Distributional Coalitions, the State, and Economic Development: A Reformulation of Olson's Theory

by

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B.A., University of Hong Kong, 1990

A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of

MASTER OF ARTS

in the Department of Sociology

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ABSTRACT

The economic success stories of the four Asian newly industrialized nations (ANICs), viz., Hong Kong, Singapore, South Korea and Taiwan have stirred many controversies as to the causes of their rapid economic growth. Emerging in the mid-1980s, the statist perspective maintained that the state played a crucial role in transforming the economy in developing nations. However, critics argue that the statist perspective is inadequate for explaining the economic experiences of bureaucratic-authoritarian states in Latin America and some other Southeast Asian nations. An alternate explanation, Olson's society-centered theory of distributional coalitions, contends that rapid economic growth is caused by weak distributional coalitions (or special interest groups). In this thesis I combine both perspectives and argue that the destruction of distributional coalitions in the ANICs during WWII facilitated successful state intervention in the local economy in these nations. I support this argument with a cross-national regression analysis involving 20 developing nations, 8 from the Asia-Pacific region and 12 from Latin America. I chose these two regions because they are the most dynamic newly industrialized nations with a commitment to economic development. Moreover, the contemporary theoretical debate about development theory focuses on these regions. By

using various indicators of distributional coalitions and state strength, the findings of this study generally support the hypothesis that rapid economic growth is associated with weak distributional coalitions and strong state intervention. However, an interaction model reveals that state intervention is negatively correlated with economic growth in countries where a dense network of distributional coalitions is present. This finding, however, cannot be construed as an uncritical support for a minimalist government because the state plays a crucial role in overcoming structural constraints, and constructing stable institutional and legal frameworks in developing countries. What is important for a sustained economic growth in developing nations is the elimination of special-interest groups in the form of patron-client networks between political and economic elites.

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CHAPTER ONE: INTRODUCTION

The study of economic development is one of sociology's mainstay. This process, identified as the 'great transformation', was initiated by the Industrial Revolution in late-eighteenth century England, and was accompanied by a rapid development of the factory system, concentration of population in urban areas, and growth of bureaucratic state activities. The effects of the transformation later diffused to other parts of Europe, then North America, and subsequently most of the rest of the world.

Although industrialization and economic development improved the overall living standards of many populations, the world is still marked by extreme inequality and poverty. For example, while the world gross domestic product (GDP) in 1988 amounted to approximately US$17,900 billion, countries belonging to the Organization for Economic Co-operation and Development (with only one-sixth of the world population) accounted for over 78% of this total (Samuelson 1990, p.30). The average GDP per capita in 1988 for OECD countries was US$17,097 compared with less than US$2,200 for the rest of the world. People in countries such as Ethiopia and Somalia are even deprived of basic necessities. Among the less developed countries, only a few have creditable records of sustained economic development, and thus have been identified as newly

industrialized countries (NICs); among these, the economic development of the four Asian newly industrialized countries, namely Hong Kong, Singapore, South Korea and Taiwan, stand out.

Tables 1.1a and 1.1b summarizes the socioeconomic performance of the 20 newly industrializing countries analyzed in this study. Between 1965 and 1990, the average GNP per capita growth rates of the "Four Little Dragons" were over 6 per cent. Moreover, the rapid economic growth of the four ANICs does not come in tandem with rising national debts. For example, despite heavy borrowing to finance its industrial projects, the export performance of South Korea more than compensates for repaying outstanding debts and interests. In 1991 the total debt as a percentage of GNP was just 14.4% for Korea, compared with 66.4% for Indonesia, 69.3% for the Philippines, and 61.7% for Argentina. The economic performances of the ANICs are also matched by greater social equality, as indicated by the three social indicators in Tables 1.1a and 1.1b: infant mortality, calorie supply, and secondary school enrollment ratio. Chan (1987:138) contends there is an upper limit to which the elite can consume welfare goods like education and health, while the extent to which an elite can monopolize wealth is less subject to an upper limit. It is thus reasonable to agree that the relative abundance of such welfare goods provides a valid indication of social

equality. As noted in Tables 1.1a and 1.1b, the four ANICs have a better performance on these three social indicators than other developing nations. This suggests that economic growth benefits the general populations of the four ANICs.

This study seeks to study why economic growth in other developing nations is faltering, whereas the ANICs are capable of maintaining sustained economic growth. Understanding the causes of economic growth is important as economic growth and development are still central in determining not only physical quality of life, but also quality of sociopolitical life, such as the degree of democracy and human rights. For instance, Lipset (1957; 1993) maintains that economic growth and a nation's level of economic development are positively correlated with the degree of democracy. The recent democratic developments in South Korea and Taiwan demonstrate that economic growth is one necessary, even if insufficient, condition for improvement in sociopolitical life. Furthermore, slow economic growth and growing unemployment have recently become major problems in developed nations as well. Policies to rejuvenate the economy draw widespread public attention and have been transformed into political debates and propaganda. In short, assessing the causes of economic growth is not purely an academic concern, but also a major issue in today's socioeconomic agenda.

Mancur Olson's theory of distributional coalitions (1982)

makes an important contribution in understanding the differential growth rates among nations. By locating the causes of economic growth and decline in the institutional fabric of society, the essential argument of his theory is that distributional coalitions, or special-interest groups, bring about economic decline by pushing minority interests at the expense of the whole society. Using Olson's theory as the focus of this study, my objectives are: 1) to examine how relevant his thesis is for the economic development of developing countries in the Asian Pacific-rim area and Latin America, and 2) to expand his thesis by linking his ideas on distributional coalitions with the role of the state in economic development.

PLAN OF STUDY

This study consists of two interrelated analyses: 1) regression analyses of economic growth on distributional coalitions and state intervention; and 2) case studies of particular nations that examine various social conditions and their relationship to the state. In Chapter 2 I review the theoretical issues of modernization, dependency, statist and Olson's theories, with passing references to Asia-Pacific economies.

In most quantitative cross-national research, insufficient attention is given to the measurement of

variables. Yet, it cannot be overemphasized that the quality of any findings depends mainly upon what is put into the model---the procedure of measuring abstract concepts---otherwise the results are scientifically doubtful. Chapter 3 provides an overview of methodological issues of subsequent research on Olson's theory. Based on the strengths and weaknesses of these studies, Chapter 4 provides a detailed operationalization of concepts used in this study and makes explicit some underlying assumptions. Chapter 5 presents the findings of this study. The analysis starts with a simple bivariate regression model, and subsequently adds a control variable and a multiplicative term.

Chapter 6 discusses the findings and analyzes the relationships between the state, societal pressure groups, and economic growth in historical terms. By dividing the twenty nations into a two by two typology according to economic growth rates and strength of distributional coalitions, I can highlight some commonalities among nations in the same categories. Even though the primary aim of this study is to examine how internal factors---domestic interest groups and the state---affect economic growth, we cannot ignore the opportunities offered and constraints imposed by the international environment in affecting development patterns. Therefore, in Chapter 6 I also attempt to explain national economic growth by considering some external factors, such as

the geopolitical position of East Asia, and world economic restructuring. In Chapter 7, I conclude by suggesting some areas for further study, contemplating policy implications, and finally, considering the relevance of this study for sociological theories of development.

Table 1.1a Summary of Socioeconomic Performance of Asia-Pacific Countries

Countries	Average GNP per capita growth rate between 1965-1990	GNP per capita in 1990 (US$)	Infant mortality rate (per 1000) in 1990	Daily calorie supply (per capita) in 1989	Secondary students 1989 (% age group)	Total External Debt (% GNP)
Asia-Pacific	**5.3**	**5235**	**23.0**	**2765**	**65**	**38.5**
Hong Kong	6.2	11490	6.6	2853	73	n.a.
Korea, Rep	7.1	5400	17.1	2852	86	14.4
Singapore	6.5	11160	6.6	3198	69	n.a
Taiwan	8.65[a]	8788[b]	5.0[b]	3003[c]	86[d]	0.4[b]
Indonesia	4.5	570	61.2	2750	47	66.4
Malaysia	4.0	2320	15.9	2774	59	48
Philippines	1.3	730	40.8	2375	73	69.3
Thailand	4.4	1420	27.2	2316	28	32.6

[a]This figure of Taiwan refers to real GDP growth rate between 1971-1990.
[b]1991 [c]1988 [d]1990.

Sources:
Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries 1991; World Bank, World Tables 1992, World Development Report 1992, Far Eastern Economic review, Asia 1994 Yearbook: A Review of the Events of 1993.

Table 1.1b Summary of Socioeconomic Performance of Latin American Countries

Countries	Average GNP per capita growth rate between 1965-1990	GNP per capita in 1990 (US$)	Infant mortality rate (per 1000) in 1990	Daily calorie supply (per capita) in 1989	Secondary students 1989 (% age group)	Total External Debt (% GNP)
Latin America	**1.3**	**1880**	**38.0**	**2646**	**59**	**69**
Argentina	-0.3	2370	29.1	3113	74	61.7
Brazil	3.3	2680	57.5	2751	39	25.1
Chile	0.4	1940	16.5	2581	75	73.5
Colombia	2.3	1260	37.4	2598	52	44.5
Costa Rica	1.4	1900	16.5	2808	41	69.9
Dominican Rep	2.3	830	55.9	2359	n.a.	63.3
Ecuador	2.8	980	54.8	2531	56	120.6
Mexico	2.8	2490	39.2	3052	53	42.1
Panama	1.4	1830	20.8	2539	59	154.7
Peru	-0.2	1160	69.3	2186	67	58.7
Uruguay	0.8	2560	20.6	2653	77	46.9
Venezuela	-1.0	2560	33.9	2582	56	71

Sources:
World Bank, World Tables 1992, World Development Report 1992.

CHAPTER 2: LITERATURE REVIEW OF THEORETICAL ISSUES

The economy figures prominently in the writings of many influential sociologists including Karl Marx, Max Weber, Joseph Schumpeter, Talcott Parsons and James Coleman. However, sociological contributions to understanding economic development has not realized their full potential. Until recently, modernization theory and dependency/world system theory dominated the sociology of development. Yet with the dethronement of these two dominant paradigms, there is a theoretical vacuum in today's literature. A number of observers see the situation of development theory as an impasse (Booth 1985; Kay 1993; Sklair 1989; Vellinga 1993). Part of the reason for this sterile intellectual effort in a supposedly dynamic area is the highly specialized academic division of labour. Sociologists are reluctant to explore economic issues which are deemed to be the privileged area of economists (Swedberg 1990). However, analyzing the economy does not necessitate prioritizing economic factors over non-economic ones. As I discuss below, in most cases economic factors are not the only causes of economic growth. In short, "economics is too important to be left to the economists" (Coleman, from Swedberg 1990, p.332).

This chapter provides a brief overview of modernization and dependency theories. Examination of these two conventional approaches can be found in most standard

textbooks (Harrison 1988, So 1990, Webster 1984). My focus is on the statist approach and Olson's theory. A synthesis of these two approaches hopefully will lead to a fuller understanding of economic growth and development.

MODERNIZATION THEORY

Modernization theory dominated the earliest postwar analysis of Third World economic development[1]. One essential argument of this approach is that obstacles to development come from traditional structures and human attitudes: overpopulation, traditional cultures and social structures, a lack of modern values supporting capital accumulation, and limited motivation for achievement (Harrison 1988; So 1990). The solution to the problem is to break free from these "traditional" obstacles. Once started, the process of a self-sustained economic growth is assured (Hettne 1983, p.248). The modernization school adopts an evolutionary perspective assuming that developing nations will follow the same stages of growth as advanced nations. It also assumes that economic development is "cumulative," and "irreversible," and a

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[1] From an analytical point of view it is necessary to distinguish between "development" and "growth". The former embraces transformations in the economic and industrial structures, social differentiation, and general improvement in living standard, whereas the latter simply means the quantitative change in aggregate physical output without reference to changes in the structure of the economy or in the social institutions. In this paper, it is assumed that a self-sustained economic growth will automatically be followed by structural changes, and hence the difference between development and growth will disappear once the economy reaches a higher stage of development.

technical matter. This intellectual underpinning provided justification for foreign monetary and technological assistance that was believed to benefit developing countries by accelerating their tempo of growth (Hettne 1983, p.248).

DEPENDENCY THEORY

By the end of the 1960s, the chronic problems of Latin American economic development challenged the modernization thesis, and a new theoretical paradigm, dependency theory, emerged (Evans 1985; Harrison 1988; Islam 1992; Webster 1984). One of the earliest proponents, Andre Frank, argued that the developing nations would not follow the development trajectory of the West because of distortion caused by the metropolis exploitation (developed nations) of the satellites (developing nations):

> ..the metropolis expropriates economic surplus from its satellites and appropriates it for its own economic development. The satellites remain underdeveloped for a lack of access to their own surplus...(Frank 1967 p.13, quoted from Taylor 1979, p.84).

According to the dependency perspective modern capitalism incorporates the rest of the world into a hierarchically ordered economic system of dominance. Developed nations manage to maintain and exploit an advantage over less developed nations through trade, investment, aid, and appropriated surplus value. Consequently, development in the core is the direct result of underdevelopment in the periphery

(Harrison 1988; Islam 1992, p.73; Whiteley 1983, p.200). Thus, economic exchanges, as well as power relationships, among nations are unequal. Development and underdevelopment are regarded as two sides of the same coin. Genuine development occurs only after the severance of exploitative relationships with Western nations (Harrison 1988, p.151).

However, by putting the blame of underdevelopment on the unequal international system, classical dependency theory ignored the importance of internal sociopolitical situations in shaping development pattern. In "new" dependency studies (Evans 1985, 1987), exogenous forces are no longer the sole focus. Instead, new dependency theory adopts a historical-structural methodological approach by emphasizing how internal political and class structures interact with exogenous forces in shaping and development pattern (Webster, 1990, p.95). This new wave of dependency theory argues that dependent development is possible under the triple alliance formed by the state, foreign and domestic capitalists. This type of alliance has the common purpose of capital accumulation, but is subject to the "constant tension of competition and collusion" among the major partners (Haggard 1990; Islam 1992). Development is dependent in the sense that the underlying interests dominated by the transnational corporations (TNCs) have an undue influence on development pattern. Even though an active state in the triple alliance plays a crucial part in pushing a nation from classical

dependency to one of "dependent development," the interests of private capital, both domestic and foreign, predominate. This happens when TNCs collaborate with the interests of domestic capitalists in influencing the state either to implement policies favourable to their accumulation or to oppose policies threatening their interests. Therefore industrial structure is uneven and the economy is characterized by inequality.

STATIST PERSPECTIVE

In the 1980s, the sustained economic growth in Asian Pacific-rim nations finally caught the attention of Western social scientists (Hicks 1989). Despite the heavy dependency of the "Asian Four"-- Hong Kong, Korea, Singapore and Taiwan-- on developed nations in terms of trade and aid, the Asian Four were able to industrialize themselves, and become pivotal exporters in the world trade. The material standard of living of these nations continues to improve and income distribution is relatively equitable (Berger 1986, pp.150-153). Empirical data from Asian newly industrialized countries (ANICs) illustrate the inadequacy of dependency theory in explaining economic development in the Asian Pacific region.

In the same way that developmental problems of Latin American countries challenged modernization theory, the success stories of the four ANICs call into question the validity of the dependency perspective. Obviously, the four

ANICs are small nations with meager natural resources. Their economic development depends entirely on exporting semi-finished and finished products to a few nations, especially the United States. Their entry into the world economy was largely on terms laid down by the developed nations. The experiences of ANICs, together with Japan, vitiate dependency theory because it cannot explain how, despite heavy dependency on foreign markets and foreign financial assistance (especially military aid), these nations were able to move up in the international system.

To explain the experiences of ANICS, there was a surge of literature in the mid-1980s attributing their successes of to the presence of a strong state (Islam 1992, p.70). Conceptual terms, such as "developmental states" (Amsden 1989; Castells 1992; Johnson 1985; White and Wade 1988), statism, authoritarianism, and "bureaucratic-authoritarian industrializing regimes" (Cumings 1984) denote this change in theoretical perspective. One central tenet of the "statist perspective" is that the state can play a strategic role in surmounting the obstacles of late development by "taming domestic and international market forces and harnessing them to national ends" (Onis 1991, p.110). The obstacles of late development include a weak class of entrepreneurs, conflicting economic interests among various societal groups, and a whole list of institutional and socioeconomic factors such as capital shortage, technological backwardness, and an

incomplete legal framework. Unlike the pioneers of industrialization, late developers also face problems of competition from developed nations. To catch up with the developed nations, the state of late developers may play a central role in pushing forward industrial and economic reforms. To achieve this, a developmental state should possess two features: (1) autonomy from societal forces, and (2) capability to implement economic policies effectively (Koo and Kim 1992, p.121). Both features are prerequisites for successful strategic industrial policies that allow states to selectively encourage strategic sectors of their economy and apply disciplinary measures to entrepreneurs to ensure that they comply with national goals.

The statist approach can be situated in a broader paradigmatic shift of a "return to the state" in a general theoretical framework espoused by a number of theorists (Block [1977] 1993; Evans, Rusechemeyer, and Skocpol 1985; Hamilton 1982; Skocpol [1979] 1993; Mann [1988] 1993). Of course there is no such thing as <u>the</u> statist theory, and different analysts theorize the state from different perspectives. Nonetheless, most theorists assume that the state cannot be reducible to a passive register of social forces, as in the case of pluralist theories, nor to the mode of production as in Marxist theories. Instead, they maintain that the state should be treated as an independent variable helping to explain socioeconomic phenomena.

In addition, the new strand of dependency theory has also paid serious attention to the complex relationships between the state, transnational corporations, and domestic capitalists in shaping the pattern of national economic development. It is not difficult to draw on the insights of both dependency theory and the statist perspective, arguing that economic development of a country hinges on the capability and strength of the state in manipulating the constraints of the global economy to its own advantages.

However, one weakness of this "strong state" approach in explaining successful economic development is that the number of cases analyzed is small. To date, only Japan, Taiwan, Korea, and Singapore support the developmental state model. Hong Kong, which follows laissez-faire principles, presents an exception to the model. Besides, the role of the state in guiding nations toward a breakthrough from conditions of poverty and underdevelopment is not a new idea. After WWII, many developing nations planned their development according to a state-imposed master plan. According to Eisenstadt (1957), in many developing countries "the state plays a fundamental role in economic development and constitutes one of the basic factors influencing this development." For instance, during the Sukarno era, the Indonesian government established the Council of National Planning responsible for developing and coordinating national development plans. This Council was given the political position of a high level advisory board

responsible only to the President (Kroef 1958, p.417). A similar Economic Planning Board was established in South Korea in 1961 after Park Chung-Hee's succession to power (Whang 1991, p.86-87). Therefore, the mere presence of a similar institution or an authoritarian state does not ensure positive economic results. Paradoxically, authoritarian regimes have been held responsible for both the successes and failures of developing countries. Thus, a deeper understanding of the state's role requires us to take into account the domestic social structure of developing countries. This concern leads us directly to Olson's (1982) theory of distributional coalitions.

THE OLSON THESIS

In a controversial book Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities, Mancur Olson (1982) tackles the fascinating question of why a nation manages to develop its economy rapidly in an initial period but then stagnates and subsequently declines. To understand this question, Olson distinguishes between "causes" of growth and "sources" of growth. For Olson, conventional explanations of economic development such as high savings and investment rates, a well-disciplined and hard-working labour force, good infrastructure and other factors of production belong to the sources of growth. These factors account for how economic growth and development occur, but do not trace the sources of

growth to their root causes, nor can they explain why one society or period has higher capital accumulation, more innovation and a more motivated labour force than other societies or other periods. Thus these factors cannot be the "ultimate" causes of growth.

Olson contends that the "causes" of economic growth can only be understood by examining a society's sociopolitical structure. More precisely, one fundamental, if not the fundamental, cause of economic growth/slowdown is rooted in the growth-retarding effects of distributional coalitions or special-interest groups. These include business associations, labour unions, professional associations, farmers' associations and other parochial self-seeking interest groups (even without formal organization). Before explaining the effects of special interest groups on economic growth, a proper understanding of how collective action emerges from Olson's perspective is necessary.

Emergence of distributional coalitions

Starting from a rational assumption about human behaviour, Olson's logic of collective action sees the mere presence of common interest among a group of actors, individuals, or corporations is an insufficient condition for organizing collective action (1982:17). Olson observes that if an individual acts in the interest of a group that she/he belongs to, the resultant outcome is a "collective good" that

is shared among all in the group. It is precisely because the benefits of a collective good are available to everyone in the group no matter whether he/she contributes or not, that organizing collective action is difficult and problematic, particularly for large groups such as labour, consumers, the poor, and the unemployed. The larger the group, the smaller the share of benefits to an individual actor, and hence the less incentive for an individual to contribute voluntarily to the group interest (p.19). This costs and benefits calculation of actors explains why special-interest groups for the unemployed, the poor, taxpayers, and consumers rarely exist.

By the same token, small groups or oligopolists are more successful in acting collectively and can organize faster than large groups (p.41). Members from small groups, such as those in the same profession and oligopolistic corporations can enjoy a larger share of collective goods from their groups, and consequently they have more incentive to organize. This explains why traditional or semi-skilled craftsmen, not the more numerous semiskilled factory workers, were the first to unionize in the nineteenth century Industrial Revolution.

Olson also argues that organizing collective action, especially for the first time, is not easy even for small groups. The difficulties involve special start-up costs, such as fear of and resistance to the unfamiliar. Furthermore, organizing collective action requires favourable

circumstances, such as a strong leadership, and special incentives (e.g., oppressive forces). Hence, collective action for both small and large groups takes a long time to emerge and develop strength (p.39). Olson notes, however, that unless there is a major sociopolitical turmoil, coalitions tend to last, even if their original purpose is gone. Therefore, a web of distributional coalitions accumulates in society over time (p.40). This point is important because, as I discuss in detail in Chapter 3, "time" plays a large part in operationalizing the concept of special-interest groups in Olson's empirical study.

Why are distributional coalitions inefficient to a whole society?

After laying down the logic of collective action, Olson continues his analysis arguing that the purpose of distributional coalitions is to increase its members' gains. Generally speaking, distributional coalitions, particularly those related to economic activities, can benefit from an efficient and prosperous economy. Therefore, one way to pursue the interests of a distributional coalition is to make the economy, or the whole society, more productive so that every member of society can benefit (1982:41). However, this requires that a special-interest group bears all the costs of organizing collective action, while the benefits accrue to all members in society (p.43). Needless to say, this method is less likely to be pursued by special-interest groups.

An alternative, more expedient way for a coalition to serve its interests of involves "obtaining a larger share of the society's production for the organization's members" (p.42). According to Olson, special interest groups which follow this course will use two appraoches to further their own well being: (1) lobbying the state to adopt policies that, though inefficient for the society as a whole, are advantageous for them (p.37); and (2) fixing prices, limiting supply, and restricting entry and competition in order to get a larger slice of the pie. Because members of a coalition get most of the gain from redistributive legislation[2], while all societal members share the loss in economic efficiency, the interests of distributional coalitions are best served by simply grabbing a larger share of the society's production.

As explained above, some groups are relatively easier to organize than others; therefore such coalitions have a greater influence on passing policies favorable to them at the expense of the unorganized masses. As noted by Mueller (1983:274) economic growth is different from redistribution "in that all citizens can potentially be made better off from the growth in output of public or private goods, while only some are made better off from redistribution". By diverting resources to redistribution, distributional struggles do not generate income, and thereby reduce the aggregate income of a society,

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[2] Redistributive policies usually appears under the guise of special regulations, price supports, tariffs and quotas, tax relief, and directed expenditure programs.

and limit resource allocation efficiency (Olson 1982, p.47). Furthermore, states Olson, distributional activities will change the pattern of incentives in society (p.43). Instead of enhancing competitiveness and increasing productivity, efforts are spent on lobbying, obtaining favourable policies, and restricting entry. By inhibiting society to use resources efficiently and adopt new technological processes, distributional coalitions retard production levels and economic growth. In addition, distributional struggle is a zero-sum game; that is, one's gain is another's loss. When distributional issues become politicized, political life becomes more divisive and society ungovernable (p.47). In short, as the influence of interest groups grows, society's capacity for adaptability and growth declines. According to Olson:

> Distributional coalitions slow down a society's capacity to adopt new technologies and to reallocate resources in response to changing conditions, and thereby reduce the rate of economic growth (p.74).

Another contribution by Olson is the idea that a nation will accumulate a network of interest groups when it enjoys a long period of political stability. Since organizing collective action is time-consuming, the longer a nation enjoys stability, the more likely collusive coalitions will form. Conversely, political and social upheavals tend to undermine the strength of these coalitions. These upheavals include wars, revolutions, and foreign occupations. By undermining the web of established distributional coalitions,

these destabilizing events pave the road for rapid economic growth. However, political stability over a long term enables these coalitions to reestablish themselves and pull back the pace of economic development. Olson refers to this process of accumulation of distributional coalitions as "institutional sclerosis". He attributes the economic decline of Britain and the U.S.A. to the collusion of these interest groups. Similarly, the postwar economic developments of Germany and Japan are due to the destruction of distributional coalitions during WWII. This account generates the testable hypothesis that: "the longer an area has had stable freedom of organization the more growth-retarding organizations it will accumulate; states that have been settled and politically organized the longest ought, other things being equal, to have the lowest rates of growth" (p.98).

In his bivariate analysis of the changing economic growth rates of 48 states in the United States, Olson uses the time elapsed since their admission to the Union, or in the case of Confederate states, since the end of the Reconstruction in 1865 as a proxy for the strength of distributional coalitions[3]. His results show that newer states in the south and southwest generally grew faster than older states in the northeast. These differential growth rates are attributed to differences in the strength of distributional coalitions which

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[3] See Chapter 3 for a more detailed discussion of Olson's operationalization procedure.

accumulated more in older than newer states (pp.92-117).

Comments

Olson's thesis of economic growth consists of two components: the "invisible hand" of market mechanisms and distributional coalitions. The rent-seeking behaviour of the latter distorts the functioning of the market and undermines efficiency in resource allocation. Once these special-interest groups are destroyed, the market returns to its normal efficiency in allocating resources. The implication of this model is that once non-economic factors are removed, there exists no analytical relationship between the economy and the sociopolitical sphere (Bowles and Eatwell, 1983, p.221). Rather than being embedded in the larger sociopolitical context, the economy is a closed system subject to occasional shocks from other non-economic systems. Growth occurs through the removal of these non-economic shocks from the economy, and a natural working of the market.

Such a model renders Olson incapable of dealing with the ongoing complex relationships between economic and sociopolitical spheres, other than the effects of distributional coalitions. Indeed, constrained by his neoclassical stance, Olson fails to make full advantage of his insight into distributional coalitions. Being one variant of public choice theory, Olson's model proposes that state intervention creates 'rents' which induce organized interest

groups to subvert government policies in order to capture the rents (Islam 1992, p.71). Though Olson scarcely details the character of the state, it is obvious from the above discussion that he does not take seriously the role of the state as an independent actor. He focuses exclusively on how distributional struggles impede economic growth, and sees the behaviour of the state only in terms of its interplay with distributional coalitions that struggle to ensure their preferences. Therefore, the role of the state is undertheorized in Olson's theory[4]; the state merely serves as "a passive registrar of the expressed interests of organized groups" (Cameron 1988, p.564). For Olson, the best state is one that intervenes the least, and free trade is a means to undercut distributional coalitions:

> An economy with free markets and no government or cartel intervention is like a teen-aged youth; it makes a lot of mistakes but nonetheless grows rapidly without special effort or encouragement (Olson 1982, p.179)

However, the active role played by the states of Japan, South Korea, Singapore, and Taiwan in promoting economic growth points to a different conclusion. Only willing to view the postwar economic developments of Germany, Japan, and the ANICs as the results of destruction of distributional coalitions, Olson fails to acknowledge that the markets of

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[4] In a latter article, Olson (1990) refers to research done by other analysts, and contends that there is no adequate empirical evidence to support any association, positive or negative, between government spending or transfer payments and economic growth.

some Asian economies are also highly protected and that state intervention is pervasive (Olson 1982, pp.150-152). Thus, one major shortcoming of Olson's theory is that he ignores the complex interaction between interest groups and the state, and as a result, his analysis may end in partially erroneous explanations (Cameron 1988, p.564; Lehner, 1983, p.203; Wallis and Oates 1988, p.398). By emphasizing the negative effects of state intervention, Olson neglects the wide range of state actions that can be conducive to development. As the experiences of South Korea, Taiwan and Singapore demonstrate, the state can act as a centralized coordinator in facilitating economic development (Deyo 1987).

The contradictory experiences of state intervention in ANICs and other less developing nations raise one important question: under what conditions is state intervention more likely to be conductive to economic growth? One possible answer is to combine Olson's theory of distributional coalitions with the statist approach. Even though Olson's neo-classical stance and his emphasis on market forces starkly contrasts with the statist approach, the distributional coalition-centered perspective of Olson's theory and the state-centered perspective of the statist approach can indeed complement each other. The former focuses on society, emphasizing the growth-retarding forces of special-interest groups, and sees the state as an arena of distributional struggle, while the latter pinpoints the state as a growth-

promoting force, and treats it as an independent actor with its own concerns and preferences (Skocpol 1979). From this, we can expect that in countries where the strength of coalitions is weak, the state is relatively free from distributional pressures, and is more likely to ensure compliance from its population. Hence the state can mobilize its resources in guiding the economy, and is able to implement coherent policies. By contrast, in countries plagued by a dense network of coalitions, the state is consistently under distributional pressures and is less likely to implement coherent policies due to conflicting demands from different interest groups. Hence, integrating the statist perspective with Olson's theory of coalitions, we can consider more complex and ongoing interactions between the state and distributional coalitions, and can possibly produce a better explanatory model of economic development. Accordingly, my synthesis generates the following two hypotheses:

1) Countries with strong distributional coalitions tend to have slower economic growth than those with weak coalitions.

2) State intervention tends to have a negative effect on economic growth in countries with strong coalitions, but state intervention promotes economic growth rates in countries with weak distributional pressures.

CONCLUSION

Intuitively, the factors involved in the process of

development are many, yet the task of social science is to identify general regularities in seemingly unrelated processes among different nations. We should neither accept "iron laws" nor submit to the view that peculiarities are so large that general theory is impossible (Gunnarsson, 1985, p.190). Any well-founded theory is based on generalizations from empirical observations, otherwise the theory is no more than a speculation. The validity of empirical research, in turn, depends upon whether methodological issues are treated seriously and appropriately. Therefore, in order to build a firmer foundation to test the hypotheses of this study, the next chapter examines some methodological issues in previous empirical research on Olson's theory, paying particular attention to measurement problems.

CHAPTER THREE: METHODOLOGICAL REVIEW OF OLSON'S THEORY

According to Sullivan and Feldman (1979:9), quantitatively-oriented social scientists are simultaneously working in "two related but analytically distinct spheres"--theory and research. One the one hand, social scientists have to develop abstract theories or concepts to explain specified phenomena of interest. On the other hand, they have to test their abstract theories using observable empirical data. These empirical data are commonly referred to as indicators of the underlying abstract concepts. Indicators are measurable and quantifiable. The process of assigning numbers to underlying concepts according to rules is referred to as measurement (Carmines and Zeller 1979, p.9; Blalock 1982, p.11).

The construction of reliable and valid indicators of abstract concepts is the stepping stone to successful theory building and research. Without precise measurement, social scientists are unable to test their theories; untested theories then remain speculative rather than scientifically verified statements. In other words, social research cannot progress until it attends seriously to the question of measurement. However, despite the acknowledged importance of good measurement, researchers casually, and more or less arbitrarily, associate abstract concepts with indicators whose reliability and validity are assumed rather than subjected to rigorous assessment (Bailey 1988, p.117). Hence, there exists

an asymmetric condition of "ritualistic concern but lack of systematic attention with regard to measurement" (Carmines and Zeller 1979, p.9).

In view of the above concerns, this chapter provides a review of methodological issues of past research on Olson's theory. I begin by examining Olson's original research, and then proceed to discuss other studies of Olson's theory (See Appendix for a summary of all studies examined).

METHODOLOGY OF OLSON'S EMPIRICAL STUDY

Olson tests his theory with data on 48 states in the United States for the period since 1965 (1982:98-99). He argues that earlier periods are biased because of frontier effects like the California gold rush, and rural depopulation in some newly settled states due to the agricultural depression in the 1920s and the dust bowl in the 1930s.

In his analysis, Olson uses three indicators of distributional coalitions: years since statehood, adjusted for the Civil War, the level of urbanization in 1880, and union membership as a percentage of employees in nonagricultural establishments in 1964 and 1970. In order to control for the catch-up hypothesis[5], Olson (pp.115-116) introduces two measures: deviation of per capita income from the average 1965 private nonfarm income and form the 1965 labour and

[5] The catch-up hypothesis states that countries with low initial income per capita tend to grow faster than countries with high initial income.

proprietors' income. He then uses five indicators of his dependent variables: total and per capita growth rates of manufacturing income in 1965-1978, private nonfarm income in 1965-1978, labour and proprietors' income from all sources in 1965-1980, total personal income in 1946-1978, as well as value added by manufactures in 1947-1977 and 1947-1963.

One merit of Olson's methodology is his use of multiple indicators to measure the concept of distributional coalitions. As well, he uses different combinations of independent and dependent variables in a series of bivariate regression equations. Olson's statistically significant results support his argument about the negative effect between distributional coalitions and economic growth. He also estimates a series of regression equations between level of unionization and urbanization, and between unionization and years since statehood adjusted for civil war. The results suggest that unionization is highest in the states that enjoy stability the longest, and that urbanization in 1880 has a statistically significant relationship with unionization in 1964 and 1974 (1982:105-106). These findings point to the existence of significant relationships among the indicators used, and support their validity in measuring distributional coalitions.

My major comment about his methodology is his imprecise

conceptualization of the concepts of "upheaval", "turmoil[6]" and "instability." Admittedly, Olson gives an insightful account of economic growth, but because of the difficulty in measuring the strength of distributional coalitions, Olson resorts to "time since the last turmoil" as a proxy of the strength of interest groups. Olson argues that these coalitions become more entrenched and influential over time. Thus the relationship between time since the last turmoil and economic development lies at the heart of testing Olson's theory.

Despite the importance of upheaval or turmoil in Olson's theory, the conceptualization of this term is the most neglected part of the theory. Olson uses a lot of space in explaining the formation of distributional coalitions, their effects on the economy, and why "old" nations have slower growth rates. As well, he does identify the types of events that qualify as "upheavals". These include foreign occupations, totalitarian governments, revolutions, defeated wars, militaristic regimes, ideological divisions, civil wars, and racial turmoil and discrimination (as in the ex-Confederate states) (Olson 1982, p.75-77; p.97). However, in his empirical test of the United States, he only mentions that the Civil War, the occupation of the South by federal states, and Reconstruction are major turmoils that have had

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[6] Hereafter, I use the terms "turmoil" and "upheaval" interchangeably.

detrimental effects on the formation of special interest groups. Thus he exculdes other destabilizing events, such as the involvement of America in two World Wars, the Korean War, the Vietnam War, the 1930s Great Depression, and the Civil Rights Movement in the 1960s are barely mentioned. Frequently, Olson uses the term "instability" rather casually to denote all destabilizing events:

> ...those organizations for collective action, at least for large groups, that can emerge often take a long time to emerge, but once established they usually survive until there is a social upheaval or some other form of violence or instability (p.40).
>
> There cannot be much doubt that totalitarianism, instability and war reduced special-interest organizations in Germany, Japan, France, and that stability and the absence of invasion allowed continued development of such organizations in the United Kingdom (p.79).

In short, Olson expresses his idea about what constitutes a turmoil by historical illustrations rather than by establishing criteria that can be objectively applied to other countries.

Given his ambiguous conceptualization, Olson may be accused of manipulating the meaning of upheaval to suit his argument. Whenever there is a rapid economic growth, Olson attributes it to a former turmoil that toppled the distributional coalitions. Similarly, whenever there is a lack of economic growth, the cause is either stability or that the turmoil was not severe enough. For example, Olson argues that since institutional destruction and Allied occupation

were less severe in Italy, the postwar economic growth was accordingly shorter (Olson 1982, p.76). Given the lack of precise measurement of upheaval, readers are unable to make an objective judgement concerning the validity of this claim.

The list of turmoils that Olson identifies might be adequate for the United States, but this generates difficulties in replicating his test on other nations. When testing Olson's theory in developing nations, one encounters a bewildering array of political events: colonizations, invasions, occupations, independence wars against colonial rulers, civil wars, coups d'etat, revolutions, dictatorships, cessionalist movements, assassinations, plunders, riots and demonstrations. Should we treat all these events as upheavals? Aside from the list of events that he identifies, Olson provides no guideline for this question. This is an important point, because Olson clearly does not want his theory to be applicable only to the United States or democratic nations.

Olson (1982:77) claims that democratic nations that do not experience major upheavals suffer the most from the growth-retarding effects of distributional coalitions, yet he clearly intends his theory to have universal explanatory power applicable to non-democratic nations as well. First, Olson (1988:59) support his thesis with historical examples such as the growth of Germany after the Zollverein and national unification in the middle of the nineteenth century, and Japan

after the Meiji revolution of 1867-68. The recent rapid economic growth of the Asian newly industrialized nations is also used by Olson to support his argument. Clearly, the nations concerned were, and some of them are still, authoritarian and non-democratic. Thus, Olson intends his thesis to be a general theory of economic development. More important, it is not democratic stability <u>per se</u>, but institutional stability that permits accumulation of distributional coalitions over time (Weede 1984, p.52). It is quite possible that Communist or developing nations with authoritarian governments suffer from the same negative effects of distributional coalitions as advanced democratic nations. Olson also states that the development of coalitions does not have an intrinsic relation with a government's coerciveness (Olson 1982, p.148). Therefore, it is essential to clarify and operationalize the concept of upheaval in order to test Olson's thesis in cross-national research. As Pryor (1987:223) points out:

> Olson illustrated most of his propositions by examples and did not discuss in detail how his ideas could be tested empirically in a systematic fashion. This has raised problems for those who have tried to follow up and develop some of his themes.

Before presenting my operationalization procedure, I first review some previous quantitative studies of the Olson theory (see Appendix) to determine how other analysts have addressed the problem of measurement.

EMPIRICAL TESTS OF OLSON'S THEORY

Unfortunately, few studies that test Olson's theory operationalize the concept of upheaval or turmoil. Instead, they simply mention the types of upheavals they define as having negative impacts on the growth of interest groups. For example, three studies (Garand 1992, Nardinelli, Wallace & Warner 1987, and Wallis and Oates 1988) that test Olson's hypothesis in the 48 American states fail to give a precise operationalization of turmoil, and simply use "age since statehood adjusted for Civil War."[7] The other two indicators used by Olson, level of urbanization and unionization, are not included, nor are reasons given for their absence. Although Wallis and Oates (1988) use level of urbanization, they use it together with the percentage of farm population, "to control for differing growth rates in these particular sectors of the economy" (Wallis and Oates, 1988, p.409). Nothing else about these two variables are mentioned, and why the level of urbanization is not used to measure special interest groups is not mentioned.

Of the 12 studies listed in the Appendix (excluding Olson's original study) five focus on OECD nations (McCallum & Blais 1987; Quiggin 1992; Weede 1984, 1986; Whiteley 1983), and one on both OECD and Eastern European nations (Pryor 1983). Among these studies four support Olson's thesis and

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[7] The other variables in their studies are either used as control variables or indicate the size of the public sector.

two reject it (see Appendix). In contrast to single-country analyses the six tests of Olson's theory that use cross-national data show a greater awareness of the difficulties in operationalization. However, none of the studies provides explicit criteria to operationalize distributional coalitions and turmoil. For instance, Quiggin (1992) uses two measures of stability: frequency of constitutional "shifts" and approximate period since the most recent constitutional shift. Constitutional shifts include revolutions, constitutional changes imposed by foreign powers, constitutional shifts between dictatorship and democracy, jurisdictional integration, and major changes in metropolitarian territorial coverage (Quiggin 1992, p.267-268). The most controversial point is the exclusion of wartime occupation; no explicit rationale is given. Furthermore, although some degree of arbitrary decision is inevitable, Quiggin does not identify the particular shifts he chose by furnishing us with a list of the "shifts" of each nation. As a result, this makes it harder for other researchers to evaluate the consistency of his procedure.

McCallum and Blais (1987) employ two indicators of distribution coalitions: age of consolidation of modernizing leadership adjusted for major turmoil, and unionization. The "age" indicator suffers from the same measurement problem, as there is no discussion on what constitutes a major turmoil. The same criticism also applies to Weede's single indicator of

distributional coalitions--age of uninterrupted full democracy.

Pryor's (1983) study represents a bold and imaginative attempt to measure special interest groups (see Appendix). His four measures are population size, regime type, ethnic heterogeneity, and religious heterogeneity. However, despite his willingness to devise new measures, Pryor fails to establish the validity of the indicators by either correlating them with the conventional one (i.e, age of a nation since the last turmoil) or among each other. Furthermore, his indicators lack precision and are rather crude--three out of four are dichotomous variables. For instance, ethnic heterogeneity and religious heterogeneity can be treated as continuous variables, but Pryor, without sound theoretical reasons, codes them as dichotomies. In short, the validity of his measures are questionable.

Like other studies, Whiteley (1983) uses the age of stable democratic institutions to measure the strength of distribution coalitions. He finds that for some nations, such as Germany and Italy, the concept is relative easy to measure, because democracy was re-established after WWII. But for other countries, such as Britain where full democracy was institutionalized gradually since 1832, or France where there was "traumatic political crisis leading to major constitutional change" in 1958, it is more difficult to decide the exact age of stable democracy. After stating this,

Whiteley says nothing about how to operationalize the concept; instead he relies on "year of current constitution" in the World Handbook of Political and Social Indicators by Taylor and Hudson (1972:26-29), maintaining that this is "the best indicator available of the development of institutional sclerosis" (Whitely 1983, p.205).

To a certain extent, this measure from the World Handbook is a satisfactory indicator of the durability of a political institution. Yet it measures more than what we want because a constitutional change has several dimensions including changes in the method of selection of the chief executive, or in the powers and decision-making procedures of the national government, and can also mean the emergence or disappearance of elites and groups, or a change in prevailing ideology (Taylor and Hudson 1972, p.16). Obviously, there can be a change in the ruling regime, without actually altering the underlying power structure. This happens, for instance, when one regime succeeds the previous one through a coup and thereby changes the constitution, but the social fabric is untouched. Alternatively, a major upheaval can occur without changes in the constitution as occurred in Argentina, Costa Rica, Indonesia, and Mexico.

In Chan's (1987) study of Asian Pacific-rim nations, he devises a trauma rating to measure the strength of interest groups. The rating ranges from 0 to 10; the higher the score the higher the trauma, and hence the weaker the distributional

coalitions. This trauma rating is divided into two components: internally-introduced trauma (0 to 5) and externally-introduced trauma (0 to 5). The former refers to civil wars, whereas the latter involves foreign occupation during WWII. Based on the number of battle deaths and the size of Japanese occupation forces during WWII, Chan then subjectively assigns a score between 0 and 5 for each component for each nation and combines the two scores into one rating (see Table 3.1, p.46).

This subjective rating is not as arbitrary as it first appears because the ratings are based on data rather than impressions. But several ambiguities exist in Chan's ratings. For example, although the number of Japanese occupation troops in China was 1,695,000, the external trauma score is only three, but in Korea and Taiwan which both had a combined size of Japanese occupation forces around 300,000, the score is five and four respectively. For Japan the score is five (see Table 3.1 for details). These complexities arise mainly because Chan implicitly takes into account the duration of Japanese rule for its two ex-colonies, Korea and Taiwan, and Allied occupation of Japan after its defeat.

Chan could possibly remove much of the subjectivity of his measurement, by using the absolute scores for the number of battle deaths and the size of Japanese forces. Then we can independently rank all nations on each measure, and combine the two rankings into an overall score. Actually, I regressed

the overall score obtained by this method on Chan's combined trauma rating; the R^2 was 0.72 indicating a high correlation between the two methods. Consequently, Chan's procedure could be made more replicable.

Another point is that Chan's study does not use "time" of the occurrence of a particular turmoil, but its severity as a proxy of distributional coalitions. This is possible only when a group of nations share similar experiences within a time frame. The effects of a turmoil that happened a hundred years ago are obviously different from a turmoil that happened only a decade before. However, when we want to compare nations from two regions with different histories, the severity of an upheaval is rarely enough; we also need to take into account the time of occurrence.

The final two studies to review are by Goldsmith (1986, 1987). In his 1986 article, Goldsmith uses seven less developed, liberal democratic nations as his sample, and lists the last major turmoil for each nation. No criteria are established for inclusion or exclusion of socio-political events. In contrast, his 1987 article is more sophisticated in addressing the concept of instability than the other quantitative studies. Goldsmith (1987) examines whether chronic instability will decrease economic growth for 77 developing nations. He first divides the time period into time one, 1958-67, and time two, 1968-77; next he constructs a political stability index for each period; finally he uses

the median scores for each index to set up a two by two typology: chronically unstable, destabilizing, stabilizing and consistently stable systems. According to Goldsmith (1987, p.473) the term political stability is a "fuzzy concept despite an extensive literature" (1987, p.473). The only consensus among researchers is that it is a multidimensional phenomenon, and they try to capture the meaning by developing composite measures. Hence, Goldsmith constructs the index by combining four indicators: assassinations, irregular executive transfers, armed attacks, and deaths from domestic political violence.

I find this method of measurement quite satisfactory. Unfortunately these kinds of data are not easily available. Goldsmith's study was published in 1987, but the time period reported ends in 1977. This is probably because the latest issue of Taylor's and Jodice's World Handbook (1983) reports data only up to 1977. Second, Goldsmith is interested in chronic instability rather than major upheavals, thus his study also sheds little light on the operationalization of upheaval.

CONCLUSION

This chapter reviews the operationalization procedures of previous research. In a rejoinder by Pryor (1987:225), he admits that neither he, nor Weede (1986), nor Nardinelli, Wallace and Warner (1987) have done a particularly good job of

operationalization and suggests that researchers be more imaginative in the selection of proxy variables and be "willing to experiment with Olson's ideas in all directions" (Pryor 1987, p.224). Most studies under review suffer from two similar problems: first, the concept of special interest groups and upheaval are not clearly conceptualized and operationalized; second, the majority of studies use only one indicator to measure the strength of distributional coalitions. In view of these two problems, in the next chapter I lay out explicit criteria for a major turmoil and develop multiple indicators of distributional coalitions. Hopefully, this approach will achieve a relatively more objective operationalization procedure, and consequently more valid indicators.

Table 3.1: Chan's (1987) Turmoil Rating for Asia-Pacific Countries

Countries	Military deaths in civil war	Internally-introduced trauma	Japanese occupation forces ('000)	Externally-introduced trauma	Combined trauma rating
Australia	0	0	0	0	0
Burma	8	1	63	2	3
China	1000	5	1695	3	8
Indonesia	30	2	205	2	4
Japan	0	0	N.A.	5	5
Korea, N	520	5	300[a]	4	9
Korea, S	415	5		5	10
Malaysia	5	1	95	2	3
New Zealand	0	0	0	0	0
Philippines	9	1	45	2	3
Singapore	0	0	656	3	3
Taiwan	1000	5	300	4	9
Thailand	1	0	0	1	1

[a]The figure includes both North and South Korea.
Source: adapted from Chan (1987, p.140, Table 1)

CHAPTER FOUR: RESEARCH METHODOLOGY

In the last chapter I argued that a proper test of a theory requires valid indicators. However, in cross-national studies researchers must rely on aggregate data from international agencies or official statistics. These aggregated data are usually collected for purposes other than the particular concerns of researchers. Problems can arise when comparing seemingly equivalent measures collected from different national sources. The definitions that underlie many measures may vary considerably from country to country, and may vary between different time periods (Elder 1976, p.219). For example, economic measures such as GNP per capita frequently are calculated using different base periods over time.

In spite of the limitations of using aggregate data, Johnson and Cutright (1973:378) contend that the issue is not "whether perfect comparability exists" in reported or official data, but instead whether "the degree of error is such that use of the data will lead to faulty conclusions". Actually, measurement error is endemic in all research. As long as varied measures provide consistent results, researchers can be fairly confident that measurement errors are not systematic, and they are not drawing erroneous conclusions (Johnson and Cutright, 1973, p.399). Lipset (1959:77) cautions that although aggregate data may vary in accuracy and there is no way of measuring their validity with certainty, the

consistent direction of these data is the main indication of validity. Previous research suggests that multiple indicators increase our confidence in the validity of measures, and reduce "the impact of the idiosyncratic behaviour of single indicators" (Bollen et al. 1993, p.344). In this chapter, I first present various proxies for the independent variables: special interest groups and state strength. I then deal with some methodological issues concerning the dependent variable: average annual GNP per capita growth rate between 1970 and 1990. In the final section I justify the choice of the research sample used in this study.

INDEPENDENT VARIABLE: DISTRIBUTIONAL COALITIONS

Because of the difficulty in measuring the strength of special-interest groups, Olson uses "time since the last turmoil" as a proxy of their strength. In order to overcome the imprecise conceptualization of the term turmoil, I attempt to develop a set of more objective criteria of turmoil, and hope to obtain a more valid indicator of distributional coalitions.

Olson's measures assume that socio-political upheaval undermines entrenched interest groups. Any conceptualization of socio-political upheaval that uses the consequence---the destruction of entrenched interests---as a criterion is bound to be tautological and renders empirical investigation difficult, if not impossible. Unless socio-political

upheavals are defined independently of the hypothesized consequences, the empirical utility of the concept of socio-political upheaval is limited. Moreover, by manipulating the concept of "turmoil" to explain whenever there is a rapid growth rate leads to the same tautology that exists in Olson's work. However, as Blalock (1989:456) notes, any conceptualization must be partly based on theoretical assumptions and partly on factual data (Blalock 1989, p.456). Therefore, it is impossible to disentangle completely socio-political upheaval from the theory. The crux of the problem is to use a set of objective criteria to tap the theoretical importance of upheaval on the formation and accumulation of interest groups.

Accordingly, the first operational criterion is that the upheaval must occur within the territory of the nation concerned, preferably in the socioeconomic and political centers of a nation (wars that occur outside a nation's territory are excluded). This criterion is not concerned with war or upheaval <u>per se</u>, but the weakening of economic entrenched interests by the upheaval. This criterion excludes wars or violent conflicts in distant parts of a nation, as well as border disputes, unless the nation concerned is invaded and occupied by a foreign power. These exclusions are reasonable as entrenched special interest groups usually lie in the political and economic centers of a nation; violent conflicts in distant parts of a nation are unlikely to

eradicate the web of distributional coalitions. For example, the suppression of the people in Tibet has had little effect on the power of elites in Communist China. Conversely, an upheaval, which happens in major political and economic centers can have great repercussions on a nation. Furthermore, Olson excludes all major violent external conflicts such as the two World Wars in which Britain and the U.S were involved.

There is general consensus that clear-cut upheavals, such as occupation by a foreign power should be included. But for most internal upheavals, we need to set definite guidelines for inclusion and exclusion. Therefore, the second operational criterion is that the upheaval should involve at least 1000 battle deaths within the period of a year. This criterion is admittedly arbitrary, but at the same time an upheaval must reach a certain minimum threshold before it can undermine the influence of distributional coalitions. In other words, a less serious event involving fewer than 1000 battle deaths may not uproot entrenched interest groups.

Data on upheavals and battle deaths come from one widely cited work by Small and Singer (1982). Therefore, in preparing a list of the last major turmoils for most countries (see Table 4.1a and 4.1b), other criteria adopted by Small and Singer are also included. According to these researchers, bloodshed by itself is inadequate to be qualified as a civil war. Other criteria include: 1) active participation of the

central authority, and 2) effective resistance by both sides. The first criterion "increases not only the seriousness of an internal conflict but the chances of its being recorded by historians" (Small and Singer 1982, p.214). The second criterion, "effective resistance", means that both sides are organized for violent conflict and are prepared to resist the attack of their enemies, and that the weaker side is able to inflict upon the stronger side at least 5% of causalities. This criterion helps exclude such incidents as massacres, purges, and other kinds of "unopposed slaughter inflicted occasionally on passive subjects" (p.214). For instance, the massacre of Communists following the 1965 abortive coup in Indonesia is excluded. One shortcoming of this procedure is that causality figures are not always readily available, and Small and Singer (1982, p.215) have to "intuit, deduce, or estimate from faints traces in unreliable sources."

I also include gaining independence from colonial rule as another criterion in identifying upheaval. This criterion is straightforward as the replacement of colonial rule usually constitutes a major departure from the past, and accompanies a replacement of political elites, and nationalization of industries. The source of these data is from Banks (1992).

In nations where there are no major upheavals as operationalized above, I resort to a conservative estimate: the beginning year of consolidation of modernizing leadership (Taylor and Hudson 1972). Only one nation, Panama, is based

on this estimate. In Tables 4.1a and 4.1b a list of major turmoils among the countries in the data set are provided, and the column "year since the last turmoil" (LASTURM[8]) is used as one indicator of the independent variable, the strength of distributional coalitions.

The above criteria exclude constitutional changes, the establishment of totalitarian or military regimes, and most coups or "palace revolts," unless they develop into civil wars of sufficient scale. Coups are not treated as upheavals for several reasons. As noted by Lowenthal (1974:121) coups are rarely neutral, and armies usually ally themselves in supporting certain dominant factions (e.g., protecting land-owning oligarchies against challenges to their power) . Furthermore, coups are manifestations of distributional struggles. To a certain extent, the military coups in Chile, Brazil and Argentina in the 1970s restricted political participation, and demobilized and repressed certain groups, especially the populists and organized labour. This repression has the effect of restraining the proliferation of interest groups (Silva 1993). In most cases, the military deliberately fosters the interests of certain entrenched dominant factions.

So far, I have discussed the types of political incidents to be considered as upheavals. As previously noted almost all

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[8] Capitalized letters represent the labels of various indicators used in the data analysis.

tests of Olson's theory do not use his other two indicators of interest groups, that is, urbanization and unionization. One possible reason is the lack of comparable cross-national data on the level of unionization. But this cannot apply to level of urbanization, which is easily available, even though the definition of "urban area" varies across nations. In an attempt to compensate for shaky data and to increase measurement validity, I use these two variables as well as introducing additional indicators.

For Olson, distributional coalitions that are more influential in affecting economic growth, such as labour unions, manufacturers' associations, and even students' associations have more time to develop in nations that have been urbanized longer. Thus it is expected that level of urbanization is negatively correlated with economic growth rate. Data on the level of urbanization in 1970 (URB) are available from World Bank publications. One problem with urbanization data is that the definition of urban area varies across nations. Another problem that might distort the results is that the two city states, Hong Kong and Singapore, obviously have high levels of urbanization.

Olson also argues that small groups face fewer problems in organizing, whereas large groups such as consumers and workers face tremendous start-up costs in collective action, and can only be organized after a long period (Olson 1982, p.38-40). Therefore, union membership in itself is an

impediment to economic growth, but as Olson (p.105) suggests it can also "serve as a proxy measure of the strength of such other coalitions that are harmful to local growth". Thus a reasonable indicator of distributional coalitions is "organized labour as a percentage of the total labour force around 1975" taken from Taylor and Jodice (1983:85-87). In commenting upon the data on unionization, Taylor and Jodice caution that union membership for some nations is secret; thus, the quality of data are uneven, varying from nation to nation. Moreover, data for the Philippines and Thailand are missing. Because of data availability problem, this indicator is not available for an earlier period. Despite this, the percentage of unionized labour is relatively stable, and the year around 1975 is close enough to the initial year of the dependent variable (i.e., GNP per capita growth rate between 1970 and 1990). Therefore, this 1975 data set should not distort the results. In this analysis I transformed this variable into TUNION by taking a square root to correct for a skewdness of 1.305 in the raw data[9].

In addition to the indicators described above, I introduce two other indicators of the strength of distributional coalitions: industrial unrest and the concentration of land ownership.

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[9] A square root transformation help reduces the problem of heteroscedasticity that may increase the standard errors, thereby making the statistical significance of coefficients unreliable (Fox, 1991, p.49).

I measure industrial unrest in terms of working days lost due to industrial disputes (e.g., strikes). I assume that the more powerful unions are, the more likely a nation will have strikes. The frequent strikes in Britain, Canada, and some Latin American nations support such an assumption. One argument against this assumption is that more powerful unions may be more likely to get what they want without resorting to strikes. This argument is applicable to some Nordic nations where there are nationwide worker organizations. However, as far as developing nations are concerned, where unions are often excluded from the decision-making process, strikes are one avenue to express discontent. Thus, strikes in developing nations represent the degree of unionization, and hence the strength of special interest groups in general.

The industrial unrest indicator is not antecedent to the dependent variable. The period covers from 1970 to 1990. This rather long period of observation is chosen on the following grounds. First, since this variable represents the strength of coalitions, a high level of industrial unrest means that the coalitions are strong. An average of days lost for the whole period provides an approximate measure of the average strength of coalitions for that period. It is thus believed that industrial unrest that occurs in the same period as that of the dependent variable has a stronger and more direct effect on economic performance than industrial unrest that occurred before 1970.

Second, unlike other proxies to measure coalitions, data on working days lost due to industrial disputes show wide annual fluctuations for most countries. In order to reduce peculiarities of any single year, I average working days lost between 1970-1990 for each country. In cases of an incomplete series of data in the period, the variable is simply an average of all available data points. The raw data show a skewdness of 2.02 and heteroscedasticity is detected in the scatterplot, thus the original values are logged (TLOST). Data for Taiwan, Dominican Republic, and Uruguay are missing. The source of the data is Year Book of Labour Statistics (various issues).

By definition, the level of industrialization is lower in developing countries than in developed nations. Thus, the majority of developing nations, with the exception of city-states, are dependent on agricultural production. For example, in 1960 the agricultural sector as a percentage of net domestic product was 33% in Taiwan, and 39% in South Korea, whereas the manufacturing sector accounted for just 18% and 10% respectively (United Nations, 1966, p.270). Land-holding was the source of wealth and influence.

The more entrenched the landowning classes are, the more difficult it is for governments to implement land reform, and the less effective they are in exerting social control over rural areas. Following this logic, one direct indicator of distributional coalitions appropriate to developing nations is

the percentage of land concentration (GINI). This indicator, GINI, directly measures the strength of landowning classes. The only source of such data comes from the "Gini Index of Land Distribution" compiled by Taylor and Hudson (1972:267-269). The limitations of this data set are that only the early 1960s period is covered, and data on Chile, Indonesia and the two city states, Hong Kong and Singapore, are not available.

Table 4.2 summarizes the five indicators of coalitions, and the positive and negative signs show their expected relationship with economic growth. For instance, I expect a positive correlation between LASTURM and economic growth, meaning that the more recent a turmoil the higher the subsequent growth rate. The remaining indicators of coalitions are expected to have negative relationship with economic growth, meaning that stronger coalitions retard the economic growth rate.

Relationship among indicators

Table 4.3a reports the correlations among the 5 indicators. It cannot be overemphasized that only LASTURM and URB have all 20 countries represented; the other three indicators have some cases missing. Thus, the correlation matrix in Table 4.3a is based on only 11 complete cases. From this "subset" of cases, we find moderate correlations among indicators and the directions of correlations are consistent

with our expectations. LASTURM shows consistent negative relationships with other proxies, whereas other measures have positive relationships among themselves. The only problematic indicator is TLOST which, although moderately correlated with LASTURM, has weak correlations with GINI, TUNION, and URB.

To include more countries in the analysis, Table 4.3b presents the correlation between the principal measure, LASTURM, and each of the other proxies. As mentioned above, the absence of a significant rural sector in Hong Kong and Singapore may distort the results. Table 4.3b confirms this suspicion: the correlation between LASTURM and URB is low. When these two city states are excluded, however, a consistent moderate correlation appears, which confirms my confidence in the validity of all these indicators as measures of the strength of distributional coalitions. Thus, in subsequent analyses both city states are excluded for URB.

INDEPENDENT VARIABLE: STATE STRENGTH

Operationalizing the concept of state strength is a frustrating task. As Marsh (1988, p.70) notes

> It is painfully obvious that no good, standardized, cross-national measures of these aspects of "state strength" are currently available.

The main difficulty in measuring state strength is capturing the essential aspects of statist theory: the determination of the state to pursue economic development, the degree of cohesiveness of state officials, and the extent of state

autonomy from special interest groups[10] (Marsh 1988, p.71).

A review of quantitative cross-national research reveals that most researchers operationalize state strength with various financial measures, the most common of which is government revenue as a percent of GDP (Rubinson 1979; Marsh 1988). For instance, Shin (1990) constructs an index of state involvement by combining government revenue as a percentage of GDP and government expenditure as a percentage of GDP. This measure is said to indicate the financial capacities of the state and the extent of state reliance on the dominant faction for financing (Pattnayak 1992; Shin 1990).

Yet one paradox of the modern state is that its interventionist role is expanding into a greater number of spheres of life (i.e., requiring more financial layouts) but there is no corresponding increase in state strength vis-a-vis societal interest groups (Hayward 1979, p.23). A large government expenditure may increase the propensity for rent-seeking activities by special interest groups as the government is identified with this wealth. Therefore, increasing financial capacity of the state may be effaced by distributional pressures.

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[10] State autonomy should not be construed as the lack of communication between the state and the private sector. Indeed, the development experiences of the ANICs have shown the importance of cooperation between both sectors. An autonomous state is one that is able to "formulate and pursue goals that are not simply reflective of the demands and interests of social groups, classes or society" (Skocpol 1985, p.9).

To compensate for this shortcoming, this study employs three indicators to measure the state: general government consumption as a percentage of GDP (GGC), military manpower per 1000 people (MIL), and total fertility rate (TFR). These three measures represent a state's financial, coercive and social control capabilities respectively. I also construct an overall composite index of state strength by combining these three indicators.

Migdal (188:280) argues that general government consumption measures the capability of the state to employ resources. From the World Bank's definition, general government consumption consists of all government expenditures for the purchase of goods and services, such as outlays for civil servants' compensation, purchases of goods and services from non-public sectors of the economy, and purchases from abroad. It is assumed that the more a state spends, the more interventionist it is. The data on general government consumption (GGC) come from World Tables 1992 (World Bank, 1992). Similar to other conventional financial indicators, one shortcoming of government consumption is that it does not reflect how resources are actually used by the state. Thus, it is possible that a rentier state, i.e, a state under pressure from special interest groups, may have a propensity to spend more.

Another component of the state index is military manpower per 1000 population (MIL). This indicator measures the

coercive strength of the state. For Weede (1993), this indicator further suggests the state's social control function because military training promotes mass discipline and education. The source of these data is World Military Expenditure and Arms Trade 1963-1973 (U.S. Arms Control and Disarmament Agency 1974), and The New Book of World Rankings (Kurian 1991).

Using total fertility rate (TFR) as a measure of state capacity represents a novel attempt that is not found in the existing literature. Migdal (1988) argues that the social control function of the state is weak if it meets enormous resistance at the local level. Since the majority of developing nations are facing the problem of overpopulation, the state has a stake in curbing a potential population explosion (World Bank, 1984). This in turn requires the state to have enormous social control capability to motivate people and mobilize resources to implement birth control programs. Up to 1984, governments of eighty-five developing countries promoted some kind of family planning program with the majority of these countries being in Asia and Latin America (World Development Report, 1984, p.127). However the results of these programs, however, were far from satisfactory because they failed to penetrate rural areas, and the quality of services provided was poor. In short, varying total fertility rates among developing countries provide a yardstick to evaluate the degree of success of government family planning

programs. This, in turn, indicates a state's capability in implementing policies and in mobilizing its people for a common purpose. It must be noted, however, that in developed nations a low fertility rate maybe a reflection more of people's attitudes rather than the state's social control function. Therefore, this measure is basically an experimental measure of state strength in developing countries.

The period of observation for GGC and TFR is between 1970 and 1990; because of data availability, the MIL data are collected for 1973 and 1986. In other words, the independent variables are not antecedent to the dependent variable; instead the observation period for the three measures of the state parallels the period of economic growth. The major justification for using antecedent independent variables is to clarify the causal ordering of variables (Marsh 1988, p.53). This temporal ordering assumes that the effect of X in time 1 has an effect on Y in time 2. In this study if the initial year of an independent variable is used, we have to assume that the level of state intervention in 1970 will have an effect on economic growth between 1970 and 1990. However, since the state is an active agent that continually monitors economic performances and mobilizes its resources to influence the economy, it is more reasonable to assume that the average economic performance for 1970-90 is more likely to be influenced by the level of state intervention during the same

period.

Relationship among indicators and index construction

Table 4.2 summarizes the 3 indicators of state strength; the positive and negative signs show their expected relationships with economic growth. For GGC and MIL, I expect a positive correlation between economic growth and GGC and MIL, and a negative relationship between economc growth and TFR. The construction of the composite index of state strength is discussed below.

As shown in Table 4.4, both military manpower and total fertility rate are moderately correlated, but the latter is weakly correlated with general government consumption[11]. Such a weak correlation is not surprising as the concept of state strength is multidimensional and various dimensions of state activities may not correlate highly with one another. To capture an overall picture of state strength, I construct a composite index by including all three measures on the basis of content validity: level of government consumption suggests a state's financial capability, military manpower indicates coercive capability, and total fertility rate denotes social control capability.

The composite index is constructed by averaging the

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[11] Marsh (1988:58) also finds that military participation ratio, government revenues and public investment are all weakly correlated with one another.

values of each indicator from all available years between 1970 and 1990. Because of data availability problems, the value of military manpower per 1000 population is an average of the years between 1973 and 1986. I then standardize the averaged values of the three indicators in order to transform them into a common scale. To produce an overall state index (STATE), the standardized values are averaged and a constant value 1 is added. This constant is used simply to transform all averaged standardized scores into positive values[12]. Thus, the composite index consists of three equally weighted components. Since the directionality of total fertility rate is negative (See Table 4.2), meaning that the lower the fertility rate the higher the state strength, it is necessary to transform the standardized scores of fertility rate before aggregation by multiplying a constant of -1. This procedure simply changes the sign of the standardized scores without affecting their numerical values (Estes 1984, pp.181-196).

DEPENDENT VARIABLE: ECONOMIC GROWTH

One set of widely accepted indicators of economic growth in many studies is national income-related measures, such as GNP per capita and GNP growth rate. The dependent variable in this study is gross national product per capita growth rate between 1970 and 1990. I calculated this measure from data

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[12] The mean of the state index will then change from 0 to 1 after the constant is added.

provided in World Tables 1992 (World Bank 1992), and for the Taiwan series from Key Indicators of Developing Member Countries of ADB, 1985 (Asian Development Bank 1985), and from Key Indicators of Developing Asian and Pacific Countries (Asian Development Bank 1991). The economic growth rates of the 20 nations are calculated by using the least-squares method adopted by the World Bank[13]. Rather than simply using the initial and final years, this least-squares method encompasses all years within a specific time period; hence, the resulting growth rates reflect general trends without being excessively distorted by cyclical fluctuations (World Bank 1979, p.175).

The limitations of using average GNP per capita growth rates for comparing cross-national economic development are well known (Braveboy-Wagner 1986, p.172). These statistics do not include all the flows of goods and services in a society and neglect a society's non-monetary contributions of to the welfare of its people. For instance, domestic services of housewives are not counted. In addition, the use of income-

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[13] The least squares growth rate is computed by using a regression equation which takes a logarithmic form as follows:

$$\text{Log } X_t = a + bt + e_t$$

where X_t = GNP per capita b = coefficient
t = time or year e_t = error term

Then, the least-squares growth rate for each country over the specified period equals (antilog b) - 1.

related measures does not reflect the distribution of national wealth. In most developing nations, the gap between the rich and the poor is wide. Such income measures do not reflect whether the populace benefits from economic development, and emphasis upon such measures tends to divert attention away from the question of equitable development.

Despite these limitations, it must also be emphasized that a high level of economic growth rate over a long period of time is essential for sustained economic development. This assumption applies especially to developing nations where the initial level of economic development is low. Achieving a standard of living comparable to the developed nations requires a growing economy. As noted by Marsh (1988:42) although economic development involves more than just economic growth, the latter "offers the only fundamental chance" of reducing absolute poverty, unemployment, income inequality, and of increasing the quality of life. Therefore, sustained economic growth is one necessary measure for development.

RESEARCH SAMPLE

The research sample in this study consists of 20 countries: 8 from the Asian Pacific-rim region, and 12 from Latin America. The Asian Pacific-rim countries are: Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand. The 12 Latin American countries are: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican

Republic, Ecuador, Mexico, Panama, Peru, Uruguay, and Venezuela (See Tables 1.1a and 1.1b).

In recent years, there has been a surge of literature comparing nations from the Asia-Pacific rim and Latin America (Gereffi and Fonda 1992; Haggard 1990; Jenkins 1991; Pattnayak 1992). Comparing countries chosen from these two regions is driven by the rationale that while, in general, Latin American countries started their process of industrialization much earlier than the Asian Pacific-rim countries, the Pacific-rim countries, especially the four ANICs, have outperformed them recently in nearly every aspect of socioeconomic development. This disparity was particularly acute in the 1980s when Latin American nations were haunted by "debt-servicing" problems and spiralling inflation. As a case in point, Brazil was among the earliest of the developing nations to embark on industrialization, and the period from 1968 to 1973 was considered the "Brazilian miracle" (Haggard 1990, p.181). Its average annual GNP growth rate between 1960 to 1976 was 4.8% and its GNP per capita stood at US $1140 in 1976 (World Bank, 1978). However, fourteen years later in 1990, its GNP per capita grew only to US $2680. By contrast, South Korea had a GNP per capita of merely US $670 in 1976, but in 1990 surpassed Brazil with a per capita GNP of US $5400. Furthermore, both Singapore and Hong Kong were reclassified as high-income economies in 1990 by the World Bank. Therefore, despite the industrialization efforts of Latin American

nations such as Brazil, Mexico, and Argentina, their economies have failed to achieve self-sustaining growth. After an initial period of growth, these countries have recently experienced debt-servicing problems, serious income inequality, and economic stagnation. Thus it is important to examine if Olson's theory explains the differences in development between the countries in these two regions.

Weede (1987:219) restricts his test of Olson's hypothesis to advanced democratic nations on the grounds that Olson (1982:77) writes that

> countries that have had democratic freedom of organization without upheaval or invasion the longest will suffer the most from growth-repressing organizations and combinations.

However, Olson also argues that his theory applies to non-democratic nations in different historical time periods (pp.167-180). Thus, he is eager to demonstrate that his theory has general explanatory power. As long as we can demonstrate that special interest groups retard economic growth, Olson's theory can be profitably applied to explain the successes and failures of economic development in developing nations.

CONCLUSION

At the beginning of this chapter I noted that there are numerous limitations to using aggregate data. However, one strategy to overcome problems of measurement error is to use multiple indicators. Based on this rationale, I employ

various indicators to measure the abstract concepts of distributional coalitions and state strength. We can be fairly confident in the overall validity of these measures as long as the results obtained by using these proxies show consistent results in relationship to economic growth.

Table 4.1a: List of Major Turmoils of Asia-Pacific Countries

Countries	Year of Last Turmoil[1]	Turmoils[2]
Hong Kong	1945	End of Japanese occupation
Indonesia	1960	Civil war against Communists
Korea, Rep	1953	Korean War
Malaysia	1957	Independence (Banks)
Philippines	1952	Civil War against Hukbalahap
Singapore	1965	Independence (Banks)
Taiwan	1950	Defeat and retreat of the Nationalists
Thailand	1940	Franco-Thai War

1: Refers to the year of a turmoil ended
2: Unless stated otherwise, all data are taken from Small and Singer (1982)
Sources:
Banks (1992, p.472, p.674), Small and Singer (1982, pp.82-93, pp.223-232), Taylor and Hudson (1972, p.26-29).

Table 4.1b: List of Major Turmoils of Latin American Countries

Countries	Year of Last Turmoil[1]	Turmoils[2]
Argentina	1955	Mutiny and overthrow of President Peron
Brazil	1932	Civil war against Paolistas
Chile	1891	Civil war against Congressists
Colombia	1962	Civil war against Conservatives
Costa Rica	1948	Civil war against National Union Party
Dominican Rep	1965	Civil war against communists
Ecuador	1932	Civil war against Ecuadorian army
Mexico	1930	Civil war against Cristeros
Panama	1903	Consolidation of Modernizing leadership (Taylor and Hudson)
Peru	1895	Civil war against Liberals
Uruguay	1904	Civil war against Blancos
Venezuela	1871	Civil war against Conservatives

1: Refers to the year of a turmoil ended
2: Unless stated otherwise, all data are taken from Small and Singer (1982)
Sources:
Banks (1992, p.472, p.674), Small and Singer (1982, pp.82-93, pp.223-232), Taylor and Hudson (1972, p.26-29),

Table 4.2: List of Various Indicators of Distributional Coalitions and State Strength

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Measures of Distributional Coalitions:

1. Year of the last turmoil (LASTURM) +
2. Gini Index of land concentration (GINI) -
3. Percentage of unionized labour (TUNION[a]) -
4. Working days lost due to industrial disputes (TLOST[b]) -
5. Urbanization (URB) -

Measures of State Strength:

1. General Government Consumption (GGC) +
2. Military Manpower per thousand Civilians (MIL) +
3. Total Fertility Rate (TFR) -
4. Composite Index of the State (STATE[c]) +

The signs indicate expected directionality of indicators with economic growth.
[a] TUNION is the square root of the level of unionization
[b] TLOST is the logarithm of working days lost due to strikes
[c] STATE = 1 + [zggc+zmil+(-1*ztfr)]/3
where zggc, zmil and ztfr are the standardized score of each of the above corresponding variable.

Table 4.3a: Correlation Matrix Among Indicators of the Strength of Distributional Coalitions[a]

	LASTURM	GINI	TUNION	TLOST	URB
LASTURM	1.00	-0.45	-0.51	-0.48	-0.36
GINI		1.00	0.54	-0.01	0.63
TUNION			1.00	0.14	0.58
TLOST				1.00	0.06
URB					1.00

[a]This matrix is based on complete data for only 11 out of the 20 countries examined.

Table 4.3b: Correlation Between Year of Last Turmoil and Each of the Other Proxies of Distributional Coalitions

	GINI	TUNION	TLOST	URB	URB
LASTURM	-0.43	-0.55	-0.52	-0.09	-0.53
Number of countries included	16	18	17	20	18[a]

[a]Excludes the city states of Hong Kong and Singapore

Table 4.4: Correlation Matrix Among Indicators of State Strength

	TFR	MIL	GGC
TFR	1.00	-0.55	-0.05
MIL		1.00	0.38
GGC			1.00

N of cases: 20

CHAPTER FIVE: RESEARCH ANALYSIS AND FINDINGS

In extending Olson's work, I follow his analysis and begin with a series of bivariate regressions that estimate the impact of each measure of special-interest groups on economic growth. I then use a second set of bivariate equations to examine the effects of various measures of state strength on economic growth. Next, I subject the analysis to more rigorous tests by including measures of special-interest groups and state strength together with a control variable in a multiple regression model of economic growth. In the final stage, I extend the analysis by assessing the effect of the interaction between distributional coalitions and state intervention.

Before presenting the results, it should be noted that in social science, significance levels are common criterion researchers use to decide whether to reject a hypothesis. However, significance testing is an inferential statistical technique that seeks to infer the characteristics of an unobserved population on the basis of those of a random sample (Mohr 1990, p.9). If the observations do not constitute a random sample---as is the case in the present study---interpretation of the level of significance is subject to debate. For Mohr (1990:73), the only function of significance testing in studies that are not based on random sampling is "to provide a metric of strength of relationship." In other

words, a statistically significant relationship means that the relationship is not due to random forces alone. More importantly, as noted by Pedhazur (1982:24-25), what matters most is not the significance level but the substantive meaningfulness of the findings. Highly significant results can be obtained by simply enlarging the sample size, even if the relationships among the variables are small (Pedhazur 1982, p.25; Mohr 1990, p.74). Thus, analysts should emphasize the magnitude and direction of associations among variables, and not rely exclusively on the significance level. Accordingly, I report the R^2 and regression coefficients together with the significance level to facilitate comparisons and to assess the strength of relationships among variables.

DISTRIBUTIONAL COALITIONS AND ECONOMIC GROWTH

Table 5.1 presents the results of a series of bivariate regressions of average GNP per capita, 1970-1990, on each indicator of the strength of distributional coalitions. These results lend considerable support to Olson's theory and further validate the use of these indicators. Each indicator is reasonably and significantly (p=.05) correlated with economic growth. Moreover, the signs for all measures are in the expected direction and affirm that distributional coalitions impede long-term economic growth. A comparison of R^2 for each equation indicates that years of last turmoils (LASTURM) and land concentration (GINI) have the strongest

relationships with economic growth; they explain 37% and 61% of the variance respectively in a bivariate equation.

Since LASTURM is coded using the actual year of the last occurrence of major turmoil, the positive sign implies that the more recent an occurrence of turmoil, the higher the growth rate. In contrast to Latin American countries which were exempt from WWII, most Asia-Pacific countries experienced both Japanese occupation and wartime destruction. Following WWII, these countries also underwent a series of internal turmoils: the Chinese Civil War, the relocation of the Chinese Nationalist government in Taiwan, the Korean War, various independence movements to ward off colonial occupations, and the establishment of post-colonial governments. Thus, in comparison to Latin American countries, the period since a major turmoil is considerably shorter in Asian Pacific countries. The association between economic growth and years since last turmoil suggests that these turmoils undermined the power of most entrenched special interest groups in Asia-Pacific countries. This may account for why this region, in particular the four ANICS, grew faster than their Latin American counterparts (See Table 1.1).

Migdal (1988:100) provides one structural explanation for the relatively strong correlation between land concentration (GINI) and economic growth: high land concentration means that the function of social control is highly fragmented among landlords or landowning oligarchs who lock up important

resources, and maintain independent ties with foreign agents and traders, thus making it difficult for the state to extract revenue from them. Moreover, the state faces considerable constraint in formulating policies, regulating social relationships and appropriating resources. All this makes the emergence of an autonomous state unlikely under the existing power structure. This argument applies particularly to the Latin American nations where domestic distributional coalitions collaborate with transnational corporations (TNCs) in maintaining a situation favourable for their continual capital accumulation at the expense of the larger society.

The results also support the common belief that strong union activities tend to undermine economic growth. Both unionization level (TUNION) and working days lost (TLOST) have a weaker but still significant negative relationship with economic growth. Each measure accounts for 22% of the variance in GNP per capita growth. Finally, the level of urbanization also has a significant negative relationship with economic growth; it accounts for 27% of the variance of economic growth.

STATE STRENGTH AND ECONOMIC GROWTH

Similar to Table 5.1, Table 5.2 presents the results of bivariate regressions between the measures of state strength and economic growth. Except for general government consumption (GGC), all measures, including the composite

indices, explain between one-quarter and one third of the variance of average GNP per capita growth rate and are statistically significant. These results are consistent with Marsh's[14] (1988) study which found no significant effects of either government revenue or public investment on economic growth, but did discover a significant positive relationship between the military participation ratio and economic growth.

The results of two composite indices of state strength are also reported in Table 5.2. In equation 4, STATE comprises all three measures, viz., total government consumption (GGC), total fertility rate (TFR), and military participation ratio (MIL), while in equation 5, STATE contains only TFR and MIL. A comparison of these two indices reveals that the results obtained are quite similar. Indeed, the zero order correlation coefficient between the three-item STATE and two-item STATE is 0.91. More importantly, the three-item index of state strength is justified in terms of its content validity (See Chapter 4). Therefore, I continue to use the three-item index in subsequent analyses[15] despite the moderate correlations among items. The inclusion of general government expenditure in the index can only bias the results

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[14] Marsh's (1988) study includes 55 less developed nations, but some countries such as Hong Kong, Indonesia, Singapore, and Venezuela were not included. Most of his data are from World Handbook of Political and Social Indicators (1972, 1983).

[15] Models that use the two-item state index yield similar results in subsequent analyses, and are thus not reported.

downward, thus producing a conservative estimate of the effect of state on economic growth. Such a conservative estimation of the state is desirable because an assessment of the state's role in the economy will inevitably encounter the controversial debate between the relative merits of market forces and state intervention in economic development. A conservative estimate avoids the charge that the results obtained in subsequent analyses are biased in favour of state intervention.

COMBINED EFFECTS OF DISTRIBUTIONAL COALITIONS AND STATE STRENGTH

In Table 5.3, each equation assesses the effect of various combinations of distributional coalitions and the three-item state index on average GNP per capita growth rate. The best estimations (Eqs. 1, 2 and 5) of the combined effects of interest groups and the state account for approximately 60% of the variation in economic growth.

After partialling out the state effect, the direction of association, indicated by the coefficients between the various indicators of distributional coalitions and economic growth, is unchanged. Three of the measures (LASTURM, GINI, and URB) are statistically significant at 0.01 level. Even though the effects of both union measures are not significant at .05 level, the magnitude and direction of the effects suggest that their association with economic growth is at least moderate,

even after the state effect is taken into account.[16]

Comparing the magnitudes of standardized coefficients (i.e., betas) of STATE and the measures of coalitions reveals that four times out of five the effects of the latter are greater than the former. In other words, distributional coalitions have a greater effect on economic growth than state intervention. Note, however, that such an interpretation is not without question because the magnitude of standardized coefficients is affected by the standard deviations of the variables and are thus less stable than unstandardized coefficients (Pedhazur 1982, pp.247-251). Therefore, we should be cautious in interpreting the betas.[17] I will return to this comparison when hierarchical models are discussed (see below).

Notwithstanding the effects of distributional coalitions, the results also affirm the importance of state strength: the relationship between economic growth and state intervention is significant in three of five equations, and in all cases the relationships are positive.

To subject the model to a more rigorous test, it is necessary to add a control variable and an interaction term.

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[16] Both unionization measures, TUNION and TLOST, approach significance level and have a value of p = 0.10 and 0.11 respectively.

[17] I have reestimated each model using the two-item state index, and the results are basically the same with the exception that the beta of the state index is greater than the unionization level.

Before proceeding, however, it must be noted that because of the relatively small sample size of this study, it is desirable to use the most effective measures of coalitions to yield reliable results. Effective measures here refer to those measures that yield large R^2 or percentages of explained variance. From the results shown in Tables 5.1 and 5.3, LASTURM, GINI, and URB produce better results than the two union measures in accounting for the variation in economic growth rate.

A more formal technique used by social scientists to determine the relative effectiveness of variables is called "variance partitioning" or "hierarchical regression analysis". This technique involves the partition of an R^2 into different portions attributable to different variables (Pedhazur 1982, p.175). Ideally, the five measures of coalitions should be loaded into the regressions in different order to determine which variables are more effective. However, because of missing data for some countries on some of the measures only 11 out of 20 countries can be included in this type of analysis. Moreover, Pedhazur (1982, p.176) criticizes the attempt to assess the independent R^2 contribution as "meaningless" when the variables are interrelated or collinear. Collinearity among indicators is problematic because variables previously entered into an equation already include part of the effect of the subsequent variable; thus it is impossible to adequately separate the R^2 accounted for by

a variable previously entered into the equation. As Tables 4.3a and 4.3b reveal, all five measures of coalitions are reasonably correlated. Putting them into a single equation to assess their independent contribution to the variance explained is consequently unsatisfactory.

As an alternative strategy, I examine the independent contribution of each measure of coalitions by partitioning the R^2 with the effect of the state (See Table 5.4). Every other equation in Table 5.4 assesses the contribution of one measure of coalitions after STATE is first entered into the equation.[18] As expected, LASTURM, GINI, and URB contribute over 30% of the R^2 increment, while TUNION and TLOST each explains less than 15% when STATE is entered first into the regression. As a result of the above analysis, LASTURM, GINI, and URB stand out as more effective measures of distributional coalitions, and hence are used in subsequent analyses.[19]

Before turning to consider the catch-up effect and the interaction effect between distributional coalitions and the state on economic growth, I want to return briefly to the relative importance of the two independent variables. Table

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[18] Since there are no theoretical grounds in guiding which variable should be added first into the equation, I report both sets of equations: one with the measures of coalitions entered first, and the other with the measure of the state entered first.

[19] I do not construct an index by combining these three measures of the strength of distributional coalitions because this will result in a loss of 4 countries: Chile, Hong Kong, Indonesia, and Singapore. Subsequent analyses will then tell less about the Asian Pacific countries.

5.4 shows that when the effect of the state is partialled out the incremental contributions of the measures of coalitions to the R^2 range from 14% to 36%. On the other hand, when the various measures of coalitions are entered first into the equations STATE explains only 5% to 29% of the explained variance. This supports the conclusion that the effect of state intervention is smaller than the effect of special-interest groups on economic growth. However, this conclusion is still not unproblematic. Since the catch-up effect (see below), is a competing hypothesis with the coalition effect, it is necessary to control for this effect before making conclusions on the importance of distributional coalitions. Moreover, as mentioned in Chapter 2, I expect the effect of state intervention on economic growth to be dependent upon the strength of distributional coalitions in society. Such an interaction effect, however, is not incorporated into the models in Table 5.3 and 5.4. Therefore, a more comprehensive model is needed to incorporate both catch-up and interaction variables.

CONTROL FOR THE CATCH-UP EFFECT

In the first test of the regression model I explore the catch-up hypothesis by adding a variable to control for the effect of initial income level. This hypothesis states that countries with low initial income will grow faster than countries with higher income. This is because low-income

nations can borrow readily available technology and other resources from high-income nations, and as a result the income level of both groups will converge (Nardinelli et al 1987, p.204). A proper test of Olson's theory should therefore control for initial income level, otherwise faster economic growth of low income countries may possibly be caused by the catch-up effect rather than weak distributional coalitions.

Accordingly, I use initial GNP per capita in 1970 as a control variable. The three equations in Table 5.5 show the effects of distributional coalition and the state when initial level of GNP per capita is controlled. In all cases the direction of association between each measure of coalitions and the state and economic growth remains unchanged. A comparison of equations 1, 2 and 5 in Table 5.3 with equations 1, 2, and 3 in Table 5.5 shows that the inclusion of a control variable has little effect on the magnitude of association between STATE and economic growth.

On the other hand, initial income level has a greater effect on the relative importance of the measures of special-interest groups in the equations. The effects of year of last turmoil (LASTURM) and land concentration (GINI) drop moderately from 0.60 (eq. 1, Table 5.3) to 0.54 (eq. 1, Table 5.5) and from -0.65 (eq. 2 Table 5.3) to -0.46 (eq 1, Table 5.5).[20] Yet, there is a sizable decrease in the effect of

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[20] Note that in both equations, the betas of the two coalitional measures and the state index are closer although the former are still larger.

urbanization (URB) from -0.62 (eq 5, Table 5.3) to -0.22 (eq 3, Table 5.5), and the coefficient becomes statistically insignificant.

The moderate decrease in the magnitude of the measures of coalitions after initial income is controlled suggests that an appropriate test of the effect of distributional coalitions must incorporate the competing catch-up hypothesis. Indeed, in all cases the sign of initial income level and subsequent economic growth is negative meaning that the higher the initial level of GNP per capita the lower the subsequent growth rate. Thus, the catch-up hypothesis should be treated as a part of the overall explanation for economic growth.

The major decrease in the magnitude of urbanization (URB) deserves special attention. I have tested the relative importance of the control variable and the measures of distributional coalitions in various hierarchical models. The results show that LASTURM and GINI remain dominant regardless of the order of entry. But for URB the R^2 remains close to 0.47 when the catch-up hypothesis is first entered into the equation. Therefore, contrary to Olson's (1982) conclusion, the relationship between urbanization and economic growth may be spurious if initial income level is introduced. In other words, URB may not be an appropriate proxy for the strength of coalitions. Indeed, as the following analyses unfold, the results obtained using URB are different from those that use the other two measures of coalitions. Such inconsistency may

reflect the suspicion raised here.

INTERACTION BETWEEN DISTRIBUTIONAL COALITIONS AND THE STATE

The above analyses consistently support the hypotheses that those nations plagued by strong distributional coalitions have slow economic growth rates, and that the state has a positive impact on economic growth. However, nearly all empirical studies of the state simply use some attributes of the state, such as its financial resources, to measure the concept of state strength, neglecting the fact that state strength is relative to societal pressure groups.[21] Most quantitative studies fail to incorporate this point into their models, and using an interaction model is rare in the existing literature. Indeed, I suspect that state strength is an empty concept if no reference is made to the strength of special-interest groups in society. Accordingly, to determine whether an interaction effect exists between the strength of coalitions and the effectiveness of state intervention, a multiplicative interaction term is added into the models (See Table 5.6)

At present, social scientists are divided on the meaningfulness of interpreting the multiplicative term between two continuous variables. On the one hand, Blalock (1981:493) cautions that since the multiplicative term is an exact

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[21] Indeed the preferred approach in existing literature is comparative historical case study as exemplified by Skocpal's work (1993).

function of its components, it introduces high levels of collinearity in the model and the coefficient estimates may be distorted. On the other hand, Jaccard, Turrisi and Wan (1990:30) contend that this concern is not substantive. However, limited by the small sample size of this study, an interaction term combining two continuous variables definitely poses collinearity problems, and subsequent results may be distorted.

In view of the above problem, I opt for transforming the three continuous measures of coalitions into dummy variables. Transforming a continuous variable into a dummy variable, or "categorization," is not uncommon in social science, but the major problem is how to select the cutting line for categorization (Blalock 1981, pp.534-538; Pedhazur 1982, pp.451-454). For LASTURM, I use the end of WWII as the dividing point (pre-1945 years are coded as 0, post-1944 as 1) and create an interaction term by multiplying this dummy variable with STATE. This cutting line has substantive historical meaning. It is suspected that those nations which rebuilt themselves from the ashes of World War II, succeeding devastating civil wars, and struggles with colonial powers, tend to have weaker coalitions, and hence state intervention is more effective and economic growth rate is higher.

Regarding land concentration (GINI), I select the cutting line on the basis of my understanding of the cases. Existing literature suggests that landed oligarchs are strong in most

Latin American nations and in the Philippines; in contrast, such an entrenched landowning class was eradicated during WWII in most Asian Pacific countries. The data are consistent with this claim and reveal that the gini coefficient of land concentration is higher for the former groups of nations: the figure for Peru is 93.3; Brazil, 84.5; Mexico, 69.5; Philippines, 53.2, whereas in Taiwan it is 46.3, and in South Korea, 38.7. Based on these figures I choose the value of 50 as the cutting line for GINI. Countries with a land concentration ratio of and above 50 are coded as 1 (strong coalitions), and below 50 as 0 (weak coalitions).

Problems exist for categorizing urbanization as there is no theoretical or substantive historical guideline for choosing the dividing line. Hence I arbitrarily split URB at the median value of 52% among the 18 cases. Since the split for URB is less well-founded, the interpretation of the results should be more cautious.

Before presenting the findings, it is necessary to note that the interpretation of results in interaction models is different from that in additive models: we focus primarily on the interaction term and not the main effects (Pedhazur 1982, pp.353-355). Since the interaction term is an exact function of the two independent variables, it causes a high level of collinearity among variables in the interaction model. In this case when the variables are highly correlated, the standard error of coefficients become large and hence

coefficients may become statistically insignificant when they tested individually (Pedhazur, 1982, p.59). As this happens, researchers can encounter one paradoxical result: the overall R^2 is statistically significant but individual coefficients are insignificant. To overcome the distortion caused by high intercorrelation among variables, we should test whether the inclusion of an interaction term improves the overall explanatory power of a model by calculating the incremental R^2 or F-ratio test[22] (Pedhazur 1982, pp.122-123). If the calculated F ratio is greater than the critical value found in the F-table, the increment in the proportion of variance accounted for by the interaction term is statistically significant. Once we determine this, we proceed to examine the nature of that interaction by splitting the sample and estimate an equation for each subgroup of countries.

Table 5.6 reports the results of the interaction models with the control variable, GNP per capita in 1970, included (equations 2, 4, 6). All three measures of coalitions are recoded as dummy variables, whereas the control variable and the state index remain as continuous variables. Equations 1, 3 and 5 are the restricted models in which the interaction

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[22] The formula for incremental R^2 test or F ratio is as follows:

$$F = [(R_f - R_r)/(k_f - k_r)]/[(1 - R_f)/(N - k_f - 1)$$

where R_f is the R^2 in the full model (i.e., the interaction model), R_r is the R^2 in the restricted model (i.e., the additive model), k_f is the number of variables in the full model, k_r is the number of variables in the restricted model, and N is the sample size. The degree of freedom is expressed by the terms $(k_f - k_r)$ and $(N - k_f - 1)$.

term is excluded, and serve as a reference point by which the full models with the interaction term (equations 2, 4, 6) can be compared.

As mentioned above we need first to determine whether an interaction effect exists or not by examining the significance level of the interaction term and by calculating the F ratio. According to the F-test, the interaction terms between state and land concentration, and between state and urbanization do not significantly increase the R^2 of the model. However, in equation 2 (Table 5.6) the interaction term between state and year of last turmoil is significant at 0.05 level, and the calculated F ratio is 5.92 which is greater than the critical value of 4.54. This effect suggests an interaction effect between the effectiveness of state intervention and the strength of distributional coalitions.[23]

In order to examine the nature of this interaction effect, I divided the 20 nations according to the value of dummy variable, LASTURM, and estimated whether the effect of state intervention on economic growth is the same for each subgroup of countries by substituting the dummy variable value of 1 or 0 into the original equation (Jaccard et al. 1990, pp.42-48). The results are as follows:

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[23] Various alternative combinations of interaction terms were checked, but none achieve statistical significance. For instance, the inclusion of an interaction term between initial GNP per capita and year of last turmoil improves the R^2 slightly from 0.47 to 0.51.

From equation 2 (Table 5.6):

1.83 - 0.002(GNP70) - 1.29(LASTURM) - 0.63(STATE)
+2.93(STATE*LASTURM)

By substituting the value of the dummy variable into the above equation, we can compute the slope for each subgroup by simple algebraic manipulation. The resulting equations are:

1a) For pre-1945 period (LASTURM = 0, strong coalitions):

= 1.83 - 0.002(GNP70) - **0.63(STATE)**

1b) For post-1944 period (LASTURM = 1, weak coalitions):

1.83 - 0.002(GNP70) - 1.29 - 0.63(STATE) + 2.93(STATE)
= 0.54 - 0.002(GNP70) **+ 2.3(STATE)**

The results in equations 1a and 1b indicate that the relationship between state intervention and economic growth is different for each group of countries. For equation 1a, the negative coefficient of STATE for nations that suffered major turmoils before WWII means that the effect of government intervention has a negative effect on overall economic growth rate. On the other hand, the positive coefficient of STATE in equation 1b suggests that for nations that experienced major post-WWII turmoils, state intervention has a beneficial influence on economic growth. In the former case, increased state intervention reflects the rent-seeking activities of special interest groups. Despite the authoritarian character of the state in many of these countries, it can neither be considered strong nor autonomous. In the latter case, major turmoils undermined the strength of special-interest groups and hence the state is not subject to distributional

pressures, and therefore tends to be more effective in mobilizing resources for economic development. Although empirical data in this study cannot provide concrete evidence for such an interpretation, the results obtained here are compatible with this conclusion.

However, the results in Table 5.6 do not unanimously support this conclusion. As noted earlier, the increments in explained variance in equations 4 and 6 do not achieve statistical significance. The calculated F ratios for equation 4 and 6 are 3.23 and 1.2 respectively, and both fall short of the critical value.[24] Nonetheless, dividing the sample according to the dummy value of land concentration (GINI) and examining the effect of state intervention in each subgroup show that the state effect is similar to those obtained by splitting up 20 countries according to the dummy value of LASTURM (See equations 1a and 1b above). For countries with a gini coefficient of and above 50 the unstandardized slope of STATE is -0.21 suggesting that state intervention tends to have a negative relationship with economic growth in countries where land concentration is high, and hence entrenched interest groups are strong. Conversely, state intervention has a positive effect on economic growth in countries with low land concentration. The unstandardized slope of STATE for this group of countries is +1.54. The

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[24] The critical value at 0.05 level is 4.84 with 1 and 11 degrees of freedom, and 4.67 with 1 and 17 degrees of freedom.

findings, therefore, are consistent with the hypotheses that state intervention has a positive effect on economic growth in countries with weak distributional coalitions, whereas the state effect is reverse when a dense web of coalitions is present. The statistically insignificant interaction term might be due to the smaller sample size.

Regarding equation 6 in Table 5.6, I substituted the dummy value of urbanization (URB) into the original equation, and assessed the coefficient of STATE for each subgroup, and both indicate a positive association. Such findings should be interpreted with caution because, as mentioned above, once the initial GNP per capita is controlled, the strength of the relationship between urbanization and economic growth is reduced drastically. This may mean that their relationship is spurious. Therefore, the results should not be treated necessarily as a rejection of an interaction effect between strength of coalitions and effectiveness of state intervention.

As one further test, I divided the composite index, STATE, into its three dimensions and examined whether a similar pattern of interaction exists for each dimension. Hence, I replaced the composite index with general government consumption (GGC), military participation ratio (MIL), and total fertility rate (TFR), and reestimated three interaction models. For each equation, I substituted the dummy code (1 or 0) of LASTURM, and calculated the (unstandardized) slope of

each measure of state intervention.

For the most part, the results are consistent with those obtained by using the composite index of state intervention. Even though Table 5.2 shows that general government consumption (GGC) has small explanatory power, this measure displays similar interaction effects on economic growth.[25] In countries with strong coalitions the level of government consumption has a negative correlation with economic growth, and vice versa. Likewise, an interaction effect is found for military participation ratio (MIL).[26] The only exception is total fertility rate (TFR), which is negatively correlated with economic growth for both groups of nations.[27]

However, comparing the unstandardized slope of TFR in both equations reveals that the degree of association for countries with weak coalitions is much stronger. This may indicate that the effectiveness of the social control capability of the state as measured by the decrease in total fertility rate (see Chapter 4) is different in the two

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[25] The unstandardized slope of general government consumption, GGC, for countries with strong coalitions is -0.09, whereas for countries with weak coalitions the slope is +0.25.

[26] Again, the unstandardized slope of military participation ratio, MIL, for countries with strong coalitions is -0.31, whereas for countries with weak coalitions the slope is +0.19.

[27] The unstandardized slope of total fertility rate, TFR, is -0.08 and -2.58 for countries with weak and strong coalitions respectively.

subgroups of countries.[28] More specifically, the effectiveness of social control exerted by the state is higher in countries with weak distributional coalitions, probably owing to minimal resistance at the local level.

Despite these consistent results obtained from separate measures of state intervention, the above models fail in significance testing. Jaccard et al. (1990:74) notes that a failure to achieve significance may be due to small sample sizes, measurement error, multicollinearity, high-order interactions, or model misspecification. This study has a relatively small sample size and the separate measures of state intervention, as compared to the composite index, may have larger measurement errors. Therefore we cannot reject the presence of interaction effects simply based on significance testing.

What is at issue here is not the significance level, which is one of the criteria in testing a hypothesis, but the overall consistency in the findings. This study suggests that state strength is a concept that can only be understood relative to the strength of societal interest groups. An

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[28] As noted above, the relationship between urbanization and economic growth appears to be spurious as the magnitude of their association reduces considerably after initial GNP per capita is controlled for. To examine whether the relationship between total fertility rate (TFR) and economic growth is spurious, I controlled for the initial GNP per capita, but this time find that the beta of TFR remains sizable (-0.69) and is statistically significant at 0.01 level. Therefore, the reduction of total fertility rate among developing nations is not simply due to the level of economic development.

interaction model is deemed to be better specified than non-interaction models found in the literature. For example, most research finds contradictory results for the relationship between government expenditure and economic growth. This study proposes that these contradictory results can be resolved by using an interaction model taking into account the strength of coalitions in society.

One final point to make concerns the magnitude of association between state intervention and economic growth. Comparing the effects of the state index in equation 1a and 1b (See above) suggests that the positive relationship between state intervention and economic growth in countries with weak distributional coalitions is stronger than the negative association between state intervention and economic growth in countries with strong coalitions. Indeed, this moderate relationship highlights one dilemma faced by most developing nations. On the one hand, in countries plagued by a gridlock of special interest groups, state intervention encourages more rent-seeking activities. Vested interests may squabble over state resources and public officials have more scope for self-seeking behaviour. On the other hand, the state in late industrializers occupies an indispensable role in overcoming structural constraints, constructing stable institutional and legal frameworks, creating competitive industries, and promoting economic growth. The essential point is not between the relative merits of market forces or state intervention,

but to find an appropriate combination of market forces and state intervention. Finding a balanced mix requires an understanding of a nation's history and sociopolitical context. This in turn requires historical case studies which I turn to in the following chapter.

CONCLUSION

This chapter first uses two sets of bivariate regressions to analyze the individual effects of various measures of distributional coalitions and the state on economic growth. Subsequent analyses gradually build from these bivariate regressions by adding initial income level to control for the catch-up hypothesis, and by incorporating a multiplicative term to assess the nature of interaction effects between distributional coalitions and the state. Most of the results support Olson's theory that distributional struggles undermine economic growth.

As well, this study examines whether the positive association between state intervention and economic growth holds irrespective of the strength of distributional coalitions. The results lend consistent support to the hypothesis that the effects of the state on economic growth vary according to the strength of coalitions: state intervention tends to have positive relationships with economic growth when interest groups are weak, whereas the effect of state intervention is reversed when coalitions are

strong. Despite these consistent results, the above conclusion is not indisputable as some interaction models fail to achieve statistical significance. This failure should not, however, lead to outright rejection of the existence of an interaction between state intervention and the strength of distributional coalitions because statistically significant results may be obtained with larger sample sizes. Therefore, conservatively speaking, the results in this study can be regarded as tentative, and future analyses may enlarge sample sizesby incorporating more developing as well as developed nations.

Table 5.1: Bivariate Regressions of Average GNP per capita Growth Rate (1970-90) on Measures of the Strength of Distributional Coalitions

Variable	b	S.E. of b	Beta	Sig. T	R^2	N
1. LASTURM	0.05	0.02	0.60	0.01	0.37	20
2. GINI	-0.09	0.02	-0.78	0.00	0.61	16[a]
3. TUNION	-0.95	0.45	-0.47	0.04	0.22	18[b]
4. TLOST	-1.56	0.76	-0.47	0.05	0.22	17[c]
5. URB	-0.06	0.02	-0.53	0.02	0.27	18[d]

[a]excludes Chile, Hong Kong, Indonesia, and Singapore.
[b]excludes Philippines and Thailand.
[c]excludes Dominican Republic, Taiwan, and Uruguay.
[d]excludes Hong Kong and Singapore.

LASTURM = Last year of major turmoil
GINI = Gini coefficient of land concentration, circa 1960s
TUNION = Square root of unionization, circa 1975
TLOST = Log of working days lost between 1970-1990
URB = Urbanization in 1970

Table 5.2: Bivariate Regression of Average GNP per capita Growth Rate, 1970-90 on Measures of State Strength

Variable	b	S.E. of b	Beta	Sig T.	R^2	N
1. GGC	0.06	0.17	-0.08	0.74	0.01	20
2. MIL	0.21	0.08	0.53	0.02	0.28	20
3. TFR	-1.55	0.56	-0.55	0.01	0.30	20
4. STATE[a]	1.85	0.72	0.52	0.02	0.27	20
5. STATE[b]	1.84	0.56	0.61	0.00	0.37	20

GGC = Average Level of General Government Consumption
MIL = Average Military Manpower per 1,000 civilians
TFR = Average Total Fertility Rate
STATE[a] = Composite Index of State Strength
= [zggc+zmil+(-1*ztfr)]/3
STATE[b] = Composite Index of State Strength
= [zmil + (-1*ztfr)]/2

where zggc, zmil and ztfr are the standardized score of each of the above corresponding variable.

Table 5.3. Regression of Average GNP Growth Rate on Measures of the Strength of Distributional Coalitions and State Strength.

	1	2	3	4	5
LASTURM	0.05*** 0.01 0.60				
GINI		-0.08*** 0.02 -0.65			
TUNION			-0.75 0.43 -0.36		
TLOST				-1.29 0.76 -0.39	
URB[a]					-0.07*** 0.19 -0.62
STATE	1.58*** 0.51 0.47	0.83 0.56 0.27	1.29 0.72 0.38	1.2 0.91 0.30	-1.71*** 0.53 0.55
Constant	-100.89	7.42	4.74	8.33	4.31
R^2	0.59	0.67	0.36	0.31	0.57
N	20	16	18	17	18

For each cell the first entry is unstandardized coefficient (b), the second is standard error of b, and the last is standardized coefficient
*** $p \leq .01$; ** $\leq .05$.

Table 5.4: Incremental Partitioning of Variance Between Independent Variables

Variable Entered	R^2	R^2 Change
1. LASTURM	0.37	
STATE	0.59	0.22
STATE	0.23	
LASTURM	0.59	**0.36**
2. GINI	0.62	
STATE	0.67	0.05
STATE	0.35	
GINI	0.67	**0.32**
3. TUNION	0.22	
STATE	0.36	0.14
STATE	0.23	
TUNION	0.36	**0.13**
4. TLOST	0.22	
STATE	0.31	0.09
STATE	0.17	
TLOST	0.31	**0.14**
5. URB	0.28	
STATE	0.57	0.29
STATE	0.20	
URB	0.57	**0.37**

Table 5.5: Multiple Regressions of Economic Growth on the Strength of Distributional Coalitions and State Strength, Controlling for Catch-up Effect

	1	2	3
GNP70	-0.01	-0.01	-0.01
	0.01	0.01	0.01
	-0.10	-0.34	-0.48
LASTURM	0.05***		
	0.02		
	0.54		
GINI		-0.06**	
		0.02	
		-0.46	
URB			-0.03
			0.03
			-0.22
STATE	1.60***	0.91	1.43**
	0.52	0.50	0.52
	0.48	0.29	0.46
R^2	0.61	0.76	0.66
N	20	16	18

For each cell the first entry is the unstandardized coefficient (b), the second is the standard error of b, and the last is the standardized coefficient.
*** $\leq$ .01; ** $\leq$ .05.

Table 5.6: Multiple Regressions with Control Variable and Interaction Term

	1	2	3	4	5	6
GNP70	-0.01	-0.01**	-0.01**	-0.01**	-0.01***	-0.01***
	0.01	0.01	0.01	0.01	0.01	0.01
LASTURM	1.50	-1.29				
	0.91	1.40				
GINI			2.66**	0.50		
			0.96	1.47		
URB					-0.17	-1.61
					0.90	1.61
STATE	1.52**	-0.63	0.63	-0.21	1.27**	0.82
	0.61	1.03	0.52	0.66	0.50	0.65
STATE*LASTURM		2.93**				
		1.20				
STATE*GINI				1.75		
				0.96		
STATE*URB						1.24
						1.15
Constant	1.83	3.89	2.73	3.30	3.93	4.92
R^2	0.47	0.62	0.78	0.83	0.64	0.67
F ratio		**5.92****		**3.23**		**1.20**
N	20	20	16	16	18	18

For each cell the first entry is the unstandardized coefficient (b), and the second is the standard error of b.
*** ≤ .01; ** ≤ .05.

CHAPTER 6: DISCUSSION AND CASE STUDIES

The results reported in Chapter 5 support Olson's theory that differential growth rates among nations is partially due to the growth-retarding effects of distributional coalitions. Countries in which the strength of special-interest groups has been undermined by major domestic turmoils tend to grow faster. In addition, it was discovered that states free from these distributional struggles are able to implement coherent economic policies and to mobilize resources to achieve economic objectives. Without detracting from the significance of these two factors in accounting for economic growth, such a two-factor causal explanation is inadequate in providing a comprehensive picture of real world complexities. This chapter uses a historical case-study approach: 1) to analyze how the undermining of special-interest groups is transformed into economic growth; 2) to discuss how vested interest-groups block economic growth; 3) to identify which countries are able to achieve sustained economic growth in face of entrenched coalitions; and 4) to suggest possible reasons for economic growth despite vested interest group opposition.

As a prelude, it is useful to set up a typology to facilitate picking winners and losers in economic development. The countries in Table 6.1 are classified into four categories according to two dimensions: strong-weak coalitions and high-low economic growth rates. As explained before, the more

recent a turmoil, the weaker the strength of distributional coalitions. The end of WWII is used to divide the nations into strong and weak distributional coalitions (See Chapter 5). As for economic growth rate, I calculated the average of GNP per capita growth rates of the twenty nations for 1970-1990. Those nations with a growth rate above the mean are classified as having high economic growth, and those at or below the average have low economic growth. In this way, the twenty nations can be divided into 4 categories as shown in Table 6.1.

Cells II and III in Table 6.1 have the highest and lowest group average growth rates of 5.8% and 0.9% respectively. The "Four Little Dragons", Indonesia and Malaysia fall into Cell II, whereas all 7 countries in Cell III come from Latin America. Together these 13 countries fit Olson's theory: weak coalitions = strong growth, and strong coalitions = low growth. This typology also reveals a clear regional clustering. Of all high growth countries (Cell II and IV), 7 out of 8 are Asian-Pacific countries, and for the 12 low growth countries (Cell I and III), all but one are from Latin America.

Based on this two-by-two typology, the analysis begins with a discussion of why the "Four Little Dragons" were able to switch to export-oriented industrialization (EOI) in the 1960s and 1970s. Next, I examine the commonalities of nations with low growth rates (Cell I and III). More specifically, I

examine how patron-client relationships in most nations frustrate efforts to achieve sustained economic growth. In the final part, I attempt to find out how the deviant nation, Thailand, in Cell IV managed to achieve a higher than average economic growth rate despite strong distributional coalitions.

ECONOMIC TAKE OFF IN THE FOUR LITTLE DRAGONS

The results in Chapter 5 consistently support the hypothesized relationships between sustained economic growth, weak distributional coalitions, and effective state intervention. This section attempts to illustrate how weak distributional coalitions are translated into economic growth.

A number of analysts have identified a development trajectory among the four ANICs (Gereffi and Wyman 1989; Haggard 1990, Koo and Kim 1992, p.122) as follows:

1) Import substitution industrialization (ISI) based on US economic aid (as in South Korea and Taiwan) or entrepot-led growth (as in Hong Kong and Singapore) in the initial period;

2) Export-oriented industrialization (EOI) based on labor-intensive, light-manufacturing in the 1960s;

3) Deepening of EOI with selective use of ISI in the 1970s (except Hong Kong);

4) liberalization and internationalization of the economy starting from the 1980s to the present.

What is perplexing to researchers is the critical shift from ISI to EOI starting roughly in the mid-1960s to take advantage

of the booming world economy and buoyant consumer markets in the US and Western European countries. As noted by Hsiao (1988:15):

> ...the East Asian NICs are indeed blessed by favourable timing, and they have taken full advantage of such timing for their rapid industrialization take-off.

Why are the four ANICs so blessed? Why have they been able to adopt an export-oriented approach, but not other countries within the Asia-Pacific region or those in Latin America which are located much closer to the American and European markets? Two important historical factors---geopolitical position and world economic restructuring---are put forward to explain the transition. The former focuses on US hegemonic influence in Northeast Asia, and US strategic interest in containing the spread of Communist influence. According to Cumings (1984:26-7, emphasis added) "[i]n both countries [Taiwan and Korea] the export-led program was <u>decided by the United States</u>" and ISI "would have continued longer had it not been for opposition by American aid officials." In terms of restructuring the international division of labour, owing to rising labour costs, Japan was moving away from labour-intensive industries in the mid-1960. Hence, this provided an opportunity for the ANICs to start their industrial take-off by taking the place left by Japan (Hsiao 1988, p.15).

These two international factors certainly help explain the similar timing and pattern of the development trajectory

among the four ANICS, and answer why they initiated their industrialization process by concentrating on labour-intensive industries. Had it not been for the presence of the US the very survival of both Taiwan and Korea were in question, not to mention their economic development. Therefore, the international environment provides a broader framework for us to understand the development pattern. However, international factors alone remain inadequate in pinpointing why it was these four and not other Asia-Pacific countries, such as the Philippines, that actually adopted an export-oriented policy. These factors also do not explain why export-oriented reforms were faithfully implemented and supported by local entrepreneurs in the ANICs.

American hegemony is also present in the Philippines and in Latin America. The presence of an American naval base in Subic Bay in the Philippines testifies to American interest in this strategic location, especially during the Vietnam War. The official rhetoric during the Marcos era was in favour of creating competitive and export-oriented industrial sectors like those of Taiwan and South Korea. However, the creation of export monopolies and the promotion of cronyism countered American and World Bank advice (Hutchcroft 1991, p.419).

In terms of geopolitical position, Singapore is less well located than Korea, Taiwan, Hong Kong, and even the Philippines. To say that EOI is decided or even determined by the US is simply ignoring the importance of internal power

relationships in shaping policies. Development policies are the outcome of struggles among different social groups, foreign pressures, and politicians' interests. It is difficult to explain policy outcomes by reference to one factional interest alone (Haggard 1990:28).

A transition to export-led industrialization involves exchange rate devaluation, selective import liberalization to provide local producers with cheap inputs, and reforms on tariffs, taxation and trade practices (Haggard 1990, p.26; Cumings 1984, p.27). Such changes certainly alter existing social and economic structural relationships that may threaten the positions of existing elites in society. As long as these vested interests are making profits under the existing system, they will not take the "uncertain" and "rough" economic path proposed by the US. More importantly, in order to secure their privileged position, entrenched interest groups impose rigidity in policy alternatives, and even if "correct" policies are adopted, their effective implementation can be dubious. As I demonstrated in Chapter 5, the weakening of special interest groups by turmoils explains why the four ANICs were capable of implementing a coherent policy of export-led industrialization, without being forestalled by special interest groups at home.

Castells (1992:42) notes that at each stage of transition in the development trajectory of the ANICS, a different industrial structure evolved, superimposed on the previous

one, without major crises. This smooth transition of various phases was possible because interest groups were unable to dominate the state. As a case in point, by the mid-1950s Taiwan began to feel the problems associated with ISI, such as a saturated domestic market, foreign exchange problems, and declining economic growth. In response to these problems, the domestic business sector lobbied for cartelization of the domestic market in order to restrict competition, and demanded more state support for secondary import-substituting industries (Haggard 1990, pp.90-93). Ignoring the demands of the business sector, the economic reforms implemented by the state in Taiwan aimed at promoting exports and selective liberalization (e.g. devaluation). In 1957, the Bank of Taiwan initiated an export-loan program to provide credits to export business, and loans were granted on the basis of past export performances and future business plans (Haggard 1990, p.94). This state-dominated power relationship persists in East Asia today. For instance in 1994, the Korean government, with the aim of increasing overall efficiency, has ordered the top 30 "chaebols" to restructure their corporations by focusing only on three sectors. Thus, Samsung corporation, which has lobbied for diversifying into the car industry, must be satisfied instead with electronics, machinery and chemicals (The Economist, January 22, 1994, p.72). In short, it was a combination of the geopolitical position of East Asia, US initiative, a world economy that provided opportunities, and

internal power relationships between the state and various special interests that determined the success of implementing an export-oriented policy.

Hong Kong: A Deviant Case?

At this point, it is appropriate to single out Hong Kong for analysis. For those using the statist perspective, Hong Kong is an embarrassing case. Indeed, there is little mention of this colony in the existing literature because, unlike Singapore, South Korea and Taiwan, the Hong Kong government has neither attempted to promote strategic industrial sectors nor impose tariff protection or control on foreign exchange and investment. To a large extent, Hong Kong can be regarded as a laissez-faire economy (Haggard 1990, p.151). Nonetheless, despite its non-interventionism, the state in Hong Kong is highly autonomous and is able to insulate itself from societal pressures.

Seeking to answer why the colonial government in Hong Kong has faced no serious challenge from the Chinese majority, Lau (1982) coins the terms "secluded bureaucratic polity" and "minimally-integrated socio-political system" to describe the relationship between the state and society in Hong Kong. According to Lau (1982:157-8), one distinctive characteristic of this relationship is that both state bureaucracy and Chinese society "guard against intrusions and encroachments

from the other side" and "do not attempt to intrude into each other's 'territory'".

To facilitate efficient rule the British traditionally have not sought to change the social fabric of their colonies. In order to secure effective rule in Hong Kong, the colonial government had a stake in not meddling in the economic, cultural and social affairs of the Chinese majority. This deep-seated non-intervention policy manifested itself clearly in the late 1970s when Hong Kong industries were facing structuring problems due to shifting comparative advantages. The colonial government rejected a proposal by several leading local electronic companies to impose a levy on electronic exports to finance common research on product development (Haggard 1990, p.153). Thus, Hong Kong lagged behind the other three Asian economies in advanced technological products. To compensate for this relative disadvantage, Hong Kong has become a financial centre, and in the 1980s focused on entrepot trade with China. Both these sectors require little direct state promotion.

On the other side "the Chinese society lacks the will, the perceived need, and the means to intrude into the bureaucratic polity" (Lau 1982, p.160). Lau offers a variety of cultural and historical factors to explain this phenomenon. These include political apathy, traditional Chinese conservatism, fear of Communist takeover, self-sufficiency of

the Chinese kinship system, and lack of effective linkages between both sides.

To put post-war Hong Kong into the analytical framework of this study, this "minimally-integrated socio-political system" is not difficult to comprehend. Japanese occupation undermined the network of distributional coalitions in Hong Kong. Furthermore, as noted by Lau (1982:67), postwar Hong Kong is basically a "new" society as most of the Hong Kong population are Chinese immigrants fleeing the Communist takeover of mainland China in 1949. Thus, postwar Hong Kong society is atomistic and not well-organized. A 1977 representative survey done by Lau corroborates his conclusion. Only 19.6% of the respondents were members of any voluntary organizations, and most of them were passive in their membership (p.93). In response to questions about the primary function of the state, 57.3% of respondents replied that the state exists simply to maintain law and order; only 10.5% responded that the duty of the state is to build an egalitarian society.

The relative absence of distributional coalitions in Hong Kong puts little pressures on the state. In turn, the British have built an efficient and uncorrupted state machinery. Thus, the Hong Kong government is relatively strong vis-a-vis the society it governs.

Folk wisdom attributes the economic success of Hong Kong to its laissez-faire policy, excellent port facilities,

abundant supply of cheap and disciplined workers, flexible small family firms, and the influx of Chinese capital and expertise in textile manufacturing after 1949. Rarely is the minimally-integrated socio-political system mentioned as the origin of its success. However, using the analytical perspective of this study, the prerequisites to economic growth have been the clearing away of the growth-retarding effects of special interest groups, and the establishment of an efficient state machinery. Without such conditions, all the favourable internal and international factors discussed above would have been wasted; it is likely that the economic structure would have been rigidly fixed by entrenched interest groups.

Summary

The post-war development experience of East Asian countries suggests that sustained economic growth is marked by the economy's flexibility in responding to changing international conditions. For Singapore, South Korea, and Taiwan, the structural adjustment of their economies has been guided and smoothed by active state direction and support. For Hong Kong, a pool of entrepreneurs, free from collusive practices between an oppressive state bureaucracy and monopolistic businesses, is capable of adjusting to international challenges and opportunities. This crucial element of flexibility common to the Four Little Dragons

derived largely from an absence of entrenched interest groups that were undermined during the Second War World. In spite of varying degree of state involvement and different types of economic composition in the Asian Four, they do share similar structural conditions. As well, the international environment, such as the geopolitical position of East Asia, the US influence, and world economic restructuring, accounts for the similar patterns of development trajectory among the Asian Four.

ECONOMIC STAGNATION: PATRONAGE SYSTEM

What social conditions in other developing nations prevent them from adjusting to changing economic conditions and from grasping opportunities offered by global economic restructuring? Are there any commonalities among those low growth nations in Cell I and III? These two groups of nations do share one common feature: their economic and sociopolitical lives are marked by extensive patron-client or clientelistic networks. Furthermore, the existence of nations in Cell I means that these kinds of networks are not easily destroyed by social turmoil.

Scholars have documented extensively that the political and economic activities in most developing countries are characterized by networks of patronage-linking landed oligarchs, politicians, bureaucrats, and corporate clients

(Scott, 1972; Irwan 1989; Hutchcroft 1991; Hawes 1992; McVey 1992; Roniger 1987; Robison 1989):

> The basic pattern is an informal cluster consisting of a power figure who is in a position to give security, inducements, or both, and his personal followers who, in return for such benefits, contribute their loyalty and personal assistance to the patron's designs (Scott 1972, p.92).

In Latin American such patron-client networks are called "caciquismos" or "coronelismos". Prior to the late 1970s, "caciquismos" did not receive much academic interest and there was a relative paucity of research in Latin America on this subject. Such networks were assumed to be a feature of Hispanic tradition and a symptom of poor communication, transportation, illiteracy, and basically "a remnant of the past" doomed to disappear "naturally" following economic development (Roniger 1987, p.76). Failure to recognize the significance of this pattern might partly explain why Latin American analysts unduly stress the exploitative effects of external dependency rather than internal social conditions. However, recent studies have shown that such patron-client networks are neither a peculiar feature of Latin America nor Southeast Asia, but a feature common in most developing nations.

In an insightful study on the problems of government and social control in developing nations, Migdal (1988) explains how the presence of a dense web of local "strongmen" hampers the building of a strong state and modernization efforts. For Migdal, most developing states, even if they possess many

resources at their disposal, are unable to implement policies or to exert effective social control. For a nation-state, social control means not only the penetration of state organizations in society and the extraction of resources, but also their ability to appropriate resources for specific purposes (e.g., industrial development) and to shape daily behaviour (e.g., channelling people's activities into particular economic sectors (p.261). On these grounds, in most developing nations the state remains weak and incapable of achieving social control.

"Strategies of survival", a term Migdal (p.27) uses to refer to strategies and opportunities which people use to solve problems of daily living, remain in the hands of local strongmen, such as village chiefs, landlords, moneylenders, or urban "caciques". These people possess important resources such as land, credit, jobs, organizations, and ideas by which they command loyal clients. As a result, social control is highly fragmented, political power is diffused throughout society, and the state, despite its authoritarian character and tendency to intervene, remains incapable of mobilizing resources for development (Hammergren, 1977, p.450).

By the 1820s, most nations in Latin America achieved autonomy (Vadney 1987, p.257). However, a strong state did not emerge at that time because the state had to depend on local strongmen to control the peasantry. Also, these strongmen maintained independent ties to foreign traders

(Migdal 1988, p.262). Following the emergence of the modern state after WWII, such patron-client networks have been transformed into "state-based political clientelism" (Migdal 1988, p.255). As the state has assumed more distributive and regulative functions, clientelistic networks have become linked to the formal state structure in order to "represent" their interests. Strongmen either use their contacts with politicians or capture parts of the state by placing themselves or their family members in important state positions at all levels (federal, regional and local) to ensure allocation of resources according to their own interests (Migdal 1988, p.256).

Patronage: A General and Persistent Phenomenon (Cell I)

The persistence of such patron-client relationships results in widespread acceptance of particularistic ties to strongmen for economic advancement. These ties form the basis for almost every kind of economic venture (Roniger 1987, p.75). In turn, the state simply becomes a machine for accumulating wealth and a tool against competing factions or families. "[P]olitical patronage and not entrepreneurial energy is the means for accumulating wealth" (McVey 1992, p.7). Under such circumstances, any "reforms" end up serving the narrow interests of distributional coalitions and re-establish the old equilibrium within a given power structure by rent-seeking activities through the state (Streeten 1993).

Such patron-client relationships represent a network of special-interest groups linked together by particularistic ties. They institutionalize factional interests into the power structure of society, and their persistence reduces a society's overall efficiency in production and resource allocation within society.

Political patronage is the underlying reason why the Philippines, a former colony of the world's most advanced industrial power with a literacy rate as high as that of the four ANICs, has the lowest growth rate among the Asian-Pacific rim nations. Despite relatively recent major turmoils, such as Japanese occupation during WWII and the Communist-led Huk insurgency, political administration in the Philippines is still marked by extensive patronage (Hutchcroft 1991; Hawes 1992). On the surface, the authoritarian rule of Marcos sought to undermine the landed oligarchs and protected business sectors. In reality, however, the targets of his attacks were limited to his rival clans (Hutchcroft, 1991, p.425). Land reform was frustrated by powerful landed oligarchs who resisted the state's attempt to exert social control at local and regional levels (Doner, 1992, p.199).

Despite the downfall of the Marcos regime, distributional politics in the Philippines today is still rampant. This can be illustrated by the following example. In order to increase state revenue, President Ramos put forward a revenue bill to expand the 10% value-added tax to include service industries.

This revenue bill was finally passed by the Congress in 1994, but only after Ramos released "congressional initiative funds" worth 9.5 billion pesos to Congress for the Congressmen to allocate to projects in their districts (Far Eastern Economic Review, May 12, 1994, p.23). This example in recent Philippine politics clearly highlights one way how coalitions put pressures on the state to pursue their narrow special interests.

With the benefit of hindsight, we know that despite American colonial rule and postwar political turmoils, these instabilities were not sufficient to topple entrenched interest groups. They simply caused ripples in a basically continuous pattern of patron-client development.

Similar examples of patronage abound in Latin America. According to historian Vadney (1987:263-264), as early as the 1950s it was clear that import-substitution policy was not working in Latin America. A policy shift was necessary to solve economic problems such as inflation, unemployment and economic stagnation. By the 1950s and 1960s, governments in this region were moving toward a foreign-financed export-import economy. However, because of rigidities imposed by domestic social structures, Latin American economies lacked the flexibility of their Asian counterparts to adjust to external circumstances by grasping the opportunities offered through worldwide economic restructuring. In 1965, Veliz made the following observation:

> Latin America is obviously not a static continent but, in a rapidly changing world, it changes little, and those changes that do take place either lead to widespread political frustration or appear insufficient to prevent economic stagnation. In such a situation it appears that, without fundamental changes in the traditional structure of Latin America society, widespread and accelerated economic development is out of question (Veliz 1965, p.95).

The rigidities imposed by a patron-client network can be illustrated by the lack of agricultural reform in Argentina. According to Wheelwright (1974), the relative stagnation of Argentine agriculture since the 1930s has been the main obstacle to economic growth and development, and its inability to finance industrial imports. For example, between 1960 and 1970, while the average annual growth rate of agriculture was only 2.5% for Argentina, in Taiwan and South Korea it was 3.4% and 4.5% respectively (World Development Report 1979, pp.128-129). This lack of agricultural reform in Argentina is in stark contrast to the successful land reforms implemented in Taiwan, Korea, and, to a certain extent, Malaysia.

To complicate the problem further, unlike the Asian developing nations, strong populist forces based in urban areas exist in Latin America. Some Latin American regimes deliberately mobilize urban labor by promising increased wages and public services. For instance, in Argentina, a military revolt occurred in 1943, which enabled Colonel Peron to take power in 1944. Following the coup, President Peron accelerated industrial development and improved the welfare of urban workers by redistributing income from the agricultural

sector which was dominated by the oligarchs. He also fostered the formation of labour unions and a political party, using them to challenge the power of these oligarchs or strongmen. However, in September 1955, President Peron was overthrown by the military in a civil war and was exiled to Spain (Wheelwright 1974).

In retrospect, the Peron era can be regarded as one response by a state to the situation of fragmented social control. The state wrestles with strongmen by attempting to build an independent power base within a dense web of interest groups. In turn, powerful strongmen, in order to safeguard their influence and interests, use their personal ties with some factions of the military or bureaucracy to challenge the central authority. Each successful coup is followed by a personal reshuffle, and "politics becomes more personalized and political loyalties less permanent" (Hammergren 1977, p.451). Thus, frequent changes of regimes through coups are a symptom of distributional struggles among different factions which seek to maintain their interests by working through state machinery. The destructive effects of these coups on the underlying structure of society are minimal.

IS THERE A WAY OUT? THE CASE OF THAILAND

If the above analysis is correct, then distributional coalitions in the form of patron-client network are the main obstacle in the process of sustained economic development.

Minimizing the effects of this patronage system on politics and the economy poses the greatest challenge to developing nations.

In Table 6.1 only Brazil and Thailand appear to have been capable of achieving better-than average economic growth in the face of strong distributional coalitions. However, Brazil has recently fallen into eclipse due to a heavy debt burden, a declining economic growth rate, and increasing inequality. The gross domestic product (in real output) in Brazil decreased drastically from 9.0% in 1965-1980 to 2.4% in 1980-88, whereas in Thailand the GDP dropped only from 7.2% to 5.5% during these two same periods (Samuelson 1990, p.44-47). Similarly, while Brazil's gross domestic investment growth rate shrank from 11.3% in 1965-80 to barely over zero (0.2%) in 1980-90, Thailand managed to increase its investment growth rate from 8.0% to 8.7% (World Bank, 1992, p.232-233). Actually, Thailand has been able to a maintain a stable, and even slightly increasing economic growth during the past three decades. In this way Thailand deserves special attention.

Thailand is the only nation in Asia that was never colonized and has experienced the least turmoil. Therefore, according to Olson's prediction, Thailand ought to have a slow growth rate. Yet, contrary to the theory, Thailand shows a stable growth rate of over 4% annually and is predicted soon to enter the rank of NIC (Hamilton 1987; Irwan 1989; Robison 1989; Suehiro 1992).

Similar to most developing nations, patronage forms the basis of organizing political and economic life in Thailand. What distinguishes Thailand from other developing nations, however, is that such networks have diminished since the 1973 student revolt which toppled the ruling regime and ushered in a short period of parliamentary democracy between 1973-1976 (Doner 1992; Irwan 1989; Samudavanija 1986; Suehiro 1992).

The modern history of Thailand started in 1932 when the military took power from the absolute monarchy, and barred royalty from running in elections or forming parties. During the Phibul's regime (1938-1942), the ruling military faction used its monopolized power to build an economic empire that buttressed its military and political dominance. From then onward, each subsequent successful military coup was followed by an attack on the economic enterprises established by the previous ruling clique, and a new economic base was built by the new ruling military faction (Irwan 1989, p.418).

During the late 1950s, a group of industrialists began to emerge under the import-substitution policy[29] (Irwan 1989, p.419; Suehiro 1992, p.55). Yet the basic clientelistic networks remained unchanged. The industrialists who emerged during the 1950s and 1960s were dependent on political patrons:

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[29] In the early 1960s Thailand was still an agricultural society with the agricultural sector accounting for about 40% of GDP, 80% of the labour force, and 70% of total exports (Suehiro 1992, p.35).

> There was no development of an independent capitalists group as a class against the powerholders, especially the royal court and the bureaucrats. Rather, dominant capitalist groups grew by adapting to and taking advantage of the established political-social system (Suehiro 1992, p.41)

Throughout the late 1940s to the 1960s the Thai military were divided into three political and economic interest groups, each composed of senior army generals led by Thanom-Parphat, Prasert, and Krit. Each faction built up its economic base by establishing its own state enterprises, and obtaining shares from private firms owned by Chinese industrialists, and controlling industrial, commercial and banking activities (Irwan 1989, p. 418; Samudavanija 1986, p.245). The economic resources available to the military were allocated to their supporters, and were used to build their capabilities for further political control. Hence the military were quickly transformed into political-economic interest groups. The fortunes of economic enterprises depended much on the political position of their patrons. Since this patron-client was inherently unstable, entrepreneurs were unwilling to make long-term investments (Irwan 1989,p.419).

After the 1973 student revolt, the military were gradually discouraged from entering into business. For example, in 1974 the Bangkok Bank decided not to substitute the deposed Field Marshal Praphat with another political patron, but instead opted for a professional banker (Doner, p.1922, p.208). The dwindling patronage system also

encouraged the banking industry to exercise greater disciplines on debtors. Late payments were discouraged by high interest penalties, downgrading borrowers' credit rating and ligitation (p.213).

National industrial policy has also been changed as a result of declining patronage. The manufacturing sector in the 1960s and early 1970s was highly protected by an ISI strategy: 45% to 60% of import duties were levied on specific products to protect domestic industries (Suehiro 1992, p.51). However, in 1980 Prime Minister Prem began to adopt EOI policies seriously. Since then industrialists in Thailand have had to compete in the world market, and improve their product quality and production technology. In short,

> [t]he military's move towards non-involvement in business (after the student revolt in 1973) has contributed a lot to the good performance and bright prospects of the manufacturing sector in Thailand which has been geared to export since 1980 (Irwan 1989, p.419).

How was it possible for Thailand to move away from patronage while other developing nations failed? The current literature attributes the trend to the declining hegemony of the military. Well before the 1973 revolt, the military was fragmented into competing factions. However, it still monopolized military and political power. It was after the revolt that the hegemony of the military was replaced by a balance of power between the military, the king, the bureaucracy, the emerging business sector, and various organized political parties. Thus, the weakness of the

military and the increasing strength of other social forces contributed to the ebbing of political patronage (Doner 1992, p.207; Irwan 1989, p.420).

The revolt revealed to the military that they were not the only force in Thai politics and that they had only limited social support. All this made the ideology of professionalism more influential within the military (Irwan 1989, p.420; Hamilton 1987 p.1248). Professionalism in Thailand, however, does not mean that the military does not intervene in politics. Rather, the military has confined its interests to political and military affairs, and identifies its purpose as the defender of nation, religion and monarchy (Maisrikrod 1993, p.83).

There is one important point in Thailand's social structure that is not covered in the existing literature. What distinguishes Thailand most as a successful deviant case is that a class of landed oligarchs controlling the "strategies of survival" of the population has never existed. This can be supported by examining Thailand's land concentration ratio. Around the 1950s and 1960s this ratio was 93.3 for Peru, 86.7 for Argentina, 84.5 for Brazil, 69.5 for Mexico, 47.3 for Malaysia, 46.3 for Taiwan and 46 for Thailand. These figures show that land distribution in Thailand is far less concentrated than in Latin American countries. A corollary of this is that a class of entrenched

landed oligarchs comparable to those in Latin America does not exist.

In addition, most Thai corporations are owned by descendants of Chinese who are largely urban based and owe their wealth to commercial activities before industrial expansion after WWII, rather than land ownership (Suehiro 1992, p.39). Their economic power is too fragile to put pressure on the state. As a result, there are no entrenched forces in either the urban or rural areas to resist the state in controlling politics.

This relative lack of entrenched land oligarchs might be due to the increasing dominance of the military in Thai politics. In 1932 the military replaced the absolute monarchy, and in 1940 Thailand was at war with France (See Table 4.1). Even though Thailand was never colonized nor occupied in WWII, Thais were living under the shadow of external military aggression. This external threat gave the Thai military more leverage over other organized groups in the bid for power, and any power outside the state was gradually destroyed. Struggles were limited to competing factions within the military (Irwan 1989, p.420). In retrospect, the national security issue also helps explain the dominance of the Thai state over societal interest groups.

To summarize, the situation in Thailand was different from the Philippines or Latin American nations. In these nations, landed oligarchs, big families, or some other

organized interests stood behind the military. However, interest groups in Thailand were too weak to challenge the state. Unlike some Latin American military regimes, which had to mobilize populist forces to counterbalance the entrenched strongmen in local and national politics, Thailand's military regimes found this unnecessary. The urban-based industrialists who emerged under the protection of the bureaucracy in the 1950s were depending upon rather than dominating the military. This also explains why Thai industrialists welcome depolitization of their economic activities.

Despite its declining importance, the patronage system is far from eliminated in Thailand. Numerous state enterprises are still controlled by military officials. Money politics, vote buying, and mobilization of clientelistic networks in elections are prevalent (Maisrikrod 1993, p.88). Above all, the military are still lingering on in power, and power struggles between various factions within the army and the bureaucracy for influence and budget share are common. Finally, the Thai economy is now dominated by large financial-industrial conglomerates and monopolies controlled by a few families. These conglomerates may oust potential competition due to their dominance in the economy (Irwan 1989; Suehiro 1992). Thus, rent-seeking activities may be replaced by profiteering under the new context, and a revival of patronage system is not unlikely.

CONCLUSION

A number of observers have raised concerns about the increasingly "ungovernability" of societies (Olson 1982; Migdal 1989; Mingione 1991). The state, in both developed and developing nations, faces tremendous difficulties in implementing coherent policies, enforcing laws, guiding individual behaviour, and directing resources. Chaudhry (1993:250) notes that:

> although most developing countries are directly involved in production and distribution, their capacities to regulate, define, and enforce property rights, dispense law, tax, and collect information are strictly circumscribed or nonexistent.

According to Olson, the crux of the problem for the state lies in the accumulation of distributional coalitions which seek to restrict competition, pursue parochial interests, and lobby for favourable legislation. Similarly, Migdal (1989) attributes social control problems in developing nations to a network of local strongmen who defy state authority and legal and regulatory institutions that challenge their bases of power and wealth. Hence, the retardant to sustained economic growth is rooted in social institutions.

The case studies in this chapter show that undermining the rigidities imposed by a dense web of distributional coalitions renders an economy sufficient flexibility to respond to external opportunities. Yet, even without the growth-retarding effects of coalitions, an economy does not grow automatically. Economic growth is dependent upon the

existence of opportunities. The geopolitical position of East Asia, and world economic restructuring provide a favourable international environment for the rapid economic growth of East Asia. It cannot be overemphasized that the economic sphere is never a self-contained system; instead it is embedded in a larger sociopolitical system, which in turn is affected by the global political and economic environment. Thus, an examination of the history and the changing domestic and international environments, is a prerequisite to any genuine understanding of various paths of development.

TABLE 6.1: TYPOLOGY OF ECONOMIC GROWTH AND DISTRIBUTIONAL COALITIONS

Strength of Distributional Coalitions	**Economic growth[a]** Low Growth (Below 2.8%)		High Growth (Above 2.8%)	
Weak Coalitions (Post-WWII) turmoil	I		II	
	Argentina	-0.3	Hong Kong	6.2
	Colombia	2.3	Singapore	6.5
	Costa Rica	1.4	South Korea	7.1
	Dominican Republic	2.3	Taiwan	6.7
	Philippines	1.3	Indonesia	4.5
			Malaysia	4.0
	Average	1.4	Average	5.8
Strong Coalitions (Pre-WWII turmoil)	III		IV	
	Chile	0.4	Brazil	3.3
	Ecuador	2.8	Thailand	4.4
	Mexico	2.3		
	Panama	1.4		
	Peru	-0.2		
	Uruguay	0.8		
	Venezuela	-1.0		
	Average	0.9	Average	3.9

[a] Economic growth refers to the annual GNP per capita growth rate between 1970 and 1990. The average economic growth rate of these 20 nations was 2.8%.

CHAPTER 7: CONCLUSION

According to Denzin (1970:1) the enterprise of sociology rests on three interrelated activities: substantive interest, theory, and research. In Chapter 1, I addressed why it is important to explain economic growth, and then in Chapter 2 reviewed major development theories since WWII. Following that, I evaluated measurement problems in previous research on Olson's theory in Chapter 3, and developed a better concept operationalization in Chapter 4. Data analysis and discussion of the findings were presented in Chapters 5 and 6 respectively.

Recognizing the interrelatedness of theory and research, this study puts much emphasis on linking theory with the measurement of theoretical concepts. Theory is of utmost importance as it serves as a road map in helping us understand the maze of reality, directs researchers to specific issues worthy of further research, and guides the whole research process. However, as I pointed out in Chapter 3, when moving from theory to empirical research, most researchers are not sufficiently cognizant of measurement issues. Therefore, this study pays more serious attention to measuring theoretical concepts than previous research.

Built upon a firm methodological foundation, the findings here largely support the applicability of Olson's theory in explaining differential economic growth rates among 20

developing nations from the Asian-Pacific Rim and Latin America. In addition, this study extends Olson's insight about the growth-retarding effects of distributional coalitions by a more systematic consideration of the role of the state in economic development. The results from the regression analyses in Chapter 5 support the hypothesis that coalitions both undermine the effectiveness of state intervention and slow economic growth. More importantly, and in contrast to Olson, state intervention is likely to be more effective in promoting economic growth when organized societal interests are weak. Therefore, the findings support an interaction effect between state intervention and distributional coalitions. In this way, this study enhances Olson's theoretical model. The various case studies in Chapter 6 demonstrate the greater explanatory power of a state-enhanced theory of distributional coalitions.

IMPLICATIONS FOR DEVELOPMENT THEORY AND FUTURE RESEARCH

This study proposes an enhanced theory of distributional coalitions in which the state, when not subject to distributional pressure, has an interest in economic development. This in turn begs one question: why does the state want to promote economic growth and development? The answer is straightforward: national strength. Acceptance of this assumption implies one fundamental point that is neglected by both the modernization and dependency paradigms:

economic growth and development are closely related to nation building. Useful comparative research can be done by comparing the process of nation building in nineteenth century Europe with contemporary developing nations. Such research can shed light on what conditions, external and internal, are favourable for building a strong state, and in what context state intervention is likely to be conducive to economic growth and not rent-seeking activities.

One such possible external factor is national security threat. In a competing international interstate system, especially one of military competition, the basic duty of state elites is to maintain territorial integrity, and to defend sovereignty against foreign invasion. Under the disciplinary force of national security threat, the state is more likely to affirm its autonomy and will implement reform to strengthen its position in the interstate system (Skocpol 1993, p.310). Here, the contrast between ANICs and Latin American countries is striking. For Hong Kong, South Korea, and Taiwan the existence of the Communists is a constant intimidation to national survival. Singapore, with its Chinese majority, was forced to separate with Malaysia in 1965, and its security is threatened by two anti-Chinese neighbours, Malaysia and Indonesia. The Chinese Civil War (1945-1949) and the Korean War (1950-1953) demonstrated to the ruling elites and the peoples of these nations that their survival depends on their ability to strength themselves. A

commitment to industrialization and economic development are the means toward an end (survival), rather than an end itself.

The above tentative arguments can be incorporated within the enhanced theory of distributional coalitions: military threat provides a favourable condition for the state to assert its autonomy and spurs economic development only when there is no devastating distributional struggles. It is then insightful to use a comparative historical approach to contrast the adjustment process of Korea in two periods of time: during the nineteenth century and after the Korea War, particularly during Park's regime between 1961-1979. Similar research using a comparative historical approach can also be done on China and other countries.

The enhanced theory of distributional coalitions is not intended to supplant other explanations, but to supply one general theoretical framework that can explain both the successes and failures of economic growth. Both the modernization and dependency perspectives explain only developing nations, not developed ones. Such a theoretical lacuna implicitly suggests that the Western economies are at the end point to which developing nations need to catch up. Obviously, such a Western-centric perspective cannot explain why the power of Britain has been declining, nor account for the recent economic problems of other developed nations. In this respect, the state-enhanced theory of coalitions is more dynamic, as it explains the rise and decline of developed and

developing economies in a general framework. A more useful sociological theory of development would encompass the experiences of both developed and developing nations and recognize the tensions between various organized social forces and the state. As well, we cannot miss the role played by the international environment and the relations among states in a global economic and political system.

POLICY IMPLICATIONS

As demonstrated in Chapter 6, the success stories of the ANICs owe much to flexible responses to international challenges and opportunities. But the persistence of patronage networks, due to landed oligarchs, works in the opposite direction. Strongmen, who control access to jobs, lands, credits, and maintain close ties with local bureaucrats or national politicians, develop their own followings and distribute benefits to their clients according to parochial and discriminatory criteria. This pattern makes the economic structure rigid and the emergence of a class of internationally competitive entrepreneurs unlikely. The state, handicapped by a gridlock of special-interest groups, is unable to formulate and implement coherent policies.

The elimination of special-interest groups in the form of patron-client networks or patrimonial relationships between political and economic elites in developing nations is a necessary precondition for sustained economic growth. One way

to reduce the influences of such networks is by creating a competitive economy. Market forces tend to reduce rent-seeking activities, and focus attention on improving product quality and production technology. Therefore, an export-oriented policy combined with selective protection of strategic sectors has an edge over import-substitution policy in restraining rent-seeking activities. A second way to minimize the effects of coalitions is to formulate laws and establish stable institutional frameworks, which constrain personalistic manipulation (Lipset 1993, p.3).

All this is easier said than done. Entrenched interest groups are unlikely to relinquish their benefits for the sake of national growth. As discussed in Chapter 6, the relative success of Thailand owes much to the absence of influential organized interests outside the bureaucracy and military. In contrast, patrimonialism has a long tradition in most other developing nations; it has become a "norm", and is integrated into people's daily life. Without undermining the strength of such distributional coalitions, any attempt to inject "modernized" values through education is unlikely to have desirable results.

Finally, the finding of a negative correlation of state intervention and economic growth in countries where a dense network of distributional coalitions exists cannot be construed as uncritical support for the neo-liberal contention that minimal government is the best government, and that

countries suffering from institutional sclerosis should leave the market alone. Market forces in such countries are already malfunctioning. Existing elites forestall the creation of a competitive market because this undercuts their privileges. In this situation, a free market simply enables organized interest groups to perpetuate social inequality by monopolizing new ventures. Moreover, under the circumstance of strong interest groups, it is questionable whether the state is capable of resisting various distributional pressures by refraining from intervention. A refusal to act, as in the case of Hong Kong, requires that the state has as much autonomy and strength as it has commitment to economic development. Therefore, developing countries face a dilemma: on the one hand the state occupies an important role in overcoming structural constraints, constructing stable institutional and legal frameworks, and creating a competitive industrial sector; but on the other hand, intervention encourages more rent-seeking activities which effaces effective state intervention.

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Appendix: Summary of Quantitive Studies on Olson theory

Author	Period	Dependent var.	Independent var.	Control var.	Model	Sample
Olson 1982	circa post 1965	Total and per capita growth rates of 1) manufacturing income 2) private nonfarm income 3) labour and proprietors' income 4) total personal income 5) value added by manufactures	1) State age 2) level of Urbanization in 1880 3) level of unionization in 1964 and 1970	Deviation of per capita from the average in 1965 for 1) private nonfarm income 2) labour & proprietors' income	Regression	48 American states

Authors	Period	Dependent var	Independent var	Control var	Model	Sample
*Chan 1987	1961-1983	1.average annual GNP growth rate 2.Income share 3.Infant mortality rate 4.Calorie intake 5. Life expectancy	1.Trauma Rating	1.Catch-up[a]	bivariate regressions for each d.v.	13 Asian-Pacific nations
#Garand 1992	1945-1984	1.annual change in personal income	1. Age of a state[b]		bivariate regressions for different years	48 American states
#Goldsmith 1986	1950-1980	1.Gross domestic investment/GDP 2.Government consumption/GDP 3.Real GDP growth rate	1.Year of political stability		Correlation	7 less developed nations with stable democratic system
?Goldsmith 1987	1958-1967 1968-1977	1.GDP growth rates	2.Political stability index		ANOVA	77 developing nations

Authors	Period	Dependent Var.	Independent Var.	Control Var.	Model	Sample
*McCallum & Blais 1987	1960-1983; divided into 4 subperiods : 1960-67 1967-73 1973-79 1979-83	1.average annual percentage change of real GDP	1.Government Spending[c] 2. Age of a nation[d] 3. Unionization 4. Growth rate of labour 5.time/nation (D)	1.Catch-up[e]	pooling of cross-section regressions for different sub-periods	17 developed nations
?Pryor 1983	1950-1974/5, subperiods 1950-62, 1963-74/5	1.GDP/GNP growth rate 2.GDP/GNP per capita growth rate 3.GDP/GNP per economically active growth rate	1.GDP per capita 2.Population size 3.Communist nations (D) 4.Ethnic heterogeneity (D) 5.Religious heterogeneity (D)		Cross-sectional regressions	29 OECD and Eastern European nations

Authors	Period	Dependent Var.	Independent Var.	Control Var.	Model	Sample
?Quiggin 1992	1800-1976	GDP per capita in 1976	1.Number of constitutional shifts since 1800 2.Years since the last shift		Put data in tabular form	24 OECD nations

?Nardinelli Wallace & Warner 1987*	1929-1982; 1954-1982	1. % change in real per capita income	1.Age of a state[b] 2. % change in federal salaries 3. % change in state and local salaries 4. % change in manufacturing 5. % change in agriculture 6. % change in education	1.initial state income 2.initial share of state income accounted for by federal salaries 3.initial share of state income accounted for by state and local salaries 4.initial share agriculture 5.initial share industry 6.initial % of pop with high school	cross-sectional regression	48 American states

Authors	Period	Dependent var.	Independent var.	Control var.	Model	Sample
?Wallis and Oates 1988	1902-82	growth rate of 1) per capita personal income and 2) total state income	1) Age in years since statehood or 2) Age in years since statehood adjusted for Civil War 3) population density 4) Expenditure as a % of state income 5) Population growth rate	1) Urbanization 2) Rural population as a % of total state population	Regression (using panel data in decennial	48 American states

Authors	Period	Dependent var.	Independent var.	Control var.	Model	Sample
*Weede 1986	1960-1982 4 sub-periods: 1960-68 1968-73 1973-79 1979-82	1.GDP growth rate 2.GDP per capita growth rate 3.Unempolyment Rate	1.GNP per capita in 1965 2.Age of democarcy 3.Government expenditures as a % of GDP 4.Government Revenues as a % of GDP 5.Government Consumption as a percentage of GDP 6.Social security transfers as a percentage of GDP 7.Capital formation as a percentage of GDP		Cross-section regressions & Pooling of sub-periods	19 OECD nations

Authors	Period	Dependent var.	Independent var.	Control var.	Model	Sample
*Weede 1984	1960-1980	1.GNP per capita growth rate 2.GDP growth rate 3.average percentage of unempolyment	1.Years of uninterrupted full democracy 2.Government revenue/GDP in 1965 3.Social security spending/GDP in 1965 4.Average post-war legislative strength of socialist parties		Cross-section regressions	19 OECD nations
*Whiteley 1983	1955-1975	% change in real GDP per capita	1.Age of current constitution 2.the number of years that socialists took part in the executive 3.mean vote for socialist party		Cross-section regression	19 OECD nations

Notes for Appendix:

*: the results confirm Olson thesis; #: the results are either ambigious or partly confirmatory of Olson thesis; ? the results refute Olson thesis.
(D): stands for dummy variable.
a: The difference between a country's performance level on a particular dependent variable and the average performance level for that variable among all the sampled countries in the base year.
b: age of a state since the date of admission to the Union, and in the case of ex-Confederate states since 1865.
c: includes 1) initial government social security transfer and 2) beginning to end of period change in the ratio of total government outlays to GDP.
d: refers to the age of the consolidation of modernizing leadership adjusted for major social disruption.
e: logarithm of the ratio of per capita GDP of country j to that of the US

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