Social Stratification,
State and the Civil Society
Efficiency, Value and the 21st-Century Developmental State: The Transition of China

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Abstract
This paper argues that the rapid industrialization following the 1985 Plaza Accords confronts China with the social value for efficiency that underlies industrialization forcing accommodation by the society. This process may be an inevitable historical one. Asia experienced two waves of industrialization in the second half of the 20th century. The first saw the restoration of Japan and its former colonies – Korea and Taiwan – under America’s Cold War strategy and was highly influenced by Japan’s value for efficiency formed at the turn of the 20th century. The Plaza Accords in 1985 initiated a second wave of foreign direct investment from the East Asian economies that established regional production networks throughout Asia. This second wave shows a pattern of innovation and rapid change similar to that which Chandler (1977, 1990) describes for the Second Industrial Revolution (SIR) in the late 19th century wherein the “rationalization” of Western society (Weber, 1958) around values inspired by industrial efficiency resulted in dramatic social change. The paper suggests China’s future might best be seen in long-view historical context.

Keywords: efficiency, Asian Values, industriousness, industrialization, developmental state, Industrial Revolution

JEL classification: E10, N35, O14, P16

1. Introduction
On May 12th, 2011, Naill Ferguson the prominent and popular economic historian told a Las Vegas convention of hedge fund managers and financial advisors, “The big story of your lifetime is that this period of Western predominance came to an end on your watch … That happened because
the developing part of the world is achieving the Industrial Revolution that
the Americans experienced.” He added: “This period is going to continue
until China becomes the biggest economy in the world.” (Cox, 2011) China
might so become, but if it is to do so according to the model of the Industrial
Revolution to which Ferguson refers it (1) must adopt or transform the values
for efficiency developed in that revolution for its own industrial sector;
and (2) address the social, cultural, and institutional revolution that comes
with doing so. Such was the Industrial Revolution that the Europeans and
Americans experienced.

China is not alone. The development path of China and much of
Southeast Asia is linked; both rise upon the integrated regional production
networks (RPN) that are built by the New Industrial Economies (NIEs) of
East Asia – Japan, Korea and Taiwan – through the massive investment
(Foreign Direct Investment/FDI) that follows the Plaza Accords in 1985. The
jobs that came with the RPNs allowed these countries to grow an employment
base without organically growing the values for efficiency that came along
with modernity and industrialization in the West and that, emerging as
social efficiency, facilitated changes in the traditional concept of community
and society (Durkheim, 1893). This paper focuses upon the origin and
role of efficient industrialization as the vector of social change rather than
speculating on the change itself. In Section 2 below, the origin of the value is
elaborated. In Section 3 it looks at the two phases by which Asia integrates
into the world economy: the first facilitated by American Cold War policy
and the second by the Plaza Accords. Section 4 looks at China’s economic
history, the Asian culture debate, and the idea of the developmental state. The
final section speculates on China’s direction.

2. The Second Industrial Revolution: Efficiency and Transformation

The Second Industrial Revolution (SIR), which began in 1850 with the
application of Bessemer’s process for smelting iron, and ended in 1913 with
the First World War, reshaped man’s relationship with the world and with
himself. It created the factory and mass produced goods which together
created an urban consumer society. Revolutions in transportation and
communication made it possible to coordinate the exploitation of distant
resources to produce goods to serve distant markets (Chandler, 1977). From
this came new forms of industrial organization and managerial capitalism
(Chandler, 1984; 1992; Sklar, 1988) focused on efficiency. Related changes
include the bureaucratic corporation as a perpetual entity modeled upon,
and given the rights of a human being (Ashman, & Winstanley, 2007) and
the deskilling of labour in integrated factory systems run by “scientific
management” methods for efficiency (Braverman, 1974; Meir, 1970).
It is the machine and its generalized application as technology that is the foundation of the SIR: “One theme bound the leaders of the 19th century together; the conquest of nature and the liberation of mankind by mechanical invention.” (Mumford, 1934: 301) But it is corporate organization that realizes the potential of the machine. In The Visible Hand (1977) and Scale and Scope (1990), Alfred Chandler describes the quest for “efficiency of scale” that created the corporate form of capitalism after 1850 and why and how it replaced the local and personal capitalism that preceded from the first industrial revolution. At the core of the change is a revolution in transportation managed by the new form of organization – corporate capitalism: “The railroad, telegraph, steamship, and cable made possible the modern mass production and distribution that were the hallmarks of the Second Industrial Revolution of the late nineteenth and early twentieth centuries. These new high-volume technologies could not be effectively exploited unless the massive flows of materials were guided through the process of both production and distribution by teams of salaried managers.” (Chandler, 1984: 474)

Machine technologies and attendant systems dictated the organization of production but the adoption and form of the industries reflects a negotiation with culture. “Thus, in major modern economies, the large managerial enterprise evolved in much the same way in industries with much the same characteristics. However, there were striking differences among these economies in the pace, the timing, and the specific industries in which the new institutions appeared and continued to grow. These differences reflected differences in technologies and markets available to the industrialists of the different nations, in their entrepreneurial organizational skills, in laws, and in cultural attitudes and values” (Chandler, 1984: 492). Each of the soon-to-dominate economies at the turn of the century differ “in terms of size, number, industry, and systems and styles of management, reflecting the different routes by which the leading sectors of each economy reached managerial capitalism – the United States by almost revolutionary changes at the turn of the century; Britain in a much more evolutionary manner that prolonged family capitalism; Germany by way of finance capitalism; and Japan by the development of group enterprise capitalism” (Chandler, 1984: 503).

The “almost revolutionary changes” in America emerged from the radical transformation of society evoked by the Progressive Movement after 1895 and lasting through the first World War; a response to the excesses of the Gilded Age and the rapid changes taking place. Rapid industrialism, scandals involving corporations, financiers and government, rapid urbanization and crowding, and high levels of immigration all contributed to a sense that things were chaotic and needed organization and control (Wiebe, 1967; Hays, 1957). At the turn of the century America journalistic “muckrakers” bent on exposing corrupt and wasteful practices whipped a nation to action. Three
ideas emerged: the need to stop the excesses of the corporations and monopoly finance that had characterized capitalism in the Gilded Age, a disdain for the crass individualism and the Social Darwinism that had prevailed during this period; and as solution to these two: a belief in the possibility of “social efficiency” if sponsored by popular will and government (Rogers, 1982).

The hallmark of Progressivism is the elevation of efficiency into an ideology (Haber, 1964) or to better reflect the religious roots of Progressivism’s fervour, a “Gospel of Efficiency” (Hays, 1957). The ideology of efficiency finds its voice in Frederic Winslow Taylor and his principles of Scientific Management. Taylor is the first thinker to systematically study work itself and to treat work as a legitimate subject about which knowledge should be developed (Drucker, 1993). Approaching work from the simple behaviourism of the time, Taylor saw the fit between labourers and the task as the unit of productivity. Management’s role was to ensure tasks were scrutinized and organized objectively and systematically and labourers properly selected and trained. The separation of duties and responsibilities between labour and management according to rational and efficient criteria was, within the firm’s operation, a fundamental element of Scientific Management. Going beyond the firm, Taylor sought a “mental revolution” from adopting this idea of efficiency as solution to labour-management problems and the basis of shared progress toward a greater social good.

Though perhaps adopted with less enthusiasm than in the USA, the efficiency movements inspired by Taylorism and Henry Ford’s integrated production systems were world-wide movements in most developing industrial economies. Two of these – Japan and Russia – are central to the arguments developing herein. Taylorism made inroads into Japan in the first decades of the 20th century both directly and through its European interpretation as “rationalization” but its most significant impact is as foundation for change after World War II. Japan, cut off from Western management innovation during its martial and regional expansion through the 1930s and the War, emerged to confront the new thinking whole-cloth after the War and a “revised Taylorite” consensus became a means of integrating those new ideas. In this revision, Taylor’s dual messages – as efficiency in production and as ideology of production for social harmony – loomed large in developing cooperative labour-management relations in Japan (Tsutsui, 1998).

Russia’s desire to rapidly modernize after its Revolution framed the role of efficiency in the longer scope of history by setting the stage for the Cold War competition with America. In important ways Russia was remarkably similar to the United States at the turn of the century: it had a relatively small population and a large interior land mass; and, in Socialism it possessed a messianic value for the transformation of these comparable to that in America laid by the religiosity of its immigrant founders and resurgent in
Progressivism. For both the USA and Russia, efficiency and industrial growth were fundamental values and strategies: Stalin is quoted as saying: “The combination of the Russian revolutionary sweep with American efficiency is the essence of Leninism” (Hughes, 2004: 251). The shared assumption that efficient industrialization is the way forward, becomes the framework for fighting the Cold War as the “politics of productivity” (Maier, 1977); two different political-economic syntheses competing to efficiently out-produce both military and consumer goods (Kunz, 1997). Within this nexus, the role of efficiency and industrialization in economic development is never questioned, only the political-economic synthesis – either democracy and markets, or communism and central planning. Thus the development assistance that is the Cold War courting of non-aligned nations liberated from their former status as colonies, never doubts industrialization as strategy (Engerman, 2004).

3. Asian Globalization in Two Phases

There are two phases to Asia’s dramatic economic growth; the first began with the Korean War and continued into the waning of the Cold War; the second began with the Plaza Accords in 1985 and represented a significant expansion of FDI from East Asia into China and Southeast Asia. Two historical influences shaped the first phase. During the first phase of Asian economic growth American Cold War policy provided Japan, Korea and Taiwan with significant investment, employment and security and through its conflicts – first Korea and then Vietnam – economic opportunity (Stubbs, 2005). For American Cold War policy the “politics of productivity” is also the politics of encouraging the growth of economically strong politically stable allies committed to market capitalism. A second influence is Japan’s pre-War position as Asia largest economy and largest investor in its two prior “protectorates” Korea and Taiwan under its East Asia Co-Prosperity Sphere. The proximal motive for a revival of links and ties between these three may be the Cold War but the longer history of industrial and economic development at the beginning of the 19th century should not be ignored for its role in facilitating the revitalization of the three East Asian NIEs (Eckert, 1990; Ho, 1978; Kang, 1996; McNamara, 1990). Despite differences between the situation of Korea and Taiwan before and after the War, Japan’s physical and institutional pre-War investment (both received and resisted) goes a long way to explain the rapid return to economic growth of these three (Cumming, 1984; World Bank, 1993). Right economic policies play a crucial part but these are framed within the political-economic reality of “surviving” the Cold War (Doner et al., 2005; Stubbs, 2009). In historical context the growth of the NIEs in East Asia appears less a miracle and more a deliberate and
facilitated strategy to reassert the experience of productivity and efficient industrialization in the prior part of the 20th century. The waning of the Cold War and the relative success of the strategy meant that the artificial conditions – favoured trade status and currency exchange rates – could be removed.

The second phase of Asian growth began with the massive investment by the East Asian Tigers into Southeast Asia and China following the revision of the Yen to Dollar under the Plaza Accord of 1985. Japan’s investment in the second half of the 1980s exceeded its total investment for the prior 35 years (Bernard and Ravenhill, 1995) and is subsequently accompanied by substantial government-to-government aid (Terry, 1996). Korea and Taiwan also extended their investment into the region. At the beginning of 1988 Taiwanese investment in Southeast Asia was roughly $78 million, a shadow of the $850 million of the investment that would be made over the next three years. Total Korean investment as of 1985 was $42 million, but a fraction of the $132 million invested for 1989 (Bernard and Ravenhill, 1995). Moreover, the character of the investment changed from one in which re-export to Japan was prominent to one in which production was for local consumption or for export to third countries for final assembly (Bernard and Ravenhill, 1995; Hatch and Yamamura, 1996). There are controversies around the nature and operation of the Southeast Asian regional production networks (Peng, 2002; Bernard and Ravenhill, 1995; Hatch and Yamamura, 1996; Katzenstein and Shiaishi, 1997) but there is no doubt they are there for reasons of reducing cost and ensuring corporate efficiency.

The factors facilitating the RPNs that characterize the second phase of Asian economic growth are the same as those Chandler (1970, 1990) describes for the SIR: dramatic changes in transportation costs and efficiency – containerized shipping invented in the late 1960s (Levinson, 2006); revolutionary communication technology – computers and the Internet; and, new forms of management – modular design and assembly made possible through supply chain management. Each period creates a new kind of production based on cost efficiencies. The management of resources and markets in the SIR creates factory-based mass production through vertically integrated manufacturing. Containerized shipping and supply chain management permits regional production networks based on competitive advantage. Production of transistors, chips, and integrated circuit can be done in huge quantities required of capital intensive plants and then combined with other goods and assembled for export to a world market. The pattern is similar but, to borrow Chandler’s title, the scope and scale is different: local production supported by regional resources and distribution in the early 1900s (Romer, 1996) has become regional production capitalizing on global resources and distribution in 2000.
4. Labour-intensive Industrialization, Values and the Developmental State: Whither Efficiency?

Western industrialization is characterized by the reorganization of society around the industrial capitalism in the late 19th century. That expansion facilitates a social value for efficiency in the industrial West which survived to form a foundation for Cold War politics and development ideology. While the RPNs that developed after the Plaza Accords were clearly facilitated by efficiency – “internally” as corporate cost containment, and “externally” through revolutionary changes in transportation, communication and management reminiscent of the SIR – the nations into which the FDI flowed in search of low cost labour welcomed this investment because it created jobs and built an economy. However, now that the efficiencies of industrialization have confronted existing cultural values, the negotiation and adaptation must proceed, just as it did at the turn of the 20th century. What are the relevant issues and the indigenous values in Sinic culture and how might they facilitate or resist adaptation? Below are considered three: a historical pattern of “industriousness” informing an Asian Path to industrialization, arguments concerning contemporary Asian Values, and the idea of the Developmental State.

New historical economic research on East and West industrialization, often identified as the “California School”, makes a good case that the Great Divergence of Europe and Asia in the 17th century should be viewed in the context of long-run economic history. When so viewed, the Divergence of the West toward industrialism in the mid-18th century appears to be significantly influence by two factors: (1) the proportion of proletariat workers to peasant farmers as owners or tenants which informed labour mobility and opportunities for industrial centralization; and (2) access to resources – energy and spare land for food and other natural resources. Comparing Europe with the Yangtze river delta of the early 18th century, Pomeranz (2000) finds industrialization in Europe being facilitated by a larger percentage of unlanded proletariat able to leave the land as labourers, colonialists, adventurers etc.; the discovery and exploitation of coal as an energy source in England; and, the ability to shift land-intensive activities such as farming or resource extraction to colonies. Thus both Europe and America were able to access calories (energy) relatively efficiently, allowing surplus persons and energy to create new industry. Alternatively, Chinese officials preferred, and culture facilitated a landed peasantry that was stable and easily taxed thus slowing expansion and encouraging an intensification of economic activity within existing resource constraints. Sugihara (2004, 2007) finds a similar labour intensification and an “industriousness revolution” within the landed peasant class organized in villages in Japan. Expanding his analysis beyond Japan, he suggests that wet-rice agriculture forms a basis for a pattern of economic
growth that has institutional and cultural implications over the long term and forms an Asian Path toward labour-intensive industrialization (Austin, 2010). In this path, East and Southeast Asia’s high proportion of landed peasants, a productive wet-rice agriculture, no easy access to alternative energy sources and little surplus land all promoted a strategy of intensification – the addition of tasks, craft or jobs by the family or community – as means of adding income without leaving the land, changing social status and structure, or expanding to capture new resources.

Pomeranz, Sugihara and Austin (2010) are proponents of a long history view of development that, beginning its analysis with the 17th century, articulates a two-path model to industrialization; one based in Western machine substitution and the other in labour intensification. This long history view illustrates the reciprocal influence of situation, economics, and culture. It is clear, for example, that the industriousness patterns influenced Japan’s adoption of industry in the 1920s and again during the Cold War (Tsutsui, 1998). Pomeranz’s (2000; 2008) analysis of China’s economic past and present suggests how this industriousness strategy has facilitated both its stability then and its rise now. Thus, while not denying FDI would be attracted by cost efficiencies, the two-path “industriousness” explanation suggests historical, institutional and cultural reasons why Chinese companies, the economy generally, and political structure as well, all might prefer maintaining labour intensity. In the short and present term, the historical and institutional patterns would appear, simplistically, as the contemporary discussion of Confucian and Asian values.

Invoking values to explain the rise of Asia comes first from the West as an extension of Weber’s (1958) argument in The Protestant Ethic and the Spirit of Capitalism. The idea that Confucianism might facilitate capitalism appears first in Kahn (1979) who attempted to reverse the prior argument that Confucianism accounted for Asia’s failure to grow and so must give way to modern industrial values if Asia is to grow (Lim, 1994; Dirlik, 1995). In the late 1980s and early 1990s the discussion on Confucian values gave way to a broader declaration of Asian Values led in part by Lee Kwan Yew of Singapore. Milner’s (1999) synthesis across the literature captures the set of values: “a stress on the community rather than the individual, the privileging of order and harmony over personal freedom, refusal to compartmentalize religion away from other spheres of life, a particular emphasis on saving and thriftiness, an insistence on hard work, a respect for political leadership, a belief that government and business need not necessarily be natural adversaries, and an emphasis on family loyalty.” This maturation of the prior Confucian value discussion reflected identification with the continual expansion of the Asian Region and all things Japanese, and some satisfaction in the apparent decline of the West (Khoo, 1999, Milner, 1999). Asian Values
echo the religions of Asia, but as importantly, they reflect a set of values consistent with industriousness: community and stability over the self, deference to authority, and hard work. These values differ in quality from those which tend toward industrial efficiency and productivity, reflecting instead a pattern of emotional engagement and membership within community that encourages paternalism in corporate relations and a strong interventionist role by government. This government role is reflected in the idea of the developmental state.

The advent of the term “developmental state” (DS) is credited to Chalmer Johnson’s (1982) *MITI and the Japanese Miracle: the Growth of Industrial Policy, 1925-1975* whose intent was to describe a model of political economy different from the Soviet or Western (Johnson, 1999). Placing the DS in historical context was part of Johnson’s objective and it is important to understand how historical and situational factors have changed the idea. External situational factors motivating the rise of the DS are commonly cited as two: an ideology of development that spread from Japan, influenced in part by its pre-war economic position; and, constraints imposed by international pressure, security concerns, and resource shortages related in large part to the Cold War (Stubbs, 2005; Haggard, 2004; Weiss, 2000). Internal motivations are elite self-interest; and minimal demands from interest groups such as labour (Haggard, 2004).

The waning of the Cold War brought the Plaza Accords and initiated the FDI that built the RPNs. In Southeast Asia at least, the greater security of the post-Cold War environment did not require countries to promote a nationalistic ideology of efficiency in their industrialization so as to spin off resources for national defense; economic growth was its own justification. Indeed, Weiss (2000: 24) in rejecting the moniker “developmental state” for Southeast Asian nations describes them as “a patchwork of poorly insulated yet highly interventionist states whose policies have more often sought to promote ethnic, patrimonial or other particularistic interests than to maximize national goals through a transformative project”.

China appears to have utilized the peace dividend and the RPNs differently. Harvey, (2005) notes that China, at the end of the Cold War and cognizant of its failing internal economic system, opened its border to almost any kind of FDI in order to create jobs and in doing so it abetted the failure of state-owned factories and the dislocation of such workers into a huge pool of migrant low-cost labour, often poorly treated. In sharp contrast to the East Asian concept of the developmental state, but as an extreme version of the paternalist authoritarian Southeast Asian version, Harvey (2005) and Bremmer (2009) suggest that China’s state-fostered model represents a poorly regulated neo-liberal capitalism reminiscent of the American Gilded Age that preceded the Progressive Era in which wealthy capitalist interest groups easily
shaped government policy for economic growth. Indeed, while China’s East Coast has experienced a rapid increase in wealth, China’s income inequality has risen dramatically and is among the highest in the world. This contrasts sharply with the East Asian NIEs that recorded both growth and widely shared equality during the 1970s and 1980s when they were transitional economies (Kuznets, 1988). The disassembly of the communist system and communitarianism at the grassroots, along with land appropriation for building, regularly prompt worker demonstrations in a manner that more reminiscent of “state capitalism” (Bermmer, 2009) or simple authoritarianism (Gat, 2007).

Without historical continuities with a pre-War industrial efficiency, with values for and patterns of authoritarian governance, and with centralized systems for currency control and investment planning that abet low-wage business environments it is not clear whether China needs or wants a value for efficiency. The huge flow of FDI from China and Southeast Asia following the Plaza Accords provided a ready-made industrial economy to appease interest groups – both elites and labour – and obviated the need to grow one organically. This capitalism of a different sort shapes a state of a different sort with non-transparent interest groups and decision making. The situation is facilitated internally by “strong” Asian Value which encourages a weak [civil] society (Migdall, 1988). With less need to appease interest groups outside the elite, the state need not be transparent or strong, only sufficiently authoritarian to satisfy its elite. Such a description would, it should be noted, apply as well to the “robber baron” capitalism of the American Gilded Age and to the capitalist elites of Europe in the late 19th century.

5. History and Change

The Second Industrial Revolution took over a half a century to complete as the experience of industrialization and social rationalization forged a new set of values and social structure in the West (Durkheim, 1893). If the experience of the Second Industrial Revolution is a guide, China too will confront the tension between the values required of an industrial economy and those that serve its elite in the maintenance of tradition. The laissez-faire industrialization of the late 19th century, and the DS model of the late 20th are no longer viable. A new model will emerge reflecting realities of the times: the end of an export-led growth model; population pressure and aspiration for growth; and, environmental limitation of resources for production or for disgorging waste. Such was the experience of America at the end of the 19th century as its profligate resource use and waste confronted falling export demand for its low cost and efficiently produced commodities. The Progressive Era reflected the rise of a social value for efficiency in industrialization which then led to
radical social change as well as expansionist foreign policies that eventually led to war. That is the historical backdrop against which China attempts to emerge into world history at the beginning of the 21st Century.

In the immediate term, China needs to create employment not efficiency. There was something of a Faustian bargain in the flying geese model that flew to China and Southeast Asia as FDI. The rapid roll-out of the RPNs and the easy introduction of jobs created, in comparison with the immediate past, an optimism into which expectation rose and populations expanded. But for an export-led model based on low-cost labour, the economic growth necessary for political stability comes from additional jobs not from added efficiency. Efficiency within a stagnant world economy would only result in more unemployment. In such a context it is not surprising that China’s stimulus package following the banking collapse in 2008 was, as measured by gross domestic product (GDP), the largest in the world.

How China negotiates its economic and social transformation awaits the future. History is a guide to the options that might appear; but which history? The long view version would focus on industriousness, values for stability and its tolerance of authoritarianism. The relatively recent history of industrialization toward which it seems to strive, does not bode well for this solution.

Note
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References


