Singapore's Small Development State

Ryan H. Murphy

In this issue Bryan Cheang, writing within a lengthy tradition of scholarship, objects to the description of various East Asian success stories, especially Singapore, as exemplars of liberalism. No one within Singapore views Singapore as an especially free market country, and there are few, if any, voices championing classical liberalism in the city-state. Rather, Singapore got to be where it is by engaging in state activism, paternalism, and pragmatic approaches to what laws, rules, and institutions work. Just as Hall and Soskice (2001) suggest that we should make the distinction between liberal market economies (like that of the United States) and coordinated market economies (like Germany's), we should also make distinct the East Asian model of capitalism, developmental state capitalism.

The *Economic Freedom of the World* (*EFW*) index (Gwartney et al. 2022), of which I am a coauthor, has long ranked Singapore as having the second-freest economy in the world, behind only Hong Kong. Cheang goes out of his way to say that his position is not that there is anything particularly being mismeasured in *EFW*, but that this evaluation of Singapore's institutions presents a "limit" to economic freedom indices. Where locals and outside evaluators disagree, the locals are correct, and the thin descriptions of variables like those in *EFW* miss out on what can be understood through the lens of thick qualitative descriptions and comparisons across countries. Cheang places special emphasis on the lack of context and of cultural understanding in play when an index score is used.

Ryan H. Murphy is a research associate professor at the Bridwell Institute for Economic Freedom in the Southern Methodist University Cox School of Business.

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In this comment on Cheang's "East Asian Challenge for Market Liberalism: Toward a Hayekian Context-Sensitive Response," I will raise several points. First, I will tell a counterfactual story of a set of "Ruritanian" states that are similar to the East Asian tigers, but they do not intervene in the markets as "developmental states." Instead, their ideology is that prosperity is achieved by state intervention to paint all the buildings in their country blue. I then explore how to measure "developmental state capitalism," which Cheang does not consider, as he instead argues that thicker comparisons are preferable. When developmental state capitalism is defined narrowly in terms of spending and ownership (as Cheang does), Singapore scores either in the middle of the pack (if we assume certain reported data are correct), or in the vicinity of the top, but not surrounded by other East Asian countries, if we arbitrarily assume certain reported data are completely wrong. If we also define developmental state capitalism in terms of protectionism, which Cheang does not but his own sources do, Singapore scores the seventh-*least* in developmental state capitalism in the world. I then argue that even as qualitative evidence is useful and important, it is also important not to simply discount quantitative evidence when it contradicts one's own beliefs or widely held beliefs. Cheang's arguments concerning culture and institutions also do not engage with the extensive neoclassical (and generally quantitative) literature on the topic.

Given all of these points, it is unclear what challenge East Asia presents for market liberalism.

The Blue Houses of Ruritania

Suppose, in a counterfactual world, a group of countries known as the Ruritanian states developed an elaborate ideology about the importance of painting all the buildings in their countries blue. Through a combination of subsidies and regulations, they make sure that four times a year, their buildings are repainted blue using only the highest-quality paint in the world. The government does not do all that much besides making sure all the houses are blue, and the Ruritanians have a long history of strong norms that help support a system of property rights. The *Economic Freedom of the World* index is also published in this reality, and because the state interferes so little in the marketplace (aside from painting the buildings blue), the Ruritanian states are scored even higher than Hong Kong and Singapore in economic freedom.

Scholars of the Ruritanians' ideology object that the state does not follow the philosophy of the economic liberalism that is captured by *EFW*. In fact, the Ruritanian government can be downright authoritarian in ensuring that there are no dissidents to the blue-building ideology. It is true that the government spending in support of painting buildings blue appears in the "size of government" measure in *EFW*, and the *Doing Business* report used by *EFW* correctly counts the additional days of delays and fees that new businesses must face when complying with the blue-building regulations. But it is said that it is incorrect to think of the Ruritanian states as somehow encapsulating liberalism, as a thicker comparison between the Ruritanian states with the United States and Western Europe would surely show.

But, when we add the Ruritanian states, which are quite wealthy, to our regressions that use *EFW* to predict economic performance, they fall very close to the predicted values of the regression. They "support" the case for economic liberalism because they fit with what everyone else does when a country approximates laissez-faire. There is little left to explain, even though the Ruritanians insist that painting all their houses blue is the underlying philosophy for their political economy.

What I have described above is what I view to be the correct interpretation of the claim that the developmental state presents a challenge to market liberalism. The particular way the Ruritanians choose to defect from completely free markets is peculiar and the result of a specifically articulated ideology, but it doesn't make their markets any less exemplars of economic freedom. Similarly, the ideology of the developmental state and industrial policy may have led countries in East Asia to pursue barriers to free trade, favoritism for certain industries, and various public investments. But to demonstrate that this constitutes a "challenge" to market liberalism, one would need to show one of the following:

- The collection of policies of the developmental state and industrial policy separately explain variation in economic performance, after accounting for the level of economic freedom in the country. If these policies do not explain the success of Singapore, pursuing them is merely the idiosyncratic way the government of Singapore has chosen to intervene, to the extent it engages in intervention, in the same sense the Ruritanian states devote their expenditures to painting their buildings blue.
- Important dimensions of the developmental state are unaccounted for in *EFW*; and should they be accounted for, the East Asian success stories would no longer be assessed as having high levels of economic freedom.

Cheang expressly denies the latter, but simultaneously declares that "the market liberals' characterization of East Asian nations as beacons of economic freedom is unconvincing, because it does not cohere with the considered judgments of East Asian citizens, policymakers, and scholars." Now, it's possible that *no* country should be thought of as a "beacon of economic freedom," but the question remains, unfree compared with what?

Let us grant that there is "something different" about Singapore, and that it pairs that "something different" with economic freedom. What must be shown is that the "something different" matters for the economic performance (or something else) of Singapore, and if it does not explain anything, then the developmental state of Singapore is nothing more than the bureaucratic apparatuses of the countries of Ruritania charged with painting buildings blue. If that "something different" is conventionally defined developmental state capitalism, then there is only marginally more evidence of its benefits than there is evidence in favor of Ruritanian public policy. That is to say, if Singapore and other East Asian countries systematically differ from the rest of the world, but neither in a way that means that their economic freedom ranking is incorrect, nor in a way that has any empirically important effect on societal outcomes, what are we even talking about? However, we could also try measuring developmental state capitalism in modern-day Singapore to determine if what is asserted about its institutions holds true.

Measuring Developmental State Capitalism

Suppose we accept the premise that developmental state capitalism is an important, additional dimension of economic institutions. Although Cheang frames this as being a subtlety that can be gleaned through qualitative thick analysis, there is no reason why one could not measure it, just as one measures economic freedom. Cheang lists the characteristics of developmental state capitalism as "subsidies to firms, government investment in technology, products, or industries, state-owned enterprises." *EFW* already contains two measures that naturally measure aspects of this: government investment as a percentage of total investment, and state ownership of the economy. We have scores for all of the East Asian tigers for both of these variables.

That doesn't quite completely capture what Cheang lists, but we can go further, tailoring the measurement the best we can to Cheang's description. The IMF's Government Finance Statistics webpage reports data tables of "Functional Expenditures."[1] These tables itemize government spending by function (rather than breaking down government spending between consumption and investment), such as "Defense" and "Public Order & Safety." One of these items is "Economic Affairs," which appears close to spending flows on industrial policy. There are sometimes further breakdowns on these data by industry, e.g., "agriculture, fishing, forestry & hunting" and "communication," but these are not reported consistently and do not appear to exhaust all of the spending within "Economic Affairs," so I will use the aggregate.

In *EFW*, "Transfers and Subsidies" enters as a single line item, with transfers being the bulk of that spending in most cases (typically, the welfare state plus entitlements is orders of magnitude larger than explicit subsidies). But in the "Detailed Expense Breakdown" in Government Finance Statistics, we can just pull the data on subsidies alone. We therefore have four measures that address the characteristics given by Cheang of developmental state capitalism. Conveniently, both economic affairs and subsidies are provided by the IMF expressed as a percentage of GDP.

1. These data can be found at https://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405.

I focused on the year 2019, rather than more recent data, to avoid issues related to COVID-19 (the most recent data from 2015–18 were used to substitute if there was no 2019 data, following the same convention as *EFW*'s).

To construct the measure, I first invert the government investment and government ownership index scores from *EFW*, such that higher scores correspond to more government; that is to say, I subtracted its score from 10. Then, I took the 95th percentile highest value from both subsidies and economic affairs and assigned that a score of 10, and I assigned the 5th percentile highest value a zero. (Constructing the measure this way captures the distribution of the data without allowing outliers to throw off the scoring.) Averaging the four values, now on the 0–10 scale, such that 10 always corresponds to a larger developmental state, yields a final score for developmental state spending. When one of the four scores was missing, I averaged the three that were still present (again, consistent with *EFW* methodology). When two or more were missing, I did not score the country. I was able to score 130 countries, including Singapore, Hong Kong, China, Taiwan, South Korea, and Japan, using this methodology.

The top ten countries in developmental state spending are Zimbabwe, China, Azerbaijan, Rwanda, Egypt, Kuwait, United Arab Emirates, Belarus, The Gambia, and Saudi Arabia. These results match what is already thought about those countries. China and Rwanda are commonly (and, in my view, correctly) classified as developmental state regimes. Most of the remainder are petrostates with heavy state involvement in the energy sector. Belarus is the one country in Eastern Europe that was never informed that communism ended in 1991.

Table 1 reports the data and ranking for the East Asian tigers plus the G7. Among the 130 countries, Singapore ranks 86th, rather distant from China's rank of 2nd. Among those listed in the table, Singapore ranks behind South Korea and France. But there is an important caveat to that initial ranking: the IMF reports that Singapore's subsidies as a percentage of GDP to be zero. This is not actually unbelievable; several countries in the data set report that subsidies are zero, and the IMF simply does not report the data if it does not believe the data. However, the subsidies may be operating off the books through state-owned enterprises. The question then arises, how large this might be, empirically, and how much similar spending occurs in other countries,[2] which is a question that would need to be answered if we are truly making comparisons. It is also possible that there aren't explicit subsidies that are treated as pure transfers for the purposes of national accounts, although we should already be capturing those spending flows in "economic affairs" or as government investment.

2. Another issue is the large amount of quasi-private capital in Singapore's equivalent of social security, which often funds public works. If this were "private," the investment data I am using may be off. I emailed Singapore's Department of Statistics, and they indicated such investments are counted as public investments in their national accounts data, not private.

Table 1
Developmental State Spending for Asian Tigers and G7 Countries

	Government Investment	Government Ownership	Economic Affairs	Subsidies	Score	Rank
China	6.13 (36.46%)	6.02	10.00 (7.25%)	NA	7.38	2
Hong Kong	2.64 (24.25%)	2.33	1.83 (2.38%)	0.63 (0.23%)	1.86	128
Japan	1.69 (20.91%)	0.63	3.95 (3.61%)	1.58 (0.57%)	1.96	102
South Korea	0.59 (17.06%)	2.78	NA	10.00 (5.36%)	4.46	26
Singapore	1.07 (18.73%)	5.63	3.05 (2.98%)	0.00 (0.00%)	2.42	86
Taiwan	0.69 (17.43%)	2.51	NA	1.66 (0.60%)	1.62	113
Canada	0.57 (16.98%)	2.79	3.40 (3.29%)	3.08 (1.10%)	2.46	82
France	0.13 (15.47%)	2.84	7.89 (5.90%)	7.60 (2.74%)	4.62	24
Germany	0.00 (11.45%)	1.39	3.29 (3.23%)	2.25 (0.81%)	1.73	111
Italy	0.00 (12.73%)	2.20	4.84 (4.13%)	4.30 (1.55%)	2.83	72
United Kingdom	0.15 (15.52%)	1.71	3.48 (3.34%)	2.75 (0.99)	2.02	100
United States	0.47 (16.64%)	0.69	3.55 (3.38%)	0.94 (0.34%)	1.41	119

Note: Raw data—state spending as a share of GDP—in parentheses. Government Investment and Government Ownership are pulled directly from Gwartney et al. (2022) data, inverted such that higher index scores correspond to larger governments. Their sources for Government Investment are the IMF's *Investment and Capital Stock Dataset*, the World Bank's *World Development Indicators*, and *OECD Data*. Government Ownership originates with *Varieties of Democracy*. "Economic Affairs" and "Subsidies" both originate in the IMF's *Government Finance Statistics*.

But if it is the case that transfers are occurring through state-owned enterprises, their importance in Singapore is already taken into account by the government ownership indicator. Only 14 countries in *EFW* (out of 165) score as having more government ownership than does Singapore (in order of more ownership: Iran, Qatar, China, Ethiopia, Eswatini, Belarus, Azerbaijan, Saudi Arabia, Tajikistan, Egypt, Laos, Algeria, Rwanda, and Bahrain). Singapore's score must fail to reflect the degree to which its level of ownership influences the economy. To consider this question, I referenced the Economist Intelligence Unit's score on the extent to which state ownership of enterprise distorts the business environment. It indicates a low level of distortion caused by public ownership in Singapore,[3] so there is actually evidence that the bias runs in the other direction.

Let us assume that the subsidy data for Singapore is completely wrong, and assign it a 10 instead of a zero. Simultaneously, so we aren't double counting, let's ignore the state ownership variable for Singapore, because we are assuming that the subsides are working through state-owned enterprises. The three components that

3. I am not using this variable for measuring the size of the developmental state or reporting its specific value because the data are proprietary.

are scored for Singapore are now 1.07 out of 10.00 for government investment, 2.98 out of 10.00 for economic affairs, and the arbitrary score of 10.00 out of 10.00 for subsidies. Upon averaging, that yields 4.68, which is 21st highest among 130 ranked countries. Other wealthy countries that are ranked similarly (not counting petro-states) are Belgium (12th), Hungary (16th), Norway (24th), France (25th), South Korea (27th), and Czechia (34th). It isn't clear, aside from South Korea (and *possibly* Norway) why these countries would be thought of as reflecting the same kinds of institutions and policies described by Cheang as what makes Singapore distinct, rather than just countries with large public sectors. That is to say, even after massaging the data, Singapore does not stand out either as being unique or as belonging with the bulk of fellow supposed East Asian developmental states.

But there is one other substantial issue with Cheang's formulation. The constellation of policies that is *typically* referred to when describing what has made East Asia distinct do not comprise just the subsidies, investments, and state ownership he articulated. *Usually* "developmental state" is taken to also mean protectionism. (And that "usually" equally applies to state ownership: the developmental state does not *need* to own a large chunk of the economy.) Protectionism is reflected in plenty of Cheang's own sources, and it's certainly clear in that protectionism is implied in Chang (2003), the most canonical post–Friedrich List developmental state work I am aware of, in which tariffs are more or less credited for kick-starting growth in the West. Managing trade also plays a clear role in the first two works Cheang himself cites (Amsden [1990] and Chang [2006]) as representative of East Asian scholarship that rejects the view that East Asian countries have embraced capitalism.

Cheang is free to define his terms however he wishes. But, if my understanding of the literature is correct, then one can't really stand on the shoulders of a giant like Ha-Joon Chang without also including protective trade policies in one's definition of the developmental state. A complete measure of developmental state capitalism would then require the inclusion of such policies. (To be technical about it, Cheang's account of the developmental state is invalid from the standpoint of content validity.) *EFW*, of course, already contains measures of the policies as its Freedom to Trade Internationally area, which we can simply invert as we did the other variables. Underlying this area are three measures of tariffs, two measures of nontariff trade barriers, black market exchange rates, and three measures of the free movement of capital or people.

So, let us see where that leads us. We'll take the developmental spending variable above and average it with the inverted free trade data, thereby creating a two-area index of developmental state capitalism. (I am using the original calculation for Singapore, not the massaged version of its score.) The results reporting the top and bottom 10 countries of the two-area index appear in table 2. Singapore is among them. But it is not at the top of the list. It's among the 10 *least* developmental-state-oriented countries in the world—the seventh least.

Table 2
Top 10 and Bottom 10 Countries for State Developmental Capitalism

Rank	Country	Developmental Spending	Protective Trade Policy	Score
1	Zimbabwe	8.34	4.22	6.28
2	Egypt	7.04	3.76	5.40
3	China	7.38	3.29	5.33
4	Iraq	7.38	4.82	5.20
5	Burundi	2.93	7.30	5.11
6	Belarus	6.34	3.82	5.08
7	Azerbaijan	7.32	2.76	5.04
8	Congo, Republic of the	4.79	5.10	4.95
9	Kuwait	6.82	2.71	4.77
10	Rwanda	7.31	2.08	4.70
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121	New Zealand	2.05	1.24	1.64
122	Dominican Republic	1.47	1.80	1.64
123	Panama	1.94	1.07	1.51
124	Singapore	2.42	0.56	1.49
125	Portugal	1.74	1.21	1.48
126	Lithuania	1.44	1.32	1.38
127	Ireland	1.32	1.27	1.30
128	Peru	1.06	1.30	1.18
129	Hong Kong	1.86	0.44	1.15
130	Guatemala	0.36	1.71	1.03

Note: "Developmental State Spending" was constructed as described in-text. "Protective Trade Policy" is "Freedom to Trade Internationally" from Gwartney et al. (2022), inverted such that higher index scores correspond to more protective trade policies.

Is this wrong? Let's circle back to the previous discussion with more specifics. If there are off-books subsidies that need to be accounted for (and I am not actually conceding that this is indeed the case), we can add them in. In 2019, GDP in Singapore was $350 billion (in 2015 dollars) according to world development indicators. To score a 10 (where Singapore currently scores a zero) in the subsidies component, the "true" subsidies in Singapore must be 3.61 percent of GDP, or roughly $12.6 billion. If there is any evidence that state-owned enterprises are quietly transferring[4]

4. To be explicit: subsidized loans off the formal books should not blindly get added to this figure. The subsidy for a subsidized loan is simply the differential in interest payments between what could be obtained on the market versus any artificially low interest rate offered by the government. One would also need to focus on the differential payments on any debt that particular year, not what would correspond to the total amount of loans out there at the moment.

$12.6 billion per year, every year, to domestic firms in ways that are otherwise unreported to the IMF, I am open to changing my evaluation. I doubt that "true" subsidies even approach 1 percent of GDP. If "true" subsidies are 1 percent of GDP, then the subsidies score for Singapore would increase from zero to 2.77. And if we then rescore Singapore completely, its rank in the overall developmental state measure would only go up from 124 to 105.

There is also a bit of disconnect between what Cheang claims his project is meant to show methodologically, and what he delineates as separating Singapore from other countries. Not only is what he describes as differentiating Singapore measurable in principle, but it is *already measured*, with some possible quibbles about whether my chosen spending variables map perfectly into his description. Even if Cheang wishes to go back and change his definitions to include, for instance, governmental favoritism for domestic firms, that still won't really impact Singapore. We have measures, from country-level experts, general development experts, and local businesspeople on favoritism and similar variables, and they still agree that Singapore is much less problematic than most countries on these margins as well.[5]

Methodology, Measurement, Culture, and Institutions

If it is the case that Singapore is not being incorrectly scored by *EFW*, and Singapore's developmental state is actually very small, what we are left with are the critics who view claims that Singapore is a beacon of free market capitalism with incredulity, and Cheang's incredulity in turn. (I hope this is not being uncharitable, as Cheang has already indicated as much, as quoted above.) The simple answer can be that the critics of *EFW* are wrong. On the one hand, those who dislike free market policies would also dislike the idea of linking the free market to Singapore's success. It isn't a secret that someone like Ha-Joon Chang thinks that developmental states are immensely beneficial institutions, for example.

On the other are those in Singapore who like free market policies (regardless of whether or not they self-identify as classical liberal[6]) but think their nature is wildly overstated by outside observers. The problem is, however, that advocates of free markets *universally* think that *EFW* overstates how free markets are in their home country. My colleague and coauthor Robert Lawson calls this "Walter Block's law" after Walter Block, who made this observation thirty years ago. Lawson has told me the law has yet to be shown false. To any American reading this: the 2022 edition

5. Here are some examples: "Government Favoritism" from the Economist Intelligence Unit (world experts), "Rigorous and Impartial Public Administration" from Varieties of Democracy (country-level experts from the countries in question), or "Efficiency of Legal Framework in Challenging Regulations" and "Efficiency of Legal Framework in Settling Disputes" from the Global Competitiveness Report (surveys of businesspeople). Singapore rates well in all three.

6. I believe it is self-evident that such people exist in Singapore, as someone must be advocating for them for Singapore to have the kinds of policies that it has.

of *EFW* (the most recent at the time of this writing), which scored the year 2020, ranked the United States as having the *seventh*-freest country in the world! Can you believe that? During lockdowns!

See?

Although I intend for my criticism of Cheang to mostly remain in my primary subject area (the measurement of institutions), the relationship between qualitative, thick description and hermeneutical analysis as advocated by Cheang and my own reductive Excel spreadsheet fiddling bears some resemblance to what Kahneman (2011, 245–54) calls the "inside view" versus the "outside view." The inside view knows all the specifics of the circumstances; the outside view knows the averages. I do not know whether this finding has been exploded in the replication crisis as it has in much of the rest of behavioral economics, but the general conclusion has been that the outside view is almost always what to go with. For example, if you want to guess if a restaurant is going to fail, you should take the base rate and adjust for a few general characteristics (i.e., the outside view), and you will do a much better job of guessing the chance than if you interview the staff and perform various inspections of the restaurant or, worse, ask the owners what they think (i.e., the inside view).

I do not mean to throw all qualitative research under the bus; it can clearly yield insights (Skarbek 2020). I worry, rather, that dismissing quantitative evidence, when it is possible to do it correctly and there is no particular reason to distrust the numbers, just because it contradicts the inside view, I hesitate to say, is bad scientific practice. And even as Cheang sometimes phrases his project as merely getting his approach a seat at the table alongside quantitative methods, he is indeed asking us to throw out the quantitative result. To coin a terrible pun, qualitative knowledge and experience should not make one "hermeneutically sealed" off from the outside view and quantitative assessments.

Also to that point, Cheang doesn't acknowledge the significant large-N quantitative literature on culture, at one point insinuating that small-N qualitative methods are necessary to study culture. But why? Confucianism, one of the cultural aspects Cheang emphasizes, has been featured prominently as far back as Sala-I-Martin's (1997) "I Just Ran Two Million Regressions" paper.[7] And we have had a method for measuring market-supportive culture for more than a decade; it has been used to help explain or explore institutional quality, property rights, and economic freedom (Tabellini 2008, 2010; Williamson and Kerekes 2011; Williamson and Mathers 2011; Coyne and Williamson 2012). This measure is a combination of social trust, obedience (negated), respect, and individual self-determination.

Out of 91 countries in that measure, Singapore ranks rather poorly, at 64. *But Singapore also ranks poorly in relation to the other East Asian tigers*: Taiwan is at 42, Hong Kong 18, South Korea 17, Japan 12, and China 6. I do not have a strong

7. See also Sowell (1996, 175–233), for instance, discussing the economic implications of the culture of Chinese diaspora at length.

belief in how to interpret this ranking, but it suggests that Singapore is an outlier among these cultures, not that these cultures systematically differ from Europe and the United States on the margins that economists believe culture interfaces most with market institutions. Indeed, for whatever reason, Singapore is again distant from China's ranking, just as it is distant from China in my ranking of developmental states. Other studies that consider the effect of culture, conceptualized differently, and its relationship with economic freedom include Johnson and Lenartowicz (1998), Nikolaev and Salahodjaev (2017), Gohmann (2018), and de Soysa (2019).[8] A broader literature review on the mainstream view of institutions and culture can be found in Alesina and Giuliana (2015).

It is very unclear to me, therefore, where the challenge to market liberalism lies and how qualitative evidence is meant to allow us to better understand it. With minimal effort I have provided what a quantitative measure of the developmental state would look like, using variables that are the focus of Cheang's own sources. China (correctly) ranks third highest in the measure; Singapore ranks seventh lowest. Separately, there are rather clear sources of data for most (all?) of the variables that Cheang suggests, including Confucianism and communitarianism (e.g., invert the individualism measure from Hofstede et al. 2010), in addition to all the data found in the World Values Survey.[9]

It's possible that, despite decades of fine-tuning, projects on culture like the World Values Survey are missing important dimensions of culture. It's possible that my approach to measuring developmental states is too limited, and modern Singapore is such an extreme outlier in some other unmeasured dimension of developmental state institutions that it should, along with China, be thought of as close to the platonic ideal of a developmental state. But why not take a look at the data to see how far you can get, before proclaiming that approaching these questions through the lens of conventional quantitative methods is something that simply cannot be done correctly?

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8. My own analysis of the topic can be found in Murphy (2021).

9. Cheang calls for economists to use variables like interviews. That is what the World Values Survey does, while performing them at a large enough scale that statistical inferences from them are at least potentially valid. See the WVS website at https://www.worldvaluessurvey.org/wvs.jsp.

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