



FULBRIGHT
UNIVERSITY
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FULBRIGHT SCHOOL OF
PUBLIC POLICY AND MANAGEMENT

DEVELOPMENT POLICY

SESSION 3

State, Market, and Capitalist Development



Session 4

- Modernization Theory and Its Contribution
- Criticism
- State, Market and Capitalist Development
- Varieties of Capitalism

Capitalist Development



- Capitalism – defined as an economic system built on private ownership of property, prevailed for 200 years.
- Despite its history, there are many differences among the nearly 200 countries that now practice it in some forms → “Varieties of Capitalism” (VoC).
- Difference in performance measurement such as economic growth, inflation, total factor productivity, etc.
- Recent development in categorization of capitalism.

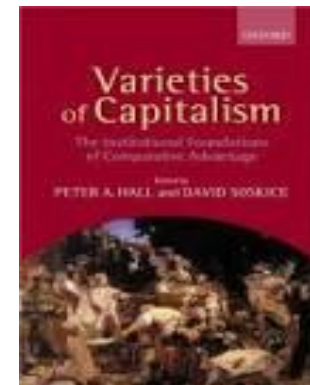


Varieties of Capitalism

- Peter A. Hall and David Soskice (2001) - “How different institutional configurations have shaped capitalism.”
- Understand the institutional similarities and differences in developed economies
- Two ideal types of state-market systems: LMEs and CMEs

LMEs
Competitive Market
Agreement

CMEs
Non-market
Relationship





Liberal Market Economies

- Epitomized by the United States – rely on competitive markets.
- Competitive labor markets with a high degree of managerial prerogatives and limited collective bargaining, highly developed capital market.
- Heavy reliance on market → this model is particularly suited to promote radical innovation.
- LMEs successful in high-tech, high-risk sectors.



Coordinated Market Economies

- Epitomized by Germany – rely on non-market forms of coordination including negotiation, bargaining, and collaboration.
- Bargaining between labor unions and employers and sharing of power within the firm, relatively rigid labor markets, heavy investment in skill formation, a high degree of coordination of among employers, interfirm networks, and long term, bank-based finance flourish.
- “Depend more on non-market relationship to coordinate their endeavors with other actors to construct their core competences.”
- Suitable for incremental innovation – successful in generating high skill, high wage, high productivity employment.



Implications & Criticism

- Different countries have different economic institutions, different business-firm relations and different structures of firms.
- The functioning/efficiency of one particular institutional structure in one area depends on the structure of institutions in other areas (No single best practice).
- Very theoretical model with weak observation (some claims seem to be made to fit the model)
- Some countries (OECD) do not fit into any ideal models (such as France).



LME vs. CME

	Number of OECD Countries	Countries
Liberal Market Economies	6	U.S., U.K., Ireland, Canada, Australia, New Zealand
Coordinated Market Economies	10	Germany, Japan, Switzerland, Netherland, BEL, Sweden, Norway, Denmark, Finland, Austria
Ambiguous	6	France, Italy, Spain, Portugal, Greece, Turkey



State and Economy

- Radical change in the role of the state around the world (20th Century): e.g. Increases in tax raising from around 10% of GDP to around 40% in some countries / Expansion of public programs (welfare, education, etc.).
- The same period saw more or less sustained increases in material living standards (economic growth).
- Much debate about whether the state is a drag on growth (e.g. Neoliberalism / Public choice theory – “Problem of underdeveloped countries is too little reliance on the market mechanism”).
- Endless debate: 1) How should we think about the role of state? Market supporting role? Market augmenting role? 2) Market failure? Government failure?

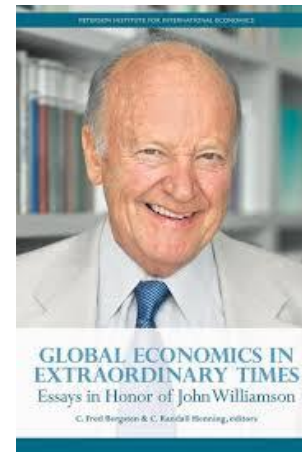
Market v. Planned (Weber)



Market Economy	Planned economy
Regulatory State	Interventionist
No clear policy on industry	Industrial Policy (Strategic and Goal Oriented)
Not prestigious	Well-educated and trained, the most capable, prestigious job
Sensitive (environment)	Not sensitive

Washington Consensus

- The **Washington Consensus**: a set of 10 economic policy prescriptions considered to constitute the "standard" reform package promoted for crisis-wracked developing countries by **Washington**, D.C.–based institutions such as the International Monetary Fund (IMF), World Bank, and the US Treasury Department.
- John Williamson (1989)





Ten Points for Development

1. Fiscal discipline
2. A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure
3. Tax reform (to lower marginal rates and broaden the tax base)
4. Interest rate liberalization
5. A competitive exchange rate
6. Trade liberalization
7. Liberalization of inflows of foreign direct investment
8. Privatization
9. Deregulation (to abolish barriers to entry and exit)
10. Secure property rights



Summarized as

- Macro economic stability (Number 1,2,3,4)
- Floating Exchange rates (Number 5)
- Free trade (Number 6 & 7)
- Free Markets (Number 8,9,10)



Q&A



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