Korea and Russia:
How to Grow Rich or to Remain Poor*

Erich Weede, University of Bonn, Germany

Abstract

At the beginning or even in the middle of the 20th century, a comparison between rising Czarist Russia or, later, the mighty Soviet Union emerging victorious from World War II and poor Korea would have looked absurd. At the end of 20th century, however, the South Korean and Russian economies are about equal in size. South Korean per capita incomes are in between three and four times as high as Russian incomes. Of course, the difference in success of both countries is largely due to the Communist experiment in Russia. The divergent economic performance of both countries is all the more astonishing because both countries should have benefited from background conditions generally believed to promote growth: advantages of backwardness, massive investment and strong human capital formation. Moreover, both societies were quite similar in regime characteristics, i.e., they were characterized by autocracy and militarization of society. There are, however, strong differences concerning property rights, the degree of centralization of economic decision-making, capabilities to exploit knowledge and to innovate, economic freedom, urban bias and export orientation. These differences explain the divergent economic performance of both countries. The Soviet heritage of insecure property rights and high transaction costs is unlikely to be overcome soon.

* This paper has been published by Pacific Focus (Center for International Studies, Inha University, Korea), Vol. XVII, No. 1 (Spring 2002) pp. 67-82. The German original of this paper has been published in ORDO, Vol. 52, 2001, pp. 175-187. Previously, this paper has been presented at the European Public Choice Conference in Paris, April 20th, 2001, and at the International Studies Association Convention in Hongkong, July 26th, 2001.

1. Introduction

At the beginning of the 20^{th} century, Czarist Russia was a European great power. In spite of loosing a war against Japan in 1905, its industrialization and economic growth did seem to promise a great future to this huge country. Korea, however, lost its independence and became a Japanese colony. The future of Korea seemed to be persistent poverty and foreign rule. In the middle of the 20^{th} century the world looked very different from the way it was at its beginning. But a comparison between the Soviet Union, the successor state to Czarist Russia, and Korea still would have been too absurd for anyone even to think of making it. The Soviet Union had become a truly great power, second only to the United States. The USSR had decisively contributed to the defeat of Hitler's Germany and it had expanded its sphere of influence deep into Germany. The USSR had helped to disarm the Japanese military and it had annexed some Japanese islands. Communist China and North Korea had become Soviet allies. The Korean War had destroyed the Korean economies and reinforced Korean poverty. In the mid-fifties the prospects of South Korea were no more promising than those of African countries, say Ghana, and surely incomparable to the prospects of the mighty Soviet Union.

Until the 1980s respected economists (Maddison 1969; Pryor 1985) could compare Soviet economic performance with Japan or the West and find little significant difference between Russia and the West or Japan, and even less reason to ascribe systemic inferiority to the Soviet economic model. By then, however, South Korea had become one of the Asian tigers and a miracle economy. Nevertheless, a comparison between the Soviet superpower and tiny South Korea still would have looked quite absurd - inspite of the appearance of books like "Asia's Next Giant" (Amsden 1989) about South Korea or "The Grand Failure" (Brzezinski 1989) about the Soviet Union. A few years after the fragmentation of the Soviet Union and the rebirth of a now smaller Russian state under its old name, the Economist (1994, p. 4) published a vision of the global economy in 2020. In this rank ordering of nations according to economic size South Korea received the 7th place, i.e., just behind Germany, but ahead of Britain or France. Russia was predicted to take the 13th place. Instead of trend extrapolations one might insist on real data. According to the World Bank (1999, pp. 230-231), Russia had already fallen back to the thirteenth place at the end of the 20th century.[1] In purchase power parity terms the size of the Russian and Korean economies was about equal in 1998, although Russian territory was still much larger than any other national territory on the globe, although Russia very much in contrast to South Korea commands a lot of mineral and oil resources, although the Russian population exceeds the South Korean by more than 100 million people. Since Russia counts in between three and four times as many people as South Korea, Russian per capita incomes at the end of the 20th century were about 30 percent of South Korean per capita incomes. How should one explain this divergent economic performance?

Cultural factors are not helpful. Although both Korean states share a Korean cultural background, although North Korea was certainly no poorer than the South at the end of the Korean War, at the end of the 20th century North Koreans suffer from hunger. The ratio between Southern and Northern per capita incomes in Korea has been estimated to be about 13:1 (The Economist 1999). The divergent experience of the two Koreas cannot be explained by the same Korean culture, but by their very different economic and political systems. If politics has been a more powerful, or more plausible, determinant of the intra-Korean divergence in economic performance, it may be useful to analyze different authority patterns in explaining the divergence between the Russian

[1] According to the World Bank (2002, pp. 232-233), Russia somewhat recovered around the turn of the millennium. In 2000, its economic size was 1.4 times South Korea's economic size. But South Korean per capita incomes remained more than twice as high as Russian incomes in purchase power parity terms.

and South Korean economic performances, too. Since the current poverty in Russia is *not only* due to problems of transition from state planning to the market in the 1990s, but also determined by Soviet failure, one has to begin by comparing the Soviet Union with South Korea.

2. Similarities

There are some similarities between South Korea and Soviet Russia. Until the late 1980s both societies were autocracies rather than democracies. At the turn of the 20th to the 21st century, of course, South Korean democracy looks more robust than the Russian one. Both societies were rather militarized. In the mid-1960s Soviet defense expenditures were at least 9% of GNP, in the late-1970s at least 12%.[2] South Korean expenditures were 3.9% and 5.5% respectively. South Korean military participation levels, i.e., ratios of soldiers to working age population, were 3.9% for the first period, and 3.1% for the second period, thereby even exceeding the Soviet percentages of 2.2 and 2.8% (see Taylor and Jodice 1983, pp. 24 and 37). Few nations were more militarized than either the Soviet Union or South Korea. Since South Korea is ahead of the Soviet Union on one indicator of militarization, but behind on the other one, since it is not obvious which one is better (see Payne 1989), one should not make too much of the differences in the numbers quoted above[3]. If both countries, the Soviet Union and South Korea[4], were militarized autocracies, then neither autocracy nor militarization is a reasonable candidate for explaining divergent economic performances.

[2] According to some estimates (Aslund 1996, p. 43; World Bank 1996, p. 4), Soviet defense expenditures in the late days of the Soviet Union may have approximated a quarter of GNP.

[3] The military participation level might be the better indicator, because defense expenditures are frequently hidden elsewhere in the national budget. In some countries, like South Korea in the 1950s and 1960s, foreign military aid also reduced domestic military expenditure without reducing the militarization of society. Moreover, poor payment of conscripts also reduces military expenditures.

[4] One of the founders of the South Korean economic miracle, General Park Chung Hee considered industrial workers to be export *soldiers* (Han and Ling 1998, p. 64).

If one looks at cross-country regressions of economic growth (Barro and Sala-i-Martin 1995; Baumol 1994; Levine and Renelt 1992; World Bank 1993, p. 51), there seem to be three robust determinants of economic growth rates. First, there are potential advantages of backwardness. Less developed economies may borrow technologies of production, organization, and marketing from more advanced societies. Therefore, they can grow faster than their models. Moreover, they can benefit from reallocating labor from agriculture to more productive pursuits elsewhere. It is debatable, however, whether all less developed economies benefit from the advantages of backwardness, or whether such advantages are concentrated on those economies which are not too backward (see Baumol 1994). So, we cannot know whether advantages of backwardness should have benefited Soviet Russia or South Korea more. In the 1950s and 1960s, the South Korean economy was certainly less advanced than the Russian one. In the 1990s, the South Korean economy is more advanced than Russia's. In principle, both countries might have benefited from advantages of backwardness. Whereas the South Koreans did realize them, the Russians did not succeed, certainly not in the civilian part of the economy. With Olson (1996), one may underline the *potential* character of the advantages of backwardness and hypothesize that institutional differences account for their actualization.[5]

Second, high degrees of investment are generally accepted to be a major determinant of growth. Not yet in the 1960s, but in the 1970s and thereafter South Koreans achieved a remarkable investment ratio (see Taylor and Jodice 1983, p. 46). Although Soviet data are not easily comparable to Western or

[5] According to Olson (1996; Olson, Sarna and Swarmy 2000) neither neoclassical nor endogenous theories of growth can explain why some less developed economies converge and others don't. According to neoclassical theory, convergence should be the rule because of decreasing returns to investment in rich countries. According to endogenous growth theories, convergence should happen even less often than it does because of learning by doing, externalities and constant or increasing returns to scale. Olson, Sarna and Swarmy (2000) demonstrate econometrically that rule of law, a well working administration, absence of corruption, absence of arbitrary confiscation and government respect for private contracts may explain why some economies grow and others don't.

Korean data and probably distorted as well (see Winiecki 1988), qualitative evidence does certainly not point to a lack of investment in the Soviet Union (Maddison 1969; Pryor 1985). So, this conceivable determinant of divergent growth rates in Soviet Russia and South Korea has to be ruled out, too.

Third, human capital formation is another factor that might explain why some economies exploit advantages of backwardness and others don't. Since school enrollment ratios in South Korea were lower than in the Soviet Union in the 1960s, but higher in the 1970s (Taylor and Jodice 1983, p. 163), since literacy rates in the Soviet Union were higher than in South Korea in the 1960s and 1970s (Taylor and Jodice 1983, pp. 169-170), since a higher proportion of the Soviet population benefited from tertiary education even in the 1970s (Taylor and Jodice 1983, pp. 166-167), one has to conclude that differences in human capital formation should have made the Soviet Union grow faster than South Korea. But this did not happen. The most robust findings from econometric analyses of economic growth rates do not help us to understand why South Korea outperformed the Soviet Union.

3. Contrasts

The most obvious institutional difference between South Korea and the Soviet Union, including its Russian core, concerns private property rights. The importance of private property rights as an incentive was already recognized by Adam Smith (1776-1976) according to whom the impossibility of accumulating property leads people to lose interest in work and diverts their interest to maximizing consumption instead. Without property rights shirking becomes the rule and hard work the exception. This is not a prescription for growth.

Another institutional difference between both economies specifically concerns private property in the *means of production*. Overcoming this type of private property and the substitution of rational and central planning for the anarchy of the market have been the well-advertised hallmarks of the Soviet economy. Shortly after Lenin's rise to power, Mises (1920, p. 90) already *predicted* that the abolition of private property in the means of production would also abolish free markets in the factors of production. Since there is no *free* exchange of factors of production, it becomes impossible to know their values and prices. Therefore, money and scarcity prices cannot play the same role under socialism as under capitalism or in a market economy. According to Mises (1920, p. 99), the abolition of private property in the means of production, the abolition of free factor markets, and the reduced role of money and scarcity prices is incompatible with a rational allocation of resources. In contrast to the Soviet Union, private property rights in the means of production were protected in South Korea. If Mises is right, if private property rights actually are a prerequisite for a rational resource allocation, efficient investment and high growth rates, then the economic failure of the USSR has been predictable, at least for those who knew the right theory, i.e., Mises instead of Marx. In fact, Mises (1927, p. 134, my translation) did *foresee* the economic failure of the Soviet economy: "If the Russians had pursued capitalist policies like the Americans, they would be the wealthiest people on earth by now. Despotism, imperialism and bolshevism made them the poorest people. Now they search the entire world for capital and credit."

On top of the radical limitation of private property the Soviet economy has been characterized by planning, i.e., by coordination by command and radical restrictions of liberty. This refers not primarily to forced labor camps or the tens of millions of victims of Stalinism (see Courtois et al. 1998; Rummel 1994), but to the ordinary restrictions of economic freedom which not only factually dominated Soviet type economies, but which constituted part of the political program because of the necessity to execute plans. As Hayek (1945, 1960, 1973-1976-1979) repeatedly pointed out, restrictions of economic freedom are counterproductive. Restrictions of freedom make the mobilization of available human knowledge largely impossible. Given a modern division of labor, it is obvious that each person possesses only a fairly small part of the available knowledge. For Hayek, knowledge refers not only to academic or book knowledge, but also to the knowledge of an artisan how to bake bread or to repair shoes, to the knowledge of a peasant which of his fields is best suited to growing which kinds of grain or vegetable, to the knowledge of a manager about which supplier will deliver quality products reliably and in time. No planning agency is capable of accumulating and using all this knowledge. A decentralized and spontaneous economic order, however, permits the use of incentives, including the prospect of acquiring property, in order to make people use their knowledge in the best interest of their customers. Those who don't use their knowledge and skills have to suffer the consequences. Of course, people need the decision-latitude to do what they want to do. Those who want more freedom than most salaried employees enjoy can and should become independent entrepreneurs. By contrast to the USSR, this was an option in South Korea. Within the constraints of central planning, however, knowledge and skills become useless, unless incorporated in the plan. Although the South Korean state interfered with the economy quite strongly (Amsden 1989), there can be no doubt at all that there was *much more* economic freedom in South Korea than in the Soviet Union.

Hayek (1960, p. 32) has analyzed the impact of economic freedom in the following terms: "The benefits I derive from freedom are thus largely the result of the uses of freedom by others, and mostly of those uses of freedom that I could never avail myself of. It is therefore not necessarily freedom that I can exercise myself that is most important to me. It is certainly more important that anything can be tried by somebody than that all can do the same things.... What is important is not what freedom I personally would like to exercise but what freedom some person may need in order to do things beneficial to society. This freedom we can assure to the unknown person only by giving it to all." According to Hayek, people who lack liberty benefit from the freedom of others. By borrowing Western technologies even the Soviet Union benefited from the economic freedom still available elsewhere.

Freedom is a prerequisite of technological progress and innovation (Mises 1927, p. 48). By and large, new ideas occur to individuals and minorities. If they put them to productive use, others may follow their example. Where politicians, or even majorities, may prescribe to individuals and majorities what they should do progress becomes stifled. In Soviet Russia the party leadership controlled what people could do. There was no private experimentation, at one's own risk. Within such a system innovation could not and did not prosper.

In a previous section of this paper I did outline that human capital formation in the Soviet Union was at least equal to South Korean human capital formation, but that this cannot explain the divergence in economic performance. Possibly, a closer look at human capital formation in both societies is helpful. About 80% of all South Korean students attended private colleges and universities. That is why private expenditure exceeded public expenditure in tertiary education in South Korea. Similarly, about 80% of research and development expenditure was paid by private business in South Korea (World Bank 1998, pp. 9, 38). The Soviet Union had neither private universities nor private expenditures for research and development. The divergent economic development of both societies - comparative success in South Korea and comparative failure in Soviet Russia -

is compatible with the proposition that *private* investment in education and research is more *productive* than public investment.

For laggards in economic development who might benefit from advantages of backwardness one of the most important freedoms is the freedom to travel to economically, technically and scientifically more advanced societies in order to acquire knowledge there. The more backward a country is, the more important opportunities for the acquisition of knowledge and technology, for imitation, becomes. Acquisition of advanced knowledge and skills presupposes easy access to those countries from whom Russians and Koreans might have learnt something useful, i.e., access to the United States, Japan and Western Europe. In this respect, South Koreans enjoyed much more freedom than Russians in the Soviet Union.

Econometric studies (Beach and Davis 1999, p. 10; de Haan and Siermann 1998; de Haan and Sturm 2000; Edwards 1998; Goldsmith 1997; Gwartney, Lawson and Block 1996, p. 109; Knack 1996; Knack and Keefer 1995; Torstensson 1994) also confirm the contribution of economic freedom, in particular of its improvement over time, to economic growth. The South Korean association of more freedom with better growth, and the Soviet association of less freedom with less growth seems to fit the general pattern.

One could observe the harmful consequences of the absence of private property and freedom in agriculture better than elsewhere. Before he realized the shortcomings of Soviet industrial policies, Maddison (1969, pp. 115, 132) already observed “that it is extraordinarily difficult to organize the government agricultural sector efficiently”. He also pointed out that privately worked plots covering only 3 percent of the agricultural area nevertheless produced about 40% of the meat, milk and vegetables and about two thirds of the eggs and potatoes produced in the USSR. Soviet agricultural policies aimed at cheaply providing urban residents and workers of the USSR with food. That is why the domestic 'terms of trade' were distorted at the expense of agriculture in the USSR. By contrast, South Korea belonged to those few less developed economies which stopped discriminating against agriculture for the benefit of cities and industry already in the early 1970s (Krueger 1992, pp. 53-61). Whereas urban bias persisted in Soviet Russia since the forced collectivization, such a bias affected South Korea only in the 1950s and 1960s. By and large, urban bias and the corresponding distortion of rural and urban prices is a fairly effective brake on economic development (Bates 1983; Bradshaw 1987; Krueger 1992; Lipton 1977; Weede 1987). Russian agriculture remains weak to this day. Only 6 percent of the agricultural land are cultivated by private peasants, about 3 percent are private garden plots. State and collective farms frequently lack fuel, fertilizer and machinery. Long after the Soviet Union had passed, in 1998, the Russian grain harvest hit a new low mark (Rybak 2000).

Another difference between Soviet Russia and South Korea concerns the openness of their economies. Already the founder of the Soviet Union, Lenin, was impressed by the achievements of the German war economy during the first world war. Necessarily, i.e., because of the allied blockade, this was a rather autarkic model. Later, Stalin aspired at building socialism *in one country*. The huge area of the Soviet Union and its mineral wealth also contributed to make the ideal of autarky look desirable and feasible. By contrast, South Korea was too small, too poorly endowed by nature and too dependent on the United States in its early decades to make autarky look feasible or desirable. So, it was comparatively easy to avoid the autarky trap, although the North Koreans dug themselves deeply into it. According to Taylor and Jodice (1983, pp. 226-228) the South Korean trade to GNP ratio was 21% in the mid-1960s, but already 62% in the late-1970s. By contrast, the Soviet ratios were 10 and 11% for the two periods respectively. Whereas the difference between both countries in the 1960s was still largely due to their difference in size, this is no longer true for the 1970s when the South Koreans were on a miraculous and export-oriented growth path.

Although South Korean governments powerfully pursued industrial policies, export orientation saved them from the usual consequences of such a policy. Certainly, South Korea never was an ideal free market economy like Hongkong (see Amsden 1989; Lie 1998; Weede 2000, chapter 9; World Bank 1993). Subsidies, protectionism, and cheap credit for huge conglomerates, i.e., the chaebols, were the preferred tools of government policies for decades. These instruments did *not* aim at preserving established patterns of industry or at benefiting disadvantaged groups, however, as economic and social policies usually do in the democratic West, but they ultimately aimed at the attainment of military power. In their motivation Soviet policies and South Korean policies under Park Chung Hee were quite similar. Economic policy was the maid of external security.

In the Korean case, exports had to compensate the expected loss or reduction of American military and economic aid once the Vietnam war became more and more costly. Therefore, the Korean government promoted exports and successful exporters. One may regard the cooperation between government and industry in South Korea until the 1980s as a kind of favoritism. In order to become or remain a government favorite, however, Korean enterprises had to succeed on global markets, preferably on the American market. On global markets even the biggest Korean enterprises were rather small fry. There was no escape from competition. Korean businesses had to survive it by permanently improving the quality of their products and offering them at a price acceptable to foreign customers. The Korean government was too weak to offer significant protection from competition on global markets. Korean business had to help itself. Whereas Russian enterprises always could find customers for shoddy products in the Soviet bloc suffering from widespread scarcity for most civilian products, Koreans had to compete with the Japanese and others in order to satisfy wealthy and demanding customers who were willing and able to turn elsewhere. Export orientation Korean style is useful for all countries who want to benefit from the advantages of backwardness. Cross-country regressions confirm this proposition, too (Dollar 1992; Edwards 1998; Frankel and Romer 1999; Greenaway and Nam 1988; World Bank 1993, 1998, p. 158).

Soviet Russia, however, pursued socialist policies and remained autarkic and poor. The endgame of the Cold War began when the insight spread that the Soviet Union would never close the economic gap with the United States, that it was falling further behind, and that economic trends inevitably would affect future military capabilities (Brooks and Wohlforth 2000-2001).

4. Prospects

The Soviet Union has been dissolved. Its Russian core has become an independent state. Although the decline of the Russian economy had already begun under Communism (Murrell and Olson 1991), the transformation of the 1990s did not yet significantly improve the situation. On the one hand, there are estimates (Economist 1997, p. 5; World Bank 1996, p. 26), according to which the Russian economy shrank to half of its earlier size in the early 1990s. This is a worse shrinkage than the American economy suffered during the Great Depression or Russia itself during World War II. On the other hand, one should remember that much Soviet production resulted in useless goods. Without these Russians are no worse off than before. Therefore, Aslund (2001, pp. 20-21) perceives mere stagnation instead of a collapse of the Russian economy after the dissolution of the Soviet Union. Moreover, since 1999 GDP growth rates have been higher than 5%.

If one wants to summarize the current state of the Russian society and economy in stark terms (for detail see Weede 2000, chapter 10c), then one has to point out the coexistence of capitalism and electoral democracy with an almost total absence of the rule of law. The insecurity of property rights raises transaction costs in Russia (Winiecki 1996). Capitalist economies cannot prosper without safe property rights (Jones 1981; Olson 2000; Pipes 1999; Weede 2000). Political liberalization is no substitute for the rule of law. According to Hillman and Ursprung (1999), liberalization in Russia achieved little more than providing an opportunity for new actors to participate in the rent-seeking game, thereby permitting the wastage of more and more inputs in the distributional struggle instead of serious attempts at satisfying the demand of consumers by productive efforts.

It is impossible to establish safe property rights overnight. The Soviet heritage is a much greater burden on Russia than Japanese colonialism or American occupation have been in South Korea. Russians, in particular administrators and judges, have to learn to adjust to the rule of law. Legislation by itself does not generate habitual obedience to the law. Worse still, socialism did educate people *not* to respect property rights. Where all the means of production and all the products at first belong to the state, there are no private property owners who are interested in the prevention of theft. According to Olson (1995, 2000), private property owners rather than the state carry most of the burden of protecting property from theft. This applies to the West as well as to South Korea. Examples for private burdens to protect property are easy to find. Owners buy locks. They pay for plant protection. Victims of theft report to the police and tell them what they know. In Soviet-type economies, however, the thieve of state-owned property and the illegal buyer of stolen property and perhaps even the police and other officials who like to take their cut cooperate in covering the theft. The annihilation of the respect for property and law may be the worst and most persistent heritage of socialism.[6]

Overcoming this legacy will be difficult. According to Blankenagel (2000, p. 115), “legal systems work on the basis of the confident presumption that they will really work.” No one who has experienced arbitrary rule under the Communist Party can confidently rely on this presumption. Moreover, most Russian judges and lawyers did serve previous Soviet rulers and thereby earned a poor reputation. They are not well educated. There are only “about one fifth of the amount of legal professionals per capita that western legal cultures have” (Blankenagel 2000, p. 108). Russian law is especially weak in administrative law and in controlling illegal acts of the administration. Under such circumstances protecting the autonomy of the economy from political interference is a tall order.

Finally, the privatization of property in Russia suffered from a handicap which was absent in Central European countries, like the Czech Republic or Hungary. In Central Europe, Communism could be perceived as foreign and imposed. Overcoming Communism could be sold as a return to one’s natural European identity (Appel 2000). That is why the Czech privatization program made few concessions to the “illegitimate” special interests of managers or labor in previously state-owned enterprises, and why the Hungarian privatization program could even encourage foreign acquisitions, whereas the Russian program lacked ideological support among the populace and therefore had to

[6] Yavlinsky (1998, p. 71) reports a survey where 76% of all Russians state that dishonesty promotes success, but only 39% attribute success to hard work. Those who know how the ‘oligarchs’ plundered the Russian gas and oil industries (Wolosky 2000) must wonder why the survey responses are not even worse.

buy political support by numerous concessions to insiders, i.e., to ex-Communist managers and industrial labor (see Aslund 1995, p. 223 ff.). Since Communist roots in Russia are deeper than elsewhere in transition economies, it was and is more difficult to transfer property rights to those who can make the best use of them.

South Korea and Russia differ in their natural wealth, i.e., in their endowment with minerals or energy resources. In this respect, South Korea is poor, whereas Russia is rich.[7] Unfortunately, the impact of natural resource endowments on institutional and economic development seems to be negative (Lal 1998, p. 3; de Soysa 2000). Rich natural resources provide incentives for distributional struggles. In post Soviet Russia these struggles have been won by tiny minorities securing a rich booty for themselves at the expense of the state and the population at large. So far, the winners of these struggles are the new oligarchs of Russia. As bad as regressive redistribution within Russia is capital flight from Russia. Estimates of it run from about 200 to 500 billions of dollars (Baker 2000). Resulting largely from illegal activity and almost certainly avoiding taxation in Russia, flight capital reduces otherwise possible investment and thereby economic growth.

Although it is too early to judge Putin's impact on Russia's economic performance, there is a single bit of good news. Recently, a law has been enacted to reduce income tax to 13% across the board (Economist 2000). This was a useful law by making tax-dodging less attractive, by making taxation simple enough for Russia's limited administrative capabilities, and, possibly,

[7] Although Russia is not a land-locked country, it certainly is less accessible by sea than (South) Korea. In some analyses of economic development (Hausmann 2001) this is an important factor. Bringing geography into the analysis, however, would necessitate further complications. Whereas the geography of Russia and Korea remained constant, South Korea did overtake Russia in living standards. Changing institutions are more likely determinants of this achievement than permanent geography.

even by attracting some of the flight capital back home. After the law, income tax revenue *rose* by 70% (Aslund 2001, p. 22).

The precipitous decline of Russia and the contrasting miraculous rise of South Korea do *not* demonstrate that Russia is condemned to persistent and worsening poverty or that South Korea is destined to become a great economic power. But the economic history of both countries in the 20th century demonstrates the impact of economic policies and institutional frameworks. The price of false economic theories, like Marxism, is horrendous.

References

Amsden, Alice H. 1989. Asia's Next Giant. South Korea and Late Industrialization. New York: Oxford University Press.

Appel, Hilary. 2000. 'The Ideological Determinants of Liberal Economic Reform: The Case of Privatization'. World Politics 52(4): 520-549.

Aslund, Anders. 1995. How Russia Became a Market Economy. Washington, DC: Brookings.

______. 2001. 'Russia'. Foreign Policy 125: 20-25.

Baker, Raymond W. 2000. 'Illegale Kapitalflucht. Gefahr für die globale Stabilität'. Internationale Politik 55(6): 17-22.

Barro, Robert J. and Xavier Sala-i-Martin. 1995. Economic Growth. New York: McGraw-Hill.

Bates, Robert H. 1983. Essays on the Political Economy of Rural Africa. Berkeley: University of California Press.

Baumol, William J. 1994. 'Multivariate Growth Patterns: Contagion and Common Forces as Possible Sources of Convergence'. Pp. 62-85 in William J. Baumol, Richard R. Nelson, and Edward N. Wolff (eds.): Convergence of Productivity. Oxford: Oxford University Press.

Beach, William W. and Gareth G. Davis. 1999. 'The Institutional Setting of Economic Growth'. Pp. 1-20 in Bryan T. Johnson, Kim R. Holmes and Melanie Kirkpatrick (eds.): 1999 Index of Economic Freedom. Washington, DC: Heritage Foundation and New York: Wall Street Journal.

Blankenagel, Alexander. 2000. 'Legal Reforms in Russia: Visible Steps, Obvious Gaps, and an Invisible Hand?' Journal of Institutional and Theoretical Economics 156(1): 99-119.

Bradshaw, York W. 1987. 'Urbanization and Underdevelopment'. American Sociological Review 52(2): 224-239.

Brooks, Stephen G. and William C. Wohlforth. 2000-2001. 'Power, Globalization, and the End of the Cold War: Reevaluating a Landmark Case for Ideas'. International Security 25(3): 5-53.

Brzezinski, Zbigniew. 1989. The Grand Failure. The Birth and Death of Communism in the 20th Century. New York: Scribner's.

Courtois, Stéphane. 1998. 'Die Verbrechen des Kommunismus'. Pp. 11-43 in Stéphane Courtois et al.: Das Schwarzbuch des Kommunismus. München: Piper.

de Soysa, Indra. 2000. 'The Resource Curse: Are Civil Wars Driven by Rapacity or Paucity?'. Pp. 113-135 in Mats Berdal and David M. Malone (eds.): Greed and Grievance. Economic Agendas in Civil Wars. Boulder, CO: Lynne Rienner.

Dollar, David. 1992. 'Outward-Oriented Developing Economies Really Do Grow More Rapidly: Evidence from 95 LDCs 1976-1985'. Economic Development and Cultural Change 40(3): 523-544.

Economist, The. 1994. 'Survey: The global economy'. The Economist 333, No. 7883, October 1st.

______. 1997. 'Survey: Russia'. The Economist 344, No. 8025, July 12th.

______. 1999. 'A Survey of the Koreas'. The Economist 352, No. 8127, July 10th.

______. 2000. 'Putin à la Pinochet?' The Economist 355, No. 8176, June 24th.

Edwards, Sebastian. 1998. 'Openess, Productivity and Growth: What Do We Know?' Economic Journal 108: 383-398.

Frankel, Jeffrey A. and David Romer. 1999. 'Does Trade Cause Growth?' American Economic Review 89(3): 379-399.

Goldsmith, Arthur A. 1997. 'Economic Rights and Government in Developing Countries: Cross-National Evidence on Growth and Development'. Studies in Comparative International Development 32(2): 29-44.

Greenaway, David and Chong Hyun Nam. 1988. 'Industrialization and Macroeconomic Performance in Developing Countries under Alternative Trade Strategies'. Kyklos 41: 419-435.

Gwartney, James, Robert Lawson and Walter Block. 1996. Economic Freedom of the World 1975-1995. Vancouver, BC: Fraser Institute.

Haan, Jakob de and Clemens L.J. Siermann. 1998. 'Further evidence on the relationship between economic freedom and economic growth'. Public Choice 95(3-4): 363-380.

Haan, Jakob de and Jan-Egbert Sturm. 2000. 'On the relationship between economic freedom and economic growth'. European Journal of Political Economy 16: 215-241.

Han, Jongwoo and L.H.M. Ling. 1998. 'Authoritarianism in the Hypermasculinized State: Hybridity, Patriarchy, and Capitalism in Korea'. International Studies Quarterly 42: 53-78.

Hausmann, Ricardo. 2001. 'Prisoners of Geography'. Foreign Policy 122: 45-53.

Hayek, Friedrich August von. 1945. 'The Use of Knowledge in Society'. American Economic Review 35(4): 519-530.

______.1960. The Constitution of Liberty. London: Routledge and Kegan Paul.

______.1973-1976-1979. Law, Legislation and Liberty. 3 vols. London: Routledge and Kegan Paul.

Hillman, Arye L. and Heinrich W. Ursprung. 1999. 'Political Culture, Political Liberalization, and Economic Decline'. Paper prepared for the Conference on Political Culture, Economic Policy and Economic Performance, Tinbergen Institute, Erasmus University, Rotterdam, February 3-6.

Jones, Eric L. 1981. The European Miracle. Cambridge: Cambridge University Press.

Knack, Steve. 1996. 'Institutions and the convergence hypothesis: The cross-national evidence'. Public Choice 87(3-4): 207-228.

Knack, Steve and Philip Keefer. 1995. 'Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures'. Economics and Politics 7(3): 207-227.

Krueger, Anne O. 1992. The Political Economy of Agricultural Pricing Policy. Vol. 5. Baltimore: Johns Hopkins University Press.

Lal, Deepak. 1998. Unintended Consequences. The Impact of Factor Endowments, Culture and Politics on Long-Run Economic Performance. Cambridge, MA: MIT Press.

Levine, Ross and David Renelt. 1992. 'A Sensitivity Analysis of Cross-Country Growth Regressions'. American Economic Review 82: 942-963.

Lie, John. 1998. Han Unbound. The Political Economy of South Korea. Stanford, CA: Stanford University Press.

Lipton, Michael. 1977. Why Poor People Stay Poor. London: Temple Smith.
Maddison, Angus. 1969. Economic Growth in Japan and the USSR. London: George Allen and Unwin.
Mises, Ludwig (von). 1920. 'Die Wirtschaftsrechnung im sozialistischen Gemeinwesen'. Archiv für Sozialwissenschaft und Sozialpolitik 47(1): 86-121.
______. 1927 . Liberalismus. Jena: Gustav Fischer.
Murrell, Peter and Mancur Olson. 1991. 'The Devolution of Centrally Planned Economies'. Journal of Comparative Economics 15: 239-265.
Olson, Mancur. 1995. 'Why the transition from Communism is so difficult'. Eastern Economic Journal 21(4): 437-461.
______.1996. 'Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor'. Journal of Economic Perspectives 10(2): 3-24.
______. 2000. Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships. New York: Basic Books.
Olson, Mancur, Naveen Sarna and Anand V. Swamy. 2000. 'Governance and growth: A simple hypothesis explaining cross-country differences in productivity growth'. Public Choice 102: 341-364.
Payne, James L. 1989. Why Nations Arm. Oxford: Blackwell.
Pipes, Richard. 1977. 1999. Property and Freedom. New York: A.A. Knopf.
Pryor, Frederic L. 1985. A Guidebook to the Comparative Study of Economic Systems. Englewood Cliffs, New Jersey: Prentice-Hall.
Rummel, Rudolph J. 1994. Death by Government. New Brunswick, N.J.: Transaction.
Rybak, Andrzej. 2000. 'Putin steuert bei der Bodenreform Zick-Zack-Kurs'. Financial Times Deutschland 20.3.: 14.
Smith, Adam. 1776-1976. An Inquiry into the Nature and Causes of the Wealth of Nations. Oxford: Oxford University Press.
Taylor, Charles Lewis and David A. Jodice. 1983. World Handbook of Political and Social Indicators. 3rd ed. New Haven, CT: Yale University Press.
Torstensson, John. 1994. 'Property Rights and Economic Growth'. Kyklos 47(2): 231-247.
Weede, Erich. 1987. 'Urban Bias and Economic Growth in Cross-National

Perspective'. International Journal of Comparative Sociology 28(1,2): 30-42.

______. 2000. Asien und der Westen. Baden-Baden: Nomos.

Winiecki, Jan. 1988. The Distorted World of Soviet-Type Economies. London: Routledge.

______. 1996. 'Transforming to Economic Freedom'. Paper presented at the General Meeting of the Mont Pelerin Society, Vienna, September 8-13.

Wolosky, Lee S. 2000. 'Russia's Plutocrat Problem'. Foreign Affairs 79(2): 18-31.

World Bank. 1993. The East Asian Miracle. New York: Oxford University Press.

______. 1996. 1998. 1999. 2002. World Development Report. New York: Oxford University Press.

Yavlinsky, Grigory. 1998. 'Russia's Phony Capitalism'. Foreign Affairs 77(3): 67-79.