

COMMENT ON ALVIN RABUSHKA'S PAPER
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A commentator is expected to find faults with what the author has to say, but unfortunately I find myself in substantial agreement with what Alvin Rabushka has written. My comments would therefore be largely to point out omissions, whose inclusion I think would make Rabushka's case even more convincing.

The Asian-Pacific region provides many useful examples of economies that are great successes and dismal failures. Much can be learned from comparing and contrasting the different institutions and policies adopted by these countries as they developed overtime. A comparative analysis of the varying economic growth experiences of these countries would provide useful lessons for China.

The major omission in Rabushka's paper is that he does not make full use of such comparisons, although he does so to some extent elsewhere (see Rabushka 1987). Here, he simply concentrates on some of the success cases. By focusing only on the success stories one may be led to overemphasize their policy differences rather than similarities. For this reason, a useful comparative analysis must contrast success with failure and bring out the essential differences between them.

Rabushka does, however, distill from the success stories, based primarily on the experience of Hong Kong, a checklist of eighteen policies which he calls the "basics" of economic success. I would not call all of them policies, some of them, for example, honest governments, efficient administration, the rule of law are fundamental institutional features. Nevertheless these are generally sound policies to adopt and good institutions to have. The difficult question, however, which Rabushka does not tell us is which of these "basics" are the more crucial ones to have and have particular relevance for China, and what would be a feasible strategy for adopting them as policies given existing constraints and opportunities.

These are difficult questions. But the experience of the Asian-Pacific countries offer some lessons. The strategy adopted by and the experience of Taiwan, and to some extent South Korea, Singapore, post Sukarno's Indonesia as well, in deregulating its economy, scaling back protectionist policies, raising suppressed interest rates, and letting the exchange rate be set close to market levels would be highly relevant. In other words, the political and economic strategies pursued by these governments, with varying success and in the face of opposition, to achieve a general move towards a more open and competitive system where prices reflect scarcity values deserve detailed examination. They provide hints as to what priorities should be set and what steps should be taken in implementing a policy of successful liberalization. One general observation is that few countries began by relaxing all prices at once, most tried to focus on interest rates and exchange rates instead.

There are also negative experiences. In the 1970's South Korea backslided into greater protectionism and suffered from it. The manipulative industrial policies in Singapore in the 1970's paved the way for a loss in economic responsiveness during the worldwide recession in the early 80's which hit Singapore with unusual severity. In some countries, state monopolies simply became private ones without resulting in much improvement in economic efficiency and often generated significant social unrest because inequities and corrupt practices became more evident.

Another major issue is how far can the adoption of these policies be possible without the creation of new institutions, mechanisms, and effecting a fundamental change in the organization of the economy and even the polity. Within China there is an on-going debate about the appropriate mix between policy adjustments on the one hand and fundamental reform on the other. They seem to have achieved some limited consensus regarding the need for reforms, but the issue of pace and how far it should go remains highly contentious.

Here again the Asian-Pacific economies provide many important lessons. The case of North and South Korea (or for that matter East and West Germany) is a powerful demonstration of what Rabushka calls, "the single most important factor which accounts for its economic success is the fact that the country affords its residents a considerable measure of economic freedom. This translates into a well-defined and enforced system of private property rights, an effective legal system, reliance on private enterprise for the creation and distribution of income." One could not have asked for a better controlled

experiment. The evidence strongly suggest that modernization requires not only the adoption of sound economic policies, but also the creation of an institutional framework based on private initiative and competition.

Even within capitalist countries where private property rights are recognized, economic policy failures are quite common and are primarily associated with the fact that highly interventionist governments often impede the process of competition and hence the individual's economic freedom to engage in production and in exchange. Arbitrary transfers and barriers to entry weakens the integrity of private property rights. Marcos's Philippines, Sukarno's Indonesia, and to a lesser extent Malaysia, South Korea and Taiwan in the 1950's were not success stories, largely because the wrong policies were pursued. A proper institutional framework is essential and will be strengthened by the consistent application of correct policies. Erroneous policies can erode even the best designed institutions.

One of the most interesting experiments in the Asian-Pacific region is of course Hong Kong which will have a fundamental change in the political system after 1997. Whether such a change would also bring with it a gradual change in economic policies that would over time weaken the present institutions that allow a great measure of individual economic freedom is a matter of great concern to many. The Draft Basic Law which would serve as the constitution for Hong Kong after 1997 may provide some limited hints of likely future events.

According to Rabushka, the fact that China is willing to enshrine many of the successful policies adopted by Hong Kong in the Draft Basic Law demonstrates China's recognition of the value of these policies in leading to economic success. To Rabushka the only remaining issue appears to be for China to adopt these policies for her own modernization. While I think there is much truth in this, however, there are two fine distinctions which should be noted.

First, the political and economic obstacles for China to change its system is a challenge which is much more formidable than to merely preserving in practice or on paper what has proven to be successful policies in Hong Kong. For this reason, the problem of how to do it is at least as important as what to do. Second, the Draft Basic Law is itself not an unambiguous document. Rabushka has correctly pointed out that the Draft Basic Law includes many articles that aim to limit the arbitrary power of the state in economic policy making and to preserve individual economic freedom. But he failed to emphasize that it also includes articles to the contrary, for example, that the state should actively promote industries. This would open the way to the introduction of preferential and interventionist economic policies. In many ways the Draft Basic Law is necessarily a contradictory document, in that it hopes to incorporate the interests of various parties, both within and outside Hong Kong, whose goals are dissimilar and whose time horizons are different.

A final point to make is the role of the political system in determining economic policies. It is not sufficient to enumerate sound policies and correct institutions. Why

do some countries adopt good policies and others do not ? I think the issues include political stability, honest governments, and efficient administrations, but they also go beyond them to something more fundamental within the political system. The issues are obviously difficult, and I am not sure that the experiences of the Asian-Pacific countries have given us good and clear lessons on this account, much work remains to be done.

Reference

Alvin Rabushka, *The New China*, Boulder Colorado : Westview Press, 1987.