

**Political Virtue and Economic Leadership: Lee Kuan Yew and Ferdinand Marcos  
Compared**

**By Hilton Root**

Abstract: This article will explore the political virtues of the institutions that transformed the national economies of Singapore and the Philippines. In the former, institutions created the capacity for institutional development, whereas in the latter, it facilitated the siphoning-off economic surplus in side-payments to a narrow elite. To understand the different coalitional structures that emerged in the two countries, we will explore incentives triggered by the degree of systemic vulnerability, geopolitical security and resource constraints that the leadership faced to determine the political incentives that motivate the creation of institutions for economic transformation.

# **Southeast Asian Parable: Political Virtue and Economic Leadership,**

## **Lee Kuan Yew and Ferdinand Marcos Compared**

### **Introduction: A Southeast Asian Parable**

Singapore's Lee Kuan Yew (1959-90) and Ferdinand Marcos of the Philippines (1965-86) coexisted under similar geo-political pressures and espoused similar socio-political philosophies. Yet, Lee Kuan Yew's rule derived credibility from a reputation for corruption-free governance, sobriety and growth while Ferdinand Marcos' regime became famous for grand scale larceny, and stealing foreign aid for personal profit and gain.<sup>1</sup> Lee established critical and durable limits that channeled government behavior into activities compatible with economic development thereby surpassing any of his regional rivals in competent public policy. In this article, we will explore the institutional features that were the source of different incentives for the promotion of economic development in Singapore and the Philippines.

It seemed implausible that after separating from Malaya in 1964,<sup>2</sup> Singapore, an island of 214 square miles and 1.8 million inhabitants<sup>3</sup>, could become a self-sufficient, truly independent nation. Lee, himself worked to keep Singapore and Malaya together believing that, "we had said that an independent Singapore was simply not viable."<sup>4</sup> He argued, "It is the hinterland which produces the rubber and tin that keep our shop-window economy going. It is the base that made Singapore the capital city. Without this economic base, Singapore would not survive. Without merger, without a reunification of our two governments and an integration of our two economies, our economic position will slowly and steadily get worse".<sup>5</sup> Yet, today Singapore is now one of the richest nations in East Asia. This immense turnaround can be attributed to Lee's rule who upon reflecting on his success in Singapore, boasted that he would have been able to create

immense wealth for his citizens if had he only had a larger, more resource-rich country to manage.

By contrast, the nearby Philippines, with a population of 26.6 million, was considered to be a much more promising developing country at the time.<sup>6</sup> During this period, as the world's second largest producer of gold, the Philippines was endowed with a relatively well-educated population, a large resource base and, by standards of the time, a well-developed infrastructure. With resources to pay back loans and an extremely articulate leader, it became one of the largest recipients of World Bank assistance during the tenure of Ferdinand Marcos. Yet the Philippines became the sick man of Asia, while Singaporeans now enjoy the second highest per capita income in the region, after Japan.<sup>7</sup>

Acute political intelligence enabled both Lee Kuan Yew and Ferdinand Marcos to consolidate political authority at a time when national institutions were untested, political parties were in their infancy, and political culture was still being formed. Each rewrote his nation's history in his own image to the extent that the personalities of Lee and Marcos are inseparable from the countries of their rule. In a shared quest to find a non-communist path to winning mass support, both Lee and Marcos professed a commitment to building strong public institutions, protecting private property and ensuring growth with equity.

However, it was Lee who became the icon of "soft authoritarianism".<sup>8</sup> His ideas about the importance of effective governmental authority to balance socialism and capitalism are well documented. "Lee deployed both the iron fist and the velvet glove against the nascent dissent. The velvet glove was innovative and took the form of government efforts to channel grievances in directions harmless to it. These devices included the introduction of a government-appointed opposition to blunt the widespread desire for an elected opposition and the creation of a

‘Feedback Unit,’ which enabled people to register their concerns about government actions without having to resort to the ballot-box. The iron fist, on the other hand, was a more traditional exercise of power.”<sup>9</sup> Marcos also championed private sector-led growth with social inclusiveness and strong governmental guidance stating that “the requirements of survival and growth must rely upon a strong executive.”<sup>10</sup> He continued, “Only with real authority may [the leader] expect to lead an effective government...balancing strong authority and the requirements of the public welfare.”<sup>11</sup> Both leaders espoused social equity. In Marcos’s words, “the credibility of government is determined by the jobs and opportunities, such as education and social services, that it makes available to the poor.”<sup>12</sup> The reality of his leadership belied his words.

Ferdinand Marcos impoverished his country while acquiring wealth unsurpassed by his fellow citizens. “Has the alleged greed of a certain individual acquired imperial dimensions?” one commentator asked.<sup>13</sup> By contrast, Lee Kuan Yew created great prosperity for the people of Singapore while living solely on the chief executive’s salary. Understandably, admirers of Lee Kuan Yew attribute Singapore’s success to his dedication, probity and patriotism. He did not rule by military emergency, nor did he abolish elections in Singapore, as did Marcos in the Philippines. However, although Lee Kuan Yew cannot be charged with electoral fraud, constitutional tinkering, or the jailing and torturing of opponents<sup>14</sup>, he has been accused of censoring and harassing them. Lee allegedly deluged rivals with lawsuits before and after elections, pursuing opposition politicians through the courts for expressing viewpoints that are considered part of healthy democracies.<sup>15</sup> His opponents paid the price for their convictions through personal bankruptcy.<sup>16</sup> Moreover, to gain the support of the masses, Lee’s followers subtly conveyed to voters that backing the opposition would lead to the loss of benefits such as bus routes and government-subsidized housing upgrades.<sup>17</sup> Although a great political leader who

excelled at public policy, like Marcos, Lee possessed an absolute determination to retain power.<sup>18</sup> “Marcos...once reelected....showed an unwillingness to surrender office at the end of his constitutionally final term. He suspended the writ of habeus corpus, floated plans to field his wife as a presidential candidate, manipulated the Constitutional Convention, and threatened to declare martial law.”<sup>19</sup> Both Lee and Marco were preeminent representatives of an entire political class that shared tastes, predilections and culture. Can we then assume that given the opportunity to rule the Philippines instead, Lee would have governed it as well as he governed Singapore?

Perhaps the transformation of Chiang Kai Shek, reviled in China for corruption but later revered in Taiwan for good management, can offer additional insights into the different incentives faced by Lee and Marcos. After having lost the Mainland in 1949, Chiang Kai Shek transferred the entire governing coalition of Nationalist China to Taiwan, increasing the island’s population from 6.8 to 8.1 million people. On the mainland, the Nationalists ruled through disorder, corruption and exploitation. Yet, Taiwan’s impressive record of economic growth under Kuomintang (KMT) rule stands in sharp contrast to Chiang Kai Shek’s mismanagement of the Mainland.

In China, the corruption of Chiang Kai Shek’s government was an embarrassment even to his supporters. Inflation and bad governance led to social upheaval, and rampant cronyism created class bias, breeding support for the communists and finally resulting in the defeat of Chiang Kai Shek’s army. The magnitude of corruption, affecting every organ of government from the top down, had virtually no equal in the world at the time. The mismanagement was so glaring that, despite Chiang Kai Shek’s benign ideological orientation and his anticommunist

stance, the U.S. State Department cautioned President Truman against supporting his administration.

After moving to Taiwan, Chiang's ruling style changed. There were fewer opportunities to get rich through corruption, so, those who had grossly mismanaged China's economy were forced to become effective administrators. Thus, sound macroeconomic policies were introduced, and socioeconomic programs, including land reform, were undertaken. Competitive exams and effective oversight overhauled a corrupt bureaucracy. Technocrats were empowered to define economic policy, and ministries responsible for formulating and implementing policy were separated so that the pursuit of private enrichment would not compromise the goals of public policy. In sharp contrast to his policies in China, Chiang emphasized egalitarian access to business opportunities for the native population, thereby reducing the dangers of social mobilization and contestation of KMT rule.<sup>20</sup> Chiang Kai Shek even prosecuted a close relative for corruption that would have been unheard of when he ruled China.

Neither personality nor culture can explain the KMT's transformation because neither had changed. In Taiwan, Chiang Kai Shek's monumentally corrupt KMT became excellent managers virtually overnight as a result of altered incentives brought about by loss of 'lootable resources'.<sup>21</sup> Can the difference between Lee Kuan Yew and Ferdinand Marcos be similarly explained by the availability of transferable resources? Many explanations of the divergent political histories of their two nations have been offered. Our thought-experiment contributes an additional perspective rather than supplanting existing ones.

## **POLITICAL MOTIVATION FOR GOOD GOVERNANCE**

To maintain control in any political system, leaders must offer their supporters better benefits than political challengers can credibly commit to providing. Where the population is

large relative to the number of supporters needed by the ruler to stay in power, the ruler can direct more resources toward supporters in the form of private benefits. Consistent with this logic, incumbent administrations in the Philippines traditionally relied upon state patronage to manage the political machinery needed for re-election. Only where the surplus available for corruption is small must leaders concentrate on implementing good policies that benefit the population as a whole.

Perhaps by this standard, Lee Kuan Yew was fortunate to face systemic vulnerability. He needed to confront the dangers that the deterioration in living standards would trigger riots similar to those that had broken out in Singapore during the 1950s. Laborers in Singapore had a tradition of strikes. They were relatively well-organized and unrest was always a possibility. Also, Lee Kuan Yew needed to attract investment from foreign nationals as Singapore had few natural resources to sell in world markets. For international investment, institutions for effective economic management and the protection of property rights were needed. There were no sources of easy revenue at his disposal. The only chance that Lee Kuan Yew had to survive in Singapore was to provide essential public goods. His broad-based coalitional commitments were in response to the scarce resource endowments and severe security threats that he faced.

Among East Asia's leaders, Lee Kuan Yew enjoys a reputation for having created unparalleled governmental capacity for the promotion of economic development. Without improving institutional performance systemic economic vulnerabilities would have undermined the durability of his leadership. "Lee's unique contribution...was to provide the political and social stability upon which economic development depended. In very difficult circumstances Lee built a strong, competent government team, backed by a highly competent civil service, both of which were virtually free of corruption. He created a political system that was stable enough



to satisfy the most nervous foreign investor without abandoning democracy completely.”<sup>22</sup> Innate political virtue is not necessary to explain the need for Lee Kuan Yew to become effective in providing public policies needed for a developmental state. He lacked either the coalitional, geopolitical or fiscal capacity to survive without good public policy. He could only support this government through sustained economic growth. A cheap labor policy which was to work in Korea and the Philippines could not have been applied to Singapore because Lee Kuan Yew needed the coalitional support of labor to stay in power.

Public policies are in effect public goods, whose two principal values may be irrelevant when a leader depends on a small number of supporters.<sup>23</sup> First, public goods are non-excludable, meaning that their enjoyment cannot be restricted to a particular subset of the population. Second, the non-rivalrous nature of public goods allows many citizens to benefit from them simultaneously. The creation of such goods can weaken loyalty to an incumbent leader. It can dilute the loyalty he gains by rewarding a small group of supporters with benefits that can make them dependent on the leader directly.

The governments of both the Philippines and Singapore exercised continuous interference in the economy. However, in the former, interference was used to extract resources for the ruler and his clique, whereas in the latter, interference was used to enhance economic productivity. Marcos ruled through a cult of personality in which state and regime were both entangled with the ruler’s personality so that the independent institutions of government such as the armed forces and the judiciary lost their autonomy. By contrast, Lee Kuan Yew’s rule did not destroy the independence of institutions or corrupt the administrative apparatus of government. When there are few cronies to pay off, leaders can provide them with substantial benefits in the form of private goods such as monopolies, regulatory privileges or simply money thereby, providing high

levels of welfare for a small group of essential supporters such as the military, the secret police, intellectuals, wealthy industrialists and landlords. The logic of small coalitional rule that worked so well for Marcos could not have produced a sustainable administrative base for the governance of Singapore.

## **POPULATION SIZE AND INCENTIVE FOR GOOD GOVERNANCE**

One difference between the leadership strategies of Lee and Marcos may be explained by the economies of scale in government. Population size is one factor that plays an important role in determining how much wealth can be extracted for redistribution. All countries require a minimum number of people and resources to provide essential government functions such as analyzing and implementing policy, maintaining law and order and providing national defense. Holding per capita tax receipts constant, the absolute minimum fixed cost of government will comprise a larger portion of expenditures in a small country-hence the presence of economies of scale. As we consider smaller countries, the proportion of total GDP required to cover the fixed cost of government administration rises. Thus, relative to countries with large populations, small countries cannot afford to misuse resources.

In colonial India, for example, 1,500 British civil servants ruled 300 million people,<sup>24</sup> but five bureaucrats on their own could not have effectively ruled Singapore, with a population of less than 1 million. Thus, as countries become more populous, the portion of total revenues that must go to minimum required levels of administrative declines. This leaves extra money that can be given back to the citizens through general tax relief or that can be distributed selectively to curry political favor with privileged elites.

If the government budget can be divided between essential functions and surplus, then the cost of essential functions rises less than proportionally with population size. So, all else

being equal, the larger the population, the more available are surplus funds that can be used to pay off the individuals the regime relies upon for support. If a ruler's gain from theft grows more than proportionally with increases in the country's population, then a leader who steals one dollar from each of a million people may not be able to maintain the required minimum number of supporters as easily as a ruler who can steal one dollar from each of 100 million people. This means that if Lee Kuan Yew stole one dollar from each Singaporean, he would not have enough money to set up a viable government. So, he needed to concentrate on producing a viable economy that would generate enough surplus to provide adequate salaries for government officials.

In China, Chiang Kai Shek could be an inefficient ruler, with such a large population to rule over, being able to steal one dollar from every Chinese would provide him with enough money to set-up a government. It must be remembered that Chiang Kai Shek's government had few institutions and most of its revenue was consumed privately by regime officials. However, Chiang could not rule Taiwan the same way he ruled China so he needed to become effective at economic policy. Marcos was highly knowledgeable about public policy, but being a leader of a country with significant resources, he was able to hold power and govern by looting the nation's wealth.

In small, resource-poor countries like Singapore or Taiwan, leaders cannot afford, either economically or politically, to build support with private benefits. Instead, they must focus on the essential functions and policies that benefit the largest number of constituents. Leader egotism and displays of self promotion are constrained by a smaller resource base. When the resource base is limited in relation to the size of the population, leaders cannot afford pet projects that impose enormous costs with the social objective of enhancing their personal status. In

Singapore, instead of statues carved on mountaintops, or public squares dedicated to the national founder, Lee Kuan Yew found a school of public policy.

In the Congo, by contrast, Africa's fourth largest country,<sup>25</sup> Mobutu financed a multimillion dollar "rumble in the jungle," immortalized in the movie *When We Were Kings*. This entailed holding a "first world" event in one of the world's poorest nations, allowing an audience of international notablesto watch the heavyweight brawl of the century. In effect, while Muhammad Ali and George Foreman were delivering crippling blows to each other, the audience was witnessing the spectacle of of a ruler bankrupting his country. Similarly wasteful, Marcos and his wife indulged in projects such as the Miss Universe pageant and the Muhammad Ali-Joe Frazier fight. Marcos built a massive bust of himself, north of Manila, overlooking the Marcos Golf and Country Club, off the Marcos highway.

Was their moment of internatiponal limelight worth the price? Both Marcos and Mobuto never had to ask this question, acquiring vast personal fortunes while leaving their countries with crushing debts. They did not have to pay the price for their self-indulgence.<sup>26</sup> Disorder in the country's management system allowed both leaders to siphon off funds from projects that might have had development impact. In the Philippines, Asia's eighth most populous nation, export revenues from coconuts, sugar and gold were abundant. With no legislative body to oversee Marcos' use of these revenues, he could afford to entertain world dignitaries in the luxurious Cultural Center of the Philippines constructed in the middle of a crumbling urban sprawl.

Had Marcos come to power in a country with strict consequences for theft or corruption, perhaps, he too, would have relied on public policies to benefit all citizens. Marcos was certainly as able as any other Third World leader to articulate a strategy for economic growth and social solidarity and to persuade international organizations, as well as the U.S. Congress, of his

sincerity. When ‘lootable’ resources are abundant and public oversight is lacking, leaders can survive by doing things that are harmful for growth and build their political base at the same time. The economic devastation that resulted from Marcos’ rule passed virtually unnoticed until the Philippine economy finally collapsed.<sup>27</sup> In the Philippines, there was no institutional opposition from either business or the Church to Marcos until the very end of his tenure in office when Corazon Aquino became the opposition leader.

### **LEADERS MAY BECOME THIEVES TO SOLIDIFY POLITICAL POWER**

Why do some leaders willfully embrace policies and institutions that waste their countries’ resources and impoverish their citizens? First, incumbent leaders can skim off societal resources for their own discretionary use. Second, leaders can secure a personal grip on power by allowing their supporters to engage in corrupt practices as a reward for loyalty. Finally, leaders may choose to ignore or to promote regulatory inconsistencies in order to protect favorites from adverse market outcomes. Consider Marcos, who allegedly used the treasury as a personal resource while allowing cronies to dominate businesses such as construction, coconut, sugar and petroleum. Dependent upon proximity to the leader’s good will, government allies would be unlikely to threaten his leadership. Simply put, mismanagement is a strategy for political survival. Yet, this is simply not a viable strategy on a tiny overpopulated island (surrounded by enemies) with few resources other than the hard work and savings of the population.

Marcos, for whom the term kleptocrat was originally coined, viewed himself as a democratic reformer. Oddly, these two characteristics were closely connected. In the Philippines, according to Marcos, “money was the key to political office; and political office was used to make more money...Vote-buying became the rule.”<sup>28</sup> Marcos used the money gained from dominating the country’s businesses to buy the most extensive political following in the

country's history, a political base that reached down to the most remote village and to the most humble citizen. By providing an economic incentive for people to vote, Marcos believed he was building the conditions for genuine democracy. "Many of our people came to conclude that the money they got for their votes was the only direct gain they would ever receive from 'representative democracy.'"<sup>29</sup> He forged a large following by exploiting the traditional patronage basis of Philippine politics with the "Marcos style" of dispensing cash directly to local officials revolutionized the art of patronage politics in the Philippines.<sup>30</sup> He acted upon the simple belief "that those with economic power also had the power to command votes."<sup>31</sup> Of course, he could have chosen to educate his people and provide them with economic opportunity rather than to bribe them, but bribery was a more direct path to reelection.

### **COULD LEE AND MARCOS HAVE CHANGED PLACES?**

This paper suggests that Lee and Marcos may still have traded leadership styles had they traded countries. All else being equal, the size of a leader's support base relative to the country's resource may have heavily influenced the choice between rule through mismanagement and the adoption of growth-enhancing policies. Coalitions with a stake in the general performance of the economy will be more likely to prevail in regions where resources are inadequate to reward the minimum support coalition through private payoffs. Leaders do not benefit equally from providing good policies and general prosperity to their people. The remarkable transformation of Chiang Kai Shek from plutocrat to technocrat upon moving to Taiwan gives credence to the notion that Lee and Marcos could have been interchangeable.<sup>32</sup>

Lee Kuan Yew's memoirs offer especially revealing support for the argument that leaders behave differently when faced with different incentives. Before the separation, Lee Kuan Yew tried vigorously to build political support for his party within Malaya itself using the same

strategy that eventually helped him rise to power in Singapore. He tried to create a non-communal, multiracial approach to politics based on a promise to be “an honest party with a dynamic social and economic policy”, delivering economic growth through good governance. Despite drawing huge crowds to hear his message, he attracted few votes. Voters did not switch to his party, Lee observed, because “they wanted to maintain links with the UNMO-led government that was in charge of issuing licenses they needed.”<sup>33</sup> In other words, in resource-rich Malaya, voters wanted privilege and pork. It was not possible to sell lean efficient government to a population accustomed to payoffs. To confirm this point he observes how UMNO leaders had “developed to a fine art the practice of accommodating Chinese or Indian ministers” in sharp contrast to Singapore’s governors “who did not seek to enrich themselves through” public service.<sup>34</sup> Lee Kuan Yew was not able to launch an effective electoral campaign in Malaysia using the same governing strategy he used in Singapore. Malaysian ministers would not work for someone who was unable to provide them with bribes such as country estates for themselves and their relatives. Thus, Lee would not have been able to generate adequate political support in Malaysia and at the same time, keep his base in Singapore. He therefore, eventually dropped the idea of unifying Malaysia and Singapore.

Perhaps his success in Singapore cannot be attributed to personality or to political virtue but to Lee’s skill in adjusting his personal ambitions to the environment in which he lived. After all, what options did Lee Kuan Yew have if he wanted to build a sustainable base for his political survival? On this small, resource-poor island, surrounded by enemies, with limited revenue to redistribute, Lee established his primacy in Singaporean politics by becoming competent in the selection and implementation of public policies that encouraged growth and spread prosperity widely among the population.<sup>35</sup>

## **THE IMPORTANCE OF BEING SMALL**

Can the relevance of this East Asian parable be extended to the rest of the world? Throughout the globe, a vast number of regimes exist despite rampant corruption. Why do some leaders learn to excel at providing good public policies while others stay in power by mismanaging their nations' resources? Is there a lesson about the importance of being small that can be extracted from our hypothetical thought-experiment?

Based on our venture into hypothetical comparisons, we can speculate that it is necessary for leaders that command few resources to be civic minded or to be visionaries with long-time horizons. Where resources exist that can be stolen, some leaders improve their chances of surviving in office by becoming thieves, despite the consequences of lower economic capacity and a muddled policy environment. The choice can be determined exogenously by the incentives leaders face to provide good public policies.<sup>36</sup> When essential government services take up so much of a country's resources that there is nothing left to steal—even after setting the tax rate at the revenue maximizing level—leaders must then depend on their competence in economic policy making. From this perspective, Lee Kuan Yew did not have to be any kinder, smarter or more patriotic than Marcos. A smaller resource base constrained Lee's ability to use private benefits to pay off key supporters. Now that Singapore has become affluent, the key to future prosperity will be the strength of institutions that make it costly for leaders to govern by payoffs. History provides few empirical counterfactuals to test the role of virtue or patriotism in the selection of economic policy. The example of Chiang Kai Shek is a rarity.

Had Lee Kuan Yew ruled Singapore the way Marcos ruled the Philippines, he would have created a Haiti in Southeast Asia. Such leadership would not have been sustainable in Southeast Asia because of the geo-political environment which featured strong support for



revolutionary movements by China. Had Lee begun to move down the path of rule via corruption, he would have precipitated a communist or labor movement take-over. Marcos did not have to worry about a Marxist take-over. In fact, his behavior created one. There were not fewer guerilla forces in the Philippines toward the end of Marcos' rule although there as a slim chance of a full-blown Marxist take-over because American bases in the Philippines would have prevented the acquisition of weapons by guerilla troops.

The loss of China prevented Chiang Kai Shek from turning Taiwan into a Haiti as well. If Taiwan had ended up as an economic failure akin to China under Chiang Kai Shek's rule, he would have given the Mainland communists a justification for taking over the island and he would have created many supporters in Taiwan for a communist takeover. It is clear from these examples that systemic vulnerability actually creates incentives for leaders to provide institutional arrangements for good economic performance. Prio explanations for Singapore's success have tended to be celebrations of the political virtues of Lee Kuan Yew. Our approach emphasizes that a key variable of institutional capacity is vulnerability of the leadership coalition to the consequences of economic mismanagement. In the Philippines, mismanagement rather than institutional capacity helped the ruling elite establish primacy over the economy. By contrast, better institutions for governance were needed in Singapore which was challenged by systemic vulnerability and the absence of resources to secure the coalition's survival. Lacking resources, Lee Kuan Yew could not have preserved his power by delivering side-payments to elite supporters.

#### **TO ENSURE MORE LEADERS LIKE LEE KUAN YEWt**

In the last ten years, a global trend toward the emergence of smaller countries and the decentralization of large countries has occurred. at a key of smaller countries and the

decentralization of large countries has occurred. Many public policy specialists hope that the transfer of power to decentralized units of government will provide better services, lower costs and less corruption. Experience has shown that formal existence of decentralized structures is not the relevant issue. What matters is making decentralization an effective policy by creating tools for accountability and transparency at the local level.

Looking to Singapore, we can see that Lee succeeded because he created a full supportive sequence of strong accountability within his civil service. Essential to making Singapore work were the availability of finance, the appropriate division of administrative responsibilities, and the strengthening of administrative capability and capacity. Adequate fiscal capabilities were put into place to accompany new responsibilities. Safeguards were created to prevent authorities from acting in opportunistic ways. The government ensured that local officials had the technical capacity to perform their responsibilities. Lee ensured that the functional responsibilities of his administration were clarified so that both the officials and the public knew what was expected. Accountability mechanisms within the civil service ensured that the economic and political benefits that policymakers intended were provided.

To create effective governance, the lessons of our East Asian parable is not that we must clone future Lee Kuan Yew, but that developing countries need better institutional designs that are engineered to provide incentives to leaders to rule through public policy rather than through private goods. In 1994, Lee wrote about the fiscal troubles of Canada and Australia:

“They are both vast resource-rich countries with small populations that will never be able to consume their cornucopia of national resources for a thousand years. The immense wealth has created a resource-rich syndrome, the opposite of East Asia—a relaxed, not an intense society...The newly industrialized economies and Japan, Korea, Taiwan, Hong Kong, Singapore,

Vietnam, and China are the opposite—they have had to gear themselves culturally for a very large driving way of life.”<sup>37</sup>

To complete Lee’s comparison, we would like to add that key institutions for public accountability and civic participation prevent resource-rich Australia and Canada from becoming like the Philippines. It is the construction of such institutions that transform the political leaders into agents of progressive economic change.

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<sup>1</sup> “In the 1960s and until 1974 the Philippines was the free world’s second largest producer of gold after South Africa—superior even to the US and Canada. It was a major product, with six or seven gold mines. The Johnson Matthey (de la Rue) refinery was set up in 1975 and enabled the Philippines to do its own refining to world standards. By law the gold had to be sold to the Central Bank. Theoretically, between about 1977 and 1982 Marcos was in a position to ‘buy’ all the gold mined and refined in the Philippines at a discount. Practically, he could steal the lot.” James Hamilton-Paterson, *America’s Boy: The Marcoses and the Philippines* (London: Granta Publications, 1998), p. 148.

<sup>2</sup> Singapore was a tiny Chinese-dominated island in an archipelago of 30,000 islands inhabited by 100 million Malay or Indonesian Muslims.

<sup>3</sup> International Monetary Fund, 2000.

<sup>4</sup> Lee, Kuan Yew, *The Singapore Story: Memoirs of Lee Kuan Yew* (Singapore: Singapore Press Holdings, 1998), p. 22.

<sup>5</sup> He added, “Instead of there being one unified economic development for Malaya, there will be two. The Federation, instead of cooperating with Singapore, will compete against Singapore for industrial capital and industrial expansion. In this competition, both will suffer.” *Ibid.*, p. 397.

<sup>6</sup> See Bello, 1991; Boyce, 1992; Dohner and Intal, 1989; and Montes, 1992.

<sup>7</sup> World Bank, 1999b.

<sup>8</sup> See Lee, 1998; Quah, 1985 and 1990; Seow, 1994; Tan, 1994; Turnbull, 1977; and Vasil, 1988.

<sup>9</sup> Barr, Michael D. *Lee Kuan Yew: The Beliefs Behind the Man*. (Georgetown University Press: Washington D.C., 2000). P. 34.

<sup>10</sup> *Ibid.*, p. 34

<sup>11</sup> *Ibid.*, p. 35

<sup>12</sup> *Ibid.*, p. 19.

<sup>13</sup> Thompson, Mark R. *The Anti-Marcos Struggle: Personalistic Rule and Democratic Transition in the Philippines*. (Yale University Press: New Haven. 1995) pg. 33

<sup>14</sup> Marcos padlocked the legislature, muzzled the media, jailed an estimated 60,000-75,000 opponents and activists and used the regulatory apparatus of government to benefit the economic activities of favorites.

<sup>15</sup> Victor Mallet, *The Trouble With Tigers: The Rise and Fall of South-East Asia* (London: HarperCollins, 1999), pp. 58-59.

<sup>16</sup> Francis T. Seow, *To Catch a Tartar: A Dissident in Lee Kuan Yew’s Prison* (Connecticut: Yale University Southeast Asia Studies, 1994).

<sup>17</sup> Mallet, pp. 58-59.

<sup>18</sup> Lee was also determined to safeguard the party from being captured internally by opposition members. To prevent capture he adapted a structure copied from the Vatican. He “established two classes of party membership: ordinary members, who could join either directly through People’s Action Party (PAP) headquarters or through the branches, and cadre members, a select few hundred who would be approved by the Central Executive Committee (CEC). Only cadres who had been chosen by the CEC could in turn vote for candidates to the CEC, just as only cardinals

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nominated by a Pope could elect another Pope. This closed the circuit, and since the CEC controlled the core of the party, the party could not now be captured.” Lee, p. 287.

<sup>19</sup> Thompson, p. 33.

<sup>20</sup> The high performing small countries throughout East Asia share essential economic institutions with Chiang’s Taiwan, despite the absence of a shared history or culture. Hilton Root, *Small Countries, Big Lessons: Governance and the Rise of East Asia* (Hong Kong, New York: Oxford University Press, 1996).

<sup>21</sup> Root, 1996.

<sup>22</sup> Barr, p. 33

<sup>23</sup> In reality, leaders always provide a mix of private and public goods. However, focusing on the sharp distinction between the private and public components of policies allows us to highlight how institutional features shape the choice between providing public goods that benefit everyone in society, or private goods that enrich only those who receive them. In general, as the government’s support base increases in size, the mix between private and public shifts in favor of the latter.

<sup>24</sup> Lawrence, James. *The Rise and Fall of the British Empire*. St. Martin’s Press: New York. 1996.

<sup>25</sup> World Bank, 1999a

<sup>26</sup> Governments that seek to govern through private goods distribution will tend to resist tax cuts and will be prone to deficits. The costs of such policies are distributed widely among the population, whereas the benefits accrue to a select few favored by the government. Strong empirical evidence supports the expectation that the ratio of government expenditures to revenue will be lower when governments depend on broad social support. In other words, when the number of necessary supporters is small, governments can thrive on overspending and even going into debt, resorting to seignorage to pay off coalitions at the expense of growth. See Bruce Bueno de Mesquita and Hilton L. Root, *Governing for Prosperity* (New Haven: Yale University Press, 2000), Chapter 1, “When Bad Economics is Good Politics.”

<sup>27</sup> “Some theorists suggest that clientelist politics in the Philippines had been in decline long before the declaration of martial law. Campaign costs increased as machine politics replaced traditional landlord-tenant relations in some areas, political competition intensified as the economic stakes grew, and the electorate expanded because of rapid population growth. As demands for national government patronage to cover these growing electoral expenses multiplied, the fiscal stability of a state with limited revenue-capacity was strained. The financial crisis precipitated by Marcos’ overspending in the 1969 election was only the culmination of this cycle. Several scholars have claimed that the campaign-related killings during Marcos’ rule merely continued the trend of earlier administrations. If patron-client ties had in fact weakened, then perhaps politicians had to employ force more frequently to win at the polls. Martial law was declared, according to this view, when elections had finally caused the fiscal collapse of government and intolerable levels of bloodshed.” Thompson, p. 34.

<sup>28</sup> Marcos, 1980, p. 49.

<sup>29</sup> Ibid., p. 49.

<sup>30</sup> Thompson, p. 35.

<sup>31</sup> Ibid., p. 49.

<sup>32</sup> Chiang Kai Shek was not known for being personally corrupt or for being personally indulgent. He ruled China using corruption to indulge his subordinates. Although there is no evidence that he himself lived a life of excess. He always kept the discipline of a soldier, although the ‘great general’ had virtually no military victories to his credit. He used resources to impress his enemies and his followers. He never wasted or risked his resources by going into battle. This is one of the reasons he lost the respect of the Chinese people after WWII.

<sup>33</sup> Lee, p. 547.

<sup>34</sup> So widespread was the concept of rule by payoffs in Malaya, that Malay leader “Razak once offered [Lee Kuan Yew’s colleague] Keng Swee 5,000 acres of the best quality rubber-land, to be planted with seedlings of the best high-yielding strains from the Rubber Research Institute.” Lee, p. 656. This story, denied by UMNO leaders, was publicly confirmed by Keng Swee.

<sup>35</sup> Lee wrote that “Many, not born or too young when I took office in 1959, do not know how a small country with no natural resources was cut off from its natural hinterland and had to survive in a tough world of nationalistic new states in Southeast Asia...It was this drive in an immigrant Asian society that spurred us to fight and win against all odds” Lee, pp. 8-9.

<sup>36</sup> Testing this hypothesis with the cross-country data for all countries would require taking into account minimum administrative costs, national income and consumption, population, social spending, resource endowments, external threats, and ethnolinguistic fractionalization, among other variables.

<sup>37</sup> Barr, p. 85.