Vivek Chibber, *Locked in Place: State-Building and Late Industrialization in India*
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**MYTHS OF THE PERMIT RAJ**

The unexpected Congress election victory in May 2004 has placed the Indian Left in a cleft stick. The outcome offers genuine reprieve from the nearly two-decades long seemingly inexorable forward march of the authoritarian Hindu Right, which after six years in power has already vitiated the secular and democratic characteristics of Indian society and was poised to do even more damage. To deepen the Right’s current disarray the Left wants to avoid at all costs bringing down the governing Congress-led coalition before it completes its full five-year term. At the same time, the poll result expressed nationwide (particularly rural) unhappiness with the effects of the neoliberal turn—initiated in 1991 by Manmohan Singh, the new Congress Prime Minister, in his then capacity as Minister of Finance.

As before, Congress will continue to pursue what it now calls ‘reforms with a human face’. Resolutely opposing this trajectory has become more important than ever—especially since, with inequalities of income, wealth and power growing, high poverty levels persisting and employment absorption even of educated youth declining, India could, like South America, well face major social turbulence some years down the line. If the Left and other progressive forces have not established their prior credibility as capable opponents of this policy, willing and able to pursue alternatives, it is the communalist Right that will be poised to exploit such upheavals. We are still far from writing any epitaphs for political Hindutva. This uncertain context lends additional political value to Vivek Chibber’s outstanding study. For *Locked in Place* is a powerful assault on the intellectual assumptions, arguments and claims on which the prevailing neoliberal consensus in India rests.
Today’s dominant discourse goes like this: India was in the first rank of post-colonial countries for its belief in, and pursuit of, the state-interventionist policy of Import Substitution Industrialization. But the end result was a relative failure, both in meeting the earlier goals set by Indian planners and vis-à-vis the ‘miracle economies’ of East Asia. In the two decades after 1947, the Indian industrialist class broadly supported this state-led project of ISI because it had an interest in a protected home market wherein businesses could grow; but also because it had no choice. The Congress had led one of the three great anti-colonial mass struggles (besides Vietnam and China) of the twentieth century. For all the party’s links with Indian capital (and undeniable bourgeois character), its key leaders retained a level of mass support and credibility that made the Congress-controlled post-colonial state highly autonomous from, and considerably stronger than, the industrialist class. Given Nehru’s socialist beliefs, the state basically had its way in carrying this project. Its weaknesses became evident even before Nehru’s death in 1964. Its long crisis of 1965–80 was marked, despite the success of the Green Revolution in securing self-sufficiency in food-grains production, by low growth rates, high and persistent poverty levels, low industrial productivity and major foreign-exchange imbalances. History itself has now given a definitive verdict: for this general developmental failure, the Indian state with its illusions about socialism (witness the collapse of Communism), is principally to blame. Lessons for the future are clear: scrap development planning; progressively reduce state intervention; allow the private sector maximum freedom to raise resources (reduce corporate and income taxes) and to invest where, and in what, it wants; steadily liberalize internally and externally. The path India set upon in the 1980s—especially since the turn represented by Singh’s 1991 ‘reforms’—is the best, indeed only, way forward.

It is this story that Chibber’s scholarly and scrupulously argued work effectively demolishes. Neoliberals believe there is only good and bad economic policy, where the former must be the establishment of real-life conditions that most closely approximate to the verities of textbook neoclassical economics. The state can help or hinder the creation of such conditions and also has some role in tackling the problem of externalities. But neoliberalism has no place whatsoever either for the view that there is a legitimate sub-discipline of ‘development economics’ or for the notion of a distinctive ‘development state’. Since the East Asian countries of Japan, Taiwan and South Korea are the outstandingly successful postwar examples of late capitalist industrialization, and owe their success to having just such states, neoliberalism can offer no historically grounded explanation for what must be the key question for all poor countries—why and how does late industrialization take place? Why do some development states succeed and others not? Chibber combines historical insights, institutional theories of the state, class analysis and empirical
evidence to explain precisely this issue through the contrasting experiences of Korea and India in the two decades after World War Two.

The state played a crucial role in promoting the late nineteenth-century industrialization of France, Germany, and the US. But only after 1945 did development planning emerge in (at its weakest) a form of a conscious industrial policy aimed at controlling private investment—directing where it should go, and then making sure of its efficient use. This planning for development had to address two areas. It needed to improve the general ‘environment’ in which firms function—raising the national savings rate and carrying out major land reforms, thereby increasing production of raw materials, providing wage goods for industry and broadening the domestic market. Though Chibber registers the importance of this aspect (about which more will be said later) the book is overwhelmingly preoccupied with the development state’s second function: that of directly influencing the industrial sector through micro-management of its behaviour. This requires the formulation and implementation of a sound industrial policy.

Industrial policy has two dimensions. Firstly, it requires subsidizing industry through the provision of infrastructure: cheap inputs, easy credit and domestic-market protection, thereby ensuring good rates of return. Developing the structures and state-class collaboration necessary for achieving this is no problem since this is the ‘giveaway’ aspect of the policy. It is establishing the appropriate patterns of private investment and production that is highly problematic, requiring effective monitoring and regulatory mechanisms that are tantamount to institutionalizing (for business) the disciplinary state. There must be structures to acquire and share necessary information between firms and between them and the state, carry out inter-firm coordination and provide a smoothly functioning system of incentives and sanctions. An effective development state must succeed in disciplining business. One necessary, if not sufficient, condition for doing this is to have a capitalist state that is substantially autonomous of the industrial class whose interests it aims to serve and promote.

The Korean state, says Chibber, was able to be more autonomous of its industrial class than was the Indian state in the crucial early decades after decolonization. Indeed, Indian industrialists prevented their state from putting into place such disciplinary structures. Though both countries inherited strong and capable bureaucracies not colonized by economic elites, only Korea could take the two steps necessary to install a disciplinary state. It created a nodal agency, the Economic Planning Board (EPB), which was a ‘factor of coherence’ amidst the administration’s multiple arms, functions, inclinations and vested interests, because it was sufficiently empowered to override the authority of other bodies as far as economic-industrial policy went. Moreover, the Korean state was ‘embedded’ in the business community. It
had institutionalized a dense network of ties with business that served as a two-way street for co-operation and bargaining to create and then sustain a ‘shared project’ between state and class. This was the vital complement to the disciplinary powers of the state. Korea’s success sprung from this mutual ‘pact’ between state and class, not from the latter’s merely disciplinary capacities.

Like so many other developing-world newcomers, Korea had to start off pursuing an import-substitution policy in order to build up its domestic industry behind protective barriers. But unlike others it did not merely seek the path of greater export promotion—India tried this with partial success after its 1957 foreign-exchange crisis—but successfully transited to a fully-fledged Export-Led Industrialization regime. Under an ELI regime (pursued by Japan, Taiwan, Korea) one cannot simply rely on comparatively low labour costs but must reach world standards of productivity, technical advance, marketing skills and so forth, which then enable movement up the export-value chain from light manufactures (textiles, toys) to heavy industrial goods (cars, shipbuilding, machine tools) and finally to electronics and other sophisticated capital and consumer goods. This has been the trajectory of the miracle East Asian economies.

After the shift to ELI by the Park Chung Hee dictatorship in the mid-sixties, Korean business had to accept state control; without it, it had no chance of acquiring the necessary productivity levels, market entries, capital inputs, subsidies, R&D and credit support that alone could ensure world-level competitiveness. If the first step was getting Korean capitalist preferences to change in favour of the ELI path, the second step was to ensure its early success and thereby the incentive to constantly reproduce it. ELI has obvious long-term productivity advantages over ISI, but it is also far more difficult. Chibber recognizes that matters of geography and luck—not to mention Cold War geopolitics—enabled Korea to establish an effective ELI development state, while very different circumstances not only denied India a realistic possibility of making any such shift but also determined the form taken by its own development failure. According to Chibber, Japan’s decision to shift its own ELI strategy, from light manufacturing to the export of capital and heavy industrial goods, sent Japanese capital flooding into South Korea, mostly in the form of minority holdings in joint ventures with Korean firms in order to create an export platform, particularly to the US. Korea piggybacked on Japanese production technology in these areas and, more importantly, on Japan’s already existing marketing outlets and skills in the US. Korea in turn became a major importer of Japan’s heavy industrial products. Thus Korea did not first establish a development state and then pursue ELI but, through the pursuit of ELI, managed to produce such a state.

Chibber then turns to the question of why India failed to create a disciplinary state. He challenges what he calls one of the central historical
myths—that, on the eve of Independence, the most powerful corporate houses, speaking for their class, were supportive of development planning. He argues the opposite. Both before and in the aftermath of Independence, India’s business class successfully blocked the installation of a proper structure of disciplinary planning, the necessary complement to the import-substitute strategy’s subsidization of industry. The myth of the quiescent bourgeoisie casts the blame for subsequent failure on the state, when it should rest on the Indian capitalist class and what it did to prevent the emergence of an effective development state. The Bombay Plan of 1944, drawn up and signed by the top companies, endorsed the principle of a post-Independence planning regime and has canonical status as the text confirming a general corporate acceptance. Through original archival research, Chibber adduces evidence to persuasively argue that the Plan has been seriously misinterpreted. The industrialist class, including the key signatories of the Bombay Plan, had made their opposition to disciplinary planning abundantly clear in the 1939 Congress-instituted National Planning Committee and in the ‘critical juncture’ of 1947–51. How could they have behaved otherwise when, in anticipation of the wide spaces in the domestic market that would be vacated by departing British capital after 1947, the last thing they wanted was any restrictions on where and how they should invest?

The Bombay Plan expressed the recognition by Indian industrialists that some kind of planning process would take place after Independence, and that they needed to be in-house participants in order to ensure that it did not take directions dangerously antithetical to their interests. If mainstream Indian historiography has given undue weight to the Plan, Chibber may have bent the stick too far in the other direction by treating the 1944 agreement as an ‘anomaly’ that must be explained in purely contingent terms. He therefore places excessive importance on the Quit India mass movement of 1942, which petered out well before 1944 but is deemed to have struck deep fear in the industrial bourgeoisie who, seeing the spectre of socialist planning materialize before them, were desperate to project the need for a capitalist plan. But despite periods of mass upsurge, the basic relationship of forces between capital and labour was firmly tilted towards the former; its ties to the Congress were far stronger, and the Left, although leading the urban working class, was never really capable of displacing the mainstream Congress leadership. The Communist Party of India, obedient to Stalin’s post-1941 wartime alliance with London, discredited itself by opposing the 1942 mobilization. One can easily share Chibber’s iconoclastic opposition to conventional interpretations of the Bombay Plan while disagreeing with the way in which he has redistributed explanatory weight among the factors that contributed to its emergence. It is, nonetheless, a significant merit of the
book that it will likely force much more serious historical research into the whole issue of the relationship of state and class in this period.

After Independence, the Indian state’s two key instruments for installing a disciplinary planning system were the Planning Commission and the Industries (Regulation and Development) Act, proposed in 1949 and passed in 1951. Because of class pressure both were scuppered at inception. The Planning Commission was transformed into a merely advisory body (unlike Korea’s epb), and the IRDA’s powers were greatly diluted. Korea’s sectoral business associations were staffed by senior government officials, which helped ‘embed’ the state within industry. Their Indian equivalents—the Development Councils and the Central Advisory Council for Industry, the key links between business and the state—were little more than talking shops. India never succeeded in installing a disciplinary development state. And British and US capital, unlike Japan’s, did not help change Indian strategic orientations—they came in for the domestic market, not to set up an export platform.

Contra contemporary critiques, the real problem was never the presence of what is disparagingly called the ‘licence, quota, permit, raj’. In both India and Korea, as Chibber writes:

> the industrial policy regime was characterized by a battery of administrative hurdles, red tape and government controls; in both cases the system favoured large over small and medium-sized firms. In Korea, however, the favours to the large firms were doled out consciously, with clear objectives and with the ability to monitor and, if necessary, discipline.

In a later chapter, Chibber explains why no successful reform in the direction of a better, more disciplinary state took place even after the 1957 balance-of-payments crisis. This would first have required changing capitalist preferences from ISI to exports, which did not happen. Reform from within the state was no longer an option—the existing planning dynamic served to strengthen capitalist power, further reducing state autonomy. The Planning Commission was already resented by various administrative circles for even its limited authority. Planning failure reinforced sentiments against the notion of planned development itself and the Commission began losing influence over policy formulation. Eventually this erosion from within would lead to a new generation of high-level bureaucrats who, disillusioned by the whole planning experience, would fall into the neoliberal trap of thinking that reform could not mean improving the quality of state intervention but only ‘liberalization’—i.e., progressively doing away with such involvement. By the 1980s and 1990s new industrial interests, chafing at the restrictions which favoured established companies, were calling for deregulation, while both new and old businesses eyed with avarice the prospects of privatizing public-sector domains.
Today, pressure by Indian industrialists to combine internal liberalization with protection from FDI entry has effectively disintegrated. Surprisingly, Chibber’s last pages, briefly covering contemporary developments, do not register this fact. Steady external liberalization is now the accepted common sense; only its pace and pattern is in dispute. In effect, very substantial sections of Indian capital now seem prepared to accept a future in which they will seek niches in the large Indian market, pursue outward expansion wherever they can and accept junior partnership with TNCs. Hitherto, India’s dominant class coalition—the industrial and agrarian bourgeoisies, the apex of the bureaucracy—largely excluded any external bourgeois presence; it is now in transition to an as yet uncertain future. Neoliberal globalization may well confirm Nicos Poulantzas’s prescient (1975) if then premature prediction in Classes in Contemporary Capitalism of the emergence of, not comprador, but ‘internal bourgeoisies’ in various parts of the world.

These are issues to which Chibber does not pay due attention, though further elaboration along these lines would not challenge the basic thrust of his study. Nor does he assign much importance to the ‘general environment’, domestic or global, in which Indian and Korean states and industries operate. Also, while he repeatedly stresses the importance of tracking the shifting relationship of forces within the state, and between the state and the industrial class, shifts in power within the dominant class bloc do not enter the picture. Given India’s weighty agrarian layer and the diverse patterns of regional development across its vast landmass, this is a real loss. Chibber rejects the thesis that the major land reform undertaken after the 1950–53 Korean war, by removing a class obstacle against rapid industrialization, decisively enhanced state autonomy in producing the developmental mechanisms that preceded export-led industrialization. He will only concede this as a necessary but not sufficient condition for a development state to emerge. The one counterfactual Chibber does not explore is what would have happened if Korea (and Japan and Taiwan) had not had such land reforms?

As for India, Locked in Place already builds a strong case for why a development state was not constructed. Was this outcome then over-determined by the absence of serious land reform, itself inconceivable given the overall relationship of class forces before and after 1947? Apart from the already-cited virtues, land reforms allow greater state concentration on the industrialist class whose power increases vis-à-vis declining rural elites. This eases or even eliminates populist pressures of the kind that the Indian state had to face in the 1970s and 1980s, leading it to make policy pay-offs to both rural and urban elites. By changing vertical power relations in the countryside, land reforms also greatly facilitate mass literacy, creating a more skilled labour force that contributes to rising industrial productivity, as well as preparing a wider domestic market for more sophisticated consumer goods. It
is not a coincidence that India has failed badly on the connected fronts of land reform and mass literacy.

Besides this crucial contrast between North East Asia and India, there is another difference never seriously broached by Chibber. Chalmers Johnson is not the only writer to emphasize the decisive importance of US foreign policy for East Asia’s economic trajectory. For much of the Cold War, East Asia was the geographical frontline in the battle against the two Communist giants (and the minnow, North Korea), with Japan, Taiwan and South Korea the proxy frontline states. In return for political fealty, the US government permitted unprecedented levels of access for these countries’ exports, ignoring or finessing domestic unease and opposition. Thus the other side of the considerable autonomy that the authoritarian Korean state enjoyed internally, in regard to its capitalist class, was the absence of any autonomy in its foreign policy. The installation and sustenance of a development state based on export-led industrialization was not just a function of domestic social relations but of a global balance of force.

There is no way that India—given its size, the character and leadership of its national independence movement, and its split with a Pakistan keen to be roped into the Western side of the Cold War face-off—could ever have accepted similar foreign-policy subordination. This is a powerful though unmentioned reason why Chibber, after exploring all reasonable counterfactual possibilities for the Indian development state, is correct to conclude that, all told, such a state could have at best pursued a more effective ISI strategy. In that respect, as he says, a serious comparative study of better performing ISI ‘late developers’ such as Brazil, Mexico and Turkey, alongside India, would be a major contribution, shedding further light on the possibilities and limits of disciplinary development planning for late industrialization. Till such time as someone takes up that task, we have every reason to be grateful for this path-breaking work.