Equal Rights and Equal Opportunities as Key Institutions in Economic Development

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Introduction

It is nowadays fashionable to argue that differences in economic performance between countries should be explained by institutional factors, or by means of institutional methods of analysis. It is widely acknowledged that "institutional change can be considered to be at the heart of the long-run process of economic development, providing the missing link between development and growth"[1] and that "it is the interaction between the institutional framework and the organizations that are a response to that framework that shapes the evolution of economies".[2]

By institutions we mean for instance "rules, norms and customs, and their enforcement characteristics, which define the rights and obligations in human exchange"[3] or "clusters of behavioural rules governing human actions and relationships in recurrent situations"[4]. It is obvious that besides differences in population, resource endowment and technology it is such factors that make economies differ from one another. Differences in institutions have direct repercussions on various aspects of the economic system, on the prospects for economic growth via the diffusion of technological and organisational innovation as well as on the

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1 Nabli & Nugent (1989:1342).

2 North, D. (1990).

3 This definition corresponds roughly to the definition used by Douglass North. See North (1990).

4 McNicoll (1995).

distribution of wealth. It is evident that the role of institutions must be properly analysed if one is to explain which are the factors that distinguish economic success from failure and wealth from poverty. A search for key institutions in development is thus well motivated.

The purpose of this paper is to discuss the relevance of institutional approaches for analysing the relationship between economic growth and equity in developing countries. Against the familiar postulate that there is a trade-off between growth and equity it is argued that strategies advocating redistribution of assets have proven more efficient than growth-first strategies in terms of both growth and wealth distribution. The success stories of East Asia are often described with the term "growth with equity". An aim of this paper is to forward the argument that not only have the fruits of economic growth been fairly evenly distributed in East Asia, but equality in terms of income distribution and participation has also been a fundamental ingredient in the growth process itself. The institutional underpinnings of the "growth with equity" model is then analysed in terms of peoples' "equal rights" and "equal opportunities" to participate in the market economy. It is argued that these are principles of universal applicability which ought to serve as a point of departure in all attempts to construct key institutions in development.

Why Institutions matter

The literature advocating the study of institutions holds a double and sometimes confusing message. An institution can be a "long-established law, custom or practice" and/or a "(building of) an organization". Sometimes institutions refer to "society's great institutions", i.e. "markets, property and human rights, systems of justice and education, and the framework for political decision-making".[5] Institutions may also connote very specific formal arrangements or organisations. In the latter sense institutions are taken as a joint concept for actors and instruments of reform. They may thus refer to both law and public policy organisations.

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[5] von Pischke (1991).

In the social sciences it is often the durability of institutions which "persist over centuries" that is emphasised.[6] An institution may be a "stable, permanent and well organized system of behaviour enforced by society."[7] Durability creates the stability that makes repeated interaction between people possible and lack of durable institutions creates condition of extreme insecurity. At times this type of institutional analysis focusing on the fundamentals of human interaction and the great march of social development in history has been prevalent in development studies, especially in studies seeking the historical roots of underdevelopment.

However, institutions may also be seen as instruments of reform. Institutions can be taken to mean "the bureaucracy", a government organisation or agency, or an "interest group". It is such institutions, together with the legal system, that are to be manipulated in order to change the social system.[8] This definition of institutions does not emphasise the stability or durability of institutions. In this thinking institutions matter because it is by a manipulation of institutions that the world can be changed. This type of institutionalism focusing on institutional reforms has always been predominant in practical development policy.

Thus, on the one hand an emphasis on the role of institutions may imply an assumption that the prime obstacles to development are deeply rooted in the history of each society, which is also the reason why developmental obstacles cannot be easily overcome. On the other hand the literature also holds the promise that developmental goals can be realised by means of institutional reform. So, in one sense an institutional approach emphasises that economic and social development is a complex process and that a simple formula for development is not likely to be found. On the other hand an institutional approach also suggests that identification of key institutions in development ought to serve as a guide-line for policy reform.

So, when we say that institutions matter it is crucial that we clarify whether institutions connote for instance laws, rules and

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[6] Worsley (1984).
[7] Andreasson et al (1971).
[8] Apter (1977).

their enforcement attributes, all of which may be manipulated, or more basic institutional elements of society such as values, attitudes, ideologies and norms of conduct, which are not easily changed or transferable to other environments. While some institutions may be transferable without much difficulty others are not likely to be transferable at all since basic "institutions within a prevailing socio-economic structure can only be changed with difficulty".[9] The good news is that institutions do matter, it is indeed possible to change the world by manipulation of institutions. The bad news, however, is that institutions have a tendency to persist, which makes institutional reform a difficult undertaking.

Growth and Distribution - A Typology

Today the world is becoming increasingly polarised and differentiated. At one extreme one finds fast-growing economies in the midst of a full-blown socio-economic transformation, at the other extreme there are economies, which seem to be sinking deep into economic decay. So, while there are indeed societies, which are in a virtuous circle of growth and welfare improvements there are also countries, which seem to be trapped in a vicious circle of stagnation, social unrest and growing poverty. Our focus on institutions is then on finding the institutional explanation as to why the links between economic growth and welfare distribution have taken so many different shapes among the developing countries.

The socio-economic systems in the developing world may be typologised into three categories: fast-growing dynamic, slow-growing stagnant and non-growing chaotic types. The dynamic form is found among the prospering economies of East and Southeast Asia which are being transformed to industrial societies with rapid urbanisation and overall modernisation much in the same way as Europe after the industrial revolution.[10] Average living standards have been substantially raised and poverty has been dramatically reduced. In these countries there seems to be a positive and causal link between

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[9] Thorbecke & Morrisson (1989:1486).
[10] World Bank (1993).

economic growth and welfare provisions. These are the societies which may be characterised for their growth with equity.

The stagnant type of economy is a semi-industrialised, largely agriculture-dependent society, albeit with a large urban sector. However, in contrast to the dynamic societies much rural poverty persists to which should be added that urban poverty is increasing. The process of economic growth has invoked widening income inequalities. Large sections of the population, mainly rural, have been left out of the modernisation so that the extent of poverty is increasing in spite of notable improvements in per capita income. These are the economies which may be characterised for their growth with poverty. This is a common development experience in the Third World, in large parts of Latin America, Africa and South Asia. It is characteristic of countries where the process of economic growth itself seems to induce income inequality and poverty.

In the chaotic type of society economic growth is minimal or non-existent. There is no visible improvement in average living standards and the extent of extreme poverty appears to be rising. Although there are large and growing urban populations the modern sector is small, badly organised, legally ill-protected and weakly linked to other sectors. There are few signs of a substantial increase in regular job opportunities in the modern sector and jobs in the informal sector are casual, low-paid and uncertain. These are societies characterised for their poverty without growth. They are societies where insecurity itself seems to restrain both growth and welfare provision.

When we try to explain these different patterns of growth and development we need to know how different institutions influence economic behaviour and forms of organisation in ways of specific importance for income distribution and poverty alleviation. Our aim is thus to find the key institutions which have fostered growth with equity. However, first we shall dwell shortly on the institutional links between growth and equity in development studies. The purpose is to locate the type of institutional analysis which may be instrumental in studies of the relationship between economic growth and distribution. Of special importance is to relate the growth with equity-model to the Basic Needs strategy since both are concerned with redistribution of income. Our contribution is to provide the institutional framework for explaining why growth with equity or redistributive growth strategies are more efficient than other development strategies in providing both long-term economic growth and welfare.

Institutions and Redistribution

In the 1950s, economic growth was in large degree identified with industrialisation and urbanisation. The growth model focused on capital intensive, large scale industry and recognised the state as a leading vehicle of growth. It was a also a model which emphasised the role of supply factors in development, whereas demand factors were largely played down. Economic growth was to be attained by massive inputs of capital which required a high level of accumulation via high rates of savings. Since the poor had few assets saving was left primarily to the middle class. Thus, in order to arrive at a high rate of accumulation there had to be a transfer of income to certain groups, i.e. those identified as the 'entrepreneurs' or 'pioneers' in development. The assumption was that there was a trade-off between growth and income distribution, i.e. that sustained economic growth required at least a minimum degree of inequality with regard to income distribution. This early development strategy was basically a growth first - distribution later paradigm since it was assumed that the fruits of growth would sooner or later spread also to the poorer segments of the population via some kind of trickle-down effect.

Most scholars and policy makers were of course aware of the fact that also the prospects for accumulation would in large degree depend on the social and institutional system. However, in spite of this recognition of institutions, development economists had surprisingly little to say about them. To the extent that indigenous culture and institutions were at all recognised, they were seen as obstacles to development. There were of course exceptions; the final sentence in Simon Kuznets's famous study Economic Growth and Inequality reads: "Effective work in this field (the study of economic growth of nations) calls for a shift from market economics to political and social economy".[11] With regard to income inequality and poverty Kuznets had suggested that during the initial stages of industrial transformation there

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[11] Kuznets (1955).

would be a widened income gap in the economy between the modern and the traditional sectors. This was expressed in his famous inverted U-curve denoting the correlation between income inequality and GNP per capita. The inequality curve would only bend downwards after the industrial breakthrough and when greater part of the workforce had been transferred to the modern sector. This was evidently a theoretical, and to some extent empirical, rationalisation of a growth first strategy. It recognised no immediate economic value in an equal distribution of income. It was concerned with accumulation and with the institutions by which sufficient accumulation could be attained.

However, in his Modern Economic Growth Kuznets emphasised three elements in political culture which are crucial when an economic system moves towards modern growth: nationalism, secularism and egalitarianism.[12] This was a clear recognition of the fact that growth requires more than quantitative inputs of physical resources. Egalitarianism can be taken to be a key institution in this type of analysis. The analysis suggests that in egalitarian societies, which are also socially homogeneous, opportunities for individual action such as to react to incentives brought by the market are substantial because people have access to resources. This form of egalitarianism does not necessarily mean equality of income at the end of the day, or that incomes have to be distributed completely equitably. It does mean, however, that if the society is socially homogeneous incentives and pressures brought by the market can be expected to reach large segments of the population. The ways in which an egalitarian distribution of assets could have positive effects on growth were not much discussed in the 1950s. As we shall see, however, the argument reappeared in the 1970s and then with a much stronger theoretical foundation.

By the early 1970s the Third World growth experience had shown clearly that there was no automatic link or trickle down between fast economic growth and improvements in living standards. In 1973, the World Bank officially concluded that: "despite a decade of unprecedented increase in the gross national product of developing countries, the poorest segments of the population have received relatively little benefit".[13]

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12 Kuznets (1963).

13 McNamara (1973: 10-11).

Empirical evidence seemed to confirm Kuznets's inverted U-curve hypothesis that economic growth would worsen income inequality. In most part of the developing world growth rates had for periods been high without there being any observable link to improvements in living standards of the poor. In spite of high rates of economic growth income disparities were growing and it seemed that the quality of life had deteriorated.

Thus, on the one hand it seemed justified to devote much resources to attempts to identify those institutional factors which had made capitalist or market-led economic growth seemingly incompatible with overall social progress. On the other hand it also seemed reasonable to advocate special institutional reforms aimed at improving income distribution and reducing poverty and the most adverse social effects of economic growth. This was the rationale behind the birth of the so called Basic Needs paradigm, which was given formal shape in the World Bank publication Redistribution with Growth.[14] In this study it was argued that specific institutional measures had to be taken by the state to distribute the fruits of growth. In an empirical test of Kuznets's hypothesis Adelman & Morris had suggested that "the poorest segments of the population typically benefit from economic growth only when the government plays an important role and when widespread efforts are made to improve human resources".[15] The strategy recommended by the World Bank was to encourage economic growth at the same time as efforts were made towards a limited redistribution of resources for investments in income increasing activities.[16] Again it was, however, recognised that there was a trade-off between growth and distribution and that although distributive efforts were essential they should be constructed in ways that the distribution goal did not interfere too much with the goal of economic growth. Thus, growth remained the priority and welfare had to be distributed via state-provisions. This is what has also been called the strategy of "support-led security".[17] For some time the method did appear to be successful. Sri Lanka, Jamaica, Costa Rica, Zambia and Chile before 1973 were held up as success stories in terms of state provisions of public health,

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14 World Bank (1974).

15 Adelman & Morris (1973: 181).

16 Chenery (1972).

17 Dreze & Sen (1983).

education, cheap food etc. in countries with relatively low income levels.

The paradigm advocated government intervention and institutional reforms for purposes of wealth redistribution. Intervention was needed simply because in market economies the growth process itself seemed to boost income inequality. On the other hand, the fundamental elements in this growth model which nurtured inequality were in no way questioned. At the same time, however, also another type of institutional analysis appeared. According to this approach redistribution was needed not primarily on grounds that there was a distribution failure in the growth process, but because there was a growth failure due to the unequal distribution of assets. This approach was brought up by L. Lefeber and was developed analytically by Irma Adelman in 1975.[18] Lefeber was concerned with policies that would expand demand without reducing savings. He advocated a strategy based on land redistribution which would then trigger off an agriculturally-based industrialisation. However, Lefeber's strategy found its empirical support in socialist China. It presumed massive collectivisation and the symbiotic development of agriculture and industry that was predicted to follow and had to be achieved by means of planning, or force and could not be expected to happen in market economies. Irma Adelman's argument about the need to expand demand advocated redistribution of assets under market conditions. Her model predicts that redistribution will be the foundation of an agricultural-led and demand-led process of industrialisation. South Korea and Taiwan were held up as ideal models for a growth strategy based on an initial redistribution of assets.[19] The model may therefore be better described as redistribution before growth.

Adelman's model was not much practised. There were certainly cases of redistribution, not least in the form of land reforms in all continents. However, most policies which involved a redistribution of assets were part and parcel of socialist development strategies or state-led policies of industrialisation focusing on supply factors. The demand-led market mechanism predicted by Adelman was seldom tried out. In addition, in most

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[18] Adelman (1975).

[19] See also Fei & Ranis (1979).

writings on the cases of Taiwan and South Korea other factors than the redistribution of assets were held up as the determinants of growth. In fact, in most studies of Taiwan and South Korea accumulation was taken as a key factor in the growth process with high saving propensities and investment rates as empirical evidence. Thinking about equality when discussing this growth miracle seemed a remote idea indeed.

In the 1980s and 1990 the Basic Needs approach has come under severe attack. Critics of the Basic Needs paradigm have argued that growth has been inhibited by the distributive measures taken by the state and that the focus on redistribution has had a negative impact on growth. Some critics argue that only efficiently operating markets tend to bring about improvements in welfare. When poverty grows it is due to the fact that markets are being distorted by government interventions. The intervention advocated by the Basic Needs strategy tends to reduce output due to the initial disruption to the economy and the reduction in incentives caused by the lessening of income inequalities.[20]

The architects of the Basic Needs strategy had shown little concern for analysing the efficiency of the state. The critics on their part tend to assume that government involvement is always damaging. [21] Their message is quite clear: redistribution is the major cause of economic failure. This is a market-friendly institutionalism which has no concern for welfare reforms or for income distribution. It is an institutionalism which identifies the market as the key institution in economic growth. It seems to assume that income disparities have to be widened in order to foster economic growth and that growth has to be given priority over distribution in order to the let the growth forces loose. Consequently, we are back to assumption of growth first - distribution later and the equity question is largely being reduced to a problem of economic growth with automatic trickle-down.

The Basic Needs strategy may be criticised on many grounds but it has not been proven that the redistribution pursued was actually damaging the prospects for growth. In fact, the worst

[20] Collier & Lal (1983).
[21] Andreski (1966) See also Olson, M. (1965).

problem with the strategy was its extreme growth dependence. First, a system for continuous redistribution over several decades (the proposal said 2 % of GNP a year) put great strain on the economic system to maintain growth rates high and to defend the redistributive policy against the interest of those who were to pay, the middle class. Secondly, since there are likely to be leakages in the system very large proportions of GNP would have to be transferred in order to make sure that the net transfer targeted is being attained. Thirdly, market forces tend to undermine the redistributive measures. As Adelman puts it: "once the choice of development strategy has been jelled, policies and programs aimed at changing the primary distribution of income can accomplish very little".[22] In sum, the Basic Needs strategy was greatly growth dependent and worked to uphold a growth-first model that in itself tended to feed inequality. It was not the cause of economic failure, but it was no cure for poverty either.

The relative failure of the Basic Needs strategy was due to its reliance on a growth-first strategy which had proven incapable of providing for the poor without government intervention. Thus, the failure was mainly due to failures in the growth strategy as such. The basic flaw of this strategy was that it presumed to build a market economy without identifying key institutions for its establishment. It was an accumulation focused model which played down the role of domestic demand and which left large segments marginalised and without means to participate in economic life. It was a model which focused on urban industry and which allowed the agricultural sector and the rural people to be exploited and punished in the name of development. This model was bound to produce income inequalities. In the long run these inequalities undermined the very foundation of the growth model.

Institutions, Security and Economic Growth

The Basic Needs paradigm focuses on support-led security. It is a strategy that applies massive and wide-ranging public support in areas such as income distribution, health care, education, employment provision etc.. It is a strategy which proposes to achieve a lasting reduction in poverty without waiting for a rise in the average level of national income. The strategy advocated

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[22] Adelman (1975).

by Adelman, and which finds empirical support in the success stories of East Asia, is a growth-mediated strategy. It is an approach that seeks to take advantage of the potentialities that are released by the growth of affluence. It is a strategy which takes insecurity to be the most serious obstacle to economic growth. By a redistribution of productive assets security can be raised to levels at which people can begin to respond to market incentives and participate in market exchange on a regular basis. Only then can the market be expected to operate in ways that the fruits of growth may reach also the poor segments of the population. Our purpose here is to discuss the institutional underpinnings of this growth-mediated strategy (or redistribution before growth), which in East Asia goes under the rubric of growth with equity.

It may now be assumed that sustained economic growth is best achieved under market conditions. But the rise of markets cannot be assumed; it is particularly important to identify institutional arrangements that can make market economies emerge. Two essential conditions must, by definition, be fulfilled in a market economy: first the respect and protection by law of agreements and contracts; secondly, the protection by law of the right to private property (inclusive of the right to use and exchange property and the right to generate income from the possession of property). Thus, if the market is to widen and at the same time provide increased security it is fundamental that institutions are developed and formalised. Discrimination in terms of rights is one key to poverty without growth. Thus, equal rights between individuals may be held up as one key principle in designing institutions for fostering growth with equity. This is related to a negative definition of individual freedom, the protection by law of individual civil rights. A second key principle which distinguishes failure from success is equality of opportunity, which is closely related to the issue of access to resources. Economic incentives are best diffused if there is an equality of opportunity among potential economic actors. This means that people should enjoy equality in terms of possibilities to participate in economic life and to respond to economic incentives. Unless there is a fair amount of equality of opportunity there is no reason to expect that economic reforms will be received equally among economic actors. Likewise, if there is little equality of opportunity initially there is little reason to expect the fruits of growth to be diffused equally after the growth process has begun.

The question of equal opportunities is closely related to the issue of access to property, of the possibility to derive an income from property. Insecurity and failure to respond to economic incentives is often connected to an inadequate property base. Landlessness, various forms of tenancy and fragmentation of smallholdings are all factors which tend to maintain high levels of insecurity. Other factors are insufficient access to credit, markets and technology. They are all associated not only with insecure formal property rights, but also with an absolute undersupply of assets. In many developing countries institutional structures are protected by the state which deprive large sections of the population of chances to participate in a process of sustained economic development. Consequently, they can hardly be expected to behave in ways that are normal for participants in a market economy. They will behave in "traditional" ways by avoiding market participation or by entering into short-term market transactions on a personal basis. Thus, the rise of the informal sector can be analysed in terms of market failure.

Growth with Equity in Taiwan

It is often argued that the East Asian experience is of little value as an example to other LDCs. It is said that any comparison between East Asia and for instance Africa is bound to be superficial and misleading due to the fundamental differences between the two regions in terms of historical legacy, culture etc., i.e. in terms of institutions. If one looks closer into the cases of Taiwan and China we will find, however, that neither the mechanisms of change nor the institutional fundaments of change have been so unique after all. Rather they display mechanisms and institutional arrange-ments that ought to be at work in any society striving towards improvements in living standards and reduction in poverty. That these mechanisms so far remain absent in many LDCs cannot be explained solely as a "cultural" phenomenon. It is more a question of how the principles of equal rights and equal opportunities have been met which has to do with how society is being structured politically and socially.

It is sometimes argued that the Taiwanese miracle should be explained by good governance and efficient institutions in a very formal sense. This emphasis on strong state involvement and efficient economic planning has led some authors to conclude that the Taiwanese model is little more than a state-led transformation carried out by an authoritarian and developmentally-oriented government. Thus, institutional efficiency is identified with an efficient bureaucracy and with the role of governance rather that with the basic institutional elements in the miraculous rise of the market economy. In this type of analysis the thesis of export-led growth (= growth-first strategy) remains unchallenged and focus is laid on supply factors (including state intervention) which have fostered this export expansion. The market institutions as such remain unexplained and the rise of the domestic market is assumed away as unimportant when the economic miracle is described in terms of accumulation.

That the state has played an important role in Taiwan's economic transformation cannot be denied. But if we are really concerned with explaining economic and social change we must go beneath the surface of policy explanations and study the institutions which have made it possible for people to participate in the expansion of the market economy. In doing so we must once again emphasise how the principles of equal rights and equal opportunities have been attained.

In Taiwan expansion and deepening of the home market has served as a major growth force. This expansion has largely been driven by an even distribution of income and by mass participation in the economic life. The economic modernisation has been diffused throughout society and has affected all segments of the population. Taiwan is thus an ideal model for growth with equity or redistribution before growth. Key to Taiwan's economic metamorphosis was the land reform of the early 195Os. The importance given to the development of the agricultural sector was clearly stated already in the first four year plan introduced in 1953. It was stated that the aim was to "develop industry with the aid of agriculture and expand agriculture through the support of industry".[23] In 1949 a land reform programme had been introduced which has no counterpart in the Third World in terms of consistent implementation and effectiveness. First a rent-reduction programme was introduced,

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23 Hsu Yu-chu (1978).

which limited the farm rents to a maximum of 37,5 per cent of the estimated yield. More than 40 per cent of the households were affected by the rent reduction programme. Secondly, public land, i.e. mainly land which had been confiscated from the Japanese was sold off. Some 20 per cent of the farm families were able to purchase under this programme and approximately 8 per cent of the cultivated area was distributed in this way. Thirdly and lastly in 1953, a "Land to the Tiller" programme was initiated which in effect signalled the final elimination of the landlord class.[24]

The land reform was the far most important institutional reform associated with the creation of the special Taiwanese "model". It has its focus on the creation of equality of opportunities and on redistribution before growth. It not only brought about a redistribution of existing incomes but also raised people's security level by diffusing productive resources to the large and growing agrarian population. Agricultural modernisation not only gave bigger harvests enabling the rapidly growing population to be fed. It also generated incomes which could be transferred to industrial purposes and helped to provide surplus labour for industry. Finally, rising agricultural per capita incomes created a demand for industrial goods. The Taiwanese model for industrialisation was thus unusual in the sense that it was agricultural-led, demand-led, it had its focus on small-scale industry and it lacked the usual regional concentration and unequal income distribution.

The government did indeed intervene a lot also in Taiwan. In fact, it intervened much in the same way as governments in other countries. In addition, some of the positive effects attained were surely unintended and accidental. The difference was that the Taiwanese growth model focused on both accumulation and demand. Accumulation was attained via price controls and state purchasing monopolies whereas expansion of demand was attained by the initial redistribution of assets. Whereas the pressure hardened on the farmers due to the accumulation policies, they were also given opportunities to respond to economic incentives. Agricultural modernisation gave increased incomes and higher purchasing power to the rural population, thereby enabling it to form a market for industrial goods. This

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[24] Hsu (1978).

could happen despite the fact that agriculture was being heavily exploited because of the improvements in productivity resulting from the restructuring of agriculture. The land reform was accompanied by a series of institutional changes at the local, regional and national levels which brought positive effects in terms of diffusion of technology, credits and infrastructure. Perhaps the most important institutional change was the organisation of the so-called Farmers' Associations at the bottom level with the purpose to arrange for land management and rural credit. A Farmers' Association was an independent financial association with local management, which organised credit and marketing and helped with the introduction of new technology. Through the land reform and its accompanying institutional reforms the marginal cost of land was reduced, which facilitated investment in new technology. Moreover, the incentives reached down to the producers at the bottom level instead of being confined to the big landowners as before.[25] In consequence, redistribution of land was an important factor in creating equal opportunities.

The Chinese Miracle

The need for an equitable distribution of assets in the early phases of industrialisation has been clearly demonstrated also by the experience of China. China's economic miracle in the 1980s and 1990s can be explained as a market-led growth process. Sometimes it is even explained as a case of free market allocation of resources with minimal state intervention as if China finally "made it" once its policy makers had discovered the magic of neo-classical economics. The institutional underpinning of China's economic miracle is straight forward. The main driving force of China's high growth since 1979 has been the rapid growth of agriculture and the rural industry.[26]The new market oriented industry in China is rurally based and is driven by the process of agrarian modernisation of a small-scale, household-based agriculture. The origins of China's agrarian modernisation is to be found in the re-establishment of the household as the unit of production after the introduction of the household responsibility system (HRS). Thus, households

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25 Gunnarsson (1993).
26 Pei, Xiaolin & C. Gunnarsson (1994).

have been given de facto property rights in the sense that they have long-term tenure contracts, and they can retain a large proportion of the surplus produced. In other words, farmers have real property rights in the sense that they have access to productive resources from which they can derive an income.

Also the Chinese growth miracle is based on a previous redistribution of property. The agrarian modernisation had its origins in the communist land reform of the 1950s which distributed land to the many millions of landless Chinese peasants and tenants. The collective system introduced later never became effective in changing the household-based productive system. In consequence, the market economy is based on access to property rather than on formal assignment of property rights. When households have been given rights to retain a substantial proportion of the surplus the two principles of equal rights and equal opportunities have both been realised in large degree. An institutional basis for a substantial rise in productivity had thereby been laid. Productivity improvements have spurred a growth of rural per capita incomes which has created a basis for the rise of rural industry. The growth of rural industry has then spilled over to industries in the state sector in terms of competition for labour and inputs as well as downstream supplies. For the first time China's modern economic history has a market link between agriculture and industry been established. Thus, a redistribution with growth strategy under conditions is now being implemented once the principles of equal rights and equality of opportunity have been realised.

Sustained economic growth under market conditions must be based on the principle of "equality of opportunity", which means that a majority ought to be given the opportunity to participate freely in the economic life. In order to create such equal opportunities, some form of redistribution of economic resources is usually needed. In Taiwan, income distribution was made relatively equal, mainly as a result of the implementation of a comprehensive land reform which triggered an agricultural-induced and demand-led industrialisation. The expansion of the market economy in China is likewise based on agriculture and home market demand. It would not have been attained without the redistributive interventions in order to redistribute productive assets during the 1950s.

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Conclusion

The basic requirement of the theory of institutions ought to be that on the basis of such a theory it should be possible to establish or at least indicate which are the necessary and sufficient institutional devices for development. In the real world, however, there are not two historical cases in which preconditions for development have been exactly identical. This means that it is difficult to establish a general conclusion as to what is meant by key institutions in development. Nor is it possible to construct a blueprint for institutional reform. Historical circumstances as well as preference structures (for example ideology or cultural endowments) will always tend to influence the outcome of each specific case. This is the pessimistic conclusion from our discussion.

However, there are also optimistic conclusions to be drawn from development experiences in history. There are cases of extreme failure as well as success stories to learn from. In the case of the success stories it is indeed possible to identify which institutional arrangements that are contained in the process of "growth with equity". It can be seen how the insecurity problem was overcome and how welfare provisions have been mediated by the subsequent growth process. Is there then a lesson about the relationship between economic transformation to be drawn on the basis of success stories? Basically, the industrial transformation originated in the improvements in agricultural productivity. Institutional reforms which defined, protected and diffused property rights made possible investments in technologies that spurred an increase in per capita production. Agricultural surpluses were no longer exhausted by growing populations and the extent of extreme insecurity was dramatically reduced. Productivity improvements in agriculture also induced a process of industrialisation via transfers of capital and labour to the industrial sector. Increasing rural incomes also provided a market for industrial goods. The East Asian "growth with equity" model was thus founded on institutions that defined, protected and distributed property rights.

Institutions for more complex forms of exchange cannot, however, be built entirely from below. It is development that must start from below and that must rely on people's participation. But people's participation must be protected from above by formal institutional arrangements, by the legal system and by government authorities. Efforts directed towards building of institutional capacities in developing countries should therefore be concentrated on those institutions which guarantee and protect people's rights and opportunities. We have argued that the success stories in East Asia have been founded on a redistribution of assets. This does not mean that redistribution in a formal sense is always the key to development. Sometimes reforms directed toward protection of property rights are sufficient to guarantee that redistribution is attained and participation is made possible. Furthermore, redistributive policies may be inefficient if the growth model is ill-adapted or wrongly designed from start. It is the growth-first model based on state administered accumulation, urbanisation, large scale industry and exploitation of agriculture that is the cause of failure with regard to both growth and distribution. No redistributive arrangement can offer a lasting solution to the poverty problem if the growth model as such has an in-built tendency to worsen poverty and to exclude people from participation. Thus, we may conclude that welfare provision under market conditions cannot be achieved if the principles of equal rights and equality of opportunity are being invalidated.

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