

Book Review

Nikolaos Karagiannis and Zagros Madjd-Sadjadi
Modern State Intervention in the Era of Globalisation
Cheltenham, UK: Edward Elgar, 2007

Reviewed by Howard A. Doughty

“Oh East is East and West is West and never the twain shall meet,” or so sang Rudyard Kipling in his ode to manly courage and honour across cultures in 1895 (it was a poem about a question of ownership of a horse). Today, the pertinent poles might be North and South, or simply rich and poor. In any event, the differences were ultimately overcome, at least in microcosm. The lesson to be learned was that similar standards of virtue were worthy of respect, no matter their culture of origin.

Today, we have not only replaced the standard of the warrior with entrepreneurial success as the criterion of modern merit, but we have also erected many barriers to understanding, few of which come close to the ignorance not only among contemporary cultures, but also within cultures in terms of their own past and past relations with others. Except for those in thrall to the alleged clash of civilizations apparent in the titanic (and equally mythological) duel between “Islamofascism” and “the Great Satan, there is an implicit assumption in the rhetoric of globalization that the mechanisms of the international marketplace will eventually render all local cultures obsolete, except apart, perhaps, from those still able to produce amusing tourist souvenirs. Meanwhile, few in the advanced industrial world have anything but a passing familiarity with ancient civilizations, and less with civilizations that are not deemed direct antecedents of their own. So, the culture of pre-Columbian America, of China, Japan and South-East Asia, of the Indian subcontinent, the Middle East and Africa may as well be the cultures of alien planets for all that North Americans and Europeans know of them.

Almost as unfamiliar is the history of the emergence of the modern state, especially where debates about public political and private economic institutions are concerned.

Few can give a coherent account of the quite recent creation of the nation-state in Europe, the formation of great global trading companies such as the Hudson's Bay Company and the Dutch East India Company – both established in the seventeenth century – and the role that they and similar entities played in the heyday of early European imperialism. This is a pity, for it limits the intelligent discussion of the role of the state as arbiter of, or intervener in, economic development in nations great and small.

In *Modern State Intervention in the Era of Globalisation*, one in Edward Elgar's commendable series "New Directions in Modern Economics," Nikolaos Karagiannis and Zagros Madjd-Sadjadi contribute handsomely to our understanding of the development of the modern state and its contemporary challenges and dilemmas. It is beyond the purview of the book to present a comprehensive description of the origins and evolution of the modern state, but the authors go some way toward sketching out what such a description would entail. From the outset, they explain that there is no single history of development. They distinguish, for example, between the "developmental states" of East Asia and the "social corporatist" states of Scandinavia which are very different, but which "have served their own regions well." In comprehending those differences, Karagiannis and Madjd-Sadjadi emphasize the fact that "culture does matter and without understanding the differences in the locality and its unique needs, any system of governance is bound to failure" – as is any attempt to understand that system from outside.

One important implication of the necessary attention to culture is the futility of applying a single analytical framework to the diversity of human communities. The current favourite among many economists, administrators and politicians is neoliberalism, a set of assumptions that was presumed by its disciples to be the hope of a hungry world. Neoliberalism, with its preference for market mechanisms, private ownership, small government and rewards for innovation and efficiency has been largely triumphant in recent decades, but it has not worked. "Neoliberalism," according to Karagiannis and Madjd-Sadjadi, "was supposed to usher in a new era of economic growth and prosperity for all concerned and was supposed to narrow the gap between rich and poor nations." Under conditions of free trade, such time-honoured principles as "comparative

advantage” were expected to raise productivity, lower consumer costs and contribute to vibrant economies around the world. For a while, optimism was high. “From 1960 to 1980,” they say, “the world’s per capita income grew at a rate of 3.1 per cent per annum with developed and developing countries growing at about the same pace.” Then, as neoliberal philosophy became political policy and economic practice, “developing country economic growth slowed dramatically in the 1980-2000 period following the ascendancy of neoliberalism, tumbling by 50 per cent to just 1.5 per cent per annum.” Plainly something was amiss.

China and India, of course, are exceptions to the general pattern of stagnation and decline, especially in Latin America and sub-Saharan Africa. The fact that the enormous growth of those two giants buoys up the overall record of underdeveloped countries makes the economic performance of poor nations appear ever worse. Karagiannis and Madjd-Sadjadi therefore urge us to think authentically “outside the box,” not simply by imagining alternative methods to seek conventional goals within the dominant intellectual paradigm, but quite independently of fashionable models of growth. Their advice is to think pragmatically and to avoid the ideological blinders that push unrestrainedly in the direction of market mechanisms, or of state planning and coordination for that matter. “The public sector,” they say, “is neither the bastion of excellence that was heralded as maximising some social welfare function by a perfectly competent social planner nor is it a catastrophic failure due to selfish individuals desiring to further only their own utility.”

Though believing that “neoliberal policies have not only failed to produce the desired result of enhanced growth [and] have actually increased economic inequality and created economic instability,” Karagiannis and Madjd-Sadjadi are not ideologues in the service of public sector bureaucracies. Their judgments are set in a broad theoretical context which they explain in helpful historical summaries of neoclassical, “New Right” (e.g., Austrian, Public Choice and Monetarist approaches), Keynesian, Marxist and Welfare State perspectives, and express in the relation to contemporary globalization. Rather than offering arguments that prematurely shut down opposing positions, we are treated to an exemplary account of various theoretical interpretations of major issues such as the costs

and benefits of free trade (of which the authors do not wholeheartedly approve) and an assessment of how “free” the processes of market globalization really are. They also offer insight into the roots of the present situation by re-tracing the steps taken during the “age of Empires that ended with the beginning of World War I, and was typified by the internationalisation of production.” This is where the first international corporations came into play. Monopolistic instruments of the Crown, they were typically restricted to one (large) geographic area. The example cited is the British East Indies Company that effectively controlled India, and only gradually “acquired private identity.” Thus, the naïve notion that government grew to interfere with and constrain authentic private enterprise is shown to be quite false. On the contrary, private firms began as operational agencies of the state in matters of foreign trade and generated a debate over their principal role as accumulators of private wealth rather than instruments of political power later.

Karagiannis and Madjd-Sadjadi systematically lay out conceptual definitions, historical patterns and theoretical disputes which show, if nothing else, that the roots of current disagreements lie in the retrievable past and that when those roots are carefully examined, much contemporary squabbling over policies and practices can be contextualized and, in the unlikely event that good will can be found among the contestants, suitably put to rest.

Perhaps the most valuable part of the book, for the purposes of this issue of *The Innovation Journal* is the attention paid to such places as Singapore, Hong Kong, China, Korea and Japan. In succinct but edifying treatments, we learn not only that, despite the trend toward globalization that sometimes seems to eclipse the role of the sovereign state, the function of the state is not dead. Indeed, at a time when muscular transnational corporations seem able to threaten governments into compliance with their demands for minimal standards and regulations, it is made plain that the public authority may be needed more than ever to compel private sector firms to behave as minimally responsible corporate citizens.

In their discussion of East Asia, Karagiannis and Madjd-Sadjadi manage a difficult feat. They discuss what, in other hands, might be arcane economic analysis with clear and comprehensible language and concepts. They show that the dispute between supporters of the developmental state and the free market is based on the “theoretical inconsistencies” and false assumptions of “most Anglo-American economic analysis” and the “fairy tale” that “free-market capitalism” promotes “perfect competition.” (A sophisticated but plainly expressed discussion of the flaws in market theory is presented on pages 235-6.) “The irony,” as they point out, “is that a theory that preaches rationality is, at its core, fundamentally irrational.”

Without belabouring the niceties and intricacies of perfectly elastic demand curves, “conjectural” price variations and the like beyond the point needed for basic understanding, Karagiannis and Madjd-Sadjadi examine the actual economic practice in countries which have joined or are rapidly joining the advanced nations in terms of economic performance. They point out, for example, that the “Japanese miracle” was accomplished by methods that are “the antithesis to *laissez-faire*.” The state in Japan and the newly industrialized countries of the Pacific Rim “has played a vigorous role, guided the market toward planned structural changes, and followed a highly active industrial policy.”

Continuing with enlightening portraits of South Korea, Taiwan, Hong Kong and Singapore (Malaysia came slightly later), they give details of variations on the theme of robust state involvement in undeniably successful economic growth. These are, it should be understood, not examples of government-directed command economies, but of mixed private-public economies “characterised by a partnership between government and private business that uses strategic planning to promote the private sector.” Quoting with approval earlier studies of the rapid development in these East Asian countries, they find that “the intimacy of the Developmental State with the private sector and the intensity of the involvement in the market provide the directional thrust to the operation of the market mechanism.”

None of this is to suppose, of course, that self-proclaimed free market societies do not also feature intimate and mutually supportive relationships between government and business. It can be effectively argued that electoral campaign financing, untendered government contracts, preferential tax policies, industrial deregulation, privatization of public services and so on betoken nothing so much as a very cozy – some say predatory – relationship between the corporate sector and government in many Western countries, and nowhere more than in the United States. Behaving as “the executive committee of the ruling class,” however, is not the same as engaging in a more or less equal partnership in which both private sector and the private sector work transparently toward common ends.

Karagiannis and Madjd-Sadjadi’s discussion of Taiwan and South Korea’s success stories in the wake of devastating war and civil disruption are particularly instructive and absorbing accounts in which culture, politics and essential elements of the “dismal science” come together to provide a convincing story of how those societies – each with subtle and sometimes not so subtle nuances and local idiosyncrasies – managed to take their places among the successful nations.

The “elephant in the room,” of course, is China – or what CNN’s Lou Dobbs insists on calling “Communist China” in his relentless complaints about its shoddy exports, unfair trading practices and substantial ownership of America’s massive international debt. China is given some attention in *Modern State Intervention in the Era of Globalisation*, but it would take at least a full-sized book and more to do it justice. Karagiannis and Madjd-Sadjadi might do us all a favour by giving such a project a try.

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