Fulbright University Việt Nam

Development Policy 2019

Session (4): State and Market: Varieties of Capitalism

Class Schedule

- One of the most important modern institutions is capitalism, but actual patterns of capitalist development vary country by country and region by region.

- What are various types of capitalist system? (LME vs. CME)

- How were some European countries developed?

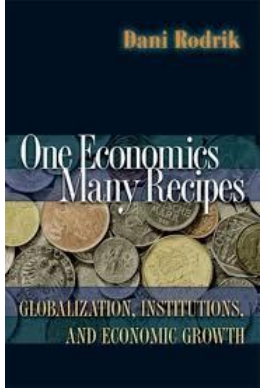
- What is the implication for Vietnamese (developing) countries?

Sum up: Rules of Good Behavior for Development

- During the 1950s – 1960s: “big push,” planning, and import-substitution were the rallying cries of economic reformers in poor nations.

- The idea lost ground during the 1970s – to more market-oriented views emphasizing the role of the price system and an outward orientation.

- By the late 1980s a remarkable convergence of views had developed around a set of policy principles that John Williamson (1990) termed “Washington Consensus” – remained at the heart of conventional understanding of a desirable framework for economic growth.



Sum up: Mainstream Ideal

Property Rights	Private, enforced by the rule of law
Corporate governance	Shareholder control, protection of shareholder rights
Business-Government Relations	Arm's length, rule-based
Industrial organization	Decentralized, competitive markets, with tough anti-trust
Financial system	Deregulated, securities based, with free entry, regulatory
Labor markets	Decentralized, deinstitutionalized-flexible labor market
International capital flows	Prudently free
Public ownership	None in productive sectors

Neoliberal World Order

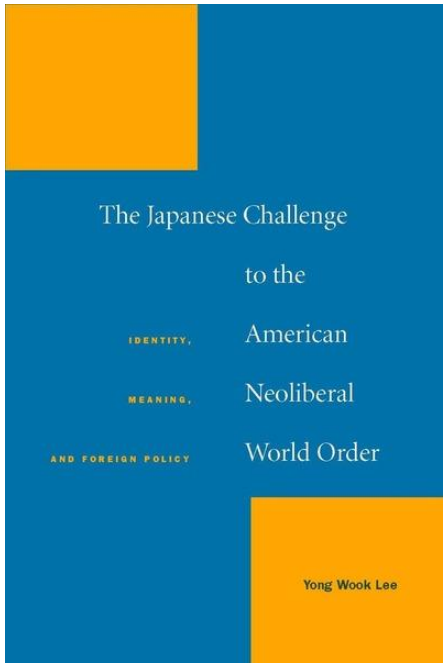


- The end of Cold War – reinforced world economic order ("*free play of market forces and a minimal role for the state in economic affairs* would ensure efficiency and productivity of the economy.

- The neoliberals' attempt to construct world economic order with a slogan.

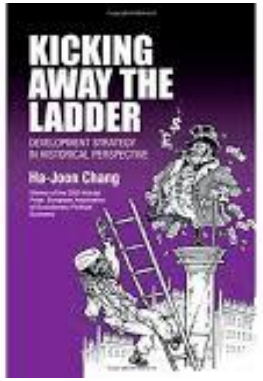
- Delegitimating the role of the state → dysfunctional | ahistorical.

- Liberal capitalism is the only transhistorical, legitimate, and universal model of economic development → U.S.-led Economy, Bretton Woods Institutions (World Bank and IMF) → Legitimate "only one path."



But What was the reality?





- Cambridge economist Ha-Joon Chang's book on the advanced economies' development strategy (e.g. protection | tariffs).
- Were they laissez-faire states, or protectionists?
- Germany?
- France?
- Sweden?





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.

Market v. Planned (W



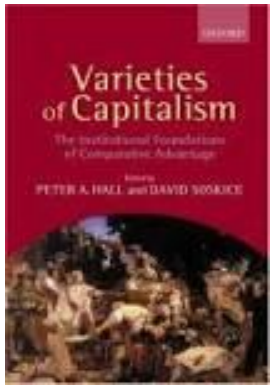
	Market Economy	Planned economy
Role of the State	Regulatory State	Interventionist
Methods of Intervention	No clear policy on industry	Industrial Policy (Strategic and Goal Oriented)
Status of Bureaucrats	Not prestigious	Well-educated and trained, the most capable, prestigious job
Sensitivity to external condition (global economy)	Sensitive (environment)	Not sensitive

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



	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

LMEs vs. CMEs

	Liberal Market Economies	Coordinated Market Economies
Prime Example	The United States	Germany
Features	Competitive labor markets with a high degree of managerial prerogatives and limited collective bargaining, highly developed capital market.	Bargaining between labor unions and sharing of power within the firm, relatively rigid labor markets, heavy investment in skill formation, a high degree of coordination among employers, interfirm networks, etc.
Market	Heavy reliance on market – suitable for promoting radical innovation	Relying on non-market relationship to coordinate their endeavors with other actors to construct their core competences – suitable for incremental innovation
Impact	Successful in high-tech, high-risk sectors	Successful in generating high skill, high wage, high productivity employment.

VoC: Critics & Implication

- Different countries have different economic institutions, different business-firm relations, and different structures of firms.

- Is there a single best practice? – the functioning/efficiency of one particular institutional structure in one area depends on the structure of institutions in other areas. **No obvious winner!**

- VoC – is very theoretical model with weak observation

- Some countries among OECD, for example, do not fit into any ideal models (e.g. France, Italy, etc.)

Discussion Topics

- Discuss the following statistics or statement:

1. 20th Century – Increase in tax raising from around 10% of GDP to around 40% in some countries. Many countries experienced expansion of public programs (e.g. welfare, education, etc.).

2. Neoliberals say “problem of underdeveloped countries is too little reliance on the market mechanism.

Endless debates:

How should we think about the role of the state? Market supporting or market augmenting role?
In Vietnamese context, what would be the proper role of the state?