Visitors to India over the past several decades have often remarked on the shoddy quality of many of its manufactured goods. How could a country with large numbers of talented engineers and businesspeople keep on reproducing, decade after decade, a more or less unchanged version of the British Morris motorcar from 1955? The answer beloved of liberal economists is simple: protection of the Indian car industry from international competition. The solution: remove protection.

Vivek Chibber, a sociologist at New York University, digs deep into the conundrum of India’s failure to become a serious industrial economy despite an apparently elaborate apparatus of planning organizations and planning tools and a considerable domestic market. His book tackles two major empirical questions. One is why India did not succeed in installing a “developmental state” in the years just after Independence in 1947, despite the clear intention of the political leadership. The second is why, after it began to be obvious by the late 1950s/early 1960s that the existing institutional arrangements for industrial planning were simply not working, there was still no impetus to improve them. Rather, “reform” came to mean “less intervention” rather than “better intervention”.

The standard answer to the first of these questions emphasizes the lack of commitment of leaders or bureaucratic inefficiency or some other variable to do with the state itself; and on the other hand, it takes for granted that India’s business leaders welcomed the prospect of state-led development. Indeed, it is often said that business leaders themselves proposed a strategy of state-led development in the so-called Bombay Plan of 1944-1945. Chibber delves into dusty archives not hitherto used, and emerges with a different answer.

Contrary to the standard answer, he says that India’s capitalist class did not accept even coordination of investment, let alone the further stage sought by the political leadership, which he calls “disciplinary planning”. The opposition coming from prominent Indian business groups scuppered the project of establishing disciplinary planning. Disciplinary planning here means the combination of state support (licenses, subsidies, protection) to investments in line with the plan, together with withdrawal of support for investments not in line with the plan (or for investments that no longer needed support to be successful, or for investments that were failing). This combination adds up to the ability of the state to discipline firms; hence the phrase “disciplinary planning”.

Why then did the big business groups not accept the discipline part, while they certainly did accept the subsidies and protection part; and why did their opposition prevail? Because the state was following the strategy of “import substituting industrialization” (ISI), in common with most other developing countries in the 1940s and 1950s (and up till the 1980s for that matter). ISI policies meant that firms could enjoy fine profits on the protected and uncompetitive domestic market without having to innovate (like Hindustan Motors, the firm that reproduced the 1955 Morris for decades afterwards). Thanks to the size and protection of the domestic market they did not need state support, though they were happy to get it and indeed devoted considerable under-the-table resources (“rents”) to procuring it. What they did not want was any attempt to discipline their use of state support.

The Planning Commission was established, and legislation was passed (the Industries Development and Regulation Act 1951) intended by its promoters to give the Planning Commission real teeth (to “embed” it, in the language of state theory). But in the face of capitalist opposition, the planning institutions lacked the capacity to discipline either the other ministries or the capitalist firms — because of the influence of capitalists in the leading political bloc, notably the Congress Party, and because the Party went out of its way to weaken the labor movement which could have been an ally for disciplinary planning. The Planning Commission became simply an add-on to existing ministries, it had to accommodate itself to them and had no jurisdiction over them (let alone control of key inputs like foreign exchange or credit); and the legislation was watered down to the point where the Act could only be implemented with the willing cooperation of business. Various state-industry consultative commissions were established, but they remained little more than talk-shops, without mechanisms of coordination or accountability.

So the key to the first question is not so much the state itself as the relations between the state and “capital” — the relations of hostility, of opposition. Chibber elaborates the analytical argument with a bold jump to Korea. In a marvellously succinct chapter on the origin of the developmental state in Korea he re-examines the literature on the post-Korean War experience of planning. His conclusion is that Korea’s success in installing a developmental state was due in large part not to state “domination” of Korean capitalists, which is how the story of the Park Chung-hee regime (1961-1979) is usually told, but to an alliance between the state and the Korean capitalist class. In this alliance each side had something the other wanted. The Korean state, seeing that its industrialization plans (driven partly by military imperatives) would require huge quantities of imports, needed Korean firms to export; and Korean firms wanted state support to make their entry into daunting export markets, including support conditional on them meeting rigorous quality standards in export markets. Hence the organizations of Korean firms were much more cooperative than their
Indian counterparts with arrangements in which they took on the role of implementers of government targets — but targets which they had a role in setting and which gave them a means of disciplining government (to deliver on services) as much as the other way around.

The driver of the difference between India and Korea in institutional arrangements of planning was thus the difference in development strategy — ISI in India and "export-led industrialization" (ELI) in Korea. The two development strategies placed quite different incentives on the parties to state-capital interactions. Notice how different this is to standard development economics that says that ISI goes with excessive, inefficient state "intervention" and ELI goes with free markets and a framework-providing state. In Chibber’s version, ELI required intense state intervention, including to “distort” prices on a massive scale so as to accelerate investment along the lines determined not by the state on its own but by the consortium of state planners and organizations of firms.

This is Chibber’s answer, in skeletal terms, of why India in the late 1940s and early 1950s set out to install a developmental state and failed, and Korea set out to do the same from the late 1950s to the mid 1960s and succeeded. His answer highlights state-capital relations in the two political economies. Luck and location were also important. Above all, Korean firms had much help in getting into export markets from Japanese trading companies and manufacturing companies that were, already by the early 1960s, looking for cheaper-labor products and components as real wages rose at home. These trading companies and firms helped to teach the Korean government how to craft an industrial policy that would complement their help in penetrating the US market. Moreover Korea received considerable help in development planning and exporting from the US because of its high geopolitical salience. India on the other hand was far beyond the economic interest of Japan, and of minor geopolitical salience to the US. India lacked even one godfather, let alone two.

Space precludes a summary of Chibber’s answer to the second major question above (to which his title alludes). Instead, let me mention a few qualifications. Chibber might have stressed that Korea’s capitalists saw themselves as much less supported by, and less constrained by, the small domestic market than their Indian counterparts, and Korea’s planners never took the domestic market as a constraint on their ambition. When they were planning an initiative in, say, steel or computer chips, they did not ask: what capacity do we need to replace imports (as though constrained by the size of the domestic market)? That would have been nonsensical. They asked: what capacity do we need to be a world-class producer (so we can both export and replace imports)? In India, by contrast, when the Planning Commission was working out supply and demand balances (right up to the 1970s) it hardly ever put in an allowance of extra capacity for exports. Early on, when it was concerned with establishing basic industries like cement and steel, it thought that India did not have a comparative advantage in these. Therefore it did
not plan for export capacity; but it carried this mindset into manufacturing activities where export success was possible. On the other hand, it is surprising, I think, that India’s vast domestic market (including of high-income consumers) did not sustain real competition, even if between oligopolists. If it had, India’s capitalists, under pressure to innovate, may have been less hostile to the discipline side of state support. So why was there not more domestic competition?

Chibber also underplays other parameters of the comparison, such as India’s vastly greater heterogeneity, with sharp differences in social background between high class-and-caste public officials and mere businessmen, as was not the case in more egalitarian Korea; and also India’s federal structure, which imposed a significant handicap on coordination and accountability.

There is an interesting question about the force of authority relations in the two countries. Impressionistically, much stronger in Korea than in India, in the sense that targets set by an authoritative body take on a powerful internalised force for the people meant to be responsible for meeting them in Korea, and a good deal less so in India. I wonder whether Geert Hofstede’s work on culture and organizations is relevant here. Certainly India and Korea are very different on Hofstede’s individualism-collectivism dimension: India in the middle, Korea and Taiwan near the collectivist end. And substantially different too on the power-distance dimension (which measures the naturalness of inequality): India near the top the range (inequality seen as the normal order of things), Korea and Taiwan on the upper side of the median (1). Contrasts of these kinds raise the question: even if India had had a Planning Commission and legislation with real teeth, and even if big business had been on side, could disciplinary planning have been implemented to anything like the degree it was in Korea?

Would the sinews of authority relations within the state have been strong enough? In other words, even if India had met two of the key features of a developmental state — a nodal agency superordinate with respect to other ministries and able to discipline firms in their use of state support — would it still have failed because of deficiencies in a third feature, a necessary condition for state effectiveness in even basic functions like revenue-raising: a “rational, rule-abiding bureaucracy”? (Or more exactly, deficiencies in basic “routine” functions, because the Indian state has functioned effectively in emergencies like the terrible droughts of the mid 1960s, when a single overriding objective could be subscribed to by all.)

Along the way Chibber makes an important argument about corruption — important in relation to the current focus on corruption as a major impediment to development, on the mainly implicit theory that if only corruption could be eliminated or substantially reduced, growth would pick up. Hence “good governance” programs backed by aid money tend to have

anti-corruption as a high priority. The quantitative evidence for this direction of causality is very weak. But Chibber’s argument illustrates a further point, that the focus on corruption, and the good governance agenda more generally, obscures the issues of organizational structure and allocative criteria. There certainly was a lot of corruption in India’s industrial licensing system, which was meant to be a prime instrument of industrial strategy. But the reasons why the system was ineffectual are only to a minor degree related to corruption; if somehow corruption had been eliminated the system would have remained quite ineffectual for organizational structure reasons, such as the Planning Commission’s disconnect from the investment plans of firms and the lack of clear criteria for allocating licenses. Again, the comparison with Korea (and Japan and Taiwan) is telling. In East Asia corruption abounded; but anecdotal evidence (including my own) suggests that it was compatible with effective state intervention; it did not swamp the ability to make development decisions wisely. Why? Because, regardless of corruption, the bureaucracy acted “rationally”, the nodal agency had real power over other state entities, the nodal agency could enforce performance conditions on recipients of state support, and there was dense interaction between state entities and big firms (or industry associations). This structure drove development results; corruption was accommodated to it. Would that the multilateral development banks and the bilateral aid agencies absorb this simple point, rather than acting like the drunk who drops his keys in the dark and walks over to the street light to look for them because that is where the light is.

Chibber’s argument is much more nuanced than I have suggested here, and it makes an important contribution to the larger theoretical debate about the role of the state in development and the place of class analysis. A British anthropologist friend remarked after reading it, “How did he get a job in an American sociology department? Where is the post-modernism? Where are the regressions?” Instead we have a sustained analytical argument presented in writing that is crystal-clear and entirely free of jargon, with historical narrative of “what was” tautly balanced with counterfactual “what might have been”. The book assaults idle prejudice on every side of the debate about markets and the role of government. It is long overdue, and deserves to be widely read.

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