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PACIFIC OPTIMISM
Part II: Explaining Economic Growth: How Magic is the Marketplace?

by Donald K. Emmerson

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Some analysts attribute Pacific economic success mainly to the willingness of governments to leave markets alone. The author argues that the role of government has been underestimated, that capitalism and democracy are not inseparable, and that technocratic-authoritarian planning can promote growth.

Pacific optimists are often not content to notice the fact of economic growth. They also explain it, and out of the explanation comes a model, which in turn has political uses. In the United States, for example, a major argument associated with Pacific optimism attributes Pacific prosperity to the unfettered functioning of the free market, justifies a model of development centered in the private sector, and supports the "supply side" assumptions of conservative Republicans. Not all Americans who are sanguine about Pacific developments accept this reasoning,[1] but enough do to make its evaluation worthwhile.

Public Spending and Economic Growth

America's most assiduous champions of prosperity through the private sector are politically to the right. Among them is President Reagan:

The societies which have achieved the most spectacular, broad-based economic progress in the shortest period of time are not the most tightly controlled, not necessarily the biggest in size, or the wealthiest in natural resources. No, what unites them all is their willingness to believe in the magic of the marketplace.[2]

Reagan almost certainly had in mind Japan and the "little dragons" (South Korea, Hong Kong, Taiwan, and Singapore).

The Friedmans made the correlation even more explicit: "Malaysia, Singapore, Korea, Taiwan, Hong Kong, and Japan—all relying extensively on private markets—are thriving.... By contrast, India, Indonesia, and Communist China, all relying heavily on central planning, have experienced economic stagnation."[3] In support of their case, the authors noted that the first group of nations had, in the late 1970s, per capita incomes greater than those of the second.

Substantially greater, in fact. In 1979, according to a widely used source (Indicators 1981), per capita incomes in the better-off group of nations ran from $9,100 (Japan) to $1,523 (Malaysia), while for the lower-income countries the range was from $253 (China) to $204 (India). The Friedmans's sample maximized the gap in the world's economy between rich states and poor. Given this extreme selection, how well does market-based optimism stand up?

As the *upper* half of Table 1 shows, the answer is—pretty well. In the Friedmans' six higher-income countries, on the average, governments spent less as a proportion of GNP, and GNP grew faster, than in the three lower-income countries.

Correlation should not, of course, be mistaken for cause. To argue that Japan, the little dragons, and Malaysia enjoyed an average per capita income of more than $3,000 in 1979 (col. 1) simply because their public sectors were restrained from spending more than an average 17 percent of GNP during the preceding five years (col. 3) is to ignore a host of

Table 1

Income, Growth, and Expenditure in Asian-Pacific Countries, 1970-1979

	(1) Per Capita Income in US$ (1979)	(2) GNP Growth Rate in % (1970-79)	(3) Public Spending (PS) as % of GNP (1974-79)	(4) Defense as % of PS (1974-79)	(5) Education as % of PS (1974-79)
Higher-income Nations (N = 6)	3,394	6.9	16.8	16.3	16.5
Lower-income Nations (N = 3)	232	3.8	20.7	19.0	13.7
Higher-income Nations (N = 13)	4,599	5.6	22.9	15.7	15.4
Lower-income Nations (N = 13)	220	2.4	22.5	19.5	12.3

Notes: Nations represented are, in 1st row, Hong Kong, Japan, Malaysia, Singapore, South Korea, Taiwan; in 2nd row, China, India, Indonesia; in 3rd row, Australia, Canada, Hong Kong, Iran, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, U.S., U.S.S.R.; in 4th row, Afghanistan, Bangladesh, Burma, China, India, Indonesia, Laos, Nepal, North Korea, Pakistan Sri Lanka, Thailand, Vietnam. Col. 1 is an average. Cols. 2-5 are annual averages. Figures in col. 5, rows 3 and 4, exclude Canada and Vietnam (missing data).

Source: *Indicators* 1981.

Table 2

Income, Growth, and Consumption in More and Less Developed Countries, 1960-1979

	(1) Per Capita Income in US$ (1979)	(2) GNP Growth Rate in % (1960-1979)	(3) Degree to Which Public Consumption (PUBCON) Outpaced Private Consumption (PRICON) (difference between median rates of % growth in PUBCON and PRICON)	
			(1960-1970)	(1970-1979)
Industrial Market Nations (N = 18)	9,440	4.0	0.5	0.1
Middle-income Nations (N = 60)	1,420	3.8	1.2	2.2
Low-income Nations (N = 36)	230	1.6	0.7	0.8

Notes: For row and column definitions, lists of countries, and data breakdowns, see the World Bank source cited below. For lack of data, the table excludes two additional Bank categories: "capital-surplus oil exporters" (Iraq, Kuwait, Libya, Saudi Arabia) and "nonmarket industrial economies" (Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, U.S.S.R.). The source document excludes Taiwan. Of the 114 nations that are included, 20 have been omitted from the calculation of at least one of the above statistics, again for lack of data. Col. 1 is a weighted average of per capita GNP. Col. 2 is a weighted annual average. The median rates used to calculate differences in col. 3 are drawn from an annual series for each country.

Source: *World* 1981: 134-135, 140-141.

alternative explanations, including the histories of these countries before 1974.

If the rate rather than the level of growth is taken as the result to be explained, a further caveat is necessary. Fiscal restraint since 1974 (col. 3) cannot have caused high GNP growth rates earlier in the '70s (included in col. 1). Indeed, one could argue that because GNP expanded rapidly for other reasons, governments were able to increase their outlays in absolute terms without having to spend more as a percentage of that rapidly growing GNP.

But the data in the upper half of Table 1 do support the idea that higher per capita incomes and GNP growth rates tend to be associated with smaller public sectors, while lower per capita incomes and GNP growth rates tend to accompany larger public sectors.

Broadly speaking, an empirically supported proposition can be pursued two ways—outwardly, by spreading it across more data to see how far it goes, or inwardly, by disassembling its categories to see what its surface logic may conceal. In the lower half of Table 1, I have tried to do both of these things.

The results are instructive. When the evidence is expanded, following an outward strategy, to include all 26 independent nations of Asia, the association of high and rapid growth with low public expenditure disappears. In terms of how much their governments spent as a proportion of GNP, more and less successful countries are statistically indistinguishable. (Compare rows 3 and 4 of col. 3.)

The variables (columns) in Table 1 have only two values: higher and lower. An inward approach recommends finer gradations. One could, for example, reclassify Asian countries into four distinct levels of 1979 per capita income—lowest, lower-than-average, higher-than-average, and highest—and ask what percentage of GNP the governments in each category spent on the average in 1974-1979. For income level may, after all, be affected by the previous size of the public sector, but in a curvilinear way.

Redivided in this manner, the data form an interesting pattern: Annually in 1974-1979, the governments of the countries that wound up with the lowest per capita incomes in 1979 actually spent less—only 19.2 percent on the average—as a proportion of GNP than did their counterparts in any of the three better-off categories. The governments in the next highest 1979 income bracket had, in the preceding five years, laid out a greater annual average—24.8 percent—of GNP. In other words, contrary to what a free-enterprise optimist might expect, at the lower end of the income scale, countries who did better actually had proportionately *larger* public sectors.

On the other hand, in this classification, 24.8 percent turns out to be the public sector's peak size. Among the nations in the next-to-highest income category in 1979, mean public expenditure in 1974-1979 was 24.1 percent, while among top-income countries, public sector spending accounted for a marginally lower average percentage of GNP, namely, 22.6. These figures decline, as expected, with rising incomes, but only in small steps. In other words, if the nations that were poorest in 1979 are excluded, a case for the private sector can be made, but only by taking seriously differences that may be trivial.[4]

In sum, when the Friedmans' selection of countries is expanded to include all the nations of Asia, the magic of the marketplace seems to fade.

Caveats and Speculations

The main independent variable—col. 3—is imperfect: Annual government expenditure and public sector size are not, strictly speaking, the same thing. Ideally, one should compare public and private assets—sunk capital—as well. Nor is it impossible to imagine a large public sector coexisting with a small but untrammeled private one; expenditure and intervention are not coterminous. Some might prefer to compare tax bites. Others might focus on budget deficits. Still others might ask who owns key means of production.

The dependent variables in Table 1—cols. 1 and 2—could also be improved. If the data in these columns could be broken down sectorally, one could single out the relative size and growth rate of the private economy, and estimate the impact on these variables of the relative size and growth rate of the public economy. Because per capita incomes and GNP growth rates as defined above include government claims on goods and services, Table 1 may overestimate the relationship between public expenditure and overall growth. Insofar as national income statistics underestimate the contribution of less monetized activities such as subsistence agriculture, the table may exaggerate the difference between higher- and lower-income countries. Finally, of course, per capita income is merely an average of output across population; Table 1 ignores the distribution of income within countries.

Nevertheless, within these limits, given the evidence reviewed above, official fiscal restraint does not appear to be responsible for high levels of per capita income in Asia as a whole.

Instead, it would appear—assuming for a moment that one can infer changes over time from slice-in-time data—that public spending as a share of GNP peaks somewhere in the middle of the income range and then gradually declines. If true, this new proposition suggests that government outlays in extremely poor countries could be increased in such a way as to generate an initial "big push" for economic growth. (Figuratively speaking, by raising public expenditure as a proportion of GNP by 5 percent, countries in the poorest of the four strata could double their per capita incomes.) Once a certain income level has been achieved, however, a large public sector may impede further growth.

This is sheer speculation, of course, but it does interpret empirical evidence. And the interpretation survives a further enlargement of the data base and an additional refinement of the independent variable, as shown in Table 2.

Table 2 extends the evidence spatially worldwide, with the exceptions noted, and temporally back to 1960. A static independent variable—public spending averaged over a half-decade (col. 3 of Table 1)—has been made more dynamic and historical: Col. 3 of Table 2 presents the difference between median rates of growth in public and private consumption for each set of countries in each of two decades.

Again, comparing rows 1-3 of col. 3 in Table 2, what stands out is the middle of the income range. In 1960-1970, and also in 1970-1979, the extent to which public consumption increased faster than private consumption was greater among countries that were "middle-income" by 1979 than among countries that were either better- or worse-off in that year.

Not only that. In "middle-income" nations, public consumption accelerated relative to private consumption. In these economies, from the 1960s through the 1970s, the difference between leading (public) and lagging (private) rates almost doubled. In contrast, in both decades, among countries that would occupy the top and bottom rungs of the income ladder in 1979, public sector growth rates exceeded those of the private sector by much smaller margins—margins that either remained the same from one decade to the next (in "low-income" countries) or actually declined a bit (in "industrial market" economies).

More caveats are required. Strictly speaking, Table 2 does not prove anything—least of all the superiority or inferiority of capitalism or socialism. For reasons of missing data, each column of figures in the table represents a slightly different set of countries. One or more indices of growth in public versus private consumption are unavailable for about a dozen Asian-Pacific countries; among these are China, North Korea, Indochina, and the U.S.S.R. Because the World Bank's "industrial market" category excludes the otherwise "high-income" cases of Czechoslovakia, East Germany, Saudi Arabia, Libya, and Kuwait, most of whose sectoral growth rates are in any case unknown or hard to know, the dependent variables (cols. 1 and 2) are not strictly dimensional. The Bank itself warns against using its data comparatively to leap to unwarranted conclusions.[5]

Nevertheless, the Bank's macroeconomic statistics appear to be less unreliable than any alternative, available, equally comprehensive set. And the pattern tentatively suggested by Table 2 does point toward a plausible speculation: that the virtues of the private sector are most apparent once a nation has been able to lift itself out of dire poverty, and that this ability to enter (and remain in) the world economy's middle ranks may imply—in some cases, may even require—a strongly public push.[6]

Finally, column 3 of Table 2 is noteworthy for what it says about the growth of public versus private consumption in general. The numbers in column 3 are all positive. That is, in no case did the private sector expand faster than the public one. If this trend is extrapolated—a questionable method, to be sure—the world's future looks more statist than capitalist. Speculating still farther beyond the evidence presented here: As forms of semiprivate, parastatal organization increasingly bridge and obscure the dividing line, so dear to the hearts of economists, between market and nonmarket forces, advocates of capitalism and socialism may have to reconceive their disagreement or abandon it.

Back to the Pacific—A Question of Quality

Having used an outward strategy to draw from a limited empirical test of Pacific optimism a global prognosis, it is time to self-correct by looking inward again, at the few countries and variables from which this discussion began.

So far in this *Report*, the public sector has been treated as if it were internally uniform—as if its size and growth rate (a question of quantity) explained a country's economic achievement better than could a specification of the different kinds of goods and services on which different governments spend money (a question of quality). This homogenizing bias can be countered by returning to Table 1, cols. 4 and 5, where two major items in public budgets are distinguished: defense and education.

In the upper half of Table 1, which covers the Friedmans' selection of Pacific nations, countries that were "higher-income" in 1979 allocated, on the average, less of their public budgets to defense in 1974-1979 than did those that were "lower-income." The "higher-income" group also spent proportionally more, on the average, on education than did their "lower-income" counterparts. Nor is this finding weakened when the number of cases is enlarged, in the bottom half of Table 1, to encompass the whole Asian-Pacific region.

The impacts of these two variables on economic growth are not equally clear-cut. If, as before, each Asian-Pacific nation is reclassified according to whether its per capita income was among the lowest, lower-than-average, higher-than-average, or highest in the region in 1979, defense spending in 1974-1979 appears to have discouraged growth in a much cruder way than public spending on education seems to have encouraged it.

Specifically: Governments in each of the three lower-income categories spent, on the average, roughly the same share of their budgets on defense—between 18.3 and 19.3 percent. Only in the top-income group did the figure differ significantly. At that level, governments devoted, on the average, only 13.7 percent of their funds to defense. In contrast, if one scans the income ladder's four steps, from bottom to top, proportional spending on education can be seen to have increased in regular steps—from 11.8 to 13.0 to 15.2 to 16.0 percent.[7]

The influence of public education on economic growth is, in other words, impressive. Among all Asian-Pacific countries for which data are available, Singapore's commitment to education in 1974-1979 was the greatest; a fourth of its budget was devoted, on the average, to this activity. In contrast, the lowest average annual allocation to education over this period—7 percent—occurred in one of the region's poorest and most slowly growing economies, Bangladesh.

On this score, a libertarian antipathy toward public expenditure on human welfare as inimical to economic growth appears misguided. On the contrary, it is precisely their concern to improve the quality and productivity of their labor forces—to invest in human capital—that has, in large part, enabled Japan and the dragons to generate growth without benefit of natural resources. Even putatively laissez-faire Hong Kong spent as much of its public budgets on education in 1974-1979 as Australia did—10 percent.

Nor, in the early 1980s, were the dragons content to rest on their educational laurels. The high-ranking technocrats whom I interviewed in Taiwan and Singapore in 1981 were convinced that work-force skills would become even more critical to their countries' future growth. These planners were already looking beyond industrialization to prepare for a new prospect: that the processing and transmission of information would become prime income-earning activities in the world economy of the 1990s. According to these informants, their countries hoped to develop a comparative advantage in these activities by, for example, providing labor-intensive software to be linked by satellite with capital-intensive hardware produced in countries with higher paid but less productive work forces. These men were betting that, as the computer revolution spread around the world, the case for productivity through education would become even stronger.

There is, of course, a chicken-and-egg problem here. Does a commitment to education result from or cause prosperity? While recognizing that human development and economic growth involve complex reciprocal effects, the World Bank, for one, has received the evidence and concluded that primary education and literacy have dramatic positive impacts on productivity and growth even when reverse causation is taken into account.[8]

Encouragingly, when it comes to education, it appears the dragons' results can, in principle, be generalized. Not only in South Korea, but in Thailand and Malaysia, analysts who estimated the increase in agricultural production attributable to primary education, after taking the cost of the education into account, found rates of return that compared "very favorably" with those associated with other kinds of investments.[9]

In other words, optimism about Pacific education seems to be justified, but for reasons that contradict supply-side assumptions. For public education turns out to be, in general, a productivity-enhancing activity, an instance where government funds, judiciously spent, can make an economy better off in the long run. Whether or not it makes sense to abolish the Department of Education in the United States, the record of counterpart institutions in East and Southeast Asia suggests that they play an economically vital role.

Two counterarguments come to mind. First, it could be asserted that private education improves productivity more than public education and therefore that the dragons would have grown even faster had they not funded this activity from public revenues. However, had it been adopted, this approach would have made it difficult to generalize Pacific optimism beyond its origins. For the large, poor populations of countries like India and Indonesia could hardly afford unsubsidized schooling.

Second, one can have recourse to cultural explanation, and argue that the correlation between educational priority and economic growth is spurious because neo-Confucian attitudes explain both. But this reasoning does not stand up against the finding that public education is a good investment even in culturally non-Confucian countries.

Defense — Inimical to Growth?

The ambiguous character of the relationship between military spending and economic growth points up the need to look at specific instances in qualitative terms.

According to the conventional case for a negative association between defense spending and economic growth, which the data cited above weakly support, outlays for armament use resources less productively than does spending for economic development because weapons, once manufactured, have no further income-generating use — unlike, say, fertilizers or factories. Indeed, the major use of nuclear weapons is to ensure that they will not have to be used. It is also commonly argued that militarization is economically counterproductive because it tends to make government more authoritarian, corrupt, and unresponsive to citizen needs.[10]

But stockpiling is not the only consequence of defense spending. Arms may be sold abroad for reinvestable foreign exchange. Recruited from a poor family, a soldier may acquire otherwise unobtainable skills that can be put to good use once he reenters the civilian economy. Or an armed force may use its manpower, trucks, and other equipment to build roads, bridges, and the like. Finally, of course, military spending can be indirectly beneficial if it assures the stability necessary for people to invest in the future.

In a methodologically elaborate study of the correlates of defense spending in 19 industrialized and 44 middle- and lower-income countries, Emile Benoit reached conclusions roughly compatible with those offered above.[11] Whether, on balance, defense spending had frustrated or improved the economic performance of nations in the middle and lower ranks of the world economy was "far from clear." Military spending might actually have had a net beneficial effect on the civilian economy of some countries in some circumstances. On the other hand, among the industrialized countries studied by Benoit, defense outlays appeared to have been slightly growth-inhibiting.

Benoit's worldwide findings and those reported above for the Asian-Pacific region make the case for defense spending's negative effects most persuasively at the top of the income ladder. Perhaps this is so because, in industrial compared to pre- or newly-industrial countries, the developmental capacities of civilian institutions — to train manpower, say, or improve infrastructure — are more likely to duplicate or exceed those of the armed forces. Defense spending may also be more clearly detrimental to growth in wealthier societies whose governments are more able and inclined to stockpile larger numbers of costly and "unusable" — e.g., nuclear — weapons. These among other considerations may render the trade-off between guns and butter more constraining at the top of the national income scale than lower down.[12]

Implicit in this argument is a salutary reminder of the limits of statistical inference. "The composition of defense programs may be as important for economic growth as their size."[13] At different times, in different countries, in different world environments, even the same defense programs can affect economic growth differently.

In the 1960s and early '70s in South Korea, for example, military spending may have improved the productivity of large numbers of previously untrained, underemployed rural dwellers by recruiting them into the armed forces, where they could acquire basic literacy, work discipline, and marketable skills.[14]

What happens if resources are no longer slack and an economy is operating somewhere near its production possibility frontier? What if hypergrowth has led to hyperinflation and government must compete with private borrowers, driving up interest rates? Under such conditions, which became increasingly common in the mid-late 1970s and early '80s, military establishments that previously were conducive to growth, or at least did not retard it, could become economic liabilities.

On the average in 1974-1979, Taiwan and Singapore allocated about as much of their budgets to defense as South Korea did—roughly a quarter—and all three economies did well. The fourth dragon, Hong Kong, also grew rapidly, achieving a level of per capita income second only to Singapore's in the group, but spent a mere 3 percent of its budgets on defense over the same period.

Behind this quantitative difference, however, lies a quality all four dragons have in common—a sense of insecurity. The dangers that North Korea will attack the South, that China will invade Taiwan or Hong Kong, and that the tiny island of Singapore, whose people are mainly non-Muslim Chinese, will eventually be swallowed by its more-or-less Muslim Malay neighbors, Malaysia and Indonesia, may not have been serious in recent years. But these threats have been taken seriously by the rulers of, and by many people in, the dragon-states, which are all small and strategically exposed. The British government chose not to arm its colony, Hong Kong, precisely in order not to provoke China.

In other words, although it does not show up in statistical tables, the dragons may have had in common an "optimal" sense of collective insecurity—not so low that one can relax but not so high that one must flee—which may have enhanced whatever neo-Confucian penchant for disciplined hard work the four cultures already shared.[15] Finally, the insecurity of Taiwan and South Korea, located as they were on the front lines of the cold war, facilitated economic growth by attracting massive U.S. assistance.

Singapore—Socialism That Works?

Having begun with a broad, quantitative overview, it will be useful now to focus briefly on the experience of one country, and to ask to what extent that experience warrants the singling out of official noninvolvement in economic life as the cause of economic growth.

The selection of Singapore for detailed treatment is intentional. Lee Kuan Yew's little dragon has turned in what is arguably the finest economic performance in the noncommunist world: According to World Bank data, which do not include Taiwan, only one country (Romania) raised its per capita GNP more rapidly with less inflation in the 1960s and '70s than Singapore did.[16] Also, because it lies in the heart of Southeast Asia, the Singapore model seems to hold a more realistic promise of being repeated in large, tropical, agrarian economies like Indonesia's. Both considerations heighten interest in Singapore's formula for success.

Part of the formula enumerates the virtues of rugged, old-fashioned, pre-Keynesian capitalism. The government of Singapore firmly believes that free markets elicit productive hard work from, and therefore create prosperity for, those who compete in them, and that public funds should not be transferred directly into the hands of individuals for purposes of consumption.

These views, which correspond to procapitalist attacks on America's "wayward welfare state"[17] strengthen the case for attributing Singapore's prosperity to the refusal of its leaders to interrupt the magic of the marketplace.

But if Prime Minister Lee Kuan Yew prefers individual initiative to public subsidy, he also prefers technocratic planning to democratic opposition. "An opposition," in his words,

> *can make for confusion by raising false expectations of unattainable benefits from greater welfare spending, as in Britain and in so many Third World countries. Instead of sound planning and hard work to achieve... progress... opposition groups raise false hopes of easy giveaways from an imaginary pie.*[18]

A libertarian would have rejected the idea that free-market economics and bureaucratic-authoritarian politics could be combined to produce prosperity. But in Singapore, as a strategy for economic growth, the combination paid off. Lee's labor policy, for example, blended repression and co-optation to discourage workers from making wage demands that could have slowed the inflow of foreign capital.[19]

Having established a labor-intensive industrial base and a reputation for productivity, Singapore began to upgrade its work force and shift incentives for investment toward skill- and capital-intensive sectors. In the late 1970s, on behalf of this "Second Industrial Revolution," the government ordered wages to be raised, repeatedly and by substantial percentages, and required employers to contribute more to social security.[20]

By the early 1980s, this gamble too appeared to have paid off: Firms that had originally come to the island to take advantage of cheap labor appeared to be willing to stay for different reasons, including excellent infrastructure and services, a relatively well educated populace, and a climate of economic and political stability—attractions for which the government, not the private sector, could claim most of the credit.

The role of government in Singapore extends beyond wage policy to affect virtually all aspects of life. Some 60 percent of all land in the country is government-owned. Social security is extensive and compulsory. To slow population growth, public hospitals charge more to deliver babies who already have siblings, while large families get low priority for public housing and public schooling. The government's restricted-zone traffic regulations,[21] stiff littering fines, and vigorous efforts to curb smoking[22] are also well known.

Public management amd private enterprise together share responsibility for Singapore's economic success. The Economic Development Board (EDB) illustrates official activism on behalf of growth. Formed in 1961, the EDB used its substantial budget to make loans, solicit investments, and appraise projects. The Board also planned, constructed, and operated Southeast Asia's largest industrial estate. Thanks to a Housing Development

Board, Singapore built more public housing per capita than any other country in the world. A monetary authority kept the currency stable and moderated the expansion of the money supply.[23] Still another public authority managed what became the world's second biggest tonnage-handling port.

Public enterprises have also played key roles in Singapore's growth. Among them are Neptune Orient (shipping), Vosper (arms), and Temasek (a diversified holding company). Singapore has no oil, but a Singapore National Oil Company stockpiles petroleum and tries to tap the increasingly government-to-government traffic in oil and oil products through the Malacca Strait.

Even if one controls for the fact of its being a city-state, Singapore's performance yields no brief for low-profile government. Compared to Hong Kong, Singapore in 1960-1979 enjoyed a higher rate of growth in GNP per capita and a lower rate of inflation. Yet, over the same period, Singapore's government intervened in the economy more thoroughly and actively than Hong Kong's did.[24]

From 1966 to 1981, all of the seats in Singapore's parliament were filled by Lee's political machine—the People's Action Party. In 1976, the Party resigned from the Socialist International to avoid being expelled for suppressing opposition and violating human rights. On that occasion, the government defended itself in a book called *Socialism That Works... The Singapore Way*. In a chapter entitled "A Socialist Economy That Works," Goh Keng Swee, who more than anyone engineered Singapore's industrialization, admitted that Singapore had enjoyed favorable world conditions. But Goh also credited the island's success to its own government's three-pronged thrust: "a massive programme of public housing"; a hurry-up effort to build public schools, train public teachers, and (later) to reorient priorities from academic toward vocational and technical training; and the provision of public infrastructure and tax incentives to attract private investment.[25]

"Taking an overall view of Singapore's economic policy," wrote Goh,

we can see how radically it differed from the laissez-faire *policies of the colonial era. These had led Singapore to a dead end, with little economic growth, massive unemployment, wretched housing, and inadequate education. We* had *to try a more activist and interventionist approach. Democratic socialist economic policies ranged from direct participation in industry... to laying down clear guidelines to the private sector as to what they could and should do.*

This is not to say that Singapore is a socialist country (let alone democratic in a civil-libertarian sense). But neither is the moral of the Singapore story an injunction to government to leave the economy alone. On the contrary, those who would follow the footsteps of men like Lee and Goh would vigorously and autocratically guide the economy, using the full weight of a clean, efficient, and authoritarian bureaucracy to deflect "premature" demands for welfare lest these undermine discipline and productivity.

In sum, to view Pacific capitalism through an adversarial or abstentionist model of public-private relations is to ignore the ways in which, not only in Singapore but also in Taiwan, South Korea, and Japan, governments have actively planned and managed collaboration with private industry to promote growth.

In this light, the metaphor of marketplace magic may be more apt than its advocates realize. What makes magic work, after all, is the willingness of people to underestimate the influence of the magician.

Optimism's Limits—Can the Pacific Model Be Generalized?

It follows from the above discussion that the applicability of the Pacific model should not be exaggerated. Yet broad claims continue to be made for it. In the eyes of some observers, the little dragons' accomplishments vindicate free-enterprise capitalism as the single best answer to global poverty.

The views of Reagan and the Friedmans have already been mentioned, but they are hardly alone. Krauss and Pakravan, for example, argue that for Iran, Mexico, and most other Third World countries, "the model of economic development should be the four thriving economies of the Pacific Basin—Hong Kong, Singapore, Taiwan, and South Korea."[26] Krauss and Pakravan abhor government intervention in economic life. In their eyes, the Shah's regime collapsed in large measure because it invested too heavily in capital-intensive industries, nationalized too much of the economy, and tried too soon to create a welfare state. They fear similarly disastrous consequences for Mexico should that country's leaders fail to follow the Pacific model and its overriding lesson: Let the market mechanism alone.

Market-focused Pacific optimism, like most single-variable explanations of complex phenomena, is only a partial truth. First, the four dragons differ considerably in the degree to which their governments have abstained from economic activity. Second, the reasons for their success extend beyond mere respect for the market into a host of geographic, historical, political, and cultural factors. Third, many of those noneconomic factors are difficult or impossible to duplicate in Iran, Mexico, and other countries that differ from the dragons in basic ways.

Being a city-state and being or having been a British colony (South Korea and Taiwan excepted); having been a long-time colony of Japan and a major recipient of U.S. aid (Singapore and Hong Kong excepted); being neo-Confucian (whatever that exactly means); and feeling threatened by neighbors (just enough, but not too much)... among the ingredients of the dragons' recipe for success, these are less than abundant in the rest of the world.

The dragon's example is limited in another way as well. It is easier to extol the virtues of a free market in a country whose distribution of income is not grossly slanted in favor of the rich. On this score, some dragons have done better than others, but all four have done markedly better than most larger nonsocialist Third World nations. The dragons' economic growth has yielded more than a thin "trickle-down" to the poor. Real wages have risen and a general uplift in welfare has occurred.[27]

But the fact that the benefits of growth in these four countries have been relatively evenly shared, thereby weakening the case against capitalism as inegalitarian, is to a considerable extent attributable to unique factors of the sort mentioned above.

For example, notwithstanding Malay-Chinese and Taiwanese-Chinese differences in Singapore and Taiwan (respectively), all four dragons have relatively homogeneous cultures. So does Japan. This particular condition almost certainly helped spread incomes more evenly than would have been true otherwise, just as its absence in polyethnic Malaysia and Indonesia seems to have contributed to the greater economic inequality prevailing there.

Conversely, in the relatively "dualistic" economies of Indonesia, Zaire, Mexico, and the Shah's Iran, where high-value resources and agrarian poverty coexist, to allow market forces entirely free play is likely to reinforce an enclave pattern of economic growth in which the bulk of the population does not participate. Given the natural resentment of those whom growth bypasses and leaves behind, this pattern can become politically destabilizing.

To prevent instability, bureaucratic-authoritarian regimes typically stifle and co-opt dissent. In doing so, they become less able to resist the temptation to influence economic life as well. But economic arrangements that benefit the state at popular expense may need political protection. More often than not, the upshot of this vicious cycle is a repressive, bureaucratized kind of pseudo-capitalism.

This trend is depressing. But one should not draw from it the libertarian lesson that government is the root of all evil. What is most impressive about the dragons' experience is not their commitment to free-market solutions, but rather the different ways in which the four governments have tried to promote growth and deal with its consequences. The lesson here is not across-the-board abstention but sophisticated intervention. Even in Hong Kong, the freest market of the four, the precondition of successful capitalism is a colonial government that has been able, by concentrating power in the hands of administrators who are not popularly accountable, to keep democracy and socialism together at bay—a thoroughly political achievement.

* * * * *

Pacific optimists are correct to note that certain noncommunist Asian economies have achieved a great deal. But in those locales of ostensibly capitalist hypergrowth, the invisible hand of the market has been allowed and encouraged to work by the visible hand of government. This lesson, which implies a more or less mixed economy, lacks the ideological clarity of prescriptions drawn chapter and verse from the private sector. But the notion that government and market should work hand in hand seems, to me at any rate, more useful in the Third World than mere credence in the magic of the marketplace.

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NOTES

1. Chalmers Johnson, for example, whose admiration for Taiwan's economic performance I noted in the first part of this *Report*, and who believes that Japan, South Korea, Taiwan, Hong Kong, and Singapore "understood systematically applied 'supply-side economics' well before the term had been invented in the United States," distills these countries' experiences into a fourfold model in which activist government predominates. The model's elements are: rule by a technocratic-bureaucratic elite that does not accede to political demands that would undermine economic growth; cooperation between public and private sectors under the overall guidance of a pilot planning agency; heavy and continuing investment in education for everyone; and a government committed to market-conforming (price mechanism-respecting) methods of economic intervention. See Johnson 1981: 10-14.

2. Reagan 1981: 1053.

3. 1980: 57.

4. The number of countries (N) in each group and their per capita income range (R) and mean (M) are: *Lowest*: N = 7; R = \$60 (Vietnam) to \$197 (Afghanistan); M = \$134; *lower-than-average*: N = 7; R = \$204 (India) to \$618 (Philippines); M = \$363; *higher-than-average*: N = 6; R = \$1,523 (Malaysia) to \$2,352 (Hong Kong); M = \$1,646; *highest*: N = 6; R = \$4,150 (Singapore) to \$10,624 (United States); M = \$7,963. N's are not the same because 26 quartered does not yield equal integers; also, the four strata were made as "natural" as possible by maximizing the income gaps between them.

5. *World* 1981: 133.

6. Along parallel lines, Caporaso (1981: 378-379) concludes that in the world's newly industrializing nations, states have played key roles alongside markets in facilitating economic growth. To the extent that the governments of Hong Kong and "perhaps Singapore" have not tried to stimulate and channel growth, he contends, these countries are exceptions that highlight the rule. I agree—except that, as I will argue below, not even Singapore is an exception.

7. The preceding note applies here, except that Canada and Vietnam are omitted from the top and bottom strata on the educational spending variable because of missing data.

8. *World* 1980: 96-97.

9. *World* 1980: 48.

10. This warning not to sacrifice marketplace magic to national security is consistent with a libertarian view of government as the root of economic evil. But it calls into question the Reagan administration's decision to increase defense outlays and to encourage America's Asian-Pacific friends, especially Japan, to follow suit. In Washington in the early 1980s, defense was exempted from whatever bias against public spending one could find in the lessons of Pacific success. On the Japanese example, see Emmerson 1981.

11. Benoit 1972: 2, 13-14.

12. If this reasoning is correct, it has especially sobering economic implications for the Reagan administration's \$1,475,000,000,000 rearmament plans, which include the development of extremely costly weapons systems such as the MX missile and the B-1 bomber.

13. Benoit 1972: 2.

14. Wolf 1981: 81-82.

15. Kahn 1979: 121-123.

16. *World* 1981: 134-135.

17. Freeman 1981.

18. Cited by Richardson 1981.

19. George 1973: 124-127.

20. Mulliner 1979: 209; Stauffer et al, 1981:46.

21. Wynne 1979.

22. Abcede 1980.

23. Bechner 1981.

24. *World* 1981: 135. Geiger 1973 follows the two cases through the early 1970s and reaches the same conclusion.

25. Goh 1976: 80-84.

26. Krauss and Pakravan 1981.

27. For example, a careful study by Chen (1979: 174) concludes that although the South Korean case is ambiguous, inequality has definitely been decreasing in Taiwan, Hong Kong, and Singapore. Also see Wu 1981: 162-164; Geiger 1973: 119-120; and Pang 1975: 86. All of these authors recognize what governments have done, directly or indirectly, to redistribute income.

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