THE ROLE OF THE GOVERNMENT IN THE MARKET ECONOMY

FROM THEORY TO PRACTICE

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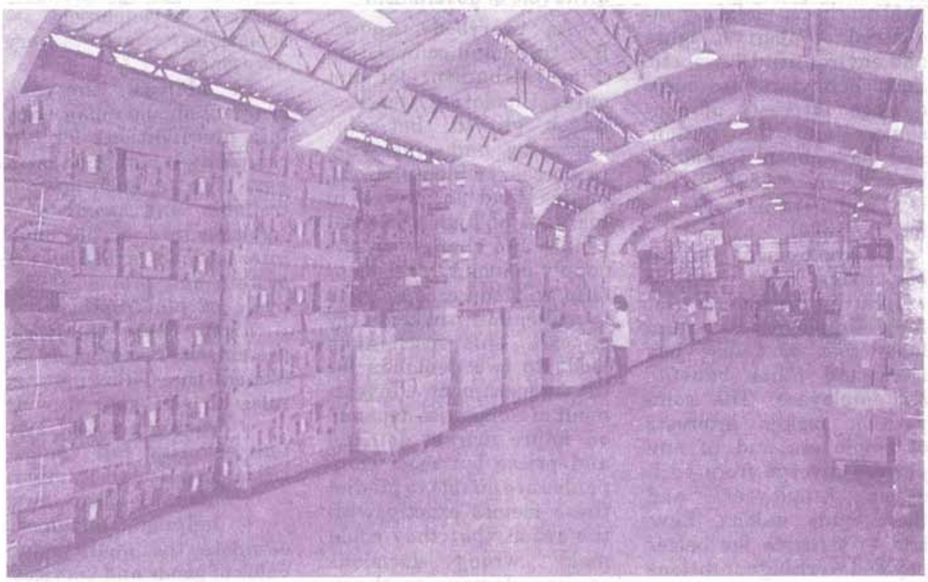

I. ROLES OF THE GOVERNMENT, MARKET, AND COMPETITION ACCORDING TO THE CLASSICAL ECONOMICS

1. Interests and competition in the market economy

Economically, there are four interests in the market economy: interests of consumers, of employers, of employees and of nation.

Consumers want to obtain the greatest possible satisfaction from the money they have available when making purchase, so they prefer goods of high value and low price, convenient shops, good service, etc.

Employers want to have rights to take all possible measures to maximize their profits and agree to carry out obligations (tax payment, registering their trade marks, etc.) and other regulations (laws on environment protection, labor, bankruptcy, anti-trust, etc.)

Employees want to have job and be paid according to law and their contribution to the organization they work for.

Interests of nation lie in economic growth, social and political stability, environment protection, effective use of natural resources, sustainable development, etc.

Economic competition is the struggle between companies in the same market for a foothold and profits by offering better value for money.

All economic theories maintain that the management mechanism should allow all companies to maximize their profit provided that they engage in fair competition. To make profit in the competition, companies should try to better satisfy consumers' needs. This will lead to better goods and services, lower prices and satisfaction of customers. The competition will encourage companies that can supply better goods and services, and ruin companies that supply poor-quality goods and services. This struggle for survival forces owners of companies to make replacement investment and apply techno-scientific advances to production.

When companies try to reduce production cost, the average cost becomes smaller and smaller, the allocation and use of resources will be increasingly effective. This process is appropriate to the national interest although it isn't the aim set by the company.

In short, when pursuing the aim of making a profit in competition with rivals, efforts of companies will produce results appropriate to interests of consumers and the nation. The term "invisible hand" devised by Adam Smith is usually used for denoting this process. That is also why competition becomes a mechanism for creating the dynamic of economic development.

Speaking of the role of market mechanism, we refer to the role of competition. In a market without competition, the dynamic of economic development will be abolished and the economy will, sooner or later, fall into decline.

2. Negative tendencies and four basic laws of the market economy

To make a profit competing against others is no easy matter to owners of companies, so in fact, they tend to reduce competition or practice unfair competition. This causes harm to interests of consumers and the nation. The following are three laws fighting against unfair competition.

a. Monopoly and anti-trust laws: Monopoly is a type of market structure

in which a single supplier sells a certain product or service to a multitude of buyers. The monopolist is in a position to set high market prices to maximize the profit. It is slow to enhance the quality of product or service it supplies and slow to reduce the production cost. This situation goes against interests of consumers and comminity. That is why all developed countries passed anti-trust laws (they were passed in the U.S. as from 1890 onwards).

b. Collusion between sellers and prohibition of anticompetitive practices: Price competition could cause companies to suffer losses or go bankrupt, therefore, when a group of producers can control a market, they tend to reach an agreement in order to limit competition by adopting price leadership and barriers to entry. These producers can also amalgamate with others to form a bigger company and restrict free competition. Such collusion causes harm to interests of consumers and the nation, and is prohibited by laws (a law of this kind was passed in 1958 in Germany).

c. Unfair competition and unfair competition laws: Unfair competition includes all dishonest business behaviors, such as evading taxes, making false claims about the quality of the product, cutting prices, employing underpaid workers, violating industrial property rights and environment laws, etc. Such behaviors obviously damage interests of consumers and the nation, and have been forbidden by law (since 1896 in the U.S. and 1914 in Germany for example).

Unemployment and labor codes: the need to reduce the production cost forces employers to reduce labor cost or refuse pay rises and other benefits for employees. The competition makes interests of employers and of employees diverge from each other. Employees, and their trade unions, have had to struggle for better pay and working conditions for centuries. In developed countries, laws on minimum wage, pay negotiations, working conditions, etc. were passed in order to facilitate this struggle.

Under the competition mechanism, weak or ineffective companies may go bankrupt causing unemployment rate to rise. This situation easily leads to social unrest. This is why governments have to carry out schemes to deal with the unemployment and pass laws on labor, bankruptcy and even unemployment.

3.The role of government

As everybody knows, free trade and competition is a mechanism for not only stimulating the economic growth, but also allocating and employing resources (or inputs). Companies tend to invest in markets of high potential profits and changes in the supply-demand relationship will cause companies to make their market entry or exit. This mechanism leads to two demands for the government. Investment of companies depends on future market demand and prices but most companies are unable to predict these factors exactly with the result that they could make wrong decisions causing damage to themselves and the community. That is why the government should study and predict changes in the market demand to save companies from investing too much in certain market. Sudden increases in number of beer factories, sugar refineries, and cement factories in Vietnam in recent years are examples of waste of resources.

However, there are great demands for certain goods or services (health care in rural areas, education, clean water, transportation and waste treatment) but the average disposable personal income is low, so these markets become less attractive in the eyes of businesspersons and the government investment is needed to supply these goods and services to people.

To ensure the fair competition and sort effective companies from ineffective ones, information about companies and their products should be available to help consumers form exact judgements before making decisions.

As for goods or services which most average consumers have only limited knowledge of, such as medicine, electronics, health care service, automobiles, etc. information services run by the government or consumers' associations are very necessary.

In addition, the government should ensure certain preconditions for fair competition and good business climate, such as controllable and predictable inflation rate, stable bank interest rates, safe banking system and proper settlement of bankruptcies.

From these analyses, the classical economics attached the following six roles to the government:

+ providing a law system ensuring fair competition and social stability.

+ enforcing these laws.

+ helping consumers estimate the quality and value of goods and services.

+ predicting future demands and prices on local and foreign markets in order to reduce business risk.

+ ensuring macro-economic preconditions: inflation, interest rate, ownership, credit safety, etc.

+ supplying public utility services that the private sector can't undertake.

II.LESSONS ON THE ROLE OF COMPETITION AND GOVERNMENT FROM INTERNATIONAL COMPETITION

1.The market economy in each nation is based on its history and culture

According to economic theories, the operation of market mechanism is based on general socio-economic assumptions without paying attention to any specific culture. Some of these assumptions are:

+ buyers want to obtain the greatest possible satisfaction from the money they spend.

+ companies strive against one another for profit.

+ companies are free to do business and compete and there is no government intervention.

+ the government ensure conditions for fair competition.

Besides many points of similarity, the market economy in each country has its own features determined by its history and culture. Behaviors of consumers, employers and governments in certain countries could be different from the above-mentioned assumptions:

+ Some consumers, besides maximizing their satisfaction, may pay some attention to national interests.

+ Employers may cooperate with one another or the government to develop the economy and accept smaller profit in the short run.

+ Companies compete against one another but accept the government intervention in foreign trade and investment.

+ Employees have rights to choose jobs and pays but they are ready to be linked up with the company and obey its policies.

To have a closer look at this problem, we can study two examples from Japan.

a.Why could Japanese TV makers defeat American rivals in the U.S. market?

In the 1960s, competition among six leading electronics companies -Hitachi, Mitsubishi, Masusita, Sanyo, Sharp and Toshiba- was very keen. On Sep.10, 1964, their leaders had a 3-hour meeting at the Palace Hotel in Tokyo. They exchanged opinions about business, management and plans for the future. They held another meeting one month later to discuss an important problem: fixing the minimum selling price for TV on local market. They agreed not to sell TV at a too low price in order to ensure their profit. They also agreed about the amount of TVs supplied by each company. This proved to be a complex problem so they met on the tenth of each month to reach a new agreement. They decided to make it a tacit collusion otherwise the Japan Fair Trade Commission (JFTC) would punish them according to Japanese laws.

What was the outcome of this collusion? The Japanese, for a long time, have had to pay US$700 for a color TV set while it was sold at only US$400 on the U.S. market. The market share of Japanese TV companies in the U.S. rose from 5% in 1967 to over 50% in 1971. This dumping practice caused six American TV companies and many smaller ones to go bankrupt resulting in 70,000 redundancies. In addition, the Japanese MITI limited the import of TV sets. In 1975 when Japan sold some 5.5 million TV sets on the local market, it imported only 11,644 ones and this figure reduced to 485 in 1978. This unfair trade was against the American laws. By using false documents or putting American labels on their TV sets, Japanese companies could export TV to the American market and avoid taxes and punishment of the law. According to a rough estimate, Japanese companies avoided paying some US$800 million in tax in the years 1964-1979. In 1977, the American customs conducted a large-scale investigation into this matter and President Carter decided to limit import of Japanese TV. It was, however, too late. In July 1995, the last American TV company had to close down. After practicing dumping for 30 years, Japan could ruin an important industry in the U.S. although the American people enjoyed cheap TV. This practice was also applied by Japanese companies in other industries, such as steel, machine-tool, computer, chip, etc.

b.The role of the Japanese government in development of engineering industry

The Japanese government's policy on the engineering industry includes three stages :

(1) Protecting local producers from foreign competition: Since 1956, the government has protected the local engineering industry which started to recover after the war by imposing high customs duties and quota on imported machines. Thus, the dynamic of development in this period was the competition between local producers.

(2) Rationalizing this industry by forming big companies and dissolve small ones: Up to the late 1950s, most engineering factories in Japan were of small size and couldn't afford R&D activities. From 1961 on, tax incentives were given to the formation of big companies through merger. This policy has been carried out

for 17 years until those big companies were strong enough to face foreign competition. In 1961 when this policy was first introduce, 93 mergers took place and this figure rose to 122 in 1968.

(3) Encouraging the formation of *keiretsus* and giving financial support to dumping in foreign markets: A keiretsu is the equivalent of a Western cartel and usually includes companies, banks and governmental bodies striving for common targets. In the U.S., such relations are considered illegal but in Japan they develop from a mix of personal, political, familial and feudal relations that proceeded from the Meiji's time. The keiretsu is not an accidental phenomenon in the industrialization process, it is a basic unit of the Japanese industrial economy.

To give financial support to dumping practices in foreign markets, the government, in the late 1950s, allowed companies in keiretsus to import sugar and sell at high prices on the local market earning from US$40-150 per tonne. When this measure gave rise to protests from foreign trading partners, the MITI worked out another way to raise funds needed for dumping practice, and these funds have never been shown in annual reports to the Japanese Congress: The MITI became the bookmaker for all bicycle and motorbike races in the country and profit from this business was used for financing dumping practices. In 1980, when asked by foreign reporters, the MITI had to confess this business but affirmed that this profit was no more than US$0.5 million a year, but an investigation conducted by the U.S. Government showed that the fund provided by the MITI for dumping practices amounted to nearly US$1 billion a year. Dumping practices helped Japanese companies sell their products at a price 25% lower than American counterparts. In 1976, the Japanese machine-tools represented only 3.7% of the amount sold in the U.S. The market share held by Japanese companies exporting digitally-controlled machine-tools to the U.S. was 50% in 1981 and 60% in 1984. Their market shares in Western Europe were the same.

Thus, the development of Japanese industries was a product of active government intervention, not of the fair competition. This intervention, however, has helped Japan catch up with Western developed countries within two decades.

From those two examples, we can draw the following three lessons:

+ Competitiveness of a product is based not only on the company's strength but also on the national culture:

In the 1960s and 1970s, technology and labor productivity in Japanese industries, especially the TV industry, were poorer than in their American counterparts, that is, the production cost was higher in Japan than in the U.S. But the Japanese companies could practice dumping in the American market and defeated American rivals because they were supported by profits from selling TV sets at very high prices (US700 compared with 400) on the domestic market. If 5.5 million TV sets (as in 1975) are sold locally a year, Japanese consumers pay an extra US$1.65 billion a year to these companies and help them dump TV sets in the U.S. without going bankrupt. In short, it's Japanese consumers who gave financial support to the dumping strategy. In other words, they sacrificed their interests for the national ones in international competition. This phenomenon could only be found in Japan and some other Asian countries, not in the U.S. because one of the outstanding characteristics of the Japanese is their readiness to value interests of the nation, the company or the family over theirs.

+ Realistic business ethics: the national interest is the most important and it isn't necessary to observe international laws:

Although there is a Japan Fair Trade Commission, six leading electronics companies were free to reach their collusion because their agreement could be harmful to consumers but in the long run it would be of great benefit to the nation. Dumping is prohibited by all developed countries but Japan was determined to do it, by fair means or fool. Japan never allows such an attack on its industries. They criticize the U.S. for any trade barrier considering it as unfair but they always stick to protectionism.

+ The government has an important role in the cooperation of companies and the government:

The development of the Japanese engineering industry verifies the role of the government in protecting local infant industries, helping them develop and become more internationally competitive.

The above analyses show us the important role of the national culture in the economic development. As for Japan, the development and competitiveness of this country are also affected by many other cultural and historical features.

2.Current international competition and the role of the government

a.Dumping as a common trend of the international competition:

As was stated above, dumping is generally recognized as an unfair trade practice and thus prohibited by all developed countries. Special bodies have been formed to inspect possible dumping and punish the exporting countries. Even in such economic bloc as the EU, a multinational organization has been also established to inspect the trade relation between member countries.

After the World War II, Japan was internationally famous for dumping in American and European markets and was criticized and protested by many countries, but nowadays many others are following Japan's footsteps regardless of international laws because of their national interests. For example, in nine months of 1996, 72 Indonesian companies were accused of dumping by Australia, the EU, New Zealand, Canada, the U.S., Japan and Philippines; and Indonesians also denounced dumping practices done by companies from Taiwan, South Korea, China, India, Russia, France and Australia on its domestic market.

b.Mergers between giants:

To ensure the dynamic of economic development, all developed countries have passed anti-trust laws to prevent a big company from disrupting the market and giants from merging with each other. In the past two decades, however, it was recorded that governments had ignored, and even encouraged mergers between giants. Some typical mergers in recent years were between Mercedes and Daimler-Benz; Tokyo and Mitsubishi Banks; and Bell Atlantic and Telecommunications. In September 1998, five airlines British Airways, American Airlines, Canada Airlines, Cathay Pacific and Quantas were merged into One World Airlines with a view to competing with Star, another conglomerate including Lufthansa, United Airlines, Air Canada, SAS, Thai Airways and Varig. Many experts have warned related governments of the menace created by these mergers to fair competition.

From these trends, we arrive at the following remarks:

+ When the international competition becomes fiercer, it's developed countries who change rules of the game. Basic standards and principles of fair competition are violated publicly and these violations are recognized as a matter of fact. This will create a strong competition against developing countries and the international trade is increasingly in favor of developed ones.

+ In a country, the government is the supreme body that ensures fair competition between companies and deals with consequences of bankruptcies and unemployment, but in the international trade, there is no almighty and impartial body to undertake the same tasks (ensuring fair competition between countries and dealing with or taking care of losing countries). At present, everybody has to take care of oneself, each government has to protect the national interests by fair means or foul.

III.A DEVELOPMENT STRATEGY FOR VIETNAM: THE ROLE OF THE GOVERNMENT IN THE RELATION WITH THE MARKET MECHANISM

From above-mentioned analyses, we can arrive at five conclusions about the market mechanism and nine functions of the government in its relation with the market.

1.Five conclusions

+ Competition is the basic mechanism for creating the dynamic of development because it can cause interests of the nation, employers and consumers to converge. To make the best use of good effects of the competition, the government should make anti-trust laws, anti-collusion laws and unfair competition laws.

+ Bankruptcy and unemployment are inevitable consequences of competition, so the government should make laws and policies (labor, unemployment and bankruptcy laws, etc.) to deal with them with a view to ensuring sustainable development of the socio-economic life.

+ The market mechanism in a country is always a product of the country's history and culture. Each people take part in the international competition with their own characteristics and cultural traditions. To develop one's own culture and master foreign cultures are preconditions for success in the international competition.

+ National interest, not interests of employers or consumers, is the dynamic of economic development. The question is how to combine those interests reasonably and effectively. The government acts as the representative and protector of the national interests and as a coordinator who creates the national strength by combining market and non-market forces and cultural-historical factors.

+ When the competition comes to the international level, developing countries face new opportunities and dangers, and urgent measures should be taken to protect national interests, that is, in the international competition, when the gaps between economies become wider and wider, the role of the government will be increasingly important.

2.Nine functions of the Vietnamese Government

In such a situation, the government in Vietnam will undertake the following nine functions:

(1)Making a law system to ensure fair competition and social stability (companies law, anti-trust law, labor law, anti-collusion law, environment protection law, unfair competition law, etc.)

(2)Enforcing effectively these laws.

(3)Helping consumers estimate the quality and price of products and services.

(4)Predicting demands and prices on both foreign and domestic markets with a view to saving investors from risks.

(5)Ensuring conditions for economic activities: inflation rate, interest rate, banking system, industrial property rights, etc.

(6)Investing in and developing public utility services.

(7)Identifying priority projects for each period and encouraging investment in them with a view to creating preconditions for fast and sustainable development, and improving the international competitiveness.

(8)Acting as a coordinator linking companies and research institutes together to create new national strength; developing cultural strength and helping companies become more competitive.

(9)Protecting the national interests when taking part in the international competition and cooperation; taking all possible opportunities and dealing with all dangers to the country■

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