

DEBATES ON THE ROLE OF STATE AND MARKET : 'LESSONS' FROM THE EXPERIENCE OF KOREAN ECONOMIC DEVELOPMENT*

Myung Ju CHOI**

1. Rapid Economic Growth with Active State Actions : A Paradox?
2. State, Market, and Economic Development in Korea : Competing Hypotheses
3. A Modified Approach to Rent Seeking : Comprehensive Theory of Rent Seeking
4. How is the Comprehensive Theory of Rent Seeking related with the Effective State Theory?
5. Evidence in Korea
6. Concluding Remarks

References

1. RAPID ECONOMIC GROWTH WITH ACTIVE STATE ACTIONS : A PARADOX?

1.1 There are a number of regularly cited studies on policy regimes and Korean economic growth which present Korea as a model case for introducing market mechanisms in its trade regime¹⁾. In recent years, however, many economists, including the orthodox neoclassicists, do seem to recognize the fact that policy regimes in Korea have been quite restrictive during the period of its rapid growth²⁾. This evidence disproves the following hypothesis : *market mechanisms* have been

principally responsible for the rapid growth of the Korean economy.

However, it remains an open question whether the export-oriented rapid growth in Korea occurred because of, or in spite of, such restrictive policy regimes. It is worthwhile to consider, as an example, the following two contrasting views presented by D. Lal and R. Luedde-Neurath :

tional Trade, Keimyung University.

1) Among others, Balassa (1971), p. 62, Frank et al. (1975), p. 16, Westphal and Kim (1977), p.p. 2-19, and Bhagwati (1978), p.220.

2) A good example is a country study on Korea published in 1987 by the World Bank, which seems to be a widely acknowledged representative of neoclassical orthodox economics, partly reflecting their preferences to liberalize trade regimes in developing countries. The World Bank (1987), Volume I, Chapter 2 and Chapter 3. Chapter 2 of the study begins with :

"Korean industrial policy is notable for the prominent role of Government in the economy, the boldness of policy changes, and, not least, extraordinary results. A review of this remarkable legacy helps clarify *present policies—such as biases in credit access or restrictions on imports—* in terms of the historical context in which they evolved..." (p. 29: the emphasis added).

*This paper is prepared for the Bi-annual Conference of Korea-Japan Relationship on November 17-18, 1992 at St. Andrew's (Moyama) University, Osaka, Japan. I am grateful to the participants of the monthly economic seminar at Keimyung University and those of the conference at St Andrew's University for their helpful comments. Main idea of this paper draws from Chapter 2 of my doctoral thesis which was submitted to the University of Oxford.

**Associate professor, Department of Interna-

“It could be argued that *success* [in Korea] has been achieved *despite intervention*... . It would have been best not to have import controls in the first place, that is, no government intervention in foreign trade. To have two sets of intervention [import controls and export incentives], each to neutralize the harm the other would do alone, is hardly a glowing recommendation for government intervention in trade, and certainly *not a ‘lesson’* that can be drawn from the experience of Korea...” (Lal : 1983 : p.p. 46-47 ; brackets and emphasis with *underlines* added).

“On a theoretical level, our discussion in chapter 4 [An Evaluation of the Theoretical Debate] provides ample grounds to dispute a necessary correlation between a greater exposure to market forces on the one hand, and greater export oriented success on the other. It also reveals why *export oriented success may occur BECAUSE rather than IN SPITE OF selective import controls*, provided these are properly applied.” (Luedde-Neurath : 1983 : p. 115 ; bracket and emphasis added).

1.2 The Korean economy has performed quite well in terms of output growth, per capita income, and equitable income distribution. At the same time, state was very active, and quite complicated and restrictive policy regimes were employed. The restrictive policy regimes suggest the existence of significant rents and ensuing resource costs of rent seeking (RS) activities, according to the conventional approach to international trade and RS³⁾.

From the conventional point of view,

3) The “conventional approach” to RS refers to a group of rent seeking theories which

the co-existence of these two contrasting aspects in the Korean development process would be puzzling. This paper will be devoted to an exploration of a *plausible alternative explanation* for this puzzle. A key to reaching a compromise between the contrasting views, represented by Lal and Ludde-Neurath quoted above, may be provided.

Section 2 discusses two competing hypotheses on the relative role of state vs. market. A modified approach to rent seeking activities, which is referred as “comprehensive theory of RS”, is introduced in Section 3. Section 4 compares the comprehensive theory of RS with the effective state theory. Both theories are tested in the context of Korean experience in Section 5. Section 6 concludes.

2. STATE, MARKET, AND ECONOMIC DEVELOPMENT IN KOREA: COMPETING HYPOTHESES

There are a variety of competing explanations to interpret the economic development of Korea. These arguments could broadly be categorized into the following : i) the “market” theory of rapid growth and ii) the “effective state” theory of rapid growth.

2.1 Market Theory of Rapid Economic Growth

The market theory attributes the rapid economic growth of Korea and other rapidly developing East Asian countries to their reliance on market forces. Two

\focuses on the economic growth aspect and direct resource cost of rent seeking. A typical example is the “competitive rent seeking model” which approximates welfare loss of rent seeking by the size of rents at stake.

aspects of this market theory need to be distinguished. They are the "free market theory" and the "simulated free market theory". The free market theory argues that the Korean economy performs better than others because the Korean state⁴⁾ intervenes little in the working of the market. The poor performers, on the other hand, are found to have excessive state intervention. Fei (1983) points out that the basic cause of the industrial success of the rapidly developing East Asian economies, can be traced to the lessening of government interferences in the market economy during the export-oriented phase. Balassa (1972), Milton and Rose Friedman (1980), Papageorgiou et al (1991), and Westphal and Kim (1977) also take similar lines of argument.

The second view of the market theory, however, recognizes the existence of extensive government interventions in Korea, but argues that those government interventions merely neutralize policy regimes by offsetting other distortions. These distortions could have been created by other interventionist policies (such as import restrictions) and/or by existing market failure (such as fragmented financial markets). Wade (1990) refers to this second view of the market approach as the simulated free market theory.

Berger (1979) argues that "... the crux of the Korean example is that the active interventionist attitude of the state has been aimed at applying moderate incentives which are very close to the relative prices of products and factors that would

prevail in a situation of free trade... It is as though the government were 'simulating' a free market" (p. 64). Bhagwati (1988) endorses considerable government activity in the economic system in support of what he calls the "export promotion" strategy. An export promotion strategy refers to a set of policies which results in the average effective exchange rate for importable goods being approximately equal to that for exportable goods. Krueger (1982) states the argument as follows: "Some part of the interest rate subsidies probably served to offset imperfections in the Korean capital market and thereby enabled improved resource allocation and the success of the export-promotion strategy" (p. 99). This simulated market approach, though it recognizes the existence of government intervention, links the industrial success in Korea to self-adjusting markets by showing little interest in analyzing the nature of government intervention.

2.2 Effective State Theory of Rapid Economic Growth

On the other hand, the effective state theory not only recognizes the existence of extensive government interventions in Korea but also emphasizes directive role of the government in its rapid economic growth. It argues that an international competitive advantage could be deliberately created by government economic policies which are supported by certain institutional arrangements of the state as well as the private sector.

The effective state theory believes that the state can effectively guide the markets by various government actions. It, contrary to the market theory, attributes

4) "State" refers to the wide structure of governance institutions while "government" refers to the executive branch of the state. These two words are used interchangeably unless otherwise specified.

the industrial success of Korea to the institutional arrangements where the government plays an active and leading role in fostering economic growth.

Main idea of the effective state theory comes from the “developmental state” theory of East Asian industrial success (White and Wade (eds. 1984)). State often tries to industrialize the national economy by influencing market. It shifts the composition of what is profitable, rather than by direct production. The main objective is industrialization *per se*, rather than maximization of profitability based on current comparative advantages. The state intervenes aggressively in many parts of the market to bring about specifically intended allocative effects. White and Wade have found that state intervention in East Asian countries has been both stronger and more selective than in Latin American countries. This view contrasts to the market theory which argues that the Latin American states intervened too much in market causing the latter to perform less effectively⁵⁾.

The institutional arrangements of a model in the “capitalist developmental state”, derived from the experience of the fast-growing East Asian countries, are characterized in the following way according to C. Johnson (1982):⁶⁾

5) White and Wade (eds. 1984), p.p. 6-7.

6) The original presentation of Johnson's model and Wade's revised view have been slightly modified here. Two of their points have been omitted:

i) the state supervises heavy and consistent investment in education; and
ii) the state consults and co-ordinates with the private sector in the process of policy formulation and implementation. The former point is omitted because it relates to invest-

1. Top priority of the state action is economic development, defined for policy purposes in terms of growth, productivity, and competitiveness rather than in terms of welfare.

2. The state guides the market with instruments formulated by an elite economic bureaucracy, led by a pilot agency or economic general staff.

3. Politicians “reign” while state bureaucrats “rule”. This separation of ruling and reigning goes with a “soft authoritarianism” in maintaining the needs of economic development vis-à-vis other claims, and with a virtual monopoly of political power in a single political party or institution over a long period of time.

4. The state is committed to private property and market, and limits its interventions to conform with this commitment.

The developmental state theory is combined with the main idea of the development economics. A more comprehensive and systematic framework was developed to explain the causal relationship between industrial performance of a national economy and the interaction of state and market⁷⁾. Wade is a main contributor to

investment allocation rather than to institutional arrangements. The latter is omitted because the pattern of decision-making process in policy formulation and implementation—wide consultation versus top down—usually depends on the type of policy concerned.

7) In fact, the developmental state theory is criticized in several ways. Wade argues that it is not much of a theory and it lacks comparative-analytic examination, so what the developmental state is contrasted with is not clear. He also blames that the developmental state theory contains little systematic analysis of the nature of policies and

establish a more water-tight framework in this field by proposing a “governed market” theory consisting of three levels of causation between the performance of a national economy and the role of government⁸⁾.

At the first level of causation, the governed market theory argues, the better performance of East Asian economies is largely due to more investment in certain key industries and exposure of many industries to international competition as well as high levels of overall investment.

At the second level, these causes are the result of a set of government economic policies in the form of incentives and controls. These policies enable the government to govern market processes of resource allocation so as to produce production and investment outcomes different from what would have occurred with policies suggested by the market theory.

At the last level of causation, these policies are supported by certain institutions of the state and the private sector which can be characterized as the “corporatist” and “authoritarian” political arrangements.

The distinction between “corporatist” and “pluralist” regimes is made by the relations between the state and interest groups. In corporatist regimes the state can shape the demands that are made upon it, since it charters a few interest groups and allows them to represent occupational interests in return for which it claims the right to monitor them. It, therefore, discourages unchecked demands from these private interest groups. On the

other end of the relations between interest groups and the state lie the pluralist regimes where interest groups could have influence over the formulation and implementation of government policies. In pluralist regimes, interest groups compete with each other, but the role of government bureaucracies is not generally dominant.

The distinction between “authoritarian” and “democratic” regimes is made by the rules through which political leaders are chosen. In authoritarian regimes, rulers are selected by methods which give little opportunity for popular endorsement. Democratic regimes lie at the other extreme of this spectrum. Here, the rulers are chosen by a process much influenced by popular sentiment. The distinctions made here for comparing political regimes—pluralist versus corporatist and democratic versus authoritarian—are for the purpose of recasting the developmental state to fit concepts developed by literature of contemporary political science⁹⁾.

Wade, in proposing the governed market theory of East Asian success, summarizes the basic arguments of his theory :

The corporatist and authoritarian political arrangements of East Asia have provided the basis for market guidance. Market guidance was effected by augmenting the supply of investible resources, spreading or “socializing” the risks attached to long-term investment and steering the allocation of investment by methods which combine government and entrepreneurial preferences. (1990 : p. 27).

Both the market theory and the effec-

\their impact on economic performance.

8) For more details on the governed market theory, see Chapter 1 in Wade (1990).

9) Krasner (1990), Wade (1990), and Zeigler (1988).

tive state theory regard Korea as one of the most successful cases of industrialization, similar to that of Taiwan. Some authors, on the other hand, claim that the industrialization in Korea has brought about numerous problems although the Korean economy managed to grow rapidly in terms of output. They point out concentration of national income and wealth in a small number of big conglomerates, i. e., *Chaebol*, environmental contamination and dependency risk¹⁰⁾.

3. A MODIFIED APPROACH TO RENT SEEKING: COMPREHENSIVE THEORY OF Rent Seeking

The “comprehensive effect” of RS proposed here is defined as the combination of the distributive result and the overall resource cost of RS. Table 1 summarizes the proposed taxonomy of the comprehensive effect of RS.

Central elements of the conventional approach to RS may be summarized as follows: i) the amount of resources devoted to RS is exactly the same as the size of rent itself; ii) RS resources are completely wasted; and iii) distributive result of RS gets little attention.

Each of these items are discussed in a critical manner and relevant modifications are proposed in Sections 3.1 to 3.3.

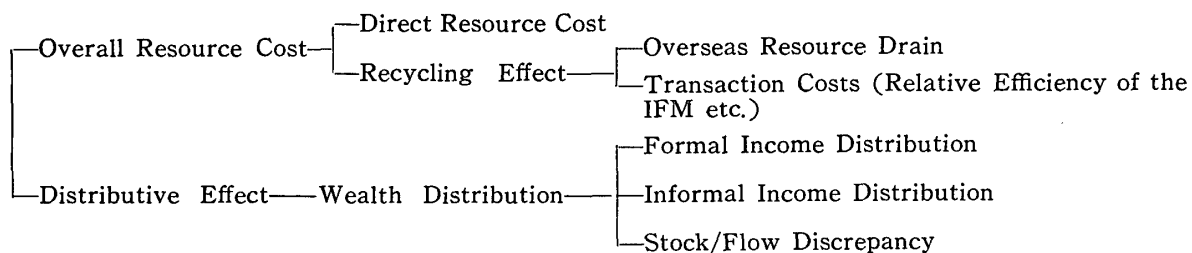
3.1 Rent seeking ratio

3.1.1 According to the conventional approach, all rents generated by government intervention are exactly dissipated by perfectly competitive RS activity. By assuming that RS is perfectly competitive, the conventional approach does not allow for underbidding in RS activity. It, therefore, assumes that RS ratio or degree of RS, with given size of rents at stake, is 100 per cent. RS ratio is defined as the relative amount of economic resources devoted to RS activities (abbreviated RS resources) compared to the size of rent. This amount of RS resources will be called “direct resource cost” of RS.

Following Tullock’s (1967) original formulation, most subsequent contributions by Krueger (1974) and Posner (1975), among others, dealt with the issue in the context of this competitive RS model.

3.1.2 Krueger rigorously illustrates that the opportunity cost of RS is equal to the value of rents themselves in a two sector small open economy model. Let

Table 1 Comprehensive Effect of Rent Seeking: Taxonomy



10) A collection of papers to assess the dependency risks in Korean development are in K-D. Kim (1987). Bello and Rosenfeld (1990) point out that the Korean economy and other rapidly growing East Asian economies

are facing serious difficulties—the concentration of national economic power on a small number of big conglomerates and environmental contamination as a result of the rapid industrialization.

us consider Posner's example of how such competitive RS would work in practice. A license is worth 100,000 US Dollars. If there are ten risk-neutral bidders among whom there is no collusion, each will bid 10,000 US Dollars for the license, since the probability of winning is 1/10. Assume that each expenditure cannot be returned to those who do not win the bid. The result is that rents associated with the license are fully dissipated at a social level, i. e., exactly 100,000 US Dollars are spent to capture the transfer of 100,000 US Dollars.

3.2 Wastefulness of rent seeking resources

Conventional wisdom that RS is definitely wasteful from the point of view of the whole economy, is based on the assumption that RS resources are completely wasted, or, in other words, they have no social value at all. It argues that those economic resources are used in totally unproductive RS activities at the expense of socially productive activities.

Even the Bhagwatian model, which is said to be the most general version of the conventional approach, implicitly assumes complete wastefulness of RS resources. Therefore the model needs to employ a "negative value of shadow factor prices" to demonstrate the so-called paradoxical case of welfare improving RS. What Bhagwati and his associates reject, in presenting the paradoxical case, is the complete wastefulness of rent itself (tariff revenues in his analysis)¹¹⁾. But they still keep the assumption that all

11) This is equivalent to the assumption of competitive RS or the "one-to-one" assumption. There was controversial debate on this issue between Bhagwati (1980, 1982a) and Tullock (1981).

RS resources are completely wasted.

Here, as in Bhagwati, the proposition that rent is completely wasteful will be rejected. In addition, the proposition that RS resources are completely wasteful will also be rejected¹²⁾.

The conventional approach excludes any possibility of recycling RS resources into productive economic activities. Substantial parts of RS resources flow into the informal sector of the economy since they can be shielded from possible inspection and detection by the relevant authorities.

In the case of bribery, for example, a considerable amount of the bribe money would flow into the informal financial market (abbreviated as IFM) rather than into the formal financial system¹³⁾. It is then recycled into the productive sectors of the economy when the following conditions are met: i) not all of the RS resources are withdrawn from the national economy in the form of overseas capital flight and/or brain drain; and ii) the IFM plays an active role in financing productive economic activities. The extent of recycling, therefore, depends on i) what portion of the RS resources leak out through capital flight and brain drain; and ii)

12) It should be remembered that there are two different kinds of wastefulness: i) wastefulness of rent itself, and ii) wastefulness of RS resources. The latter has attracted little concern from the RS literatures, whereas the former has received a considerable attention. The weakness in the literatures seems to stem from the acceptance of the competitive RS hypothesis which does not need to distinguish the above two kinds of wastefulness by equating resource cost of RS with the size of rent *per se*.

13) For more detailed analysis of the informal financial market, see Walter (1990), for example.

how efficiently the IFM channels the remaining resources into the productive activities.

Therefore, there are two mechanisms through which RS activities affect the overall growth rate of the economy. One is the mechanism through which economic resources are directly devoted to RS, as has been pointed out by most of the existing literature. The other is an alternative mechanism, proposed here, through which the resources initially devoted to RS are recycled and contribute to the production of goods and services. The latter is called the "recycling effect", whereas the former is called the "direct resource cost".

The sum of the direct resource cost and recycling effects is defined as the "overall resource cost" of RS.

3.3 Distributive consequences of rent seeking

The conventional approach omits an important aspect of RS which is the distributive result. Distributive aspect of RS is more relevant in economies such as Korea, where a substantial portion of private wealth, accumulated through the rapid economic growth process, has little legitimacy. This lack of legitimacy for the accumulated private wealth is due to the fact that substantial parts of the wealth are accumulated through illicit means, naturally resulting from extensive RS activities in the economy.

One of the fundamental propositions of the conventional approach—that RS is a socially undesirable activity—could not easily be understood unless the distributive consequences of RS are taken into account¹⁴. RS is a socially undesirable

activity in terms of distributive justice, whereas its effect on overall economic growth cannot be so unambiguously defined. The latter depends on i) RS ratio; and ii) extent of the recycling effect, which, in turn, depends on degree of overseas capital flight and relative efficiency of the IFM. All factors which effect the overall resource cost of RS are *country-specific*.

4. HOW IS THE COMPREHENSIVE THEORY OF RENT SEEKING RELATED WITH THE EFFECTIVE STATE THEORY?

Main idea of the comprehensive theory of RS is compared with that of the effective state theory. Both admit active role of the state in Korea, but each assesses the economic performance using a different approach. The comprehensive RS theory argues that the Korean state could not discipline itself with the given RS opportunities whereas the effective state theory supports self-disciplined state. The former, therefore, regards comprehensive analysis of RS activities as an essential way to properly assess the effect of state interventions on overall economic performance. The latter, however, gives little attention to RS activities.

4.1 Similarities

Some points in the main argument of the comprehensive approach to RS are closely related with the effective state theory. Both posit that government has

14) RS activity is socially undesirable although it is beneficial from the individual rent seekers' point of view.

played an *active and aggressive* role in the process of rapid economic growth in Korea. They also state that government intervention has been *selective*.

The effective state theory has, for example, made these points in comparing rapidly growing East Asian countries' approach to guide the market with Latin American countries' staggering policy of import substitution.

In Latin America, import restrictions combined with *unselective* support of any kind of industrial investment are believed to bring about a slower economic growth. White and Wade, for example, have found that government intervention in the process of successful industrialization in East Asian countries has been more aggressive and selective than in Latin America¹⁵).

4.2 Differences

4.2.1 But, the main theme of the comprehensive approach to RS differs significantly from the effective state theory. One of the most important differences lies in the assessment of the extent of government failure (the counterpart of market failure) and the rationale for this assessment. Government failure refers to the failure resulting from abuse of public power—from incompetence, corruption, or from disproportionate commitments of public resources to satisfy small interest groups¹⁶). Most importantly, government failure generates prevalence of RS ac-

tivities.

Both the effective state theory and the comprehensive approach to RS admit that government imposes extensive and selective economic policies with much discretion and discrimination. In fact, the comprehensive RS approach is supported by the orthodox economic theory which predicts that the abuse of such state power in the hands of governments is inevitable under such interventionist policy regimes. What is different from the orthodox theory is that the overall resource cost of such government failure and the ensuing RS are not as simple as it argues. The initial direct resource cost of RS would be dampened by the recycling of RS resources¹⁷).

On the contrary, the effective state theory argues that the use of such state power is limited and not abused in Korea because the Korean state is relatively "hard". Hard states have an ability to resist private demands and to shape the economy and society. This concept comes from Myrdal's theory that "strong" states are able to enforce obligations via compulsion and to direct administrative discretion towards desirable ends¹⁸). Myrdal illustrates the weaknesses of "soft" states in his inquiries about the cause of poverty in South Asia. He defines a soft state as a country where policies decided on are often not enforced and where authorities, even when framing policies, are reluctant to place obligations on people¹⁹). Soft states can produce effects in the economy, but they cannot control the direction of those effects in line with

15) White and Wade (1984), p.p. 6–7.

16) There is another kind of government failure as suggested by Wade. It is a failure of government to attempt to pick winners with the economy's current comparative advantages. But the Korean government *made* winners, i. e. potentially competitive industries, rather than *picked* them. Wade (1990), p.p. 333–334.

17) Choi (1992).

18) Myrdal (1968), p.p. 891–900.

19) Myrdal (1968), p.p. 66–67.

the intended objectives. Hard states, on the other hand, are able to control them.

5. EVIDENCE IN KOREA

5.1. Is the Effective State Theory Effective in Korea - Test of Hard State Hypothesis

Main factors which make for hard state in Korea may be summarized as the following, based on Migdal's five general conditions for hard state:²⁰⁾ i) massive social dislocation, which weakens existing patterns of social control, occurring within the previous fifty years or so; ii) existence of a serious military threat from outside; iii) support from the international state system for a concentration of social control in the hands of states; iv) existence of a social grouping with people skillful enough to execute the state leaders' grand designs; v) leadership commitment for strong states; and vi) institutional or other arrangements for effective check and balance of state power in the society.

Korea, in fact, has undergone wrenching social dislocations in the past half-century due to World War II and the Korean War (1950-1953). The Japanese colonial administration, having limited the growth of autonomous, Korean-run organizations, gave postwar rulers unusual scope to mobilize the population around their symbols, codes of behavior and industrial policies²¹⁾.

South Korea had faced severe and continuing threat from North Korea. This external military threat injected a sense of urgency into the interventionist proces-

s²²⁾. Both social dislocation and external military threat provided an opportunity and a need to tighten the state's ordering of Korean society. The U. S. aid and the social basis for a skilled bureaucracy provided the means to do so.

Jones and Sakong emphasize the fourth and fifth points when they concluded that the effective implementation of specific and selective economic policies via hard state have been an engine of phenomenal economic growth in Korea. Under the hard state where hierarchical command is rigidly enforced, the leadership commitment to economic growth made the discretion and command more efficient. Jones and Sakong believe that government officials can seldom afford to act in a manner that seriously hurts the objectives set by the rulers²³⁾.

Michell emphasizes the fifth and sixth points in his questioning of the Korean government's ability to make accurate choices in economic policies. Had the Korean government, with strong power in its hand, made poor choices, this would have been reflected by a poor economic performance in Korea. It, instead, twined. The Board of Audit and Inspection (BAI) and the Economic Planning Board (EPB) are believed to have played an important role in preventing serious corruption. The former, set up in 1963, is an independent watchdog organization, with legal authority to investigate any (including financial) activities of any government or quasi-government organization. The EPB controls the budget of all ministries in the government and conducts an annual scrutiny of each ministry's financial activities.

20) Migdal (1988), chapter 8.

21) Wade (1990), p.p. 337-342.

22) Michell (1984), p. 32.

23) Jones and Sakong (1980), p.p. 132-139.

The EPB is believed to have a high *esprit de corps*, and is only motivated by a desire to achieve the national objective of economic growth²⁴.

Amsden draws attention to the sixth point, when she attempts to justify a self-disciplined state. But this point is not consistent with her later statement that subsidy recipients are disciplined by the hard state. The main theme of her argument is that state imposes strict performance criterion on private firms when it intervenes with subsidies to deliberately get relative prices "wrong" in order to stimulate economic activity. She argues that the Korean state is influenced by two forces: student movement and the American occupying forces. The former keeping the government relatively honest. The latter driving the Korean military towards developmentalism as the only realistic course to reduce dependence on American support²⁵. It is important to note that Amsden simply states these two forces without enough exploration of their effects on the theory of self-disciplined state.

Luedde-Neurath has also presented similar explanations for why the Korean state could remain hard and avoid bureaucratic inefficiency and corruption: i) highly effective channels of communication and feedback available to policy makers; ii) legitimacy of state intervention by tradition; iii) clarity and urgency of interventionist objectives; and iv) tolerance of authoritarianism by Korean people²⁶.

Concerning the government decision-

making process, some authors of the effective state theory may not agree with the view that it is highly centralized but may admit that the process of economic policy formulation is open to a wide range of opinions, even though the final decision *per se* is closed²⁷.

5.2 Re-evaluation of the Hard State Hypothesis in Korea

Let us re-evaluate the rationale for the hard state in Korea in terms of the six factors discussed above.

Social dislocation caused by many factors including mass migration during World War II, the Korean War and Japanese colonial rule, may have left little opportunities for interest groups to organize in a fashion that would allow them to voice their private demands. But, a less developed organization of interest groups does not necessarily mean that powerful state is exempt from rent seeking activities by the private sector. In Korea, the most prevalent form of rent seeking takes place through dense personal networks. This links government officials with managers in the private sector. It also creates a cohesive network among officials with different ranks who work in different bureaus of the government. These informal and individual connections are based mainly on bonds developed among alumni of colleges or high schools, especially between classmates.

Existence of military threat from North Korea may be regarded as an excuse for maintaining an authoritarian regime

24) Michell (1988), Chapter 3.

25) Amsden (1989), Chapter One and Chapter Two.

26) Luedde-Neurath (1984), p.p. 96-105.

27) Amsden (1989) p. 18, Jones and Sakong (1980) p.p. 64-77, Luedde-Neurath (1984) p.p. 96-99, Michell (1988) p.p. 61-64, and Wade (1990) p. 298.

because any sign of internal disorder would induce aggression from its enemy. This external threat, however, does not necessarily prevent the authoritarian state from rent seeking activities.

The geopolitical position of South Korea at the front line of the West's defence boundary has induced a large amount of U. S. aid. This aid, which is aimed at maintaining political and economic stability in the area, may have been helpful to enhance state power vis-à-vis other organizations in the society. In this situation, less development of non-state organizations does not guarantee a clean government when the society is dominated by these personal networks mentioned above.

Leadership commitment to economic growth and capable bureaucrats who faithfully execute state leader's objectives may be helpful in establishing an authoritarian state, but not necessarily a hard state with little rent seeking.

The Board of Audit and Inspection and the EPB are allegedly independent of the government and act as a check and balance against the state's power. The claims of independence and autonomy of these two institutions must be seriously challenged. It is widely acknowledged that most of the important decisions within the government are dominated by the President and a small number of trusted policy advisers. These "Advisers to the President" are often more influential than high ranking officials in most government ministries including the BAI and the EPB, simply because they have easier access to the President²⁸.

6. CONCLUDING REMARKS

6.1 It is widely believed that rapid economic growth in Korea occurred concomitantly with quite active role of the Korean state. These contrasting aspects of the Korean development—rapid growth with state intervention, cannot easily be understood within the framework of the existing literatures.

Among two main lines of argument, the market theory of rapid growth in Korea seems to lose its ground by the emerging evidence that the Korean state has played pervasive role in most parts of the economy. On the other hand, the effective state theory of rapid growth argues that the rapid growth of the Korea could mainly be attributed to the active role of the state. This argument, however, is in sharp contrast with the core idea of the conventional RS theory. According to the conventional approach to RS, RS activity arising from state intervention draws economic resources which otherwise could have been used for productive economic activities. This resource cost of RS is usually larger than the conventional deadweight loss of state intervention *per se*.

6.2 The effective state theory attempts to justify its argument by introducing the notion of "hard" state which comes from Myrdal's concept of "strong" state under which state is able to resist private demands of various interest groups in the economy. However, all the six general conditions for the hard state are found to be irrelevant for the Korean society. RS in Korea takes place mainly through dense personal networks rather than through organized group as most RS theories pre-

28) Luedde-Neurath (1984), p.p. 96-97.

dict.

6.3 The role of Korean state in its rapid growth, therefore, can best be understood by the proposed "comprehensive approach to RS" which is an extended version of the conventional approach to RS. The comprehensive RS theory argues that overall resource cost of the state intervention and the ensuing RS depend upon how much the initial direct resource cost would be dampened by the recycling of RS resources. Unambiguously negative welfare effect of RS can be found in its effect on distribution of income and wealth.

6.4 The proposed comprehensive RS theory suggests that the difference in economic performance between the fast-growing country of Korea and the stagnating Latin American countries lies in different degree of recycling RS resources rather than different degrees of state intervention and the ensuing RS activity *per se*.

REFERENCES

- Aghevli, B. and J. Marquez (1985), "A Case of Successful Adjustment: Korea's Experience During 1980-84", *Occasional Paper no. 39*, International Monetary Fund.
- Amsden, A. (1989), *Asia's Next Giant*, Oxford University Press.
- Anam, M. (1982), "Distortion-Triggered Lobbying and Welfare", *Journal of International Economics*, volume 13 number 1/2, August.
- Appelbaum, E. and E. Katz (1987), "Seeking Rents by Setting Rents: The Political Economy of Rent Seeking", *Economic Journal*, volume 97 number 387, September.
- Balassa, B. (1971), "Industrial Policies in Taiwan and Korea", *Weltwirtschaftliches Archiv*, Band 106 Heft 1.
- Balassa, B. and associates (1971), *The Structure of Protection in Developing Countries*, The Johns Hopkins University Press.
- Bello, W. and S. Rosenfeld (1990), *Dragons in Distress: Asia's Miracle Economies in Crisis*, Food First Books, San Francisco, Institute

of Food and Development Policy.

- Berger, F. (1979), "Korea's experience with export-led industrial development", in B. de Vries (ed.), *Export Promotion Policies*, Staff Working Paper no. 313, World Bank.
- Bhagwati, J.N. (1978), *Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes*, National Bureau of Economic Research.
- Bhagwati, J.N. (1980), "Lobbying and Welfare", *Journal of Public Economics*, volume 14.
- Bhagwati, J.N. (1982a), "Lobbying, DUP Activities and Welfare", *Journal of Public Economics*, volume 19 number 3, December.
- Bhagwati, J.N. (1982b), "Directly Unproductive Profit-Seeking (DUP) Activities", *Journal of Political Economy*, volume 90 number 5, October.
- Bhagwati, J.N. (1988), "Export-promoting trade strategy: issues and evidence", *World Bank Research Observer*, volume 3 number 1, January.
- Blomqvist, A. and S. Mohammad (1986), "Controls, Corruption, and Competitive Rent Seeking in LDCs", *Journal of Development Economics*, volume 21 number 1, April.
- Buchanan, J.M., R. Tollison, and G. Tullock (eds. 1980), *Towards a Theory of the Rent Seeking Society*, Texas A & M University Press.
- Choi, M.J. (1992), "Rent Seeking and Economic Performance", *Business Management Review*, volume 25 number 2, June.
- Colander, D.C. (1984), *Neoclassical Political Economy: The Analysis of Rent Seeking and DUP Activities*, Ballinger Publishing Company.
- Cole, D.C. and Y.C. Park (1983), *Financial Development in Korea: 1945-1978*, Studies in the Modernization of the Republic of Korea: 1945-1975, Harvard University Press.
- Cotton, J. (1990), Book Review of Amsden (1989), *The Pacific Review*, volume 3.
- Cotton, J. (1991), "Understanding the State in South Korea: Bureaucratic-Authoritarian or State Autonomy Theory?", *Comparative Political Studies*, volume 24.
- Dey, H.K. (1989), "The Genesis and Spread of Economic Corruption: A Microtheoretic

- Interpretation", *World Development*, volume 17 number 4, April.
- Economist Intelligence Unit (1986), "South Korea to 1990", *EIU Special Report*, no. 225.
- Enos, J. (1986), "Korean Industrial Policy", *Prometheus*, volume 4 number 2, December.
- Fei, J. (1983), "Evolution of growth policies of NICS in a historical and typological perspective", *mimeographed*, Conference on patterns of growth and structural change in Asia's newly industrializing countries (NICS) and near-NICS in the context of economic interdependence, East-West Center, Honolulu, Hawaii, 3-8 April.
- Foster-Carter, A. (1985), "Friedrich List lives!", *Inside Asia*, London, September-October.
- Foster-Carter, A. (1991), "Explaining Korean Development: Some issues of ideology and method", *mimeographed*, Conference of the British Association for Korean Studies, Cambridge, 26-28 March.
- Frank, C.R., K.S. Kim, and L.E. Westphal (1975), *Foreign Trade Regimes and Economic Development: South Korea*, National Bureau of Economic Research.
- Friedman, M. and R. Friedman (1980), *Free to Choose*, Harcourt Brace Jovanovich.
- Hamilton, C. (1986), *Capitalist Industrialization in Korea*, Westview Press.
- Hong, W.T. (1987), "Export-Oriented Growth of Korea: A Possible Path to Advanced Economy", *Seminar Paper* no. 382, Institute for International Economic Studies, University of Stockholm.
- Johnson, C. (1982), *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, Stanford University Press.
- Jones, L., and I. Sakong (1980), *Government, Business, and Entrepreneurship in Economic Development: The Korean Case*, Studies in the Modernization of the Republic of Korea: 1945-1975, Harvard University Press.
- Kim, K.D. (ed. 1987), *Dependency Issues in Korean Development*, Seoul National University Press.
- Kim, K.S. and J.K. Park (1980), *Han'guk Kyongje Ui Koto Songjang Yoin* [*Factors for rapid growth of the Korean Economy*], Korea Development Institute, Seoul.
- Kim, K. and M. Roemer (1981), *Growth and Structural Transformation*, Harvard University Press.
- Krasner, S.D. (1984), "Approaches to the State: Alternative Conceptions and Historical Dynamics", *Comparative Politics*, volume 16, number 2.
- Krasner, S.D. (1990), "Minding the State or a State of Mind: Issues in the Comparative Conceptualization of the State", *Comparative Political Studies*, volume 23.
- Krueger, A.O. (1974), "The Political Economy of the Rent Seeking Society", *American Economic Review*, volume 64 number 3, June.
- Krueger, A.O. (1978), *Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences*, National Bureau of Economic Research.
- Krueger, A.O. (1982), *The Developmental Role of the Foreign Sector and Aid*, Studies in the Modernization of the Republic of Korea: 1945-1975, Harvard University Press.
- Krueger, A.O. (1987), "The Importance of Economic Policy in Development: Contrasts between Korea and Turkey", *National Bureau of Economic Research Working Paper*, no. 2195, March.
- Lal, D. (1983), *The Poverty of Development Economics*, Institute of Economic Affairs, London.
- Lerner, A. (1946), *The Economics of Control*, The Macmillan Company, New York.
- Luedde-Neurath (1984), "State Intervention and Export-Oriented Development in South Korea" in G. White and R. Wade (eds. 1984), *Developmental States in East Asia: A Research Report to the Gatsby Charitable Foundation*, IDS Research Reports Rr 16, Institute of Development Studies, Sussex University.
- Lui, F.T. (1985), "An Equilibrium Queuing Model of Bribery", *Journal of Political Economy*, volume 93 number 4, August.
- Magee, S.P., W.A. Brock, & L. Young (1989), *Black Hole Tariffs and Endogenous Policy Theory: Political Economy in General Equilibrium*, Cambridge University Press.
- Mason, E., D.H. Perkins, K.S. Kim, D.C. Cole, M.J. Kim, et al. (1980), *The Economic and Social Modernization of the Republic of Korea*,

- Studies in the Modernization of the Republic of Korea: 1945–1975, Harvard University Press.
- Michell, T. (1984), "Administrative Traditions and Economic Decision Making in Korea", *IDS Bulletin*, volume 15 number 4, Institute of Development Studies, University of Sussex.
- Michell, T. (1988), *From a developing to a newly industrialized country: The Republic of Korea, 1961–82*, Employment, Adjustment and Industrialization no. 6, International Labor Office, Geneva.
- Migdal, J. (1986), *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World*, Princeton University Press.
- Mueller, D.C. (1989), *Public choice II*, Cambridge University Press.
- Myrdal, G. (1968), *Asian Drama: An Inquiry into the Poverty of Nations*, Pantheon.
- Nas, T.F., A. Price, and C. Weber (1986), "A Policy-Oriented Theory of Corruption", *American Political Science Review*, volume 80 number 1, March.
- Olson, M. (1965), *The Logic of Collective Action*, Harvard University Press.
- Olson, M. (1982), *The Rise and Decline of Nations*, Yale University Press.
- Papageorgiou, D. et al (eds. 1991), *Liberalizing Foreign Trade*, Volumes 1–7, Basil Blackwell.
- Posner, R.A. (1975), "The Social Cost of Monopoly and Regulation," *Journal of Political Economy*, volume 83 number 4, August.
- Rogerson, W. (1982), "The Social Cost of Monopoly and Regulation: A Game-theoretic Analysis", *Bell Journal of Economics*, volume 13 number 2.
- Rowley, C.K., R. Tollison, and G. Tullock (eds. 1988), *The Political Economy of Rent-Seeking*, Kluwer Academic Publishers.
- Rose-Ackerman, S. (1978), *Corruption: A Study in Political Economy*, Academic Press.
- Srinivasan, T.N. (1985), "Neoclassical Political Economy: The state and economic development", *Asian Development Review*, volume 3 number 2.
- Tollison, R. (1982), "Rent Seeking: A Survey", *Kyklos*, volume 35 number 4.
- Tullock, G. (1967), "The Welfare Costs of Tariffs, Monopolies and Theft", *Western Economic Journal*, volume 5.
- Tullock, G. (1980), "Efficient Rent Seeking", in J.M. Buchanan et al. (eds.), *Towards a Theory of Rent Seeking Society*, Texas A & M University Press.
- Tullock, G. (1981), "Lobbying and Welfare: A Comment", *Journal of Public Economics*, volume 16.
- Varian, H.R. (1987), "Measuring the Deadweight Costs of DUP and Rent Seeking Activities", *Center for Research on Economic and Social Theory (CREST) working paper*, University of Michigan, August.
- Wade, R. (1988), "The Role of Government in Overcoming Market Failure: Taiwan, Republic of Korea and Japan", in H. Hughes (ed. 1988), *Achieving Industrialization in East Asia*, Cambridge University Press.
- Wade, R. (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press.
- Walter, I. (1990), *The Secret Money Market*, Harper & Row Publishers.
- Westphal, L.E. and K.S. Kim (1977), "Industrial Policy and Development in Korea", *World Bank Staff working paper*, no. 263.
- White, G. and R. Wade (1984), "Developmental States in East Asia: Introduction", in G. White and R. Wade (eds. 1984), *Developmental States in East Asia: A Research Report to the Gatsby Charitable Foundation*, IDS Research Reports Rr 16, Institute of Development Studies, University of Sussex.
- White, G. and R. Wade (eds. 1984), *Developmental States in East Asia: A Research Report to the Gatsby Charitable Foundation*, IDS Research Reports Rr 16, Institute of Development Studies, University of Sussex.
- Williamson, O.E. (1977), "Economies as an Antitrust Defense Revisited", *University of Pennsylvania Law Review*, 125.
- World Bank (1987), *Korea: Managing the Industrial Transition, volume I*, World Bank Country Study.

崔明周氏の報告をめぐる討議

報告要旨

「政府と市場の相対的役割」に関する論議には、韓国の高度経済成長の主要因を市場メカニズムの働きによるとみるか、それとも政府の主導によるものであったとみるかという2つの立場が存在する。しかし、韓国で政府介入の事実を否定できない。そこで、これを前提にするとしても、なお、政府介入について積極的評価か消極的評価かで、依然として対立がみられる。

崔氏は、従来の相反する見解、すなわち市場メカニズムを尊重する市場主義（新古典派）の立場、および政府の主導により高度成長の基礎が固められるとする有効国家主義の立場を考察する。その結果、このようないずれの立場も、韓国の高度経済成長の説明には説得力を持ちえないとする。前者は、政府の積極的介入という事実の下では有効でないし、後者の「政府失敗」（政府の権限乱用）はないという硬性国家の前提も、韓国では有効でない。

韓国の高度成長と政府の積極的介入の事実を説明するために、従来のレント〔超過利潤——筆者〕追求理論を变形・拡張して、政府の役割について第3の視角をさぐろうとするのが、この野心的な報告であった。氏が包括的レント追求理論として提起するのがその立場である。

崔氏の包括的レント追求理論は、(1)不完全競争の場合、(2)レント追求コストが浪費とならない部分、および(3)所得あるいは富の分配変化の効果を、総合的に考慮しようとするものである。これらはいずれも従来のレント追求理論にはない視点である。

政府の積極的、選別的介入を前提とし、これを成長に寄与するとみる点では有効国家主義の立場と同じであるが、異なるのは政府の失敗の存在を認める点である。このような視点に立つ理論構築の中で、氏が着目するのは、韓国における「私金融機関」の役割と、「個人的紐帯関

係」に基礎をおく欧米とは異なるレント獲得行為である。

この包括的理論の立場から、崔氏は、フローの平等化とストックの不平等化という分配上の問題を、個人的紐帯関係と地下経済に関連させて説明する。また、私金融市場を通じて、（レント追求にかかわる）賄賂などが資源として還流するがゆえに、南米ニクス諸国とは差が生じるとする。

討議

司会者（伊代田）からの簡単な要点説明の後、活発な質疑応答が始まった。

まず、桃山学院大の田平正典氏より、政府の政策を考える場合、「効率」と「公正」の問題にどう対処するかという質問があった。これに対して崔氏より次のような説明があった。それぞれの政策には、経済的判断のみならず政治的判断の問題があるので、「効率」に関する政策と「公正」に関する政策との区別を行うのは困難である。しかし、経済成長（効率）と成果の分配（公正）の両方を考慮する必要がある。そうでなければ、長期成長の達成は困難であろう。例えば、レントの増大は分配問題を引き起こし、成長の基盤を崩すことになる。

同じく田平氏から、韓国における「財閥の役割」について質問があった。崔氏は、これはかなり重要な問題だとして、次のように言う。5大財閥は製造業における総生産の約3分の1を占めており、財閥は経済の中で大きな役割を果たしている。しかし、財閥の蓄積プロセスに不正があった（政府から獲得したレントが大きい）のではという嫌疑があり、国民の不満がある。さらに問題なのは、獲得されたレントが、不動産・株式投機、政治資金などの非生産的分野に向けられていることだ。このような背景から、財閥解体論も出てくるのである。

次に、桃山学院大の望月和彦氏からは、レン

ト追求コストのリサイクルに言及し、レント追求コストに関する報告者の見方への疑問が提示された。崔氏は次のように答える。ここでリサイクルというのは、レント追求に投入された資源の生産的経済活動への再還流を意味するのであって、（外国人の直接投資に基づく）本国への配当などの送金はこれと異なる。質問者と私との間で、リサイクルの理解に相違があるように思う。リサイクルの形態を見ると、レント追求のコストである賄賂は、私金融機関を通じて、中小企業の資金に相当向けられていると考えられるし、接待等はサービス産業をうるおわせて

いる。もっともこれらが、地下経済を發展させ、成長の基盤を脅かすという恐れもある。

最後に同じく桃山学院大の稲垣慶成氏より、経済成長と政府介入との関係を直截に説明してほしいという質問があった。これに対して、崔氏は、政府介入の程度は経済成長を説明するキー変数にはならないとする。政府介入の程度と経済成長とは一義的に論じられないが、レント追求に投入された資源のリサイクルを含めて行う南米と東アジアとの比較は、氏の論旨のかなりの部分を示唆する、という答えがあった。

（伊代田光彦*）

* 本学経済学部