Concepts before Measurement

A Rejoinder to Ryan Murphy on the Developmental State

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Ryan Murphy, who is a coauthor of the Economic Freedom of the World (EFW) index, through the use of statistical and quantitative evidence, insists that Singapore does not exhibit a high degree of state intervention, either when "developmental state capitalism is defined narrowly in terms of spending and ownership" or in terms of protectionism (Murphy 2023/24, 442). With this, he also makes the larger point that though qualitative evidence is useful, quantitative evidence should not be discounted when it "contradicts one's own beliefs," insisting that my earlier paper (Cheang 2023/24) failed to account for the extensive quantitative research on culture and institutions. He ultimately claims that "it is unclear what challenge East Asia presents for market liberalism."

I argue that Murphy's response fails to appreciate the nature of my earlier argument, and indeed exhibits the very myopia that motivated my argument in the first place. At the heart of Murphy's paper is a poor understanding of what exactly a developmental state form of capitalism is—and, thus, a failure to appreciate its wider significance in the academic literature and in policy practice. Specifically, he

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simplistically reduces developmental state capitalism to discrete policies such as government spending, ownership, and the level of protectionism, which are not sufficient conditions that define this institutional variety. He does not demonstrate any understanding whatsoever of how political scientists have understood the concept, which does not encompass merely the presence of certain forms of government intervention like industrial subsidies and protectionism. Developmental state capitalism is rather a *specific institutional arrangement characterized by a specific type of bureaucracy, the way this bureaucracy interacts with private actors, and the sociological underpinnings that legitimize this state-society linkage.*

Therefore, the deeper problem with Murphy's response is that it simply fails to appreciate the political science literature from which the developmental state concept first arose, and the social context of the case of East Asia, the most well-known exemplar of the model. The argument I make is *not* that qualitative methods are superior to quantitative ones, or that the "insider's view" must always take precedence over an outsider's view. It is about the importance of having the right *concepts* before measurements are attempted.

Concepts must always precede measurement. In turn, to better understand the concept of "capitalism" in the East Asian context, an *interdisciplinary approach* sensitive to the Confucian underpinnings of the region, the historical path dependency that has locked in the developmental state variety of capitalism, and the tension between universalism and cultural particularism are all warranted—all of which Murphy ignores. Certainly, good interdisciplinary analysis will take on board the quantitative approach that Murphy favors. However, Murphy's criticism, by being limited to his own "primary subject area (the measurement of institutions)"—as he himself admits (2023/24, 450)—hampers him when stepping out of the confines of his discipline. He is quite right that neoclassical economists like him have tools to study culture and institutions, and that quantitative evidence has great value—points I readily agree with. Yet, these points do not respond to my argument because they miss the forest for the trees.

Not an Exercise of Explaining Success

It is also extremely important to reiterate that I did not, have not, and do not claim that developmental statism explains the success of Singapore or East Asia. Like Murphy, I am in fact very skeptical of the thesis that "state intervention led to East Asia's success," a thesis that scholars like Ha-Joon Chang, Robert Wade, and others have made. This is why in my previous work, I have demonstrated how such state interventions stifled creative dynamism (Cheang 2022b), fostered unintended consequences in the form of crowding out indigenous entrepreneurship (Cheang 2022a), and facilitated a culture of rent seeking (Cheang 2023). But in order to come to such classical liberal conclusions, I needed to first acknowledge the existence of developmental statism in East Asia. One cannot properly evaluate X if the existence of X is downplayed.

Thus, Murphy has confused my argument as being one of "explaining success," when in fact it is merely one of establishing the existence, persistence, and contemporary relevance of a particular institutional arrangement of state capitalism. This is an important exercise because state capitalism, often embedded in authoritarian governance, is resurgent in many parts of the world today (Carney 2018; Som 2022). The reason for focusing on Singapore and China as cases is because of the additional layers of technocracy and communitarianism there expressed through ideology, rhetoric, and discourse—which constitute a further aspect of unfreedom.

What Is a Developmental State?

Perhaps it is my fault for being too brief about what a "developmental state" is (my description is admittedly brief in the opening section of my paper), but political scientists have a specific meaning of it. It is somewhat flippant for Murphy to claim that "Cheang is free to define his terms however he wishes" (447).

There are three layers of a developmental state model: interventionist policies, an institutional framework, and an ideational foundation. These are the three necessary *and sufficient* conditions that define a developmental state (to better understand this, consult Chu [2016, chap. 1]; Haggard [2018]; and Wade [2018]).

The first aspect of a developmental state, the most well known, features a specific mix of policies. Such states engage in industrial policy, grow national champions, and protect certain industries. Specific tools may range from direct subsidies, fiscal incentives, or simply the provision of favorable terms and infrastructure to specific private actors. When conceived this way, one realizes that such interventions are not unique to East Asia. Today, Western governments pursue industrial strategies. This is the first layer of developmental states (or contemporary entrepreneurial states), which Murphy has rightly identified and sought to measure in his paper.

However, anyone who dives deep into the political science literature will realize that developmental state theorists are speaking about something more than just interventionist policies:

> Efforts to distinguish between state types solely by observing policies are fruitless: all states intervene in their economies to support and promote certain kinds of economic activity. *What distinguishes developmental states from others is not the existence of intervention per se but rather the developmental ambition and elite consensus that frames that intervention and the existence of institutional capacities* that help translate ambition into more or less effective policy outcomes. (Thurbon 2014, 11; emphasis mine)

Crucially, these policies are pursued within a specific institutional arrangement (*hardware*). In this model, key bureaucratic agencies enjoy a concentration of power and influence and enjoy a high state capacity to enforce their plans. The internal structure of such bureaucracies is said to be run by technocrats recruited meritocratically who operate according to efficiency principles typically seen in private organizations. These are meant to ensure that proper performance conditions are attached to government incentives in order to minimize waste and to ensure that even state-owned enterprises and protected firms are commercially disciplined. A developmental state economy is thus one where civil servants rather than democratic leaders are preeminent. Yet, there is a crucial component of "embedded autonomy": these agencies are simultaneously interconnected with private actors (through formal and informal linkages), but also insulated enough to be immune to rent-seeking pressures (Evans [1994] 2012). How such an arrangement is achieved is down to an institutional construction in which the state influences the private sector without being influenced by it.

Undergirding the formal institutional structure and government policies is a *deeper institutional software* characterized by a high degree of consensus and coordination around developmental values. In simple words, all the state elites are genuinely committed to pursue a national agenda of growth and single-mindedly steer state action toward these ends. This is another way of describing what Mariana Mazzucato (2018) called "mission-oriented" governance. Additionally, this consensus cannot be limited to the elites, but is *broadly shared* by the population. The absence of such a broad "developmental mindset" (Thurbon 2016) would mean that state action is frustrated, and citizens would not be willing to undertake the necessary sacrifices needed to achieve national development.

Murphy and other classical liberals may think that these ingredients—state capacity (based on embedded autonomy) and a developmental mindset—are a fantasy or almost impossible to obtain in the real world. But that is beside the point. The point is that political scientists have developed an entire literature around these themes. Policy experts then argue that East Asian nations, having possessed these characteristics, demonstrate how to successfully combine planning with market forces and avoid the negative effects of state intervention seen elsewhere (Aiginger and Rodrik 2020).

Murphy's statistical maneuverings, however clever, thus fail to address this challenge of East Asia's "planned market" because he has simply not understood what a developmental state is. If it was merely a case of how much industrial spending, ownership, and protectionism a state engages in, Murphy would be right that "even after massaging the data, Singapore does not stand out either as unique, or alongside the bulk of fellow, supposed East Asian developmental states" (447). But he has simply started with a *flawed conception flowing from an ignorance of the developmental state literature.* Even if the United States tomorrow jacked up its amount of industrial subsidies, ownership of state-owned enterprises, and import tariffs by a factor of 10 (unsurprising given where America seems to be headed), it would not make it a developmental state, simply because it lacks the sort of state capacity, institutional coordination, and sociocultural consensus (at times bordering on authoritarianism) said to define developmental states.[1]

Murphy's thought experiment on Ruritania therefore misses the mark, because it reduces the analysis to what a state does or does not do (paint houses blue). I have my own thought experiment that better captures how *institutional arrangements may be configured in such a way as to amplify state power even for a "small government"*:[2]

> Imagine a hypothetical country Libertopia, which has only fifty civil servants governing a huge population with an expenditure per capita of $500. Possessing an efficient organizational structure, they control a strategic resource within the economy: the harbor through which all foreign goods must enter. The control over this singular "strategic node" is sufficient for the state of Libertopia to wield enormous influence over its economic activity, especially the dependence of firms on foreign raw materials. Due to the leanness and efficiency of the civil service, these fifty civil servants do not expend much taxpayer resources in their operations. Contrast this to Hobbesia, which has government expenditure per capita of $5,000 and supervises a thousand civil servants over a smaller population. Here, the state owns many more assets, but none as strategic as the harbor. There are many points of entry for foreign goods to enter, and multiple nodes of interaction between foreign and local entities. The intuition is clear: Libertopia's government ironically wields more extensive political economic control than Hobbesia. (Cheang and Lim 2023)

This analogy draws from what Elinor Ostrom (1986) called the "logic of combinatorics," where rules may be *configured* in complex and diverse ways to produce a myriad of outcomes. In the same way, despite each stand-alone aspect of the Singapore state being "small government," institutions are configured in such a way that affords it outsized state power. Such an analysis does not preclude quantitative evidence but requires starting with the right concepts and studying institutions in their particular contexts.

Concepts Precede Measurement

Quantitative evidence is definitely useful, as Murphy has rightly pointed out, including its applications on culture and institutions. In fact, I readily cite and incorporate

1. This is why contemporary calls to establish "mission-oriented" entrepreneurial states in the style of East Asia may require the sort of social engineering, communitarianism, and authoritarianism seen in East Asia's history—which are either dangerous, unrealistic, or a combination of both.

2. See Cheang and Lim (2023) for a full analysis.

this literature in a recent coauthored handbook on institutions and economic development (Cheang and Palmer 2023). This quantitative literature has certainly added to an appreciation of how individualistic values and liberal institutions are necessary for human progress. Additionally, my historical analysis that compared how Singapore and Hong Kong developed made use of much quantitative evidence, showing how the latter's bottom-up approach outperformed the former's state-led alternative on certain metrics. Thus, *in the larger enterprise of assessing the causes of the wealth of nations*, one would welcome quantitative evidence—and in fact all evidence—in the arsenal of analysis.

However, in the specific context of East Asia's governance, what motivated my earlier paper were two concerns: *First*, that there may be conceptual confusion of what capitalism actually looks like in the region, and *second*, that there is a failure to recognize that what on the surface looks like the economics of industrial policy is instead a microcosm of a more complex debate on rival modes of governance between East and West, one that requires an interdisciplinary approach. Murphy's response, as I will show, precisely demonstrates these problems rather than corrects them.

The great comparative political scientist Giovanni Sartori (1970) argued that "concept formation stands prior to quantification," and I might add, prior to all empirical analysis. Unfortunately, he found a tendency for researchers to sidestep "what is" questions with "how much" questions, such that even well-designed measurements may rely on overstretched concepts. Concept stretching becomes all the more likely given the proliferation of many more country units in recent world history, so terms like *democracy* and *capitalism* lose their precision as they traverse such diversity. This concern is precisely what motivated the institutional economist Geoffrey Hodgson to reconceptualize capitalism, inspired by his realization that "our understanding of that system [capitalism] has been impaired by the deep corruption within the social sciences of key terms such as *property*, *exchange*, and *capital* as well as by the ongoing preoccupation by economists with mathematical technique over real-world substance" (2015, ix).

Something similar has happened in relation to Murphy's response and, I suspect, to most free market economists' understanding of East Asia's capitalism. One might respond: But we know what capitalism is! It is simply an economy based on private property and the use of the price mechanism. Once again, capitalism, as with most institutional arrangements, has a lumpy, historically contingent quality: American capitalism is dissimilar to Japanese capitalism, nor is capitalism the same in Singapore and Hong Kong, even if all exhibit property rights and the use of prices. This is why I recommended the value of "varieties of capitalism" analysis, in order to appreciate the unique social factors that shaped East Asia's capitalism.

This is why small-N qualitative work is especially useful in this context, since it helps us *rethink our concepts:* whether we should alter them, and when and where we should apply them. Frederic Schaffer (2000) through qualitative work in Senegal, clarified how people understood the concept of "democracy" differently depending on their language. Similarly, my motivation is to increase our understanding of why East Asian capitalism evolved in a nondemocratic, at times illiberal, social ethos. Why is Malaysian capitalism, though economically successful, influenced by ethnic patronage? Why did political liberalization not keep pace with economic liberalization in Southeast Asia? Qualitative work on these questions helps us clarify our conceptual understanding of "capitalism" and makes large-N quantitative work better too.

The challenge that East Asian governance poses to market liberalism is not one reducible to economics only. Understanding this challenge is not just a matter of measuring interventionism and calculating its consequences on income and growth. An economist may insist that noneconomic questions be left to others. But this is a lame response if one is interested in individual liberty in its multifaceted dimensions. The economics of industrial policy in East Asia *cannot be separated from a wider noneconomic reflection* on Confucian meritocracy and its alleged superiority to liberal democracy—and from an investigation of its alleged "embedded autonomy." In the wider region, why do people continue to suffer human rights abuses under authoritarian regimes despite pro-market reforms (see Kurlantzick 2023)? This is not just an academic exercise, but one with great economic import for citizens too.

Sadly, none of this is recognized in Murphy's response, which instead doubles down on measuring the "true" economic freedom of Singapore and concluding that there's "nothing special" about East Asia. This proves the very point I have sought to make. It is telling that none of his citations come from Asian journals, Confucian scholars, or area studies specialists. Perhaps it doesn't matter, because "two million regressions" were ran and we already know all there is to know!

If one does not even understand the *concept* of the development*al* (not development!) state, and simply proceeds to measure government intervention, one precisely demonstrates Hayek's warning on the "nuisance" and "positive danger" of being "only an economist." Such a danger relates to what he deemed the "fiction" held by some researchers who consider "the factors which they can measure" as "the only ones that are relevant" (Hayek 1975). I stand in good company.

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