

Capitalism, Socialism and Poverty Reduction

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NAST and UPSE

NAST Symposium for Young Minds

Outline: On Inclusion

- **The Big Picture: Capitalism vs Socialism or why Capitalism Triumphed**
- **The Middle (Kingdom) Picture: Deng Xiaoping vs Mao Zedong**
- **The Philippines: Development Progeria and Poverty Reduction**

Thomas Piketty and Inclusion

- **Thomas Piketty (“Capital”) and Capitalism**
- **Inclusion as Income inequality**
- **Inclusion as Poverty Reduction**
- **Capitalism: deficit in Income Inequality**
- **The Apocalyptic contest of Isms**

Varieties of Capitalism

Capitalism: capital is in the hands of capitalists (taipans, tycoons, robber barons) who invest privately-owned capital in search of profit (nee private enterprise economy).

a. Market economies: a capitalist economy where goods and services are supplied by private sector: either as capitalists/owners, as managers or workers

Varieties of Capitalism

- b. Welfare States Capitalism: market economies where the state exacts through taxation (up to 70%) a large share of profits of private enterprises and incomes of employees**
- c. Regulatory Capitalism: a market economy where the state controls excesses of private enterprise through rules and regulations enacted by the state**

Varieties of Capitalism

- d. **Booty Capitalism:** a capitalist/market economy where the state and/or its organs are “captured” or in the pockets or payroll of large capitalists
- e. **Chaebol/Zaibatsu Capitalism:** where the state nurtures large quasi private enterprises with tax incentives and subsidies in exchange for administration from the government.

Socialism

Socialism: an economy where the state owns capital and invest it in goods and services according to a central plan– private property and private enterprise not allowed.

Varieties considered heretical.

Mixed Types

Deng Xiaoping's

a. "Socialism with Chinese Characteristics" private enterprise allowed but the state still owns swathe of the economy but becoming smaller fraction.

Socialist politics married to capitalist economics:

b. Commanding Heights economy

Why Socialist Challenge Collapsed

a. The Socialist Bloc collapsed in 1989 since embraced market economics.

b. The reason for collapse: central planning very poor allocator of resources,

c. Very inefficient at stimulating and adopting innovation. Static.

**** Capitalism allowed diversity, Darwinian selection and mutation. All in search of efficiency**

Why Socialist Challenge Collapsed

d. Powerful principles for dynamic economic growth and efficiency:

1. Profit motive,
2. Private property
3. Free enterprise

**** *Why Nations Fail by Acemoglu and Robinson (2012)***

**** PRC grew rapidly when Deng Xiaoping employed these principles.**

People's Rep of China: Transformation

a. Since 1990: rapid growth, massive poverty reduction, sharp rise income inequality.

b. Quiz: Who said this?

1. “It doesn’t matter that the train is late as long as it is socialist”;

2. “It doesn’t matter what color the cat as long as it catches the mice.”

c. Deng welcomed foreign investors and allowed free enterprise and profit motive in PRC.

d. Result: 600m people lifted out of poverty; PRC 2nd largest economy in the world.

e. But 100 \$ billionaires: Mao would be turning in his grave.

PRC and Inclusion

Quiz: Who said this?

1. ** “It is glorious to be rich!”
2. **”I don’t want to redistribute poverty!

Varieties of Inclusion

Varieties of Inclusion

- **Ideal: Lower poverty incidence and lower income inequality**
- **PRC Lesson: Lower poverty incidence, but higher income inequality with rapid growth**
- **For low income economies: PRC path is it!**

Inclusion in the Philippines

- **Development Progeria: When growth of Manufacturing lags behind that of Services in a “low income economy”.**
- **Normal pattern for high income mature economies; abnormal in low income economies**
- **Service sector now about 57% of PHL economy.**
- **In low income convergent economies: Manufacturing grows faster than Services**

The Malady

Development Progeria

Progeria is genetic malfunction where children 3 years of age display the physical features of a person of 60.



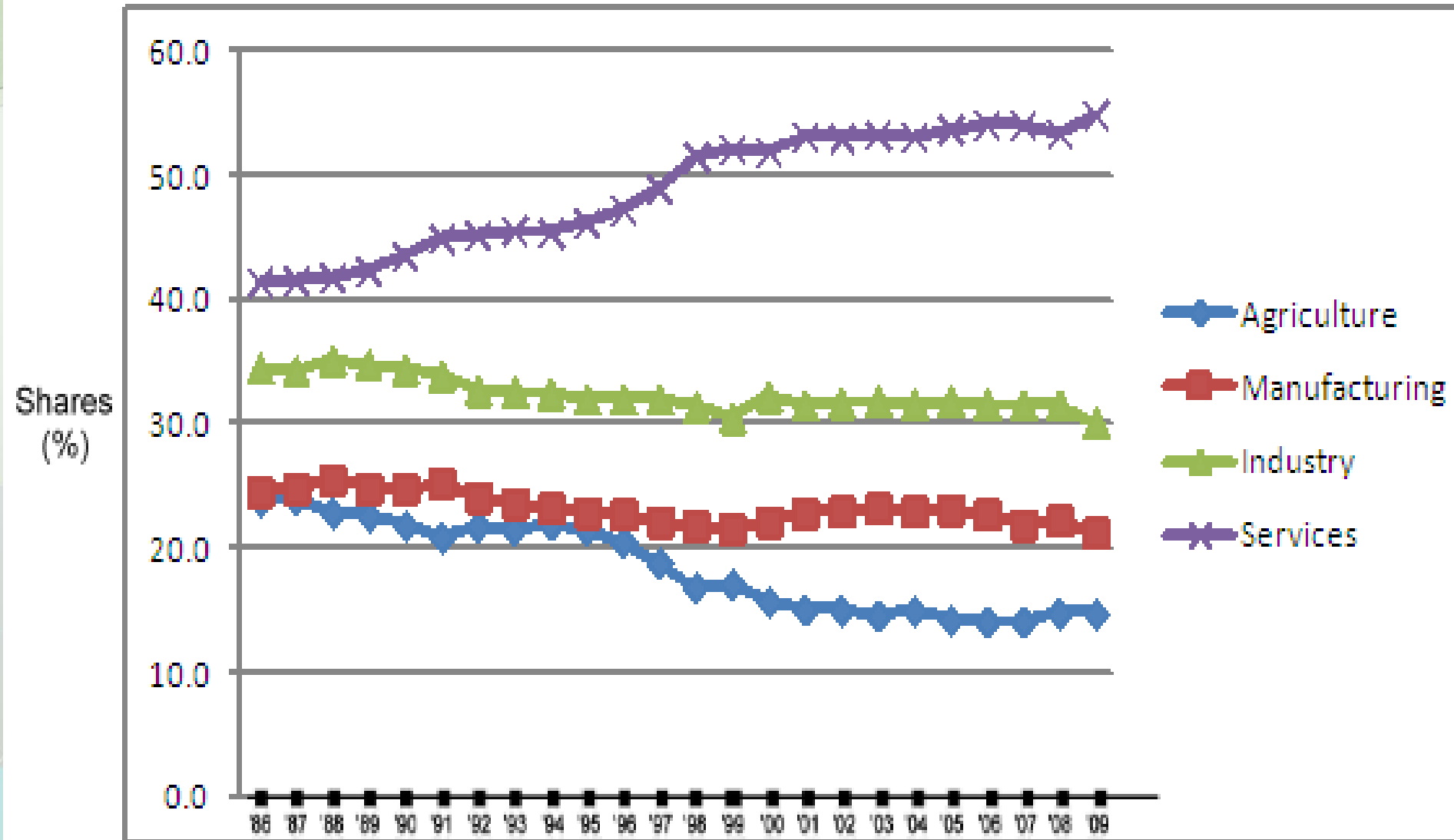


Figure 1. Trajectory of Philippine Value-Added by Industry as % Shares of GDP, 1986-2009

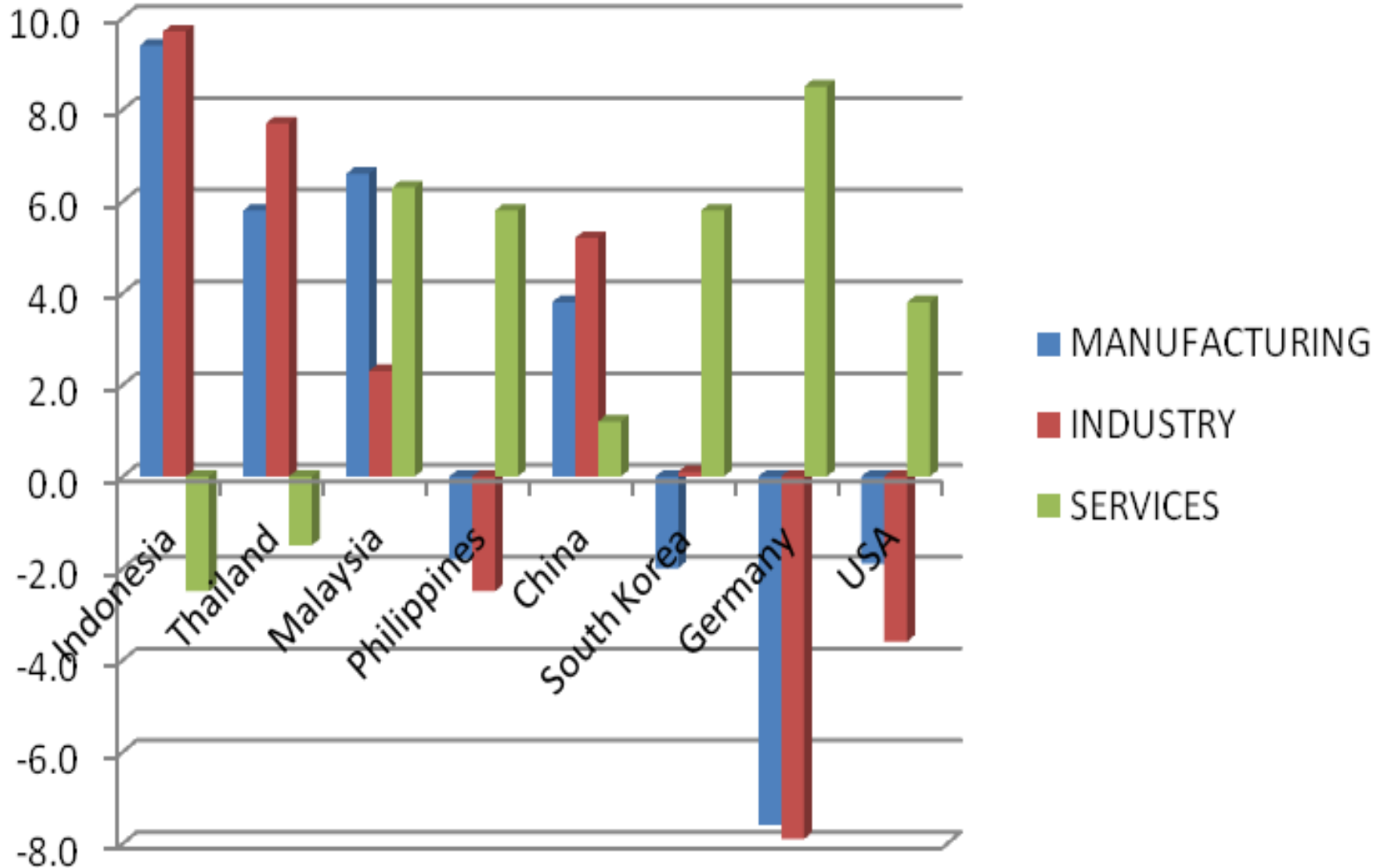


Figure 3. Change in % Industry Shares 1986 to 1996

Development Progeria and Poverty

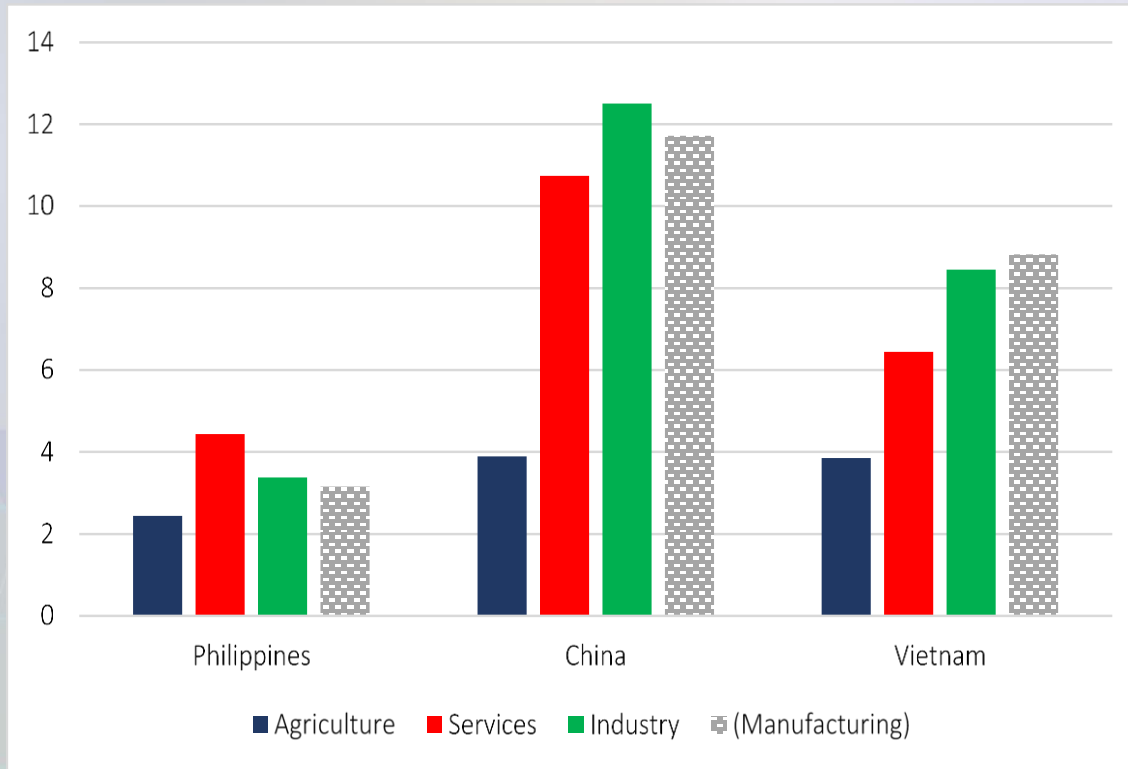
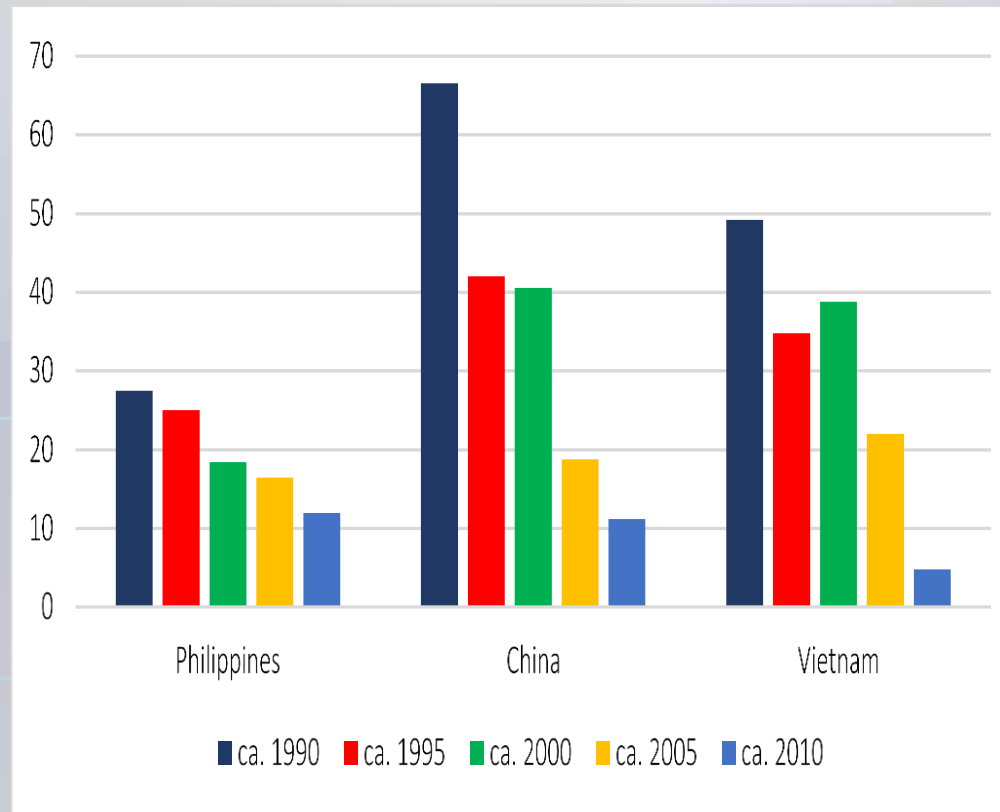


Figure10. Average Annual Growth in Sectoral Value Added (1990 to 2010)

Manufacturing Growth and Poverty

Figure 1: Poverty Head Count Ratio 1990 to 2010 at \$1.90 a day (2011 PPP) (% of population)



Development Progeria: Moving Out

- Who's afraid of P55 per \$ ER?
- “Slipstream Industrialization”: get into the slipstream of global manufacturing behemoths (Foxconn)
- Make the PHL a competitive destination for DFI: better roads, less traffic jams
- Lower the price of power which stimulates manufacturing
- Lift the constitutional constraints to DFI.

**Thank you
Mabuhay Kayo!**