endorsed the statement, "In Taiwan/Korea, there would be no improvement in social welfare without transition to democracy." McGuire (2010: 300) notes that a network of "progressive doctors, academics, and former democracy advocates lobbied successfully for the introduction of single-payer national health insurance" in Korea in the early 1990's. Dostal (2010: 165) highlights "democratization and political mobilization" as the most significant factors in expanding social provision in both Korea and Taiwan.

The cases of Korea and Taiwan are an intriguing addition to the comparative analysis of capability expansion. They may well be consistent with the state-society hypothesis that has been put forward in the analysis of the other cases, but insofar as they are, it underlines how little we really know about how state-society relations work in these countries, and how far we have to go before we can claim to understand the society-specific dynamics of the relationship between capability expansion and state-society relations.

CONCLUSION:

This paper has offered two kinds of argumentation: conceptual and comparative historical. The conceptual analysis presented in Part I built on my earlier work on the twenty-first century developmental state (Evans, 2008; 2010a; 2010b) and focused on the central importance of transforming state society relations if the state is to play an effective role in promoting development as capability expansion. At the same time, the conceptual discussion

[8] See, for example, Liu (2008) on the difficulties of the labor and environmental movements in dealing with the state in Taiwan and Korea.

underlined the primitive state of our empirical indicators of capability expansion. The comparative-historical analysis presented in Part II complemented the conceptual argument. It used crude indicators of capability expansion to make some provocative arguments about the role of state-society relations in creating effective state action.

The comparative analysis started with Heller (2011) in order to make the argument Brazil's greater success at capability expansion relative to South Africa was rooted in more effective engagement with civil society in Brazil. This argument was complemented by the critique of the South African state's failure to gain control of more of the new resource rents and invest them in capability expansion made by Arrighi *et.al.* (2010). The argument that the effectiveness of the state in promoting capability expansion depends on a combination of the states ties to civil society in general and its ties to capital in particular was then used to explain the apparently declining ability of the two hegemons -- China and the United States to promote capability expansion.

The comparative analysis then turned to the intriguing cases of Korea and Taiwan. The exceptional performance of these states in terms of capability expansion appears incontrovertible, but the explanation for this performance is anything but clear. A number of analysts argue that state-society relations play a crucial role, but exactly what distinguishes these countries from other, less successful, countries in terms of the configuration of state-society relations in is not clear. While there is a substantial body of empirical research available on both Korea and Taiwan, analyses of the role of these states in capability expansion still lack the kind of detailed vision of institutional forms and political process that were amassed over three decades of investigation of the role of the East Asian developmental state in promoting industrial transformation. This lack is frustrating, but it is also a challenge and an opportunity.

What do we need to know in order to build a compelling theory of the capability-expanding state? First, we need to know more about the mechanisms and consequences of effective delivery of capability-expanding services. In the case of industrial transformation, gross measures of output and GDP growth were complemented by detailed institutional analysis of state policies and business responses. To analyze the role of the state in capability expansion a similar combination of general measures and detailed institutional analysis is necessary.

How can we best assess the ability of numerous constituencies, many of them relatively unorganized, to (as Heller puts it) "project civil society into the state to shape policy"? For the state to play an effective role in capability expansion, civil society constituencies must have the capacity to ensure that state actions respond to collective preferences. Conventional electoral processes may play some role but securing responsiveness from the state is also likely to involve a combination of networks within civil society as well as networks connecting civil society to state actors. The predispositions and receptiveness of state managers, policy-makers and even lower level employees within state agencies are also likely to be crucial.

A full-blown example of the twenty-first century capability-enhancing developmental state has yet to be realized in practice and we are far from understanding promising examples of partial realization, like Korea. The one thing that is incontrovertible in these results is that Korea (and Taiwan), which were arguably the most interesting sites for research on the developmental state as an instrument of industrial transformation forty years ago, are equally interesting cases for the analysis of the developmental state at an instrument of capability expansion today. The expansion of research on the politics of capability expansion in potential sites for the emergence of capability-enhancing developmental states, such as Korea, must become a research priority.

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TABLE 1:
Evolution of Health Indicators
Korea and China 1960-1999

A. Infant Mortality Rate (per 1,000 live births)

	1960	1981	1991*	1999	Annual Rate of Decline (% per year)		
					1960-1981	1981-1991	1991-1999
China	150	37	31	30	6.7	2	0
South Korea	85	33	23	8	4.5	3.6	13.2

Note: * 1990, for China

B. Life Expectancy at Birth (years)

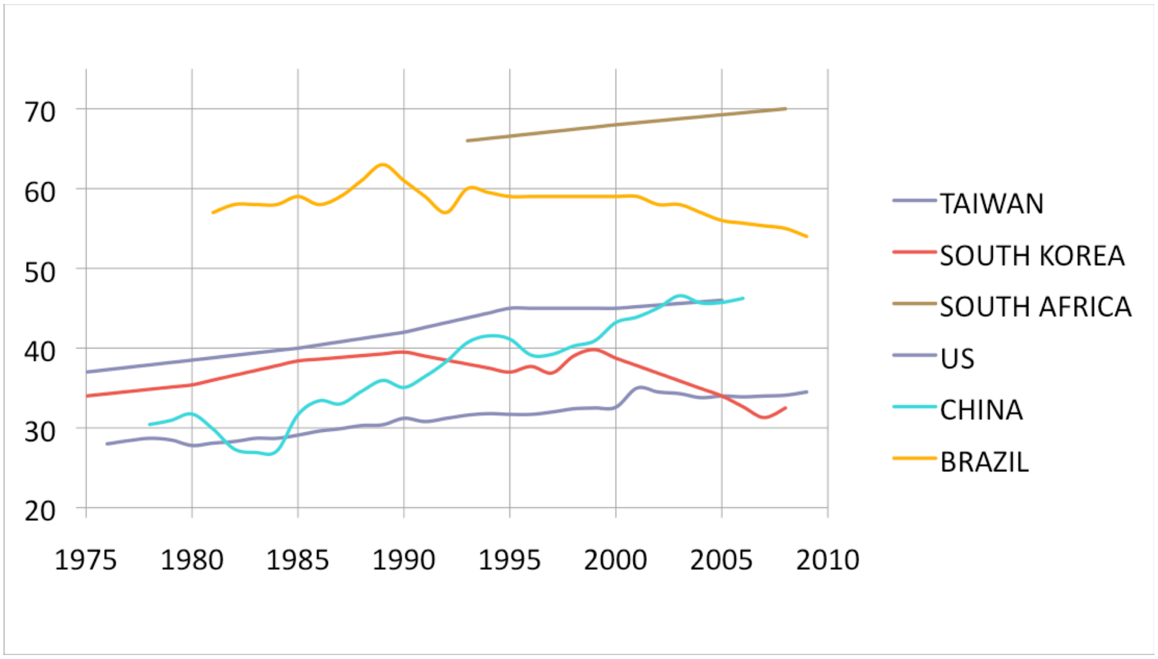
	1960	1981	1991*	1999	Pace of Improvement (years per decade)		
					1960-1981	1981-1991	1991-1999
China	47.1	67.7	69.3	70	9.8	1.8	0.8
South Korea	53.9	66	70	73	5.8	4.0	3.8

Note: * 1990, for China

Source: Dreze, Jean and Amartya Sen. 2002. *India: Development and Participation* Oxford University Press [2nd edition] Table 4.3 pg. 125

Appendix A:

Divergent Trends in National Inequality
(Evolution of Gini Coefficients – 1975- 2008)



DATA SOURCES:
Taiwan: Major Figures of Family Income and Expenditure, National Statistics, Republic of China (Taiwan)
South Korea: "Republic of Korea: Four Decades of Equitable Growth", World Bank report. Data from Family Income and Expenditure Survey, National Statistical Office
US: OECD data.
Brazil: World Development Indicators and Global Development Finance. World Bank data bank.
South Africa: Leibbrandt, 2010. "Trends in South African Income Distribution and Poverty since the Fall of Apartheid", OECD Social, Employment and Migration Working Papers, No. 101, OECD Publishing. Data from SALDRU 1993, IES 2000, NIDS 2008.
China: Chen, J., et al. 2010. "The Trend of the Gini Coefficient of China". Brooks World Poverty Institute. Data from China Statistical Yearbook and other sources.

APPENDIX B: Data Sources for Gini Indices

Korea, Taiwan, South Africa, Brazil, China and the U.S. - 1970-2010

Chen, J., et al. 2010. “The Trend of the Gini Coefficient of China”. Brooks World Poverty Institute. Data from China Statistical Yearbook and other sources.

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The World Bank databank
--Country reports:
http://data.worldbank.org/country/united-states
http://data.worldbank.org/country/china
http://data.worldbank.org/country/brazil
http://data.worldbank.org/country/korea-republic
http://data.worldbank.org/country/south-korea
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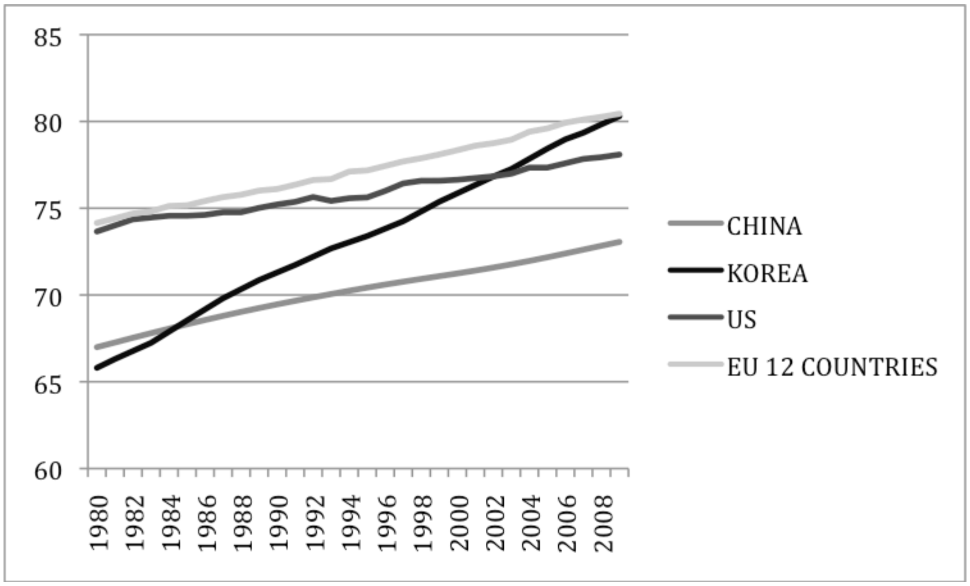
Appendix C:

Comparative National Trends in Life Expectancy during the Neo-Liberal Era
(Evolution of Life Expectancy at Birth – 1980- 2009)



DATA SOURCES:
US: World Development Indicators, World Bank; Centers for Disease Control and Prevention: National Vital Statistics Report, Volume 58, Number 21.
Korea: World Development Indicators, World Bank; WHO Health Statistics and Health Information Systems
EU 12 Countries: Average of 12 EU countries: Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Sweden, Switzerland, and United Kingdom. World Development Indicators, World Bank.
China: World Development Indicators, World Bank; and WHO Health Statistics and Health Information Systems.