

Preface

The world finds itself in turbulent times. For the past few decades, despite the good intentions of democratic leadership and policy-makers all over the world, not only economic, but also social, political and security problems have increasingly eroded humanity's potential for future prosperity and peaceful coexistence. Regarding the economy, more and more people can be heard voicing their concerns about long-term stagnation of economic growth and worsening income distribution (economic polarization). Not only economic policy-making, but also economic theory seems to be in disarray. Market-centric views on the one hand, and proponents of government-led structural reforms on the other, seem constantly in conflict with one another. Liberal democracy has been almost completely drowned out by ever-burgeoning egalitarian-leaning social democratic systems, which seem to have enthusiastically absorbed socialists' traits despite the collapse of the socialist blocs in the 1990s. Despite having tried to reduce inequalities to create a 'balanced' world in the past several decades, we have become, on the contrary, even more unequal and imbalanced. This book takes on these important concerns and challenges to find a way out of the current conundrum.

The key idea in this book is 'economic discrimination', which I define as 'treating differences differently'. Economic institutions and policy, I have argued here and elsewhere, must endorse economic discrimination if there is to be any hope for economic development. The word 'discrimination', however, is rather controversial, especially when referring to socio-political discrimination such as race and gender discrimination. And maybe some explanation for the usage of this word is due. In this book, I return to the original meaning of the word 'discrimination' as meaning merely 'the act of distinguishing'. Hence, to talk of economic discrimination I mean the treatment or consideration of, or making a distinction in favour of or against, a person or thing based on economic performance. I am not by any means referring to discrimination based on certain groups, classes or categories which that person or thing is perceived to belong, and which is not based on economic merit. While moral philosophers have traditionally defined discrimination as 'disadvantageous' treatment or consideration, I view economic discrimination as 'advantageous' treatment of economically

more viable entities vis-à-vis their compatriots. Both views are a comparative definition of the term ‘discrimination’, but mine is a purely an economic concept which I argue is key to economic development. After a long deliberation, I came to believe that the world as well as markets in particular do indeed practice economic discrimination tirelessly.

Incidentally, the idea of economic discrimination is not new. More than 2000 years ago, the Chinese Legalist school seemed to refer to economic discrimination by writing that one should ‘never fail to reward the merit or let the fault go unnoticed’, or what was known as ‘the dispensation of justice’ (信賞必罰 in Chinese, 신상필벌 in Korean). In the West, the Scottish author and government reformer Samuel Smiles (1812–1904), for example, could often be heard saying that, ‘Heaven helps those who help themselves’, which reflects the story of ‘Three Servants’ in Matthew 25 in the Bible. My personal thinking on economic discrimination has developed over many years and I am quite confident that herein lies the ‘dispensation of justice’, in other words economic discrimination which is in fact a distinguishing feature of markets, that is key to the economic development process.

Like freedom and democracy, ‘development’ is a slippery concept. In this book, development is viewed as an order-transformation process whereby an economy ‘upgrades’ in leaps and bounds from an agrarian wagon economy to the industrial and knowledge-based railway, automobile, aeroplane and spaceship economies, and so on. This view is in line of the eminent economist Joseph A. Schumpeter and with the complexity and evolutionary economics approaches. I find that there is only very little in the economics literature that explains the process of economic development in a comprehensive and simple manner. Sometimes, as with the classical economists such as Adam Smith (1723–1790) and Friedrich A. Hayek (1899–1992), preconditions are provided such as secure property rights and economic freedom; and sometimes it is described merely in terms of gross domestic product and its components, largely influenced by the growth accounting school; but no really satisfactory single coherent explanation of the economic development process seems to exist in the literature. Economic development is indeed complicated and many studies tend to focus on only a narrow aspect of the economy, which is sometimes unsatisfactory, especially when one would like a comprehensive overview of the economic development process. As such, I have for many years had the ambition to develop and provide a simple or general explanation of how economic development occurs. The result is the new General Theory of Economic Development provided in this book, which rather than merely describing what development is, tries to characterize and explain how economic development comes about; particularly,

by better understanding how economic discrimination brings about the right incentives for development, that is, by reigniting the people's 'self-help' spirit towards creating a better future for themselves and for their communities. Moreover the General Theory of Economic Development will emphatically demonstrate that economic development is impossible without capitalism, despite the criticisms by some authors that label the capitalist system as a failed, contradictory system unable to deliver on the promises of growth and prosperity.

As a last point, one of the main warnings presented in this book is that we should beware of the egalitarian ideas and ethos that so eagerly creep into our institutions and policy initiatives, as they are the primary cause of economic stagnation and decline. Complexity science, and even ancient Chinese philosophers as mentioned above, have appreciated the importance of diversity and 'treating differences differently'. In fact, one of my ancestors, Zuo Qiu Ming (左丘明), who was a well-known contemporary of the Great Confucius, mentioned in his *Guo Yu* (國語) that 'harmonizing differences will create a new life order while equalizing differences will stop their creation' (和實生物, 同則不繼). That is, equal treatment or equalization can halt the process of creation and dry out the seeds of dynamism. Demanding equality without reference to contribution will definitely backfire by killing not only others' but also one's own incentives to grow and develop. 'Treating differences the same way', or what I refer to as 'egalitarianism', is the surest way to invite economic stagnation until eventually everyone will be equally worse off. Unless we tie our fate to economic discrimination, away from the 'temptations' of egalitarianism (as Odysseus in the face of the sirens was tied to the mast), there will be no hope for an economically just and prosperous society.

Being Korean has allowed me a unique opportunity to witness firsthand the dramatic economic changes in Korea and her neighbours, Japan and China. Born into a largely agrarian country at the time, I was raised in Korea as it transformed into an advanced country in record time. Korea now however faces challenging times with growth stagnation and worsening distribution, and often I wonder about how my country got here and what lies in the future. Trained as an economist in the neoclassical tradition, I have often felt that I was unable to provide a comprehensive explanation for the development trend of Korea and other developing and developed nations. Whatever explanations I found in the literature were rather fragmented, touching on only a narrow aspect of the economy. So, for many years, this led me to think about what a general theory of economic development would look like. I went back to the basics, asking myself what economics really was. And in the process I focused on trying to better understand how development comes about, or does not. This

book is the outcome of the turbulent adventure of my personal thinking and agonizing about economic development over the past 20 years or so.

I am grateful and indebted to all the many people, too many to mention, who have helped me on my journey in quest of a General Theory of Economic Development. I would like to extend my special appreciation to Professor Yong Yoon for his help and availability to discuss many of the issues raised in this book. I would also like to thank my wife, Kyungsoo, and family members Eddie, Jade, Annie, Henry and grandchildren, Erica, Ellie, Lucas and Erin, for their encouragement and patience while writing this book.