

Political Institutions and Economic Development: A Study in Economic Discrimination and Political Philosophy

Sung-Hee Jwa and Yong Yoon*

Providing what we believe ought to be the economics perspective, this paper introduces an approach to understanding the economic and political forces driving economic development. Adopted here is a vertical view of the world, through which the notion of economic discrimination (ED) plays a central role. ED, it is argued is a necessary condition for economic development, while its negation, egalitarianism, which seems much prevalent in modern-day democracies, is the seed to economic digression. This paper also traces the growth of egalitarianism in classical Western political philosophy, and also weighs the importance and relevance of the ED paradigm in the backdrop of classical and neoclassical economic thought. To further illustrate its usefulness, we speculate on the development potentials of various types of regimes utilizing a political-economy axis.

Keywords: Economic development, Economic discrimination, Political institutions

JEL Classification: B40, D63, J79, O10

I. Introduction

It would not be far from the truth to claim that the birth of economics as a separate discipline begins with the ambition to find

*President, Korea Economic Research Institute (KERI), FKI Building 12 Fl. 28-1, Yoido-dong, Yeongdungpo-ku, Seoul 150-756, Korea, (Tel) +82-2-3771-0004, (Fax) +82-2-785-0270/1; Visiting Researcher, Korea Economic Research Institute (KERI) and Ph.D. Candidate, Seoul National University, (Tel) +82-2-3771-0048, (E-mail) zzz_kr@keri.org, respectively.

[**Seoul Journal of Economics** 2004, Vol. 17, No. 3]

the "magic formula" in building and sustaining a developed economy. Quite evidently, this ambition to understand how to create an economy in which every member of society would be free to live with minimal material constraints was at the center of Adam Smith's *The Wealth of Nations* published in 1776. The key to economic development, despite even more intense study since the 1940s, has however continued to evade even the most brilliant minds, and it remains a sad fact that a large part of the world's population remains in the grips of poverty. Poverty, rather than wealth, it would seem, is an inescapable feature of the human existence.

On the other hand, traditional economics, given all its strengths and weaknesses, cannot entirely be blamed for the current human condition. Politics too has also been critical in shaping the course of history, and in many cases, has adversely affected development. Be as it may, it remains difficult to separate economic and political reasons for societies' condition and change. One might hope that by revisiting the philosophies of these disciplines, one could somehow deal with this identification problem. But, unlike political philosophy, which has been the deliberation of many philosophers since the early Greek philosophers, a comparable economic philosophy is largely absent. There are of course some important philosophical themes that the economists have addressed, but these deal with specific and narrow issues, *e.g.*, inquiries have concerned (a) rational choice, (b) the appraisal of economic outcomes, institutions and processes, or (c) the ontology of economic phenomena and the possibilities of acquiring knowledge of them.¹ However, a major or "grand" philosophy that can claim to provide a vision for economics, and particularly, development economics seems altogether lacking. What is equally worrisome is that the neoclassical economics paradigm, which has been the workhorse of economists since the late-19th century, has not provided a "grand" philosophy and in fact, for this reason, has been much influenced by philosophies of other disciplines, including egalitarian political philosophy, which, we will argue, has tended to misguide thinking about economic development. In a sense, economics seems to have acted only as a mere tool for "grand" political designs and

¹See the entry "Philosophy of Economics" in the Stanford Encyclopedia of Philosophy.

conspiracies.

Arguably development carries with it a multitude of questions that beg answers from a variety of disciplines. For example, to give some explanation on, say, poverty, further questions of institutions, policy, technology, and so on, would usually be provoked. Hence, it is not easy to find a simple and generalizable theory that captures as much of the development process as possible. In this paper, however, we would like to believe that the economic discrimination (ED) concept does precisely this. By setting up two principles of development economics, we believe that the ED paradigm can help us not only provide clues to the many development problems in a simple and effective way, but also might provide us, and this is very ambitious admittedly, with a starting point for a "grand" economic philosophy.

This paper looks at political institutions and economic development. For many modern day democracies, it seems that its best choice is to adopt the market system, but more often than not, the initial enthusiasm about markets later gives way to some readjustment, often led by egalitarian ethos, as the inevitable inequalities of economic outcomes, as often foreseen, actually materialize. At such times, economics often stands aside, almost appearing defenseless under the weight of egalitarian-seeking politics. The notion of economic discrimination (ED) is at the heart of the paper's conceptual and analytical framework, which we believe has a major advantage in allowing for the separation of economics and politics. Discrimination is ubiquitous in society and in all types of human interaction. We are not here referring to racial or gender discrimination. Rather, the original meaning of discrimination *i.e.*, the act of distinguishing, which is the act of making or observing a difference, is emphasized.² When people get together or when they think about something or someone, it is almost a psychological inevitableness that each engage in constant evaluation, of course in different intensities, of oneself and of others. That such discrimination is critical in the behavior of people is uncontroversial. What is surprising is that economic theory has completely ignored the act of such discrimination in their body of analyses.

Section II introduces and formalizes key concepts of this paper.

²*Webster's 1828 Dictionary*, Electronic Version by Christian Technologies, Inc.

specifically economic discrimination (ED) and the principles and corollaries of economic development. Following the establishment of the anti-thesis of ED in the form of "egalitarianism," we trace the roots of egalitarianism in Section III, which overviews the major Western classical political philosophies in chronological order. In Section IV, we return to economics discussing the merits of the ED approach in the backdrop of the classical and neoclassical economics, especially in dealing with economic development. In Section V, we introduce a simple way to interpret political and economic regimes, and verify how the ED paradigm might help explain potentials and vulnerabilities. We ask "What types of political-economics regimes are compatible (or not compatible) with development?" Section VI concludes with some remarks.

II. Economic Discrimination (ED): Introduction and Formalization

Pick up two English dictionaries, a modern one and another of, say, a 100 years back, and one is likely to find that the word "discrimination" has remained more or less the same with the exception that the more recent version will contain a negative meaning having some phrase such as, "prejudiced or prejudicial outlook, action, or treatment (racial discrimination)."³ The modern usage of the word is often extended to mean the classification of people into different groups and according the members of each group distinct, and typically treating one group less favorably than others on such grounds as race (racism), gender (sexism), religion (religious discrimination), height, ethnic background, national origin, disability, sexual orientation, preference or behavior, age or political views, and so on. What has been the reason for this change, of what was quite an innocent word, to one that carries with it such cruel injustices and prejudice? We are not philologists, but a rough guess would point the finger at politics.

To help clear the ground, it should be useful, therefore, to start with a definition of discrimination that is to be adopted in discussions throughout this paper. Going back to the original meaning, discrimination is "treating differences differently" with

³*Merriam-Webster Online Dictionary.*

respect to some defined standard. To elaborate a little, we would like to qualify the word "treat" in line with incentive structures. That is, positive feedback can be expected if treatment is favorably applied, otherwise not. Second, the phrase "treat differences differently" means above all that differences should not be treated as equals, and that different players often deserve to be treated differently. But where do differences lie? This brings us to the third and critical important point. We would suggest that differences are defined or definable with respect to some standard or benchmark. That is, differences are meaningless outside a pre- or simultaneously established standard. Fourth, the reference point or target, which could be tangible or intangible, should be "acceptable." Actually, this condition is trivial since standards are "acceptable" by definition if it is used to determine differences. A further point worth mentioning is that for differences to exist, there should be some diversity, *i.e.*, on the minimum, at least two entities should exist that have discernable differences *vis-à-vis* some standard. Lastly, standards are established often endogenously and sometimes spontaneously under the auspices of, say, a single discriminator (say, a dictator, a single ruler, *etc.*) or of a variety of discriminators (say, players in the market place, *etc.*) More precisely, treatment, in our interpretation, is the prerogative of the discriminator. Hence forth, a definition of economic discrimination (ED) follows:

Definition 1: Economic discrimination (ED) is treating differences as difference by rewarding better economic actors more favorably according to their contribution.

A concrete example should help us go beneath this definition. In the economy, export sales could be an important "standard" or reference of economic performance. The government or the market might even set such economic standards—that is, either the government or market (or both) often act as the discriminator(s).⁴ With a diverse number of exporting firms operating in the economy, differences in export performance across these firms are identifiable (this corresponds to the "diversity" and "differentiability" requirement). Now, for ED to complete its course, the discriminator

⁴We might refer to these as "government-led discrimination" and "market-led discrimination," respectively.

(government or market) should treat differences in export performance by rewarding better firms more favorably (again, we emphasize that it is in this sense that the word "treat" should be understood, *i.e.*, consistent with economic incentives).⁵ Hence, it is easy to see how a system based on ED "helps those that help themselves."

But one might ask then how ED is related to development. This question in fact provokes the most basic of all questions, "What is economic development?" Economists can often be heard speaking of economic growth, which is traditionally measured as the rise in per capita income measured in US dollars. Although a useful indicator, per capita income has been found to be in many ways an insufficient measure of development. For example, it is easy to find that countries with similar per capita incomes can differ substantially in their level of development. It would appear that development is just too complex a phenomenon to be captured by a single numerical index.⁶ Rather than define development by a quantitative measure, for the purposes of this paper, we wish to emphasize development's dynamism as the "movement towards success." A working definition is provided as follows:

Definition 2: Economic development, through which society becomes successful, does not only consist of the expansion of material wealth, but also entails the "spirit of development."

Here, the phrase "spirit of development" is used to capture all other aspects of human progress outside of the expansion of material wealth. For example, the Chinese people with per capita income of less than a tenth of Korea seem more hopeful and eager for development.⁷ Amongst the various notions of progress that

⁵This is again related to the setting up of a "developmental-ladder" in the socio-economic fabric, which allows for progress/development.

⁶It is interesting to note that Sala-i-martin (1997) ran over two million regressions to determine factors of economic growth. A large number of variables were considered on the RHS of the multivariable regression, with some combinations providing a good statistical model, while others did not. The various combinations were used to say something about statistical robustness, but the fact of the matter is that none of the RHS variables can be said to be a "necessary" or "sufficient" factor for development. Such is the state of the neoclassical growth theories.

⁷Arguably, a much larger proportion of the Korean people in the 1980s,

might enter into the "spirit of development," we would like to stress that cognition about development is most critical.⁸ Although not addressed much in modern economics, cognition, or if you like, recognition⁹ is an important feature of economic life that motivates us to create and accumulate material wealth. A re-reading of the Adam Smith clearly points to the fact that it is not physical necessity why people seek riches and shun poverty, but rather, the satisfying of our vanity is why people seek to better their condition. People go through "the toil and bustle of" economic life "to be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation...The rich man glorifies in his riches, because he feels that they naturally draw upon him the attention of the world...The poor man, on the contrary, is ashamed of his poverty. He feels that it either places him out of the sight of mankind."¹⁰ To this we could easily replace "is ashamed" with "feels guilty," but the upshot is that recognition counts, and economic incentives for material progress should be made consistent with our cognition. In sum, behind this cognition process is the condition that contribution to society be recognized, through appropriately rewarding each to one's contribution (*i.e.*, the more the contribution to society, the greater should be their reward). The wisdom of "God helps those that help themselves" could be a useful guide. In fact, the entire cognition-reward system might simply be referred to as economic discrimination (ED).¹¹

What is important to realize is that by guaranteeing reward to economic players in an incentive-consistent manner *i.e.*, according to one's contribution, the strengthening of ED helps erect the societies' developmental-ladder¹² needed for growth and develop-

for example, can be said to be in the "spirit of development" than they presently are.

⁸At this point, one might recall Hegel's "struggle for recognition" (*Kampf um Anerkennung*) in his explanation of the development of history.

⁹A comprehensive and accessible discussion on recognition is Markell (2003).

¹⁰Smith (1759, pp. 50-1). Also see Fleischacker (2004).

¹¹This paper, while stressing that material awards and recognition for contributing to ones' society is important, somewhat ignores the fact that cases abound when ones' contribution can be difficult to measure. However, our enquiry does not take us to such issues, *i.e.*, the problem of free riding and moral hazard is well known and has been widely researched in the economics literature.

ment. ED is definitely about incentives. Our understanding of "incentives" however differs somewhat from common usage, which usual is used to mean merely "reacting to one's surroundings." Such reaction could be of an infinite variety and might not have any direction at all or, at best, might just be marginal. In the ED paradigm, by providing a concrete economic development theory that links incentives with specific developmental goals, the simple interpretation of incentives is much augmented. Rewards should be commensurate with contributions. But definitions of what is worth achieving, at least to a certain degree, in the first place must be defined (or, at least, cues should be in place) in advance of actions. Goals must be considered worthy before we go about production, for example. The capacity to create value depends on properly aligned incentives, which is exactly what ED provides. Furthermore, with ED, specific means and ends of the economic development process are identifiable. Be as it may, ED makes way for each economic actor to either climb up to success or down to failure. We state the first principle of economic development links ED with economic development as follows:

Principle 1: Economic discrimination (ED) is a necessary condition for economic development.

Again, we repeat that the merits of an economy that is based on ED is that it "helps those that help themselves." All too common, we can find examples in which rewards are not linked to performance, say, because of reasons of politics, ethics, tradition, etc. But, surely, a society that rewards equally all members, say, by $1/n$ is both regressive and de-motivating. And, with regard to income distribution, we would take on the simplistic position of "reward one according to one's contribution."¹³ In the ED paradigm,

¹²It is easy to understand that social and economic progress is only possible if some in-built developmental ladder is placed firmly in the country's social and economic system. If all capable individuals, firms, organizations and so on, (not markets) are on this ladder, then surely society on the whole is likely to advance.

¹³Note that we have not said "proportionately." We have not also asked whether this is "fair" or "just." The question of income distribution is highly controversial. Let it suffice for now to say that what is appropriate differs across societies and across time.

we feel it unnecessary to complicate the "treatment" process on the lines of John Stuart Mill or of John Rawls,¹⁴ who by adhering to the argument that basic "rights" are to be observed, argue that the poor be "blessed" for "not having made it," which we feel sharply contradicts those agreeable to the saying, "help those that help themselves." The redistribution question, and particular how it relates to ED, will be more elaborately discussed in later part of this paper. We will also discuss its relation to the concept of Pareto efficiency.¹⁵

Interestingly to note is that the intensity of ED can be visualized or gauged by the degree of "verticalness" or "uprightness" of society's hypothetical developmental ladder—the more upright it is, the more the potential for economic development, otherwise, if lying down, economic digression is sure to set in. This visualization stems from the view that the "grand" economic philosophy ought to view the world as a "vertical" structure, which is distinguished from the political perspective that looks at its world as "horizontal." The dichotomy of worldviews in philosophies is a fascinating feature of human thought, which has a strong tradition in the likes of Rene Descartes's "rationalism" and John Locke's "empiricism." In a sense, it would seem that Hegel was right to suggest that the progress of history does indeed take on a dialectical structure. Adding to this, the nature of the arguments in this paper suggests that political philosophy has been diametrically opposed to economic philosophy, with the former adopting a horizontal world-view, which we strongly suggest ought to be confronted with the development of the latter's vertical *Weltanschauung*,¹⁶ or the "grand" economic philosophy.

Given that ED is a necessary condition for development, then its negation (not-ED) should be a sufficient condition for economic digression. Put, differently, digression is defined as the reverse of economic development, and as such, if the necessary condition (ED) is absent then digression is bound to result. The negation of ED is what we call "egalitarianism," which might simply be defined as "treating difference the same" or as the "mitigation of differences." The second principle of economic development follows:

¹⁴These two important writers and their political philosophies will be discussed in the following section.

¹⁵Also see Corollary 2 below.

¹⁶*Weltanschauung* is the combination of two German words, *Welt* (world)+ *Anschauung* (view).

Principle 2: Egalitarianism is a sufficient condition for economic digression.

We will trace the development of egalitarianism in classical political philosophy in the next section. For now, we quickly provide two important corollaries of the Principles of economic development. The first corollary concerns diversity of economic actors. It is a logical necessity that for ED to be possible, there must be some diversity of economic players, be it individuals, firms, non-profit institutions, and so on. Hodgson (1999) highlights the importance of diversity or inequalities for the survival or sustainability of populations, and has argued that it is impossible to see change (evolution) without diversity. Furthermore, inequality of resource entitlements arising from inequalities in dominance (a type of diversity) also plays an important role in the sustainability of species involved in contest competition. Be as it may, we can write out the first corollary of the ED paradigm as follows:

Corollary 1: Diversity precedes ED, or ED is impossible without diversity.

The second corollary refers to what we call the “conglomeration” effect. Since, successful agents are better rewarded, resources tend naturally to gravitate to successful actors. This is a very common feature. It is easy to see that a wide range of differences in wealth, income, reward, success, social status, education, knowledge, authority, ambition, opportunity, and even luck, accompanies development experiences. ED is consistent with the observations of conglomeration as a natural feature of economic progress. We state corollary 2 as follows:

Corollary 2: Conglomeration (amalgamation) of economic resources and activities is a natural process of economic development.

The significance, and commonality of “conglomeration” in economic development cannot be overemphasized. In fact, economic development from the beginning of time and throughout the history of civilization can be understood as the series of major events of the conglomeration of economic (and non-economic) resources and activities. In the beginning of mankind, we can imagine that the

hunter-gatherer (although taking quite a long time, according to anthropologists) realized that they could be more successful if he were able to co-ordinate his activities with others. With the birth of agriculture, and with more time to spend in other economic activities such as craft, which helped secure a better future, and eventually with trade becoming an important activity, societies were transformed through the building of trade centers and cities.¹⁷ This process of conglomeration, or coagulation,¹⁸ if you like, has been the great leverage upon which societies have advanced.

Having laid down two Principles and two Corollaries of development economics, we now move to see how the antithesis of ED, *i.e.* egalitarianism, was borne and nurtured in classical Western political philosophy and eventually in democracy, before returning to economics to discuss how, in turn, the ED paradigm introduced here weighs in against the major economic schools.

III. Egalitarianism in Classical Political Philosophy

Recall that Principle 2 states that egalitarianism is a sufficient condition to economic digression. In this section we trace the genesis and growth of egalitarianism in political philosophy, which should be useful not only in placing into perspective the genesis and growth of egalitarianism and its institutionalization in the form of democracy, but also in understanding how it might have influenced the history of civilizations. We focus on classical Western political philosophy, which arguably has been a significant guide in the building of what we believe to be an ideal, equal society.¹⁹

¹⁷See North and Thomas (1973) and Jacobs (1984).

¹⁸In a sense Ridley (1998) interpretation of the coagulation process is not unlike ours: he suggests 3 distinct stages of coagulation amongst humans: 1) the coagulation of the human genes towards a cooperative team for over one billion years, 2) the coagulation of our ancestors into a cooperating society for over one million years, and finally 3) the coagulation of human thought and its origins for one thousand years. What is interesting is that Ridley argues that specialization and the division of labor among humans is not an evolutionarily recent consequences of urban civilization or the Industrial Revolution, but rather has been ingrained in the human psyche for a very long time through the natural selection of the "selfish gene."

¹⁹We appreciate an earlier comment of this paper that we do not discuss Eastern notions of egalitarianism. Let it suffice to say that, for the purposes of this paper, we need not enter the treatment of Eastern philosophies not

An important and perplexing question in political philosophy is "Who should rule?" Such questions hit at the center of meaning of human "liberty" and "equality," both of which, arguably, are central to human freedom.²⁰ In the West, some 2000 years back, Plato (427-347 BC) developed his political philosophy that argued for the granting of absolute authority to a special group for the purposes of ruling the society.²¹ Many philosophers since have argued however that the imposition of authority was the worst possible social evil. Thomas Hobbes (1588-1679), one of the earliest political philosophers, however, although not completely agreeing with Hobbes, believed that the evils of a society without strong authority were worse than the evils of absolute power granted to authority. Hobbes's theory is based on the view that people are by nature selfish and egoistic,²² and as such, left to their own would only lead to a situation of chaos. Hence, society is viewed as a kind of compromise or "covenant" that people enter into—an agreement among people—to abide by a certain set of rules, or "conventions," for a better life. A major problem of the Platonic and Hobessian view is that they have been thought to lead to anti-democratic authoritarian governments. In a sense, Plato and Hobbes seem to favor a government for the people, but not by the people, and later on philosophers rejected the granting of absolute rule to the government. Another version of the criticism of Plato and Hobbes is that a society run by a few will tend to stultify the development of most of the people who live in it. The experiences of many countries in which an elite class or group of people have ruled however show mixed results, and it is not correct to generalize that authoritarian governments do not help development. In fact, there

only because we need to look at one (already large) proportion of political philosophy, but also because Western political philosophy is the basis of modern democracy that has also spread rapidly around the world including to countries in the East.

²⁰Aristotle argues that "if liberty and equality, as is thought by some, are chiefly to be found in democracy, they will be best attained when all persons alike share in government to the utmost."

²¹Plato was much influenced by his teacher, the equally important ancient philosopher Socrates, who did not conceal his contempt for some of the weaknesses of democracy, and was in fact "executed" by having to drink the fatal hemlock for being an "enemy of democracy."

²²Hobbes tells that the life of man "is solitary, poor, nasty, brutish and short."

have been economies that have grown better during times of authoritarian governments than during times of democracy.²³

The theoretical roots of egalitarianism and democracy as it exists in the modern world can be traced to John Locke (1632-1704), whose *Second Treatise on Civil Government* was greatly influential in forming the political philosophy of the American and the French republics. In many ways, Locke's philosophy is diametrically opposed to Plato's and to Hobbes's. For example, Locke makes a distinction between life in "a state of nature" and life in "a state of war," the latter seemingly meant to apply to Hobbes's view. Locke has a more positive view of man, arguing that the reason for people to leave the "state of nature" and to form societies was to deal with difficulties in applying punishment to those who transgressed the law. That is, people by a voluntary agreement among themselves form societies to erect institutions for the purposes of remedying the defects of life without organized society. Consequently, for Locke, law, not force, is the basis of government – a government without law, he argues, will be tyrannical.

Democracy in Locke's formulation can be defined as government by laws which are arrived at after long deliberation by properly chosen representatives of the people, and which are promulgated so that everyone in society may be acquainted with them. Such democracies, according to Locke, respect certain areas of human conduct that are immune from governmental interference, which he calls "rights." And, although he does not provide any reasons, such "rights," Locke argues, were to be granted equally among all men. Furthermore, Locke emphatically pointed out, in particular, that no government could justly take away a person's private "property" (i.e., man's life and liberty as well as his possession).²⁴ The notion of "rights" is interesting in that it is an idea easily molded with the other important idea of "equality." In a sense, the marriage of "equal" and "rights" seems to have become established in modern societies since Locke.

"Equality" and "equal" are incomplete predicates that necessarily generate a further question: "Equal with respect to what?"²⁵ In

²³This is of course not to say that non-democratic regimes are always better in bringing about economic development (i.e., what is known as the "Lee hypothesis," after the Singaporean leader Lee Kuan-Yeu).

²⁴Hobbes and Rousseau, another great philosopher, would have strongly disagreed, as they held that property is a creation of society.

political philosophy, at least since Locke, the answer has been "equal rights." Up to this point, the economists in general would not have much to quarrel about. What is disturbing is that much of the "qualifying" of equality, which is not terribly difficult, seems to have been even further leveraged from the idea of "equal rights" leading to, for example, the notions of "equal opportunity," "equal welfare," "equal distribution," "equal capability," "equal outcome," etc., all of which, at least to certain degrees, would provoke the economist.²⁶ Such metamorphosis has allowed the notion of "equality" and especially that of "egalitarianism" to permeate, almost seamlessly and at times amazingly, into economic life. Most importantly, and we shall discuss this further, equality in its prescriptive usage having a close connection with morality and justice in general, as well as with distributive justice in particular, has influenced economic theory and policy. Put differently, economics, because it has lacked its own "major" philosophy, has not been insulated from politics, and specifically has had to suffer the burden of egalitarianism.

Let us labor a little longer on the notion of "equal rights" and "liberty." In the US constitution, which has become a major reference point for most countries wishing to adopt a democratic government, an important phrase is, "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the pursuit of Happiness." Here, both "equality" and "liberty" are given equal weights. The original version written by Jefferson reads, "...that from that equal creation they derive rights inherent and inalienable, among which are the preservation of life, and liberty, and the pursuit of happiness": in the original draft the value of liberty is explicitly said to be secondary to, and derivative from, the value of "equality." Clearly, "equality" is championed over "liberty." Such is the force of "equality" as an independent idea influencing the history of society. Arguably, economist must heed to this fact.²⁷

²⁵See Rae (1981).

²⁶Of course there are other qualification such as "equal before the law," for example, that are compatible with ED.

²⁷The controversy between liberty and equality has been a very highly debated issue in political science, at least since Alexis de Tocqueville's two-volume masterpiece, *Democracy in America* (1835, 1840). While

Locke's political philosophy is however not without problems, and it would seem that he failed to realize that the majority itself can become a tyranny and can prove to be a despotism as fierce as any monarch in submerging the minority. This is precisely where John Stuart Mill (1806-73) enters to "complete" the democratic theory. Mill argued that no government can be a democracy without allowing for the protection of minorities. In his *On Liberty*, where Mill discusses the limits of power of society over the individual, he argues that the aim of libertarians was to set limits to the power of the ruler over his/her citizens through either or both the "doctrine of rights" (in line with Locke before him) and "constitutional checks" (such as the declaration of war). Without going into further details, it should be credited to Mill for his liberal views and utilitarian concept that have had and continue to have a great influence on civilization.

The discussion up to now tells of how political philosophy has moved from an authoritarian to an increasingly democratic position, and at the same time, it has increasingly embraced egalitarianism. The philosophical transition towards egalitarianism was continued by Karl Marx (1818-83), who like Locke and Mill favored the liberty view and wanted to see the people rule, developed ironically into a philosophy that led to practical consequences inimical to individual liberty and freedom. A truer picture of Marx's doctrine would require us to start with the Hegelian dialectic methodology. But, this would take us too far astray from the argument we wish to make and a brief statement should suffice. Arguably, Marx was perhaps the first of political philosophers to fully study the workings of capitalism, and his basic conclusion is that the intrinsic contradictions of capitalism, the struggle between labor and capital and the consequent class warfare are what need to be corrected. Socialism was envisioned to be the next and better (if not final) destination of the progress of history. According to Marx's

Tocqueville "was mainly concerned with the threat that equality—political, social and economic—posed for political liberty and personal interdependence" (Dahl 1985, p. 2), a concern that anticipates other similar enquiries as well, for example, concerning "the relationships between political equality, political liberty, and economic liberty" (Dahl 1985, p. 6), in this paper we can be interpreted as posing an even further extended question by addressing the tensions of political equality, political liberty, economic equality (egalitarianism) and economic liberty (ED).

theory of surplus value, which pinpoints to the source of conflict between capitalist and worker, the concentration of capital would lead to the natural rate of profit to drop thereby bringing about the collapse of the capitalist class and the coming of socialism. This however has not been confirmed by history, and Marxism has largely been discredited after the fall of communism in the former Soviet Union in the late-1980s.²⁸ What is notable is that with Marxism, we find that the notions of equality and that of egalitarian are upheld to their extreme form—social classes as well as individual differences disappear.

Nearly all these classical schools continue to be represented by various authors up till this day.²⁹ A neither complete list nor full discussion of all the important schools is possible here, but we will conclude this section with a discussion of John Rawls (1921-2002), a defender of the democratic forms of the welfare state, and particularly referring to his *A Theory of Justice*, which is perhaps regarded the most important book produced by an American political theorist in recent years. Also we choose Rawls because it allows us to further discuss the concept of “equality,” which has been thought to play a major role in a theory of justice. The conception of justice is in fact egalitarian when it views equality as a fundamental goal of justice.

Rawls’s defense of liberal democracy has strong roots in Locke, Mill and Kant. Like Locke and Mill, he believes that it is a condition of any form of legitimate government, whether it be self-governing or a community in which people are free to choose their leader, that it be democratic in principle. But, unlike Locke, Rawls does not believe that such a society must be committed to the defense of private property as a right. He believes, rather, that a “good” society should distribute its wealth in such a way that poverty is minimized. In a sense, Rawls takes the liberties that Mills refers to, which protects the individual from government tyranny to be fundamental, but unlike Mill he is not a utilitarian.

²⁸Interestingly, some authors continue to maintain that capitalism is still doomed to collapse and in fact has so far been “saved” by imaginatively adopting “socialist” measures.

²⁹Philosophers like Karl Popper (1902-94), Robert Nozick (1938-2002), Andre Glucksmann, and other, defend private property and a minimal state. Neo-Marxists like Herbert Marcuse (1898-1979) still sustains good readership.

That is, Rawls is a defender of a welfare form of democracy, but is neither a defender of property rights nor of utilitarianism. His views find its historical antecedent in the moral philosophy of Immanuel Kant (1724-1804) who argues for the objectivity and universality of certain moral principles. In particular, the categorical imperative of Kant is paralleled by Rawls's idea that a just society is one on which each individual, no matter his/her situation in life, must be treated equally before the law,³⁰ be given due process, and be the subject of equal concern of society. Interestingly, in trying to define democracy, Robert A. Dahl, a leading authority on democracy, in a similar vein concludes that despite the multitude possibilities of definitions, "political equality" of all members is most critical.³¹ Precisely these kinds of arguments give weight to egalitarianism in democracy. Without doubt, the concept of egalitarianism is central to modern-day democracies.

We now turn to the controversies that Rawls's views might stimulate in the eyes of the economist. Given the propositions briefly outlined above, Rawls had set himself to explain what might constitute an economically just society. It is politically just because of its commitment to certain basic freedoms, but he is uncomfortable that a society could be politically equitable in this sense and yet distribute its wealth in ways that are "unfair." Although he does not object to the degree of, say, Marx, to a free society that exhibits differentials in wealth, he is unhappy with a society in which inequalities in wealth allow some persons to fall below a minimum level with respect to the material conditions of existence. This is his "indifference principle" that holds that inequalities in certain basic goods of society be allowed only when the distribution of primary goods of society benefit the worst off in society. It should be easy to see how Rawls's thought is consistent with the government's of Scandinavian countries, as well during different regimes in various countries as, say, England under the Labour government. Rawls position is a form of "mitigated egalitarianism" as opposed to "strict egalitarianism," with respect to wealth in society. A good society, he argues, is one that counteracts the natural inequalities deriving from birth, motivation, talent and circumstances, all features that tend to distribute wealth "unfairly."

³⁰See footnote 26.

³¹Dahl (1998, pp. 35-43).

Rawls's position has been criticized on at least two different fronts. The first derives from the Platonic point of view that people are innately different in their abilities, creativity, and capacity to succeed, and accordingly make inequitable contributions to society. As such, a "just" society should not disregard these differences. Robert Nozick has developed this kind of argument.³² Secondly, Rawls's notions of equality of distribution of wealth and the principles of political freedom in certain cases may run into opposition with one another. For example, it might be the case that certain members of society control most of the wealth to the extent that it is impossible for a large number of the citizens to live above the poverty line. A government might find that the elites not only control of much of the wealth of the society but also control most of the organs of the state (press, courts, banks, etc.), say, even this being a result of the democratic process. Then, it follows that there is no democratic way that the economy can be "corrected" without suspending the free exercise of voting rights in that society. That is, one of Rawls's fundamental principle "the freedom to vote," would have to be curtailed to bring about economic "justice." The theory thus contains inconsistencies in that in the end it will have to give the government more power than a free society might allow, therefore leading towards centralization and increased state control.

Today, in many ways, the penetration of politics into economics is much crystallized in what is known as "economic democracy." Largely brought on by the concern of political scientists that "the existence of sizable inequalities in political resources among the citizens of a democratic country should be disturbing to anyone who places a high value on political equality,"³³ the intention of economic democracy is to bring the democratic process into the management and governance of the most important economic enterprise, the corporation. Dahl argues that the democratic process is a fundamental, even an inalienable right, which should find its way into the governance of economic corporations to help, above all, resolve the dilemma raised, at least since Alexis de Tocqueville two-volume masterpiece, *Democracy in America*, that "democracy cannot exist without an exceptional degree of social, economic, and political equality, yet that very equality so essential

³²See, Nozick (1974).

³³Dahl (1985, p. 53).

to democracy also threatens liberty.”³⁴ The question of the viability of economic democracy, a non-trivial problem, needs to be further investigated. Given the premises of this paper, however, the direction does not point favorably at economic democracy, especially given the egalitarian grounds upon which it is based, which conflicts in many ways deeply with the corporate hierarchical form.³⁵

It is true that we have mainly looked at only those political philosophies that champion “equality” as a major theme. This is not to ignore, however, other important political writers from Rousseau to Nietzsche, and more recently Sartori, who are inclined to argue the opposite, that, for example, “[i]nequality is “nature”; equality is denaturalization.”³⁶ Be as it may, the issues of politics and economics are on their own never easy. It should however be enormously beneficial to cross over between boundaries and to understand the impact and influences of each on the other. We could not agree more with Thomas Nagel, one of the most influential and widely read living philosophers, who points to the problem of balancing equality with what he calls “partiality” as the most important issue with which political theorists are now faced with.³⁷ Political philosophers it would seem have already begun to take the question of “political equality” and “economic equality” seriously.³⁸ The same, however, cannot be said about economists. Why? We have already pointed that the problem might lay in the lack of a “grand” economic philosophy. How would economists know where to start if it has no place to draw its vision and stand firmly in par against the great classical political philosophies discussed above? This has, in our opinion, been a great handicap in the practice and thinking of economics, not least, when addressing issues of economic development.

³⁴Dahl (1985, p. 35).

³⁵See Jwa (2002) to understand why “economic democracy” might contradict the corporation. For a discussion of corporate policy along the lines of “economic democracy” in Korea, as well as earlier discussions of the principles of development economics, see Jwa (2004).

³⁶Sartori (1987, p. 337).

³⁷Nagel (1991).

³⁸See for example, Dahl (1985).

IV. ED and Classical and Neoclassical Economic Thought

How should we understand ED in the context of classical and contemporary economic thought? This section will provide some cues in placing ED in the body of economic thought. Similarities and differences of the ED approach compared to the classical and neoclassical school should help the reader judge the potential value of the ED paradigm. The British mathematician, logician and philosopher, Alfred North Whitehead (1861-1947) once remarked that, "The safest general characterization of the European philosophical tradition is that it consists of a series of footnotes to Plato."³⁹ It would not be mistaken to make a similar statement about Adam Smith (1723-90), the father of economics, to whose classical works many economists after him have returned in search for guidance and wisdom. In this section, following tradition, we begin by taking a look at the concept of ED on the backdrop of the economics and philosophy of Adam Smith.

In the 19th Century, under the weight of Hobbesian political ideas, it was widely held that ordinary people needed the guidance of their "betters"—the wise and the virtuous—who would put into place a good political system that would both try to restrain the lower classes from self-destructive behaviors and provide instruction in religion and virtue. *The Wealth of Nations* provided a drastic different view of the world, where individual liberty, and not least in the production and exchange of goods and services, would result in socially desirable outcomes (under the guidance of the "invisible hand"). Large parts of Smith's work can be viewed as vindicating ordinary people's judgments, and fending off attempts by philosophers and policymakers to replace those judgments with the supposedly better "systems" invented by intellectuals.

In a sense, Smith seems to have single handedly established the liberal tradition in economics based largely on methodological individualism.⁴⁰ Smith's account of moral and political cognition is

³⁹Whitehead (1929).

⁴⁰Methodological individualism is the belief that the social sciences should be looked primarily from the viewpoint of individual decision makers. One of the best examples of methodological individualism was the defense of logical reasoning by the Austrian School of economics as against the Historical School's promotion of statistical analysis in the Methodenstreit. In fact, the

however strikingly egalitarian, and, in some ways, even anti-elitist. The thrust of his arguments is that experts know less than they claim to know, and ordinary people know more than they seem to know, about what will best promote the human good.⁴¹ This egalitarian view of Smith's human cognition can be seen as providing the essential premise for Smith's arguments against government interference in the economy. With the exception of the provision of some (public) goods, which individuals, left to themselves, would not adequately handle (like defense and the administration of justice), the prescription is to minimize the role of the government.⁴² This view, however, does not sit well with the experiences of the late industrializing countries of the 20th Century like Korea, Japan, Singapore, recently China, and others, where the government has been instrumental in leading economic take-off and development. As will be discussed later, the ED paradigm is not bound by the debate between government's versus market's role in economic development, and hence, it is easier to explain economic experiences of most nations more consistently.

While Smith seems to have helped establish the liberal tradition regarding economic participation in the market, he has on the other hand helped promote, although quite innocently, the egalitarian view as well. The political notion of "equal rights" (and equal opportunities), discussed in the previous section, had found in Smith an ideal partner with the "egalitarianism" of markets,⁴³ and over the course of history, many political philosophers and practitioners have been quick to arrange for the marriage of market-capitalism and egalitarian politics. However, when the truth of markets are revealed in distinct economic differences, govern-

term "methodological individualism" seems to have been invented by Joseph Schumpeter in 1908 (See Blaug (1978, p. 49)).

⁴¹"Every individual intends only his own gain, and he is in this, as in so many other cases, led by an invisible hand to promote an end which was no part of his intention...By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." (Smith 1776, p. 423).

⁴²Smith's distrust of the ability of "systems"—whether philosophical, religious, or political—to improve the human condition goes with a belief that what really provides us with moral education are the humble institutions of everyday social interaction, including the market.

⁴³In reality, markets are never egalitarian, but are discriminatory. In a sense, markets are the epitome of ED. We explain this shortly.

ments, especially when having to address the pressing issues of wealth and income differences, have been equally quick to push further the egalitarian ethos (*i.e.* mostly borne on ethical grounds) to try drive back the inevitable economic “discrepancies.” Economics, in the mean time, had no way to insulate itself from such fierce political drive, because the economic machinery including its institutions, policymakers and scholars, in many ways, have been already deeply immersed in the ideals of egalitarianism that political philosophy has helped establish.

Although to digress a little, it might be useful to interpret markets under the ED paradigm. Simply put, markets mean nothing without real economic players and without ED. Hence, in the neoclassical formulation – absent real economic entities – markets are nothing more than a vacuum in which (imagined) interaction is assumed. In the real world, any transaction or exchange cannot be dissociated with discrimination on the part of the economic players (consumers, firms, government, *etc.*). In real markets, what is involved is ED of an orchestra of discrimination amongst economic players. Put slightly differently, the market can be viewed as a collection of discriminators, and as such, the primary function of markets, its essence then is to discriminate, *i.e.* constantly evaluate and reward market players and their behavior. And, as a consequence of its ED function, markets naturally promote the conglomeration of economic entities (*cf.* Corollary 2). Furthermore, we might add that the market can be seen as impersonally and “objectively” treating differences as differences in a most rigorous manner – the market is a tireless economic discriminator.⁴⁴

Returning to Smith, by realizing the importance of cognition in economics, as we have already discussed, in many ways Smith seems to have anticipated our ED paradigm. It would seem to us that Smith, in fact, was the first to set economics on the path to the proper understanding of development. Sam Fleischacker, an authority on Smith, points out that the famous economic historian George Stigler (1911-91) might have misread Smith, together with

⁴⁴It also follows that we can defined “market failure” as the situation in which markets become “blind” to ED, *i.e.* ED becomes defunct, say, when 1) there are extreme economies of scale that lead to a “natural monopoly,” and 2) there is no production due to externalities that make it impossible to identify those responsible for production (hence it becomes impossible to know whom to reward).

many other economists after him, in believing that, "the *Wealth of Nations* is a stupendous palace erected upon the granite of self-interest."⁴⁵ Far more important to Smith's work is the belief of ordinary people's understanding of their own interests without help from superiors. It is in this sense that we would not be mistaken to say that the distinctive mark of Smith's thought is his view of human cognition, and not of human motivation.⁴⁶ Needless to say, the theory of ED is firmly grounded on human cognition.

Moving from the classical to the neoclassical school, we will compactly discuss the neoclassical framework⁴⁷ in relation to the discrimination paradigm. A major reason why neoclassical economics seems to have failed to address developmental issues, and this has been a widely discussed criticism in the literature, is that its assumptions and method have largely missed the idea of development.⁴⁸ Most critical, neoclassical economics seems unable to comprehend the highly diverse, lopsided and unbalanced nature (*cf.* Corollaries 1 and 2) of development. What more, neoclassical economics can hardly appreciate features of conglomeration, differences in size and quality of economic entities, *etc.* given that it commonly opts for assumptions such as identical products, identical agents and firms, perfect information, and so on.

Most worrisome is the fact that many of the premises that the neoclassical method stands on make it highly susceptible to egalitarian principles. The Pareto efficiency criterion, for example,

⁴⁵Stigler (1975, p. 237).

⁴⁶See Fleischacker (2004).

⁴⁷We acknowledge that the neoclassical economics is not a single school, but rather a collection of a number of important and influential schools of thought in economics, and in fact there is not complete agreement on what is meant by neoclassical economics, particular in terms of its vision, problem domains, and concerns, which vary amongst economists working with the neoclassical method. With the risk of overgeneralization, however, we will understand the neoclassical method as one involving the optimization, marginal problem and the concept of equilibria, which assume three basic assumptions, *i.e.*, 1) people have rational preferences among outcomes, 2) individuals maximize utility and firms maximize profits, and 3) people act independently on the basis of full and relevant information.

⁴⁸We do not ignore Milton Friedman's argument that a theory should be only judged by its predictions, not by its assumptions. Yet, it is difficult to ignore the fact that results are often bounded by assumptions, and if the latter are defective, then it cannot promise to hold the key to some critical questions.

has been the theoretical standpoint upon which many redistribution and welfare systems have been based. Specifically, the criteria for Pareto efficiency allocation is one in which there is no other allocation in which an individual is better off and no other individuals are worse off, and furthermore, it is assumed that each individual only considers what (s)he receives. The Pareto optimality condition, if interpreted by its static assumptions, contains in it many contradictions, *i.e.*, it is unable to differentiate between, 1) an individual rewarded by all the produce "in the world" due to his/her efficiency, and 2) all reward (generated by the best (or better) individual(s)) is allocated to other ("less deserving") individuals. In both cases, in the static sense, the final outcomes are an improvement or, at least, not in any case a dis-improvement for any of the individuals, and as such, economic allocation can be interpreted as a Pareto efficient allocation. Case 2, however, is not "agreeable" with respect to the ED paradigm, and particularly the dictum "to each according to his/her contribution." Moreover, it is incentive diminishing, *i.e.*, the "developmental ladder" can be seen to be laid down,⁴⁹ a situation that gets even worse if such allocation is not the intention of the individual(s) in question, but rather the design of some third, autonomous party (*e.g.* government policy). On the other hand, a situation in which reward is "taken away" from some individuals (*e.g.* when clearly inefficient players are knocked out of the market) and allocation of "residual" resources go to better individual(s), although Pareto inefficient, it is easy to see how the ED process is strengthened. In sum, although it might be justified to adopt a distribution policy on the basis of the (static) Pareto efficiency criteria, we warn that care should be taken that the society's ED structures are not sacrificed.

On passing, it is interesting to note that ED need not involve moral judgment, which is a break from the socio-political context in which the term "discrimination" is so often used. Standards, we might add, are often endogenously defined, sometimes informally (culture and norms) and sometimes formally (rules and laws), which act as overall constraints to economic behavior. The idea of "standards" almost parallels that of the New Institutional Economics (NIE), as it can easily take on non-economic factors, such as culture, politics, religion, and so on, into the body of analysis.

⁴⁹Little does the Pareto criteria say about incentives.

Douglass North argues, to which we agree, that in neoclassical theory, the scarcity and hence competition assumption has been robust, but “what has been missing is an understanding of the nature of human coordination and cooperation.”⁵⁰ To this criticism, the NIE has integrated institutions into the body of economic theory. From our perspective, rather than emphasizing institutions, which has been criticized to be a somewhat slippery concept (*e.g.*, “What types of institutions are relevant?”),⁵¹ ED is a more appropriate and precise notion to understanding the economic development process. Simply put, only those institutions that are discriminatory can be compatible with economic development.

V. Politics, Economics and Development

In the abstract form, any socio-economic system can be either discriminatory, in the sense of the definition given in this paper, or non-discriminatory. Be as it may, we prefer to maintain a more realistic notion of discrimination—All forms of interaction are discriminatory, period. Discrimination is ubiquitous, as we have already described, and a society can either choose to intensify or to mitigate it (*i.e.*, move away or towards equalization). On the other hand, political philosophy has been concerned with the question “Who should rule?” and has debated rigorously the notions of political liberty and political equality. To help visualize the political and economics views better, we might use the political-economy matrix of social order below.

Table 1 shows two possible social orders, namely, the “political order” and the “economic order.” In turn, each of these orders might take on two extreme forms. Namely, with respect to the political order, we have A) individuals above the state (liberty and “equal rights,” *cf.* Lockian and Mills), and B) state above individuals (authoritarian, *cf.* Hobbesian and Marxian), and; with respect to the economic order, we have C) discrimination (*cf.* “reward according to one’s contribution”), and D) egalitarianism (*cf.* equal outcome).⁵²

⁵⁰North (1990, p. 10).

⁵¹See Rodrick (2000) and Glaeser, La Porta, Lopez-de-Silanes, and Shleifer (2004).

⁵²Note that we have completely avoided the classical debate of government versus markets in economic development. The ED paradigm, we hold,

TABLE 1
POLITICAL-ECONOMY MATRIX OF SOCIAL ORDER

Political Order	A) Liberty	B) Authoritarian
Economic Order	C) Discrimination	D) Egalitarianism

With respect A), what should be further noted is that the notion of liberty, especially under the one-man one-vote democracy, tends to automatically invoke the egalitarian ethos under which individuals are assigned "equal rights" allowing them to participate in government. This aspect of liberty, we have argued, has often been carried over to mean the equality of economic outcomes, which has adversely affected economic progress, *i.e.* the notion of "equality" is carried out to mean, in economics, egalitarianism (*i.e.*, treating differences equally) or "equal outcomes."

The separation into a political and economics order is just for analytic convenience, and in the real world, we will undoubtedly have one of the four possible combinations of politics and economics regimes. The possible combinations are, 1) (A+C) Market democracy, 2) (B+D) Totalitarian regime, 3) (A+D) Social democracy or the welfare state, and 4) (B+C) Developmental state. To see this more clearly, it will be useful to cross coordinate the economics order (discrimination-egalitarian) and the political order (liberty-authoritarian), thereby bringing together into one place the central themes of this paper. The political-economy axis of social order is shown below:

In Figure 1, the vertical axis represents ED and egalitarianism on opposite ends of a continuum. Principle 1 states that discrimination is a necessary condition for economic development, and as already argued, the market system is, in fact, the epitome of the ED process. Hence, the higher up the vertical scale, the more intense the ED (*e.g.*, the US, Sweden, England, Germany in the 1950s and 1960s, Japan (Meiji restoration period), Korea in the 1960s and 1970s, *etc.*). On the other hand, Principle 2 states that egalitarianism sets the economy into digression, which is placed at the lower end of the vertical axis (*e.g.*, North Korea, former Soviet

provides a more consistent and clearer explanation of political and economic development experiences.

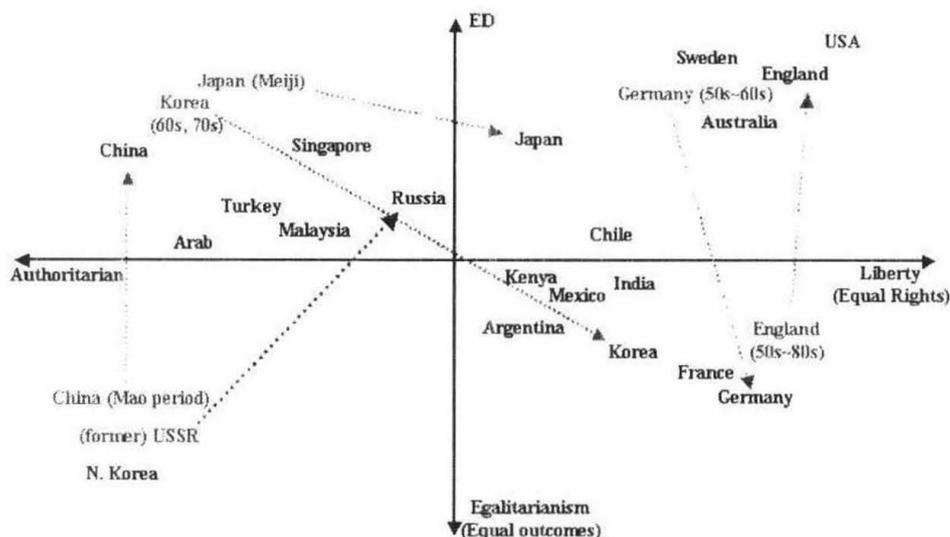


FIGURE 1
POLITICAL-ECONOMY AXIS OF SOCIAL ORDER

Union, England in the 1950s to early 1980s, present day Korea and Germany, etc.). Let us explain a little further how the political-economy axis might be useful in explaining the relative strengths of developmental potentials of various countries that lie in any of the four possible quadrants or regimes. Korea in the two decades of the 1960s and 1970s has shown strong ED under an authoritarian regime, and accordingly would have placed her in the NW quadrant, together with other developmental states such as earlier Japan (Meiji restoration period), present day China, and other rapidly growing Asian countries like Singapore and Malaysia. In the NE quadrant of the combinations of high ED and liberty, we can expect to find the most advanced market economies such as the UK and the US, including the not so obvious Sweden, a country that has adopted a social democratic government, but which at the same time has built into its socio-economic fabric strong ED mechanisms.⁵³ The SE quadrant contains many of the current welfare states including France and present-day Germany

⁵³For a lively discussion on Sweden, see Henrekson and Jakobsson (2001).

and Korea, which has been on a mitigated ED path from as far back as the late-1980s. Lastly, the SW quadrant contains countries such as the former USSR and China under the Mao regime, where authoritarianism and egalitarianism were strongly pursued.⁵⁴

It is interesting also to note that the NE and SW quadrants are "naturals." That is, on the one hand, liberalism and discrimination are internally consistent with individual freedoms, while, on the other hand, authoritarianism and egalitarianism are not only compatible, but also complimentary in that to enforce egalitarianism, authoritarianism is the most required. While both the liberal-discrimination and authoritarian-egalitarian regimes do not contain internal contradictions, the former, because it embodies ED is economically sustainable and preferred, while the latter is economically unsustainable because of its gravitation towards egalitarianism. On the other hand, what are known as developmental states (NW quadrant) and welfare democracies (SE quadrant), contain in them an important contradiction, specifically between liberty and equality, and as such, their existence and sustainability in history has been somewhat uncommon. Put differently, the welfare state looks like a natural, but this is so only if seen from the political perspective. As mentioned earlier, political philosophies often invoke egalitarian ethos, but in economics, unlike political discussions, egalitarianism is seen to work against individual liberties, and hence to sustain the welfare state, some degree of authoritarian rule and less ED is usually invoked. This will over time will harm economic development, and as such it is not a real "natural"—simply put, it is economically unsustainable by Principle 2 *i.e.* egalitarianism will lead to economic collapse. Similarly, the developmental state can be seen as a natural through a purely economics perspective. In fact, this parallels ED by command or by government. However, as before, we need not make the same error, and looking at such a regime from the political view, because of mitigated liberty, might not grant this

⁵⁴Judging from the experiences of Germany and England, as well as the US, it would seem it take a duration of about one generation (30 years) to switch from the egalitarian to ED, and vice versa. This suggests that there are idiosyncratic features that are ingrained into a generation that make them inclined to favor either egalitarianism or ED. Of course, if a country refuses to take heed of economic stagnation due to of egalitarianism, the "egalitarian trap" can become elongated.

regime much favor.

The description of the above is not unrelated to the question of markets versus governments that is common in the economic policy literature. For example, when referring to the developmental state, a common dilemma of economists and policymakers has been whether to promote the role of markets or of governments to attain certain national goals. With the collapse of the former Soviet Union, many economists are quick to champion markets over governments, and today, following Smith, a minimal government is seen as desirable. This dichotomy of markets versus governments is too simplistic a view, which, although allowing for interesting discussion of world events, can lead to serious mistakes. The battle on the field should not be placed in the context of markets versus governments, but rather, whether ED is being augmented or mitigated (possible by governments or by markets, or both). According to our argument, it is ED that should not be compromised for economic development. Simply put, any economic-political regime becomes viable if the ED is augmented and egalitarianism toned down.

VI. Concluding Remarks

A clearer distinction of political and economic factors of development is fundamental to the better understanding of the relationship between political institutions and economic development. Amongst political philosophers, egalitarianism has centered as the ideal towards which much of the political discourse to date has aimed. This, we have warned contained in it, almost unnoticed, the seeds to distort the economic developmental process, the more the effect if allowed to adversely affect economic liberties as well as economic outcomes. The economic discrimination (ED) paradigm presented in this paper provides a way of looking at the economic development process from what we believe ought to be the economic view (*i.e.* in contrast to the political view). In so doing, we provide a contrasting perspective to classical political philosophy, *i.e.*, the ED paradigm, which takes on a "vertical" view of the world as we re-visit the meaning and essence of development.

The central question that this paper addresses is not at all trivial. Political institutions based on egalitarianism, culminating in

the modern democracy, has within it the deadly potential to negatively impact economic development. Dahl (1998) puts it that democracy through the logic of equality and based on the notion of political (intrinsic) equality⁵⁵ will always be in conflict with market-capitalism. Up to this point, we would agree with Dahl. Like many others, however, he is unhappy that market-capitalism inevitably generates inequalities, which is said to seriously impair political equality and the ideals of democracy.⁵⁶ Dahl and others seem to give the impression that the market-capitalism should be "corrected" to allow for political equality. This is something that we are not prepared to accept. Even more disturbing is the proposition of economic democracy, which contains in it the very seeds to corporate digression.⁵⁷ We have seen that the perceived "conflict" between market economies and democracy must be seen as pivoting around ED (*cf.* the political-economy axis of social order), and hence, irrespective of whatever political jacket a government (or corporation) might wear, it is precisely egalitarian-seeking regimes (or policy) that tend to hinder and reverse the ED mechanisms in favor of the equalization of outcomes, thereby becoming a major force behind economic slowdown. In sum, there is need therefore to be cautious about equality-seeking politics and their potential negative impact on economic progress.

In general, Dahl's insistence on asking whether there is "a feasible alternative to market-capitalism that would be less injurious to political equality?" seems to be a wrongly posed question, at least from the viewpoint of economics. Here, again, witness how easily questions are framed (and influenced) under political intonations. As much as we would like to provide an answer to Dahl in a favorable light, our analysis shows that the political view, specifically, egalitarian-based democracy, has within it fatal potential to do great injustices to economics, and particularly, economic development. In fact, we would rather have the question

⁵⁵He does seem to be a little confused when he writes that, "the claim that the truth of intrinsic equality is self-evident strikes me, and no doubt many others, as highly implausible" (Dahl 1998, p. 65), but argues nevertheless that we should adopt it.

⁵⁶"There is a permanent tension between democracy and a market-capitalist economy" (Dahl 1998, pp. 158-9).

⁵⁷The classic case is Korea's adoption of "economic democracy" in her constitution since 1987.

be placed on its head to read, "Is there an alternative democratic system that would be less injurious to ED and, hence, economic development?" To this, we have suggested throughout this paper that there is a solution, *i.e.* a democracy should be formed that, arguably, need not emphasize "equality," while at the same time, does not sacrifice individual liberties and ED. Indeed, reconciliation between a variety of political regimes on the one hand and the ED approach on the other can be reached under the ED paradigm. Of course, we do not intend to divorce economics from politics—this is hardly possible in the real world—but, we sincerely hope that we have argued our case of the pervasiveness and dangers of egalitarianism in economic life. Political institutions and economic development are compatible, if only the ED is not sacrificed.

(Received 4 November 2004; Revised 20 December 2004)

References

- Blaug, Mark. *Economic Theory in Retrospect*. 3rd Edn., Cambridge: Cambridge University Press, 1978.
- Chang, Ha-Joon. *Kicking away the Ladder: Development Strategy in Historical Perspective*. London: Anthem Press, 2003.
- Dahl, A. Robert. *On Democracy*. New Haven: Yale University Press, 1998.
- _____. *A Preface to Economic Democracy*. Cambridge: Polity Press, 1985.
- Fleischacker, Samuel. *On Adam Smith's Wealth of Nations*. Princeton: Princeton University Press, 2004.
- Friedman, Milton. "The Methodology of Positive Economics." In *Essays in Positive Economics*. Chicago: University of Chicago Press, 1953.
- Fukuyama, Francis. *The End of History and the Last Man*. London: Penguin Books, 1992.
- Glaeser, Edward L., La Porta, Rafael, Lopez-de-Silanes, Florencio, and Shleifer, Andrei. Do Institutions Cause Growth? NBER Working Paper 10568, 2004.
- Hayek, Friedrich August von (1952). *The Counter-Revolution of Science: Studies on the Abuse of Reason*. Indianapolis, IN: Liberty Press, 1979.

- _____. "The Theory of Complex Phenomena." In Mario Bunge (ed.), *The Critical Approach to Science and Philosophy: Essays in Honor of K. R. Popper*. New York: Free Press, 1964.
- Hegel, Georg W. F. (Originally Published 1807). *The Phenomenology of Mind*. Trans. T. M. Knox, London: Oxford University Press, 1967.
- Henrekson, Magnus, and Ulf, Jakobsson. "Where Schumpeter Was Nearly Right—The Swedish Model and Capitalism, Socialism and Democracy." *Journal of Evolutionary Economics* 11 (No. 3 2001): 331-58.
- Hobbes, Thomas (Originally Published 1651). In C. B. MacPherson (ed.), *The Leviathan*. Harmondsworth: Penguin, 1968.
- Hodgson, Geoffrey M. *Evolution and Institutions*. Cheltenham, UK: Edward Elgar, 1999.
- Jacobs, Jane. *Cities and the Wealth of Nations*. New York: Random House, 1984.
- Jevons, W. Stanley (First Published 1871). *The Theory of Political Economy*. London: Macmillan and Co.
- Jwa, Sung-Hee. "Why Firms and Markets in Economics?" *Seoul Journal of Economics* 15 (No. 2 2002): 277-94.
- _____. "The Chaebol, Corporate Policy and Korea's Development Paradigm." In Sung-Hee Jwa and In Kwon Lee (eds.), *Competition and Corporate Governance in Korea*. Cheltenham: Edward Elgar, 2004.
- Jwa, Sung-Hee, and Yong Yoon. A New Look at Development Economics through Korea's Experience: The Paradox of Economic Development. Paper Presented at the 2004 KDI-KAEA Conference, Seoul: KDI-KAEA, 2004.
- Locke, John (First Published 1690). *Second Treatise on Civil Government*. Prometheus Books, 1986.
- Markell, Patchen. *Bound by Recognition*. Princeton NJ: Princeton University Press, 2003.
- Marx, Karl (Original Work Published 1867). *Capital: A Critique of Political Economy*. Penguin Books; Reprint Edition, 1992.
- Merriam-Webster Online Dictionary. Link <http://www.m-w.com>.
- Mill, John Stuart (1859). "On Liberty." In J. M. Robson (ed.), *Collected Works of John Stuart Mill*. Toronto: University of Toronto Press, 1963.
- Nagel, Thomas. *Equality and Partiality*. Oxford: Oxford University

- Press, 1991.
- Nietzsche, Friedrich (Written: 1886, First Published: 1909-13). *Beyond Good and Evil*. New York: Vintage Books, 1989.
- North, Douglass. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press, 1990.
- North, Douglass, and Thomas, R. P. *The Rise of the Western World*. Cambridge: Cambridge University Press, 1973.
- Nozick, Robert. *Anarchy, State, and Utopia*. New York: Basic Books, 1974.
- Plato. "Republic." In John M. Cooper (ed.), *Plato, Complete Works*. D.S. Hutchinson, Indianapolis: Hackett, 1997.
- _____. "Laws." In John M. Cooper (ed.), *Plato, Complete Works*. D.S. Hutchinson, Indianapolis: Hackett, 1997.
- Rae, Douglas. *Equalities*. Cambridge Massachusetts: Harvard University Press, 1981.
- Rawls, John. *A Theory of Justice*. Cambridge: The Belknap Press of Harvard University Press, 1971.
- Ridley, Matt. *The Origins of Virtue: Human Instincts and the Evolution of Cooperation*. New York: Penguin Books, 1998.
- Rodrick, Dani. *Institutions for High-Quality Growth: What They Are and How to Acquire Them*. NBER Working Paper 7540, 2000.
- Rousseau, Jean-Jacques. *The Basic Political Writings*. Indianapolis: Hackett, 1987.
- Sala-i-Martin, Xavier. "I Just Ran Two Million Regressions." *American Economic Review* 87 (No. 2 1997): 178-83.
- Sartori, Giovanni. *The Theory of Democracy Revisited*. Chatham, New Jersey: Chatham House, 1987.
- Smith, Adam (First Published 1759). *The Theory of Moral Sentiments*. Indianapolis: Liberty Classics, 1982.
- _____. (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations*. Repr. New York: Random House, 1937.
- Stanford Encyclopedia of Philosophy. Link <http://plato.stanford.edu>
- Stigler, George. "Smith's Travels on the Ship of State." In Andrew Skinner and Thomas Wilson (eds.), *Essays on Adam Smith*. Oxford: Clarendon Press, 1975.
- Tocqueville, Alexis de (1835, 1840). *Democracy in America*. 2 Vols., New York: Schocken Books, 1961.
- Whitehead, A. North. *Process and Reality*. New York: Macmillan, 1929.