

Achieving the Shared Economic Growth

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After critically reviewing the literature on the institutional approaches for the shared growth, this paper briefly presents a General Theory of Economic Development (GTED) as basis for the discussion of shared growth. The GTED argues that Economic Discrimination (ED) by Markets, Corporations and Government is a necessary condition for shared economic development while Egalitarianism by any of them is a sufficient condition for economic stagnation. ED means treating the different differently while Egalitarianism is antithesis to ED. This paper also presents a new empirical framework for analysing growth and productivity implied by the GTED, and provides the empirical results that a 1 percent increase of per capita corporate asset brings about a 0.4 percent increase in per capita income and a decrease of income GINI coefficient by 0.015, supporting “the corporate-led shared growth hypothesis” of the GTED. Finally, the paper discusses the dramatic experiences of the rise and fall of Korea’s economic development and the stagnated Pakistani experience over the last 60 years, implying that the growth stagnation has been due to the anti-corporate policy led by the egalitarianism.

JEL Classification: B, B5, D21, D23, O1, O43, P14

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I. INTRODUCTION: DILEMMA OF STAGNATION AND POLARISATION

The world economy in the second decade of the 21st century is confronted with the paramount dual challenges of long-term stagnation of economic growth and worsening income distributions (or economic polarisation). At the end of World War II, Western capitalism faced its greatest challenge in the form of global expansion of communism, which vowed to destroy capitalism and replace it with socialism. The communist bloc headed by the Soviet Union promised to create a socialist utopia in which *both* prosperity and complete equality among all citizens would be guaranteed, forever. In order to combat the threat, the Western capitalist nations chose to adopt a revised capitalism (mixed economy) or social democracy, while the developing world chose the balanced growth strategies under social democracy. The socialist world, which

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experimented with a purely socialist economic regime, eventually crumbled in a dramatic fashion with a complete breakup of the communist bloc (North Korea being the sole surviving member). The transitional economies from the old socialist regime are now mostly operating as social democracies. Therefore, one can say that for the whole post-war period, the world economy has been inclined, to a greater or lesser degree, towards egalitarianism, seeking economic equality. But, surprisingly, after two decades of apparent victory in the ideological battle, the Western developed economies today, in particular, find themselves faced with renewed and more intensified struggles over how to address growth stagnation and inequality.

The advent of growth stagnation and economic polarisation runs completely counter to what modern economic institutions and policies had intended and had anticipated; in fact, they were meant and designed to *preclude* such problems. Some critics are quick to place blame on the so-called neoliberal policies since the 1980s.¹ However, if one understands just how short-lived such policies were in place, meaningful only during the Thatcher-Reagan era with some lingering effects, this episode should be seen as no more than a typhoon in a teacup. A broader and proper picture of the underlying institutions, governing the post-war political economy regime, should be seen as the economic equality-seeking “egalitarian democracy,” which includes the revised capitalism and social democracy, not to mention socialism. Such broader perspective reveals the ultimate irony of history, that the well-intentioned and concerted efforts to create a more equitable society—i.e. a shared growth economy—have, in fact, produced a more unequal as well as growth-stagnated economies. This historical irony underlies the fundamental dilemma faced by the world economies today and calls for a revitalised search for solutions by economists as well as other social scientists.

Some Marxists or leftist economists cling to the notion that the problem of stagnant growth and worsening income inequality is simply the fact of the capitalist economy. i.e., an inevitable outcome due to the fundamental contradictions of capitalism. Their simplistic “solution” is to further strengthen redistribution. What they fail to recognise is that the policy of redistribution has been the *central* tenet of egalitarian economic policy regimes, adopted by the egalitarian democracies in the post-War era.

On this score, however, the mainstream camp fares no better. They are often heard, stating the current dilemma as being “a new normal” that will sustain for some time, which is another way of admitting ignorance of what is happening and what the solutions are.² In fact this confession is partly understandable, since the mainstream has all along been the chief architect or administrators of the political economy regime in the post-WWII era.

The theme of this paper, *how to achieve shared growth*, is directly related to this issue. The world under the egalitarian political-economy regime has been seeking the shared growth models during the post-war period, as a response to the threat of communism. Development economics has also preached balanced growth as the key goal of economic development. These efforts have, ironically, resulted in a world of the polarised stagnation, raising the essential question: what exactly went wrong with

¹See Piketty (2014) and Stiglitz (2012), for example.

²See Summers (2013, 2014 and 2016), Krugman (2013), El-Erian (2010), Cowen (2011) and Gordon (2016) for the issues of growth stagnation and new normal.

economists' toolkit for the shared growth model? While the theme of the shared growth has always been the *raison d'être* for economics as an academic subject; the economics profession has been failing to deliver the right answers till now.

The order of presentation of this paper is as follows: Section II will briefly but critically review the literature on the approaches to shared growth. Section III will briefly present a General Theory of Economic Development (GTED) as the basis for the discussion of the shared growth model. Section IV will present a new empirical framework for analysing growth and productivity, implied by the GTED and will provide some empirical evidence to support the GTED as well as the shared growth hypothesis of capitalism. Section V will highlight the dramatic experiences of Korea's shared growth during its Developmental State period, followed by the polarised stagnation in recent decades. This section will also compare the Korean and Pakistani experiences over the last 60 years and attempt to explain why they turn out to have once been so different but are getting so similar now. Section VI will conclude the paper.

II. BRIEF OVERVIEW OF THE EXISTING ARGUMENTS

This section will briefly review some of the attempts in the existing literature on economic institutions and policies, designed to create shared growth and development.

In his seminal work, Douglass North (1990) has argued that Private Property Rights (PPR) and Economic Freedom (EF) are the prerequisite economic institutions for economic development, and the new institutional economics (NIE) school has been following suit. However, their development-friendly institutions are, in many cases, not well-defined and sometimes are obscure because even PPR and economic freedom have not been enough to generate development in many cases. While the argument "institutions do matter" is certainly agreeable, the literature has largely failed to provide a clear answer to the question, "*which or what* institutions really matter for development?" However, the NIE arguments are now so very well received that the so-called Washington consensus had already incorporated them into their shopping list of "new" economic development policies.

It should be noted that now the Washington consensus on economic development policy derives from a combination of mainstream neoclassical approaches, neo-liberalism and NIE. They suggest that the free market supported by the socio-economic institutions and policies of PPR, EF, privatisation, deregulation, education, R&D, the rule of law, SOC, free trade and macroeconomic stability will ultimately lead to economic development. This approach rightly emphasises the importance of free market but does not fully take account of the roles of government as well as private corporations (to be discussed shortly). As a result, the mainstream consensus is insufficient in explaining the diverse developmental experiences throughout the history. Nor does this approach sufficiently explain the current problems of the world economy, namely growth stagnation and polarisation, which have emerged even under the most up to date free market system as well as full-dressed democracy.

More recently, Acemoglu and Robinson (2012) stand out as a strand of NIE that proposes the concepts of inclusive institutions as development-friendly institutions, contrasting it to extractive institutions which are detrimental to development. They define extractive institutions as nondemocratic and exploitative institutions, confirming

the common sense understanding, while defining the inclusive institutions as democratic institutions with PPR and economic freedom along the usual case made by the new institutional economics. Interestingly, their inclusive institutions include the most popular political regime today, i.e. a plural democracy including even social democracy, seeking economic equalities. Their argument, however, fails to explain why then most of the democratic market economies are now facing problems of non-inclusive growth stagnation, after their long effort towards inclusive growth in the post-war era.

Finally, as discussed already, the most popular and dominant political regime today takes the form of “egalitarian democracy”, which includes social democracy as well as welfare state under the revised capitalism, and which all seek economic equality. However, as already argued, the egalitarian democracy has, in fact, failed to produce shared growth.

The most serious weakness of all these approaches turns out to be their ignorance of the vulnerability of economic institutions and policies to economic equality ideology that forms the very basis of egalitarian democracy and not much different from the socialist ideology. They do not seem to recognise the danger that seeking economic equality under the egalitarian democracy can actually cause damage to the economic growth and development.

III. A GENERAL THEORY OF ECONOMIC DEVELOPMENT (GTED): A BRIEF SUMMARY

(1) Economic Discrimination (ED) as the Basis of Development

A GTED [Jwa (2017)] consolidates the existing debates on the role of the market vs. the government, by incorporating the role of private corporations and going beyond the neoclassical growth accounting approach. GTED accepts the complexity-view of economic development [Beinhocker (2006)] by interpreting the development as a non-linear order transformation process from a wagon-economy to railway, to the automobile, to the airplane, to spaceship economy, rather than the linear process from a wagon- to more-wagons-economy as in the neoclassical growth model. Seen from this perspective, economic development can be defined as an order or complexity-transformational process, entailing the qualitative as well as the quantitative change, while economic growth is seen as the quantitative change given the order or complexity of economy. However, this paper will use development and growth interchangeably; both implying the order as well as the quantity increases for the sake of convenience in light of the mainstream convention that growth now means both.

GTED starts with a new interpretation of the function of the markets, and highlights the previously neglected role of modern capitalist corporations as the key feature of capitalist economy and the new positive role of the government in economic development, thereby discovering the holy trinity of economic development, markets, corporations and the government. The key organising concept of GTED is “Economic Discrimination(ED)” based on performance. GTED argues that ED by Markets, Corporations and Government is a necessary condition for economic development while Egalitarianism imposed on any of them will be a sufficient condition for economic stagnation. ED means treating the different differently while Egalitarianism is an anti-

thesis to ED. This ED concept is already well established as “dispensation of justice”, both in the West and in the East. The Western maxim states that “God Helps those who help themselves”, probably reflecting the analogy of the Three Servants in Matthew 25 of the Bible. The parallel Eastern maxim is, “Never fail to reward a merit or let a fault go unpunished” (“信賞必罰” in Chinese and “신상필벌” in Korean)³, stated 2200 years ago by Chinese philosophers known as the School of Law or the Legalism. ED has been a fact of life all along throughout the history of human evolution. It is critically important to stress, however, that ED does not mean anything like political or social discrimination. GTED incorporates ED mechanism as the key principle of economic development. A short overview of GTED is in order.

(2) Role of Market, Nature and Failure of Development

First, the function of markets is redefined in GTED. Markets in the real world, different from the perfectly competitive markets in the textbook, discriminate economic agents according to their economic achievements and direct resources and wealth to successful agents, a matter of fact in everyday life. Consumers, bankers, financial investors, corporate firms and workers, all endeavour to select the best or better performing agents for their respective economic activities via market transactions, thereby helping only those who help themselves.

Markets thereby create economic inequalities naturally and motivate market participants to work harder. In this sense, markets are a motivational discriminator just like a god who helps those who help themselves. This economic discrimination and motivational function is, in fact, the essential role of markets that make them an important institution for economic development. In this view, any mechanism strengthening the market’s discrimination function, by acknowledging differences in economic outcomes and thereby providing motivation, will necessarily help promote economic development. On the other hand, if the markets are artificially constrained not to exercise ED, for example by the egalitarian institutions, they will be helpless in motivating economic growth and development.

Seen from this perspective, PPR system and economic freedom, in fact, can be reinterpreted as a means for creating economic differences and inequalities, which in turn motivate economic agents to work harder, ultimately benefitting economic development. In this regard, the capitalist market economy with unfettered PPR and economic freedom may have more chances to grow. However, as will be seen shortly, markets alone may not be enough for economic development in reality.

Second, development is a complex, cultural evolutionary process of free-replication of or free-riding on others’ success knowhow, allowing a mass of people to become successful. This is the very nature of non-linear order transformation process of development. Markets, however, cannot handle such free-riding problem successfully, especially because market transactions face transaction costs. Market transaction is based on the voluntary agreement on the terms of trade of the commodities. Transaction costs naturally arise in reaching an agreement due to imperfect information regarding the nature of commodities and the enforceability of the trading contracts. If such transaction

³ “Reward a merit but punish a demerit”. Korean as well as Chinese has the same meaning.

costs are too high due to the elusive nature of the commodities, they will become subject to free-riding and turn into free goods and eventually disappear from the market.

Success knowhow is a case in point here. Business leaders that serve as sources of success knowhow but at the same time are subject to free-riding on their services tend to disappear from the market. Markets alone cannot produce the critical mass of economically successful role models to lead the transformation process. This is a case of failure of ED and motivation, a new kind of market failure which is different from the textbook case. Markets alone cannot spark the developmental process, theoretically and historically, as vividly exhibited by the long history of economic stagnation during the agrarian era as well as the modern day catch-up failure by many under-developed market economies.

Here, the introduction of a secure PPR system may help improve the market's power of discrimination, but it is not enough to solve the aforementioned free-riding problem. The reason is that the nature of knowhow success is intrinsically too elusive to be fully identified for legal protection so that it may become prohibitively costly to fully assign and enforce PPR for it. In that sense, a market economy is destined to be trapped in developmental failure.

(3) Role of Corporation Leading The "Capitalist Corporate Economy"

The natural solution to this developmental failure is the expanded participation of private firm, as an organisation based on a command-control mechanism that can avoid transaction costs (or save information costs) and solve the particular market failure by internalising knowhow-free-riding activities at the expense of some organisational costs. The firm comes into existence to take advantage of the markets' failure of ED and turn itself into an expert in ED. In particular, the modern joint-stock corporation is a relatively new social technology that arose in the capitalist economy. It emerged from individually or family owned black-smith-type firms in the agrarian economy to become complex organisations that are capable of expanding their capital base and undertaking business risks to unlimited scales.

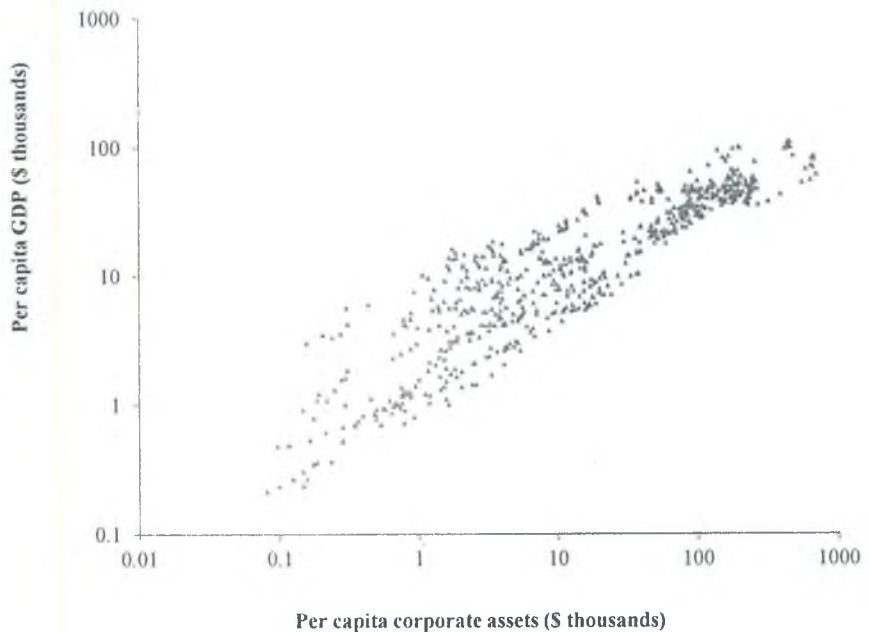
Theoretically, the market failure of economic development during the long history of the agrarian economy could be due to the lack of such complex organisations. The natural follow-up question should then be why many capitalist economies around the world are failing in catch-up even with the prevalence of modern corporate system as well as the market economy. The clue to an answer lies in the very nature of development: free-riding on the shoulders of the giants. In a purely private, imperfectly competitive marketplace, successful corporations are also destined to be subject to the free-riding on their success-knowledge by followers and the market will fail to produce such successful corporations in large numbers.

In this context the modern developmental state as a public organisation has been an important supplement to the market, by promoting the growth of such corporations (a key point to be elaborated in the following section). Here, we find the positive role for the government as well as corporation in promoting economic development. With the corporate-promotion role of the government, the modern corporations have eventually become the key supplement to the market in the capitalist economy during and since the industrial revolution. Private joint-stock companies first appeared in Europe in the mid-

17th century, and were formally legalised in England by the early 19th century after a century-long dark age (under the bubble Act during the 18th century) [Micklethwait and Wooldridge (2003)]. By the 19th century private corporations grew to be the key locomotive agent of the industrial revolution as well as of the development of capitalism. The visible hand of modern corporations supplemented the invisible hand of the markets.⁴ Seen from this perspective, without corporations and their growth, an economy is destined to remain or move back to being agrarian, as seen in the case of the least developed economies but more tellingly, in the failed socialist economies that abolished their modern corporate system and ended up near-agrarian economies. One can say that today the corporate sector in a capitalist economy has replaced land in an agrarian economy as a fundamental entity that ensures the survival of humans.

The role of modern corporations in helping achieve shared growth of capitalist economies can be seen in Figures 1 and 2 and be confirmed by empirical analysis in the next section. In this vein, the capitalist economy should have been named as “corporate economy,” not “market economy.” Note that the joint-stock company is a unique social technology that exists only in capitalist economies, while market exchanges have been ubiquitous since the hunter-gatherer era. The modern corporation should not be regarded anymore as an evil giant responsible for creating economic inequalities, as argued by Karl Marx or other critics of capitalism.

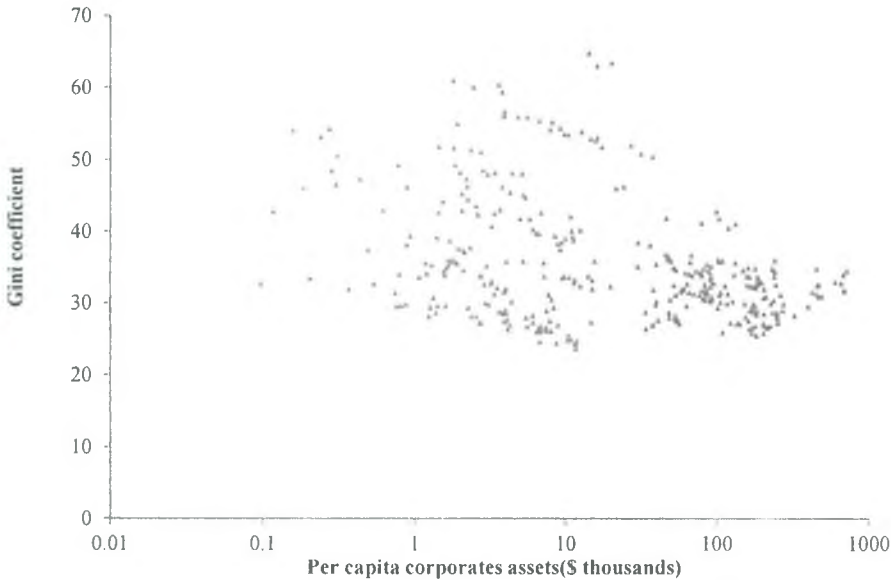
Fig. 1. Corporate-led Growth



Note: Pooled data for 71 countries over 2005 to 2013. Source: S&P Capital IQ & World Bank.

⁴ See Chandler (1977) for a similar argument.

Fig. 2. Corporate-led Shared Growth



Note: Pooled data for 66 countries for the unbalanced periods over 2005 to 2013. Source: S&P Capital IQ and World Bank

(4) Role of Government for Economic Development

GTED reinterprets markets as motivational economic discriminator which can be the logical basis for the role of government in pursuing economic development. The government should help correct the market failure by introducing socio-economic institutions that can help those individuals and corporations who help themselves but are subject to the free-riding by replicators and not fully rewarded. The market institutions should be upgraded and reinforced to fully match the rewards to the performances. A renewed enforcement of market ED-function should be the key role of the government for development. This new interpretation of the role of the government is diametrically opposed to today's most popular paradigm of an egalitarian political economy regime, seeking economic equalities as the prime goal of government policy. It also differs from the mainstream market-centric economics that opposes active government involvement in markets.

The new interpretation of markets as ED mechanism suggests some important new insights into government industrial policies (IP). Specifically the market can be interpreted as exercising an IP everyday, by picking better performers and channelling more resources to them, albeit imperfectly. In this regard, successful government IP should supplement and reinforce the market's ED function, i.e. the market-led IP by helping those individuals and corporations who help themselves rather than neglecting or working against them. The government's IP should pick the market winners *ex post* after the market outcome, rather than pick the winners *ex ante* before the market outcome, which can help avoid the difficult question of how to pick the winners *ex ante*, as in the traditional debates. IP can now be re-interpreted as an ED and motivational mechanism, based on the *ex post* market performance.

From this perspective it is interesting to see that Japanese and Korean industrial policies were successful, precisely because both were implemented in an economically highly discriminatory manner so as to re-enforce market discrimination and motivational function. In particular, their IP always helped those *corporations* that helped themselves, based on their market performances. In this sense, industrial policy can be renamed as discriminatory “corporate promotion policy,” which helps correct the market’s developmental failure. By this corporate-promotional IP, designed to overcome the success-knowhow free-riding problem, corporations can grow to serve as a locomotive for shared economic development (as shown in Figures 1 and 2).

GTED now argues that the capitalist economy is a “corporate economy” in which the government-led corporate-promotional policy can play a critical role for shared growth. The question may then be how to promote corporations in practice. Governments can select a specific industry, old or new, for promotion, learning from successful precedents or new research; keeping in mind that the implementation of those policies can be successful only by “corporate promotion policy, based on the ED principle”, i.e., selecting and supporting corporations based on the market performances.

The ED principle expounded here must not be confused with any protective government interventions against the market competition. The ED corporate promotion policy is a means to activate the competitive rivalry and to motivate growth and development by mimicking the market’s ED function. Some lessons can be learned from the actual experience of successful corporate promotion policy of the Korean government as follows:

- (i) SME promotion policy supported the better performing firms with more financial as well as tax benefits according to their performance, and they were given the choice to take over the poorly performing firms.
- (ii) Better performing exporters were given more financial support and tax benefits and were guided to take over lower performing exporters.⁵
- (iii) Privatisation policy always allowed the better performing corporations to take over the SOEs based on the ED principle without political consideration.
- (iv) In the process of so-called industrial restructuring, insolvent firms were always to be allowed to be taken over by the solvent, competitive firms which are given some incentives by the government if it is necessary to speed up the process.
- (v) Any corporate policy for economic development kept to the ED principle.

There may arise some concern about the potential danger of conglomeration and the resulting monopoly power by the adoption of ED principle. This issue has always been on the table for economic policy discussion but without a successful solution. Demsetz (1974), and Alchian and Allen (1977) argue that monopoly results either from government protection or efficiency: The same applies to conglomeration. It should be remembered, however, that any monopolisation and/or conglomeration of corporations

⁵Accurate actual market performance evaluation is the key for the success of ED export support policies. If it is necessary to amplify ED-support system further, one can introduce “a nation-wide export contest”, which selects and recognises the best and better exporters based on their actual export performances and thereby publicises them to be widely known to banks and financial markets, which are always looking for them for support.

emerging from ED corporate-promotion policy amounts to efficiency-driven cases. If those are driven by efficiency, then the solution can be rationally devised, otherwise the government protection should be removed. In the efficiency-driven case, care should be taken not to confuse "ability" with "incentives" to abuse [Alchian and Allen (1977)]. Ability does not necessarily imply incentive. The threat of market power can be tackled by stronger competitive pressure of potential as well as actual rivals. It is good to open the market not only to domestic competitors but also to foreign competitors to check the incentives to abuse. Even if the direct regulation, as an alternative, may have popular political appeal, it is not advised to resort to such direct regulation on the growth of corporations, as used to be the case for many economies including Korea now. This policy has a serious danger to kill the very incentive to grow on the part of corporate sector which in turn harms shared growth. The policy should concentrate on minimising incentives to abuse, by bringing actual as well as potential competitive threat as much as possible; while the incentive to grow should be maintained as high as possible by allowing more freedom for entry. The key success element for both policies lies in the ED principle.

The ED feature of successful government policies is confined not only to cases of successful IP, but is generally applicable to most cases of economic or public policies. Successful economic policies turn out to be economically discriminatory while failed policies are egalitarian, disregarding difference in performance. This is against the popular egalitarian argument that the government should intervene against market outcomes in order to correct the economic imbalances created by the market economy. In this case, markets will respond by simply standing still, resulting in stagnation and no-development.

(5) Ideology and Politics in Development

Ideology or mind set is one of the key informal institutions constraining economic behavior and performance. In this regard, the most important development-friendly ideology should be based on the principles of "can-do spirit" or "self-help spirit" be embodied into the peoples' mind set in order to promote shared growth and development. According to the Korean experience, the condition that the economic discriminatory policy regime should be repeatedly enforced has been imperative in addition to simple education and/or propaganda. Korea's "can-do spirit" during its economic take-off turns out to have been created by the repeated application of government's discriminatory economic policies designed to help only those who help themselves. They include the Saemaul Undong (new village movement), export-promotion policies, and industrial policy for heavy and chemical industry promotion (HCI drive). Note that *a shared growth can only be achievable if people's mindset is shifted toward a development-friendly self-help spirit. Such mindset transformation, in turn, can only be made possible by maintaining the ED policies for a sustained period.*

Politics becomes critical in this regard. Political parties translate the informal institutions of prevailing political ideology into the formal institutions that constrain economic behaviour and performance as the main incentive structure of the society. Therefore, politics as a framer of economic policy regime in a democratic political system should be ready to accommodate the principle of ED lest the law and regulations

go against the principle. Politics as well as the government as a whole should support ED principles that are development-friendly. They should be wary of the egalitarian trap, while equality before the law should be fully guaranteed. Many governments around the world has been emphasising equality of opportunity, but it should be kept in mind that economic opportunity is not a free good to be handed out by the government but an economic good that can only be obtained by hard working agents. In this sense, the government can only guarantee equality before the law rather than the equality of opportunities.

The GTED warns against the socialist economy, egalitarianism, egalitarian democracy, social democracy, revised capitalism and even welfare state, all of which seek economic equality, whatever their political vision or ideology may be. These regimes all work against the market's economic discrimination function and therefore against economic development with shared growth. *Growth for all with unequal results is the only feasible goal for a capitalist economy.*

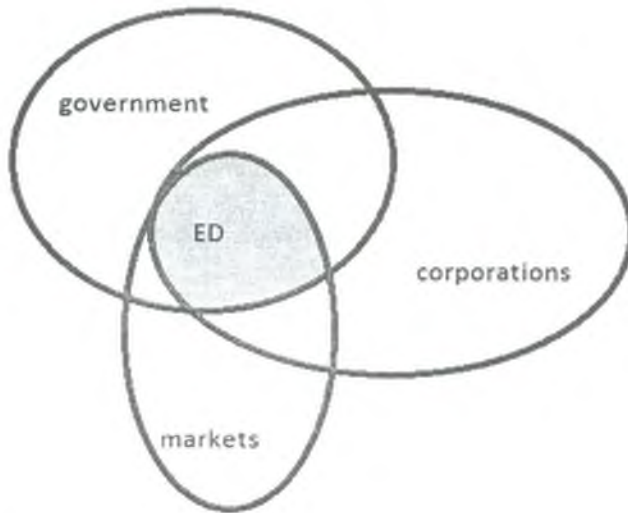
(6) Holy Trinity of Economic Development, Markets, Corporations and Government

Let me now consolidate the arguments so far. Discriminatory economic institutions, embodying the principle of treating economic differences differently, i.e. ED paradigm and respecting the ideology of helping those who help themselves, immensely benefit development, while egalitarian institutions that treat economic differences equally, especially by disregarding economic excellence, will hinder economic prosperity. Markets with PPR system and economic freedom may be good for the survival of the economy, but they need to be supplemented with economic discrimination by the government and private organisations, if there could be any chance for genuine economic take-off and catch-up in the development game. I have been arguing that *ED is a necessary condition for economic development, while economic egalitarianism is a sufficient condition for economic stagnation.*⁶

Figure 3 summarises the general theory of economic development in which the holy trinity of economic development, markets, corporations and government should altogether keep to the principle of ED to be development-friendly. It should be remembered that ED paradigm has been the central basis not only for the post-war success of Korea under Park Chung Hee. It has also been so for China under Deng Xiao Ping, Singapore under Lee Kwan Yew, Malaysia under Mahathir and Taiwan in 60s-70s. As a matter of fact, the ED paradigm had been at the heart of the industrial revolution of the now developed economies as well as all successful civilisations throughout the history. Furthermore, the ED paradigm has always been the key success factor for corporate management. Now, the ED paradigm which was born even longer than 2000 years ago is being reborn in recent years with the behavioural economics and experimental economics [Gneezy and List (2013)] as well as with management science [Welch (2005)]. Egalitarianism, disregarding the excellence in social as well as economic performance can never be useful for the prosperity of any society. One should not forget the memory of the demise of socialist economies which was exactly due to the lack of ED paradigm.

⁶ See Jwa (2017) and Jwa and Yoon (2004a).

Fig. 3. Holy Trinity of Economic Development



Source: Jwa (2017).

(7) Implications of GTED on Public Policies in General

In general, there can be two different kinds of public policies: economic development policy and social (empowerment) policy. So far in economic policy discussion, there has been little concern over the different nature of the two policies, except for the common-sense understanding that the former creates value-added, while the latter just helps low-income people or the under-privileged to survive or sustain even without new value creation. Today, however, it seems that economic policies as well as social policies have all degenerated into egalitarian (support) policies without any incentive differentiation, depending on the responses, positive or negative, by the recipients, i.e., ED mechanism. As a result, both policies have been unfriendly to growth and development and unsustainable as they lack an incentive scheme to create new value-added or growth, which in turn hurts the soundness of the state's public finance.

GTED strongly implies that economic policies should recover their fundamental nature of ED support principle in order to genuinely spur economic development, while social policies should also be reformed to be based on the ED principle if they are to be self-sustainable by creating new value-added. Therefore, public policy in general should adopt ED principle. In this new framework, not only economic but also social policies would contribute to growth and development, and both will become financially sustainable. It should be recognised that this new ED-based social policy framework will greatly help improve its own financial sustainability, compared to traditional incentive-lacking social policies.

(8) Implications of GTED on Global Economic Dilemma

In the post-war era, balanced development ideology has been leading the egalitarian policy paradigm. Redistributive welfare policies and social empowerment policies have been egalitarian, lacking the ED principle so that the incentive to grow has

been discouraged while moral hazard has been encouraged. As a result, the sustainability of the egalitarian policies has been greatly damaged, ending up with financial difficulties for the States.

Without incentive to grow under the egalitarian policy paradigm, the overall corporate growth will slow down, which will in turn cause growth stagnation and less job creation, leading to a dwindling middle-income class and the rise of so-called economic polarisation. Note that the middle-income class is the product of “capitalist corporate economy” and simply did not exist in the agrarian economy under the Malthusian trap, that was not aided by modern corporate firms. In other words, the fate of the middle class is intricately tied to that of the corporate sector, and thus any sign of dwindling middle-income class must be associated with growth-stagnated corporate sector, which in turn causes economic growth stagnation as well as the loss of jobs. This is the process by which an economy ends up with low growth and worsening income distribution.

According to GTED, this scenario seems the most plausible reason for the current global economic problem with a chain of reactions as follows; egalitarian economic and social institutions and policies → killing the incentive to grow and encouraging moral hazard → low growth of overall corporate sector and the aggregate economy → no or less job creation with more social welfare demand → increasing pressure for government expenditures for welfare without corresponding tax revenues → mounting government debts → global financial crisis with low growth and income polarisation.

Having the social policy as well as the economic policy destroy the very incentive to grow, how could we expect economic growth and development? One can characterise the current situation as an “egalitarian trap”. GTED implies that it is imperative for developed as well as under-developed economies to get out of this “egalitarian trap” if they want to get over the low growth and polarisation dilemma. The solution is to turn to the non-egalitarian political-economy regime, keeping to the ED principle, such as free market democracy. I have been arguing that it is necessary for economic prosperity to adopt a free market democracy, respecting and allowing ED principle, rather than the today’s popular egalitarian democracy seeking economic equality while disregarding the ED principle. This argument is also confirmed by the long history of economic development of the West as well as the Orient.⁷

IV. A NEW EMPIRICAL FRAMEWORK FOR MACROECONOMIC GROWTH AND PRODUCTIVITY ANALYSIS, AND EMPIRICAL RESULTS⁸

According to GTED, capitalist economy has been led by the corporate growth and as such, should rather be called a corporate economy than a market economy. This section intends to show how this claim can be substantiated in terms of an analytical model, and how this new model can be compared to the neoclassical production function model as well as growth accounting model, as an instrument to analyse the macroeconomic growth and productivity. Furthermore, this section will also report the empirical test results of three hypotheses with the new model as follows; (1) corporate-led growth, (2) corporate concentration-led growth and (3) corporate-led shared growth.

⁷See Jwa (2017) and Jwa and Yoon (2004) for more detailed discussion on the choice of more development-friendly political economy regime.

⁸This section is adopted from the Appendix of Jwa (2017) with some modification.

Note that one of the most important implications of GTED is that “the economy will grow faster in the shared manner, as the corporate sector grows faster and even in a more concentrated and unbalanced way”. As already implied in the previous section, the ED principle, as a necessary condition for economic development, is the logic behind these hypotheses. Unbalanced faster growth of corporations, supported by the market as well as the government will bring faster economic growth, which in turn contributes to shared growth by pulling the economy out of stagnated agrarian-type developing economies and out of the old industrial structure as well as even out of the stagnated developed economies.

(1) Basic Model

Take the basic linear model for simplicity,

$$gdp = f(CA) = \alpha + \beta_1 CA + \varepsilon \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad (1)$$

where the constant α captures pure value of agrarian market economy,

gdp is per capita gross domestic product,

CA is per capita corporate asset,

this gives

$$\frac{\partial gdp}{\partial CA} = \beta_1 \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad (2)$$

as the marginal product of CA to gdp , and taking logs for the Equation (1), gives an elasticity of gdp w.r.t. CA .

This is the simple model that captures the essence of a corporate economy, implying that national economic performance can be explained by the corporate sector growth. Some interpretations of the variables and parameters are in order. Because corporate asset, which is conventionally available from the corporate balance sheet (B/S), does not include the labor input. It may be necessary to use the per capita corporate asset, in order to avoid the inconvenience in empirical analysis of having labour as additional direct input in Equation (1), which amounts to assuming that the Equation (1) is a linear homogeneous function with respect to labour input. Furthermore, it may be better to use total population rather than total employees as the deflator for the per capita corporate asset, to be consistent with the convention of using the concept of the per capita income rather than per employee income, while the choice of the deflator does not much matter under the linear homogeneity assumption. From this consideration, CA , the total corporate asset deflated by the total population, is adopted as a proxy for the total productive assets per person in use of any society, including the tangible as well as intangible assets such as physical capital, technology, knowledge and all others except for labor input. Hence, coefficient of CA , β_1 , is the marginal productivity of corporate sector and can be a proxy for the national overall productivity and therefore, national competitiveness.⁹

gdp is, in fact, the perpetual annuity flow of income from the total productive

⁹If it is assumed the Equation (1) is a quadratic equation as $gdp = \alpha + \beta_1 CA + \beta_2 CA^2 + \varepsilon$. then the marginal product will depend on CA as $\frac{\partial gdp}{\partial CA} = \beta_1 + 2\beta_2 CA$ and will be subject to the increasing, constant or decreasing returns to the scale of the corporation depending on β_2 being positive, zero, or negative, respectively.

resource stock of the society with the discount rate being the coefficient of CA.¹⁰ The constant term, α represents the per capita agrarian product under a pure agrarian market system when the corporate sector is removed from the capitalist system. Lastly the error term ε measures the level of the efficiency of socio-economic institutions including the political institution, which will be elaborated in the following section.

(2) Implications of the New Framework

(i) Market vs. Corporate Production Function

The popular neoclassical production function, $y = f(K, L, T)$ has an underlying assumption that the market will produce y , given the supply of capital (K), labour (L) and technology (T) and therefore, can be called a *market production function*. Thus, the corporation is decomposed into K, L and T and given no active role in organising resources for production. Note that this decomposition has followed the reductionist approach of analysing the constituent parts rather than the whole, which has been a scientific tradition since Isaac Newton. However, this convention is no longer consistent with the recent complexity science that takes a holistic view of the world as well as the economy. According to the new holistic view, the corporation should be treated as an emergent whole to generate synergy effects by organising resources under the umbrella of the command and control. This is in contrast with the neoclassical production function approach, where the corporate firm is disassembled and the synergy effects are hard to capture.

This new approach can be associated with a *corporate production function*, as it assumes that corporations will organise national resources and produce under its own management control, given the factors of production supplied by the market or the society. The new model is consistent with the holistic view of the economy. It can be argued that the new approach must be more relevant to the analysis of capitalist economy led by the corporate growth, as it is reviving the complex nature of modern corporations, while the existing market production function may be representing the simple economy, like the agrarian economy without the modern corporation.

(ii) Issue of Measurability of Factors and Productivity

Given the fact that the difficulty in measuring physical capital, human capital and the level of technology is the fundamental impediment to the accuracy and usefulness of the neoclassical market production function approach, the new corporate production function model can help effectively bypass all these measurement difficulties. Note that the Cambridge capital controversy on the measurability and aggregation of capital during the 1960s-70s between the two Cambridges in England and the US has still not been resolved.¹¹ Mainstream neoclassical economics, however, continues to implicitly assume away these measurement issues, including the quality of labour, the level of knowledge and the level of technology. The

¹⁰The present value, A of permanent flows of incomes can be expressed as follows: $A = a/(1+r) + a/(1+r)^2 + a/(1+r)^3 + \dots + a/(1+r)^n$ $= a/(1+r)(1/(1-(1/(1+r)))) = a/(1+r)((1+r)/r) = a/r$, where "a" = permanent flows of income and "r" is a discount rate. Now, this equation can be rewritten as follows, $a = r \cdot A$, which is the basis for the Equation (1) in the text, and where "a" can be reinterpreted as annual *gdp*, "r" as national marginal product and "A" as corporate asset, a proxy for the national stock of productive assets.

¹¹See Cambridge capital controversy in wikipedia.

economics profession has been dwelling on something impossible to do. At the same time, neoclassical growth accounting model adopts the market production function as a basic framework, where the residual (error) term of the market production function estimated with capital and labour as factors is given a special name, *total factor productivity (TFP)*, which is interpreted as a contribution of technology to production. While TFP has been the focal point of neoclassical growth accounting analysis, given all those existing measurement problems, how much trust one can have with the popular TFP measurements?

It is hoped that the GTED new model can supplement the existing production function approach, by filling up the missing link between the diverse factors at the micro level and the aggregate output, by introducing the role of the modern corporation as a supreme aggregator which transform such diverse tangible as well as intangible resources into "corporate assets" and as a coordinator of production, theoretically as well as empirically. We may still need to do what has been done with the existing production function analysis but the new model of the corporate economy will definitely help alleviate our burden of aggregation and measurements. Of course, the next task for the new approach may be how to improve the database of the corporate sector to improve the accuracy of the empirical analysis for growth and productivity measurement.

(iii) Further Interpretation of Corporate Asset, CA

Some additional thoughts on the economic meaning of "corporate asset", CA, are in order. CA is not the measure of total existing stock in the society but the actively utilised stock by the society's productive unit of corporation. Even if some resources are useful for production, those resources are merely potentially productive; they do not become productive until they are actually utilised by the corporation. Therefore the corporation should be viewed as an entity that transforms potentially productive resources into real resources for actual use. The importance of this distinction between potential and actual productive stocks of a society can easily be seen if one understands the true nature of the role of the knowledge stock of scientific innovations and discoveries for economic development. Note that even if there are ample flows of such knowledge, they will be of no use unless they are fully utilised and transformed into the valuable goods and services by the corporations. This is one of the most important cases for the concept of the corporate economy to be necessarily incorporated into the growth and development economics. A small size of actual CA, relative to the estimate of the economy's existing total stock of potential productive assets, may mean that the corporate sector does not or cannot fully utilise the potential of the economy, probably due to the inefficiency of the society's institutions, such as anti-corporate culture or sentiments, regulations on the corporate activities and other impediments to the corporate sector. Note after all that corporations are the by product of the society's rules of the game.

(iv) Analysis of Efficiency of Socio-economic Institutions

Now it is time to elaborate the role of the error term in Equation (1) as reflecting the efficiency of the society's economic institutions. According to GTED as well as the new institutional economics, the corporate firm, represented by its behaviour and performance, is the eventual outcome of survival, by adapting to the surrounding environment given by the society's rules of the game, consisting of formal as well as informal constraints or institutions. The formal constraints include formally written laws.

regulations and so forth, while the informal constraints include culture, tradition, value system, convention and political ideology and so forth. More importantly, it is politics that can ultimately influence the society's rules of the game. Equation (1) can be seen to provide a convenient framework to analyse the impact of all these institutional constraints on national economic performance. The error term can be interpreted as effects on the economy of the institutional environment in general, after taking into account of the overall contribution of the society's useful stock of economic resources to the economy by the corporate sector asset, CA and can be utilised as the measurement of the society's institutional efficiency including politics. Assumptions of the distribution of error term may be relevant here. It has been known that impacts of the institutional change will show a long lagged process, sometimes with a decade or longer or even a generation lag. In this regard, the error term, ε , may not be independent and identically distributed but could be serially correlated especially in the context of time series analysis, which needs to be more carefully analysed to understand the nature of institutional effects.

(3) Empirical Results

Now, this section will present the empirical test results of three hypotheses, already stated above by utilising the new model as follows; (1) corporate-led growth, (2) corporate concentration-led growth and (3) corporate-led shared growth.

At the outset, some explanation for the data set is in order. Per capital GDP and income GINI coefficient are from the World Development indicators, the World Bank. The per capita corporate asset, CA, is the total sum of the outstanding assets of all the listed companies' B/S from the S&P Capital IQ divided by the total population, in which the nationality of corporation is determined under the condition that both the locations of the company's headquarter as well as of its listed market should belong to the concerned country's sovereignty. All are in US\$ and in current price as the corporate asset is available only in current price.

The total number of the sample amounts to 639 of the panel data, with time and cross-section data pooled for 71 countries during the period of 2005-2013. The data on income GINI coefficient, however, are sparsely provided compared to the GDP and corporate asset data, so that when the income GINI coefficient is utilised (Equation 4 and 5 in Table 2 below), the number of sample is reduced to 363 data points for 66 countries for the unbalanced periods, and the panel data also becomes unbalanced. Data correlation matrix of variables utilised is reported in Table 1. The regression is done with the fixed effects panel estimation, the results of which are reported in Table 2.

Table 1
Data Correlation Matrix

	GDP	GINI	CA	CHHI
GDP	1.000000	-0.461993	0.804771	0.247549
GINI	-0.461993	1.000000	-0.273884	-0.312958
CA	0.804771	-0.273884	1.000000	0.131096
CHHI	0.247549	-0.312958	0.131096	1.000000

Note: GDP=per capita nominal GDP. CA=per capita listed companies' total nominal asset, GINI=income GINI Coefficient scaled up to "0 to 100". CHHI=Herfindal-Hirschman Index of listed companies' total asset measuring the corporate sector concentration.

Table 2
Fixed Effects Panel Estimation with Time Dummies

Model	Coefficients	Estimation Results
	α	5.500 (27.43)***
Equation 3		0.390
$\ln GDP_{i,t} = \alpha + \beta_1 \ln CA_{i,t} + \beta_2 CHHI_{i,t}$	β_1	(17.27)***
$+ td_t + \epsilon_{i,t}$	β_2	0.00002 (1.74)*
	R^2	0.753
	α	49.448 (13.52)***
Equation 4		-1.452
$GINI_{i,t} = \alpha + \beta_1 \ln CA_{i,t} + \beta_2 CHHI_{i,t}$	β_1	(-3.63)***
$+ td_t + \epsilon_{i,t}$	β_2	0.0002 (0.97)
	R^2	0.191
	α	77.650 (11.67)***
Equation 5		-4.385
$GINI_{i,t} = \alpha + \beta_1 \ln GDP_{i,t} + td_t + \epsilon_{i,t}$	β_1	(-6.21)***
	R^2	0.258

1. *ln* means natural logarithm.

2. Values in parenthesis are robust t-values.

3. ***, **, and * indicate 1 percent, 5 percent, and 10 percent level of significance, respectively.

(i) Corporate-led as well as Corporate-concentration-led Growth

GTED implies the corporate-led and corporate-concentration-led growth for the capitalist economy. To test these hypotheses, Equation 1 is estimated by regressing the log per capita GDP on the log per capita corporate asset, CA and the corporate sector concentration ratio, CHHI, as shown by Equation 3 in Table 2. An interpretation of the estimated results is as follows: first, it is found that the estimate β_1 is statistically significant; implying the estimated elasticity of per capita income w.r.t. the per capita corporate asset of 0.39, which means 1 percent increase of per capita corporate asset will generate 0.39 percent increase of per capita GDP on average in the world economy. Note here that the estimated Equation 3 is in fact the world corporate production function. This result supports the hypothesis of corporate-led growth. Second, the coefficient of CHHI is positive but its significance level is relatively low. The corporate-concentration-led growth hypothesis may not be rejected though.

In addition, we may interpret the constant term in the panel estimation as the average effect for the whole sample remaining, after taking out idiosyncratic effects of individual countries. Therefore, we may suggest that the average per capita income of an imaginary agrarian economy for the world without the corporate sector would be about \$245, which is the natural number translated from the estimated constant term of 5.5 in model 3. This estimated level of per capita agrarian income is presumably not far away from what we may expect in reality.

(ii) *Corporate-led Shared Growth*

GTED implies corporate-led shared growth as well. To test this hypothesis, the income GINI coefficient is regressed on the log of per capita corporate asset, CA, and corporate sector concentration ratio, CHHI. The result is shown by Equation 4 in Table 2. The result implies a 1 percent increase in per capita corporate asset will reduce the income GINI coefficient by 0.0145, while the coefficient of the corporate sector-concentration turns out to be statistically insignificant, implying it may not improve or worsen income distribution. In addition, the constant term estimate 49.45 implies that the GINI coefficient would be roughly 0.5 for the imaginary agrarian economy, stripped completely of the corporate sector.

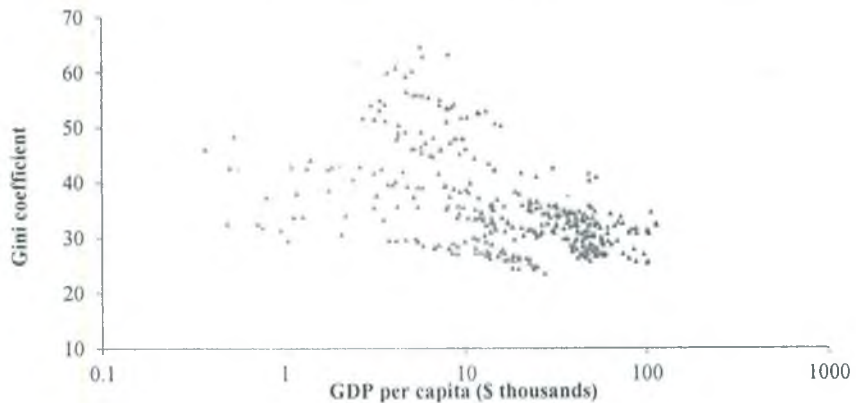
Now, one can see that a 1 percent increase in per capita corporate asset leads to a 0.39 percent rise of per capita GDP by Equation 3 and a 0.0145 reduction of the income GINI coefficient by Equation 4, which confirms a basis for corporate-led shared growth.

(iii) *Growth-associated Improvement of Income Distribution*

Finally, while the estimated Equations 3 and 4 imply that the growth of capitalist “corporate economy” will bring about shared growth, Equation 5 directly estimates the relationship between the GINI and GDP growth as shown in Table 2. The scatter diagram is shown in Figure 4.

The result shows a 1 percent increase of per capita GDP is associated with a 0.0439 decrease of income GINI coefficient which, as Equations 3 and 4 implies, is driven by corporate growth which may be the latent variable. This result indicates that the usual popular argument—that growth is accompanied by increasing inequality and capitalism must be reformed [Stiglitz (2012); Piketty (2014)]—needs to be reconsidered. Furthermore, this result also implies the need to rework the existing diverse findings on growth and distribution issues, such as the inverted U-shaped curve found by Kuznets (1955) and others.¹²

Fig. 4. Shared Growth
(Scatter Diagram of GINI Coefficient and Per Capita GDP)



Note: Pooled data for 66 countries for the unbalanced periods over 2005 to 2013.

Source: S&P Capital IQ & World Bank.

¹²I checked whether the data in the Figure 4 supported the inverted U-shaped curve as argued by Kuznets but the result did not support it.

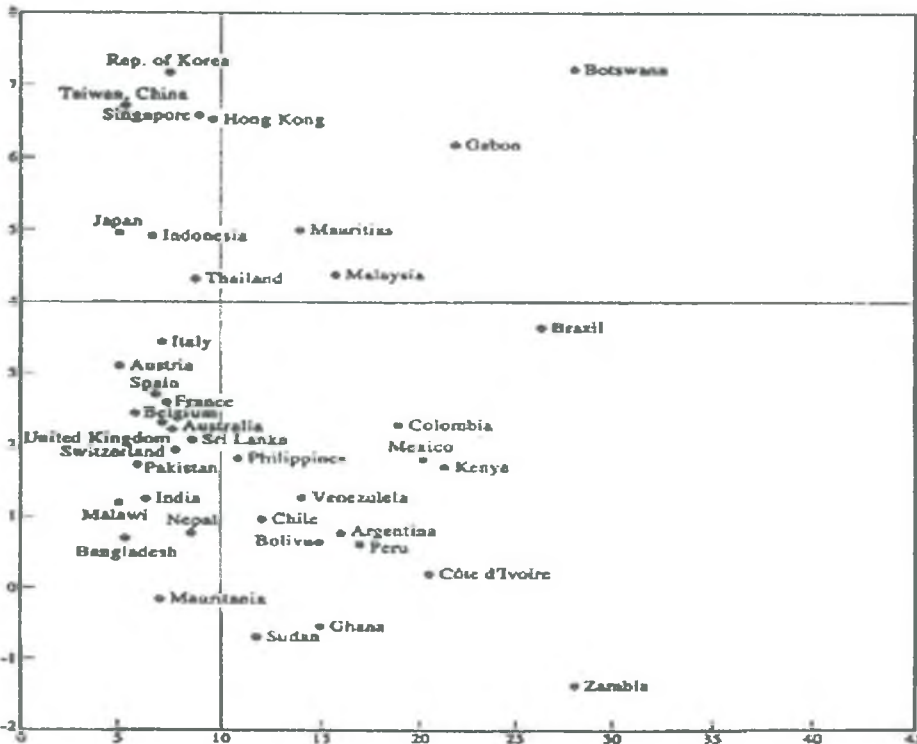
The empirical results have shown at least that without taking account of the dynamically growing corporate sector, the capitalist economy has no chance to grow and develop in a shared way, contrary to the popular myths that corporations, especially the large ones, are the source of economic inequality and that capitalism itself is the source of income inequality. This section has further shown that the GTED-based empirical model can be a useful supplement to the existing neoclassical production function model to analyse the macroeconomic growth and productivity.

V. KOREAN EXPERIENCE OF THE SHARED GROWTH FOLLOWED BY POLARISED STAGNATION, COMPARED TO PAKISTAN

(1) Korea's Miracle Led by Park Chung Hee's ED Leadership

Korea has been praised as one of the best shared growth experiences during the developmental era, 1960s-1980s [World Bank (1993) and Figure 5].

Fig. 5. Shared Growth Experiences (Average Over 1965-89)
Per Capita Income Growth



Upper 20 percent/lower 20 percent income

Source: World Bank (1993), p. 31.

Arguably the single most critical factor in Korea's development success in this era was the leadership of Park Chung Hee. First and foremost, Park had always placed economics before politics, or in terms of this paper's jargon, he did his utmost to prevent

populist democracy from distorting the ED principle in economic policy making and implementation. He did so by even leaning to a rather authoritarian regime, in spite of severe criticisms by domestic opponents as well as foreign allies. Second, he always respected ED-market principles, and applied and implemented the ED principle to all economic as well as social policies by helping those who help themselves. Third, he always kept to the ED-corporate promotion policies to help grow the corporations as a means of expanding economic activities, instead of “colonisation by strong army under the imperialism”. Finally, he was a true leader of nation, with firm commitment to economic development for people and exercised his authority without corruption. Thus, Park’s leadership can be dubbed as “ED leadership”.

Economic policies under Korea’s era of developmental state all adopted the ED policy, which promoted keen competition among corporations, entrepreneurs and rural villages;

- (i) Export Promotion policy by helping only those who deliver better export performance.
- (ii) Heavy and Chemical Industry Drive (import substitution policy) by allowing only the most capable exporters to enter the HCI sector.¹³
- (iii) Promotion of SME and large corporations by helping only those who perform better in export.
- (iv) Saemaul Undong (SU: rural development campaign) by helping only villages who deliver positive outcome with self-help spirits. With ED incentive structure built into it, the SU was able to transform the mindset as well as behavior of rural people in a sustainable and indigenous way.

Note that Park’s ED leadership was successful in changing peoples’ ideology, historical tradition and culture. Knowing all too well, the debilitating psychology of dependence and blaming others for their own failure, Park’s leadership, instead, fostered the kind of self-help, diligent and cooperative mindset, that is most developmental-friendly by keeping to the dictum of “God help those who help themselves”.

(2) Korea’s Economic Stagnation and Worsening Distribution Led by Egalitarian Democracy

Korea turned away from the Park Chung Hee paradigm to egalitarianism since Park passed away in 1979. Thereafter, slowly first under the following authoritarian government and rapidly later on after the political democratisation in late 1980s, Korea has turned into an Egalitarian Democracy. For the last 30 years following this trend, Korea’s economic policy paradigm has fallen into the “egalitarian trap” of making things even, disfavours the large, the successful and the prospering groups of people,

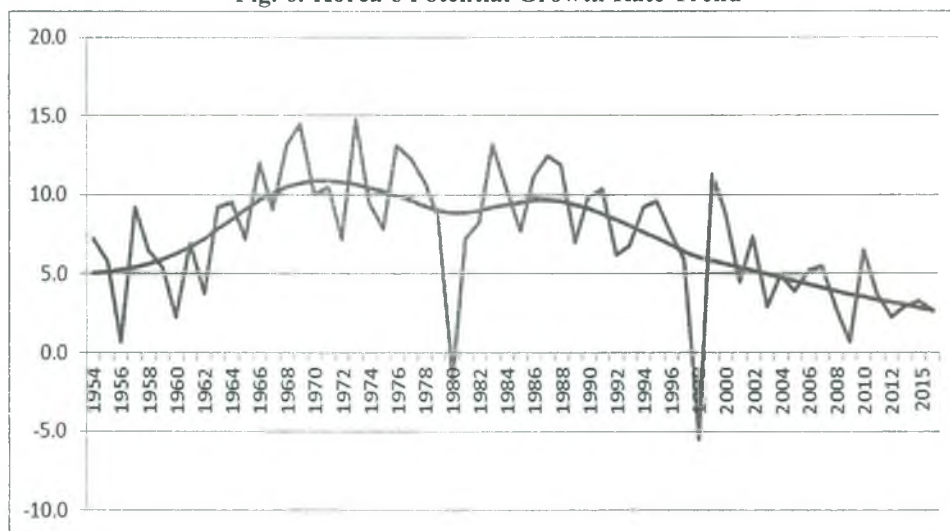
¹³Korean government required the potential entrants to provide the minimum 25 percent of so large capital requirements of the HCI and the government loaned the remaining 75 percent. So only the best export performers were able to enter the HCI because even the minimum self-provision of the capital was still too big for most of the then Korean corporations. If this is to be applied to the Pakistani case, for example, one may probably think of allowing better exporters to take over the SOEs with reasonable prices, by requiring a certain minimum own seed-capital to be put in which is not debt-financed.

organisations, corporations, schools and regions. The new paradigm favoured the small, weak, poor and stagnating ones. Specific examples are as follows:

- (i) Regulate the large corporations because they are too big, becoming stumbling blocks to “economic democracy” which is not very different from the socialist ideology, seeking economic equality and balance.
- (ii) Support S&ME because they are small and weak not because they are performing good.
- (iii) Support farmers because they are weak not because they behave as self-help and are performing well.
- (iv) Regulate metropolitan region and support all locals equally to achieve a balanced regional development.
- (v) Disfavour Seoul universities but favour local universities for balanced growth in university and regions.
- (vi) Introduce various surtaxes on the rich.
- (vii) Introduce educational system to equalise student performances across the schools and regions.
- (viii) Economic development policy in general and industrial policy specifically turned into egalitarian policies (Ex. venture promotion, new industry promotion, green growth initiative, creative industry promotion, etc).

Here, the ED principle has not been at work. The economy has not performed as in the earlier stages of economic development, turning into an era of growth stagnation and worsening income distribution, as shown in Figures 6 and 7. Is this the end of Korea’s economic development? Korea now is at a crossroads of whether she will continue on the path to a deeper egalitarian trap or fortunately get out of it and turn towards a growth path once again.

Fig. 6. Korea’s Potential Growth Rate Trend



Data Source: The Bank of Korea. Note: Blue line; actual GDP growth rate and Red line; potential GDP growth rate which is the author’s own calculation by applying the Hodrick-Prescott (H-P) filter.

Fig. 7. Korea's Worsening Income Distribution in Terms of Gini Coefficient since 1990s



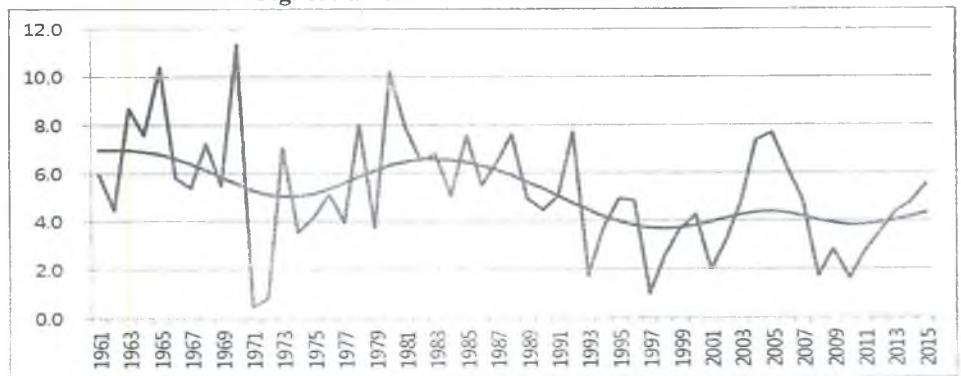
Note: Gini Coefficient of Urban Households. Source: Bureau of Statistics, Korea.

(3) Pakistan Compared with Korea

Now it is time to consider the implications of GTED in terms of why Pakistan has been lagging behind Korea in terms of growth since the 1970s, even though Korea learned its development knowhow from Pakistan in the early stages of development. (Compare Figure 6 and Figure 8). What are the differences and similarities between Korean and Pakistani economic performances during the last 70 years?

Korea and Pakistan began their growth game from almost the same starting line in the late 1940s. Pakistan took the lead until the end of the 1950s, from which Korea even learned how to write economic development plans. Both had run at a similar pace, until the end of the 1960s. However, the growth pace began to turn favourable to Korea since the 1970s, with Korea outpacing Pakistan at an exceptional rate for over 40 years. In terms of the level of development, Korea had already reached that of the developed economies, while Pakistan is still working hard to catch up. In recent decades, however, Korea's growth has been rapidly slowing down, converging to and even becoming lower than Pakistan. What accounts for these differences?

Fig. 8. Pakistani Potential Growth Trend



Data Source: World Development Indicators, the World Bank. Note: Blue line; actual GDP growth rate, and Red line; potential GDP growth rate which is the author's own calculation by applying the Hodrick-Prescott (H-P) filter.

From the GTED perspective, the key factor behind the divergence between the two countries since the 1970s seems to lie in their different policies toward corporations. In the early 1970s, Pakistan took the radical turn to a policy of nationalising major corporations under the then still popular socialist ideology. In contrast, Korea under Park Chung Hee's strong anti-socialist and ED policy paradigm continued to amplify the corporate promotion policy, by adopting the Heavy and Chemical industry (HCI) drive, following the export-led growth strategy of the 1960s with strong supportive policies for corporations.

Pakistan took the nationalisation policy of corporate sector from 1972 to 1976 under the banner of "Economic Democracy", which is none other than a pseudo-socialist ideology. Some details are as follows:¹⁴

- (i) 1972: 31 large corporations including 22 family-owned and managed corporate groups were nationalised.
- (ii) 1973: Constitutional reform to legitimise the nationalisation of large corporations for de-concentration of economic power and protection of SM&Es and farmers.
- (iii) 1974: 13 commercial banks, over a dozen insurance companies, two petroleum companies and 10 shipping companies were nationalised.
- (iv) 1976: More than 2000 traders in agricultural sector were nationalised in order to eliminate the middleman margin.

On the other hand, Korea continued a journey towards a corporate-led growth strategy up until the late 1980s, while she began to deviate from it since then upon political democracy. From the 1990s, Korea turned to an egalitarian economic policy regime under economic democracy which is similar to but in lesser degree than the Pakistani anti-corporate growth policy of the 1970s. Pakistan since the 1990s has been trying to privatise the SOEs without much success, at least judging from the corporate-ED policy perspective. Both economies have been suffering from anti-large corporation policies which seem to be the cause for the slow growth, despite many contemporary innovative policy initiatives by both countries. However, Pakistan seems to be coming back with more corporate-friendly policies in recent years, whereas Korea is continuing towards further stagnation with anti-corporate growth policies under the egalitarian trap.

VI. CONCLUDING REMARKS

This paper, after critically reviewing the literature on recent institutional approaches for shared growth, briefly presents A General Theory of Economic Development (GTED) developed by Jwa (2017), as the basis for discussion of shared growth. The GTED argues that Economic Discrimination (ED) by Markets, Corporations and Government is a necessary condition for shared economic development, while Egalitarianism by any one of them is sufficient condition for economic stagnation. ED means treating the different differently while Egalitarianism is an antithesis to ED. The GTED further argues that the capitalist economy is indeed "a corporate economy", in which the modern corporations lead the path toward shared growth. The paper presents a new empirical framework for analysing macroeconomic growth and productivity,

¹⁴ Wikipedia.

consistent with a corporate economy implied by the GTED. It provides the empirical results that a 1 percent increase of per capita corporate asset brings about roughly 0.4 percent increase in per capita income and a decrease of income GINI coefficient by 0.015, supporting "the corporate-led shared growth hypothesis" of the GTED. Finally, the paper applies the GTED to discuss the dramatic experiences of the rise and fall of Korea's economic development and examines the stagnated Pakistani experience over the last 60 years, with the conclusion that the growth stagnation for both countries has been due to the anti-corporate- growth policies led by egalitarianism, while the growth era coincides with the ED corporate-growth policy.

A few more final words are in order. This paper warns against the most popular sentiment today, among the world intellectuals and even economic professions that economic inequality is the Devil monster while economic equality is the Angel. It should not be forgotten that "Economic inequality is a necessary condition for economic development, while economic equality is a sufficient condition for economic stagnation"! Natural inequalities emerging from markets as well as government discrimination function based on the market performances, should be most welcomed while artificial social as well as economic inequalities arising from arbitrary government intervention to favor special groups with political motivation, should be actively prevented. After all, capitalist economic development is the natural process of unequal but shared development. In this regard, it is worthwhile recalling the process of development, i.e. free-riding on the others' success knowhow. This in fact implies that having a prosperous neighbour is good for our development as we do "exploit" them, which becomes the basis for shared growth. However, remember that Karl Marx and pro-socialist ideologists have been arguing the other way around, that having prosperous neighbour is bad for our development as they will exploit us. GTED implies Karl Marx is standing on his head.

Finally, it may be interesting to see how the GTED is compared with the now most popular neoclassical growth accounting model (NGAM). Unfortunately, NGAM is nothing more than an accounting theory or even worse, a tautology to describe the endogenous variable by another set of endogenous variables without knowing the exogenous explaining variables. This is the reason why NGAM has difficulty explaining the current economic dilemmas faced by the world economy. Why the world economic growth has now been performing worse than before, even with much more developed levels of the human and physical capital and technology as well as much more refined domestic market institutions, is not readily explained by NGAM. Without knowing the fundamental factors behind development, NGAM and the Washington consensus continue to tell us tautologically what to do in order to be a developed economy. They include, for example, the need to improve human and physical capital and technology as well as economic institutions. But they do not tell us much about how to get those done. Similarly, while strong voices have been heard to argue for a shared growth in recent years, we still don't know much about "How to achieve such a growth?" which is what GTED intends to answer by trying to pin down or discover the fundamental exogenous factors to explain the process of development. The GTED concludes that an ED incentive system is the key and necessary condition to unlock the mystery of economic development as it can help create something out of near nothing. Modern corporations as well as individual farmers, researchers, individual workers and even the public servants

motivated under the ED-incentive system can, in a concerted manner, create the physical capital, human capital and technology, as well as institutions, needed for economic development from the bottom and facilitate the objectives of a shared growth.

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