

Capitalism versus Developmentalism – Where to Go?

By Noboru Hatakeyama

Since this is a bimonthly publication, this issue is the last one of this year. What has shocked me this year are the sovereign debt crises and banks' LIBOR reporting, both of which occurred in Europe and started from false reports.

The false reports by the government of Greece and by British banks, as well as the greedy capitalism pursued by financial organizations in the United States a few years ago, have cast serious doubt on the future of capitalism.

What also characterized this year was the further expansion of the newly emerging countries. The economic weight of the G7 nations, measured by their total GDP, had never been below 60% of the world total, but the G7's weight fell to less than 50% (48.3%) in 2011, suggesting that its era is over.

There are two types of economies in the world as of now. The first one is an economy under "Capitalism" and the second one is based on "Developmental Dictatorship" ("Developmentalism").

In order for Capitalism to function smoothly basic ethics must be respected by all players. Ethics here includes being stoic, honest, abiding by rules and so forth. This internal discipline gave Capitalism autonomous freedom. However, this internal discipline was not observed in many economies and that led to these recent crises. In the case of sub-prime loans, the bankers in question became so greedy as to lend money to poor people who were hardly able to return the borrowed money. Thus since internal discipline has gone, external regulations have come instead. Capitalism will become more regulated than it is now.

On the other hand, Developmentalism has learned a lot from Capitalism. It has introduced the market economy and gradually broadened the allowance of human rights. It will continue to do so. Russia's participation last August in the WTO is one such example.

Thus Capitalism will approach Developmentalism and *vice versa*. We will see a kind of convergence between Capitalism and Developmentalism. Therefore what Capitalism and Developmentalism should do to improve the world economy is to pursue some commonality in certain cases. For example, Capitalism is not completely free yet. Therefore it has to pursue further liberalizations, especially in the area of trade in services and foreign direct investment (FDI). Developmentalism should also aim at the same thing.

Specifically I would like to raise two examples.

First, the concept of "borders" in trade policy between countries should disappear in due course. As of now, since the concept of borders is still alive in our trade policy, "dumping" can happen

between this side of the border and the other side. If selling your products at a price below the cost is really wrong, to do so domestically should also be deemed wrong.

Secondly, export controls. The GATT Article 11 stipulates that in the critical shortage of a product, the exporting country can cut or stop exports for a certain period of time. In a nutshell, the interest of consumers in exporting countries is placed higher than that in importing countries. If this continues to prevail, then consumers in importing countries cannot rely on imports as the stable source of supply.

Developmentalism is standing on three legs – the State Owned Enterprises (SOEs), FDI and other local company groups. Many governments under Developmentalism have been using SOEs as a convenient tool to conduct their industrial policies. SOEs have an important implication for the future of Capitalism. They are indispensable elements of state capitalism which has many overlapping aspects with Developmentalism.

A traditional concern about SOEs was that if they spread, economic vitality acquired through fierce competition among private companies would be reduced. This concern would be justified if the market is closed. However, if the market is open, there are many competitors coming in from abroad, even when you establish many SOEs domestically.

The US was always criticizing SOEs for distorting market mechanisms and is said to be interested in establishing international rules for SOEs in trade negotiations such as the TPP. It was ironic that the US government used its investments to bail out a private company from this crisis. Its purchase of stocks of GM, the most typical private company in the US, was as big as 60% at first and the ratio is still 30%.

When it comes to banks, the US Treasury injected public funds and the European Central Bank announced it would be ready to purchase euro-zone countries' short-term bonds in the secondary market.

In this regard, the nature of Capitalism may have changed in the direction of accepting more governmental control than before. Convergence has made it possible for these two groups to compete and cooperate. If competition and cooperation between them can take place especially in economic growth and reduction of greenhouse gases, it would contribute to creating a better world. **JS**

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