By a variety of measures, however, South Korea and Taiwan vastly outperformed Chile and Costa Rica. The two Asian countries' export-led growth policies produced much higher incomes and greater income equality, along with lower rates of childbearing and more widespread education. The World Bank calls this the "shared growth" model. But the two Latin countries both have strong welfare-state traditions, dating to the 1920s in Chile and the 1940s in Costa Rica. Both made energetic efforts to extend health care and other services to the poor during the 1960s and '70s. By contrast, the two Asian countries were both Japanese colonies before 1945, and improvements in public health—medical care, water and sanitation works—were imposed by the imperial overlords. As a result, public health wasn't seen as part of the citizen's package of rights after 1945, McGuire says.

There's another crucial difference between the two pairs of countries. During much of the 20th century, both Latin countries had democratic governments (the most prominent exception being the Pinochet years in Chile, 1973–89) and strong labor unions. Democracy arrived in South Korea only in 1988, and in Taiwan only in 1996.

The Asian model may work for some countries, McGuire concludes, though following it is a bit like trying to play basketball like Michael Jordan. "The cases of Chile and Costa Rica show that strong performance at human development is possible even in countries that struggle with slow economic growth, a high degree of income inequality, and prevalent income poverty."

What's Wrong with Japan?

"The Wrong Problem" by Harald B. Malmgren, in *The International Economy* (Nov.–Dec. 2001), 1133 Connecticut Ave., N.W., Ste. 901, Washington, D.C. 20036.

Japan's economy has been ailing for more than a decade, and the conventional wisdom is that the world's second largest economy won't improve until Tokyo gives top priority to dealing with the mountains of bad debt held by Japanese banks. That's a fool's errand, says Malmgren, a former deputy U.S. trade representative (1973–75) who now heads the Malmgren Group.

Nobody knows how big the Japanese banks' bad debt problems really are (including the banks themselves), but one thing is clear: Writing off such "nonperforming" loans will mean closing many businesses and prolonging the recession, thus adding to the mountain of bad debts. And banks that hold lots of bad debts won't make loans to help businesses start up or expand.

Malmgren argues that the Japanese should learn from America's painful economic restructuring. "In the 1980s we had the rapid emergence of private equity and venture capital, high-yield bonds, securitization of debt, derivatives, and myriad other new financial instruments. . . . This opened the way for dramatic changes in merger and acquisition activity, buyouts, mezzanine financing, incubation of startups, bundling of distressed assets, and many other essential steps on the path to restoring the competitive strengths of the U.S. economy."

The American financial revolution got money from savers into the hands of those who needed capital. Japan today has huge pools of "sleeping money" in pension funds and personal savings accounts. What's needed is regulatory reform to spur the creation of "non-bank financial institutions" such as venture capital funds and mutual funds. (Such institutions now account for more than 80 percent of U.S. business financing.) In 1979, for example, a U.S. Department of Labor regulatory change allowed private pension systems to make limited investments in new and small businesses and other "risky" enterprises.

Yes, the banks' bad debts need to be addressed, Malmgren says. But "working on bad debts first, without attention to the crying need for restructuring Japan's stalled economy, can only bring even deeper recession and more deflation—and more bad debt."