

THE SOCIALIST-ORIENTED MARKET ECONOMY IN VIETNAM: THEORY AND PRACTICE

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Abstract: Market economy is a realistic economic mechanism that has been firmly established throughout the world's economic history. Although not a perfect mechanism, so far, market economy has proved to be the best mechanism for resource allocation and development. A country that adopts a market-based economy for development may not be successful, but one that does not adopt it will certainly fail in the long run. Strictly speaking, for modern development, development means the creation, development and perfection of a modern market economy. The choice between the market or non-market economy is obvious - the market-based economy has indisputable and outstanding advantages. Different growth models, different success or failure stories, are linked to a nation's rightful, efficient and appropriate approach, depending on each nation's conditions and each specific period, in tackling the relationship between the market and the state – two methodologies for resource allocation which can complement each other but can also cancel each other's efficiency out. What happened before and after the Doi Moi (Renovation) period in Vietnam showed that: fostering a market economy and global integration (an element of globalization in the modern market economy) is a choice which cannot be avoided by Vietnam.

Key words: Social-oriented market economy, growth model, modern market economy, private ownership, economic relationship.

The foundation of a market economy is the universal establishment and enforcement of the rights on private ownership of property (“property” as the subject of ownership, including intangible assets such as intellectual property – the type of asset which has emerged as the leading resource crucial to the creation of goods in an intellectual economy). This argument is universally recognized and proven throughout

the history of world economy. It was considered by Karl Marx as one of the two necessary conditions for the birth and development of a merchandise economy. The enforcement of private ownership rights implies that the property-owner has the right to exploit and utilize the assets and

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to enjoy the fruits reaped from this process. Acknowledging private ownership rights means that a person can only receive goods, assets from others via exchange and sales contracts, but not from appropriation. Private ownership in a market economy is in contrast with economic relations based on personal dependence seen in pre-capitalist societies. It is the real and complete form of private ownership. The longevity of the market economy system lies, first of all, in the fact that it suited with those times in history where people were self-interest individuals. They produced and exchanged goods, first of all, for their own gains. Since private ownership rights were enforced and protected, the system allowed individuals to exploit their full potential in production and exchange activities in order to maximize personal gains. As Adam Smith pointed out, via competition and fluctuations in prices, the invisible hand of the market is actually “the formidable mechanism which can transform the profit-seeking efforts of society”⁽¹⁾. Respecting and strengthening the power of self-interest (in broad terms, these are not only material or financial interests but can also include spiritual interests that individuals might pursue) by enforcing and protecting private ownership rights, regarding it as the deep-rooted motive influencing people’s economic behavior – are factors that shaped up the dynamism and prosperity of a market economy. “Market system has witnessed many changes in the past two years but private ownership continues to maintain its

central role. While production and trade are getting more complex with increasing specialization and division of labour, private ownership has been strengthened rather than weakened in market-based economies, and enforcement of private ownership rights have been extended to a more sophisticated level”⁽²⁾.

The message is: a genuine market economy always puts the private sector as the anchor and driving force for the entire economy. Without respecting and protecting in full the rights of private ownership of property, a market economy can hardly grow normally and exploit its advantages in full. In that case, if “socialist orientation” means to enlarge the public sector, public ownership forms, and state discrimination in favour of economic agents considered as “socialist” (and against the private sector), then following the “socialist orientation” will be in conflict with “developing a market economy”.

The phrase “develop a socialist-oriented market economy” lacks precision, which can produce unfavourable implications for development as terminologies such as “socialism” and “socialist orientation” are not clearly defined. Frankly speaking, the theories on socialism when tested in practice have failed one by one. The former socialist countries of the USSR and Eastern Europe have all abolished this regime, both

⁽¹⁾ Li Tan (2008), *The Paradox of Catching-Up*, Youth Publishing House, p.38.

⁽²⁾ Li Tan (2008), *Ibid*, p.41.

in terms of economic and politics. Meanwhile, Cuba and North Korea which did not want to change their regimes, are now struggling at the lowest development level in the contemporary world both in economic and human development indicators. Unlike the case, the countries such as China and Vietnam have chosen a renewal and reform pathway, mainly in economic aspects and have achieved some initial success. Despite different names, both of the countries worked on reforming and renewing the previous centrally planned economies into market-based economies. Instead of being discriminated, the private sector started to be acknowledged, reconstructed and developed. Instead of absolute domination, the state sector began to shrink. The state also started to change the way it regulates and manages the economy, respecting market mechanism more rather than imposing administrative instructions with the ask-give mechanisms. The history of Vietnam's economic reform is actually the history of the struggle between two economic regimes: the former centrally-planned, authoritative, subsidy-based regime part of the "Soviet Union"-type socialist realism versus the modern market regime that most countries are now pursuing. Each advancement step of the renewal period is based on recognition of the market and the increasing importance of the private sector. The hesitant renewal progress which could produce deterrent impacts on the quality and efficiency of sustainable growth and development, after all, is linked to the delay

in acceptance or non-acceptance of the true role of the private sector while imposing the inherent role of the public sector and the state (in the old understanding of socialism) on the new economy that is now transitioning towards a market-based and open approach. The renewal process, hence, lacked thoroughness, gradually losing the momentum it gained in earlier stages. The serious difficulties faced by the economy may, at first glance, look as the wrong outcome (chasing quantity, over-reliance on resource exploitation, inexpensive labour and "easy" capital) but actually originate from the hesitant steps taken towards a modern market economy: land, a very important asset and resource for a country that starts up from agriculture as Vietnam, is not yet recognized as a subject for private ownership; the state sector is still declared as the "key" sector holding a family of state-owned enterprises, the spine of which include state corporations. Even though their quantity has been reduced, state corporations continue to possess the majority of national resources and assets despite their much lower efficiency compared to non-state enterprises. The state is yet to operate as an essential institution of the market, supporting and complementing the market (provision of public services, including the establishment of necessary legal frameworks to ensure the smooth and efficient operation of the market; act as the mediator between the seller and buyer, producer and consumer... to ensure that the individual rights of a person does not invade those of another

person...); but it is in fact operating in contradiction with the market. This kind of reluctance not only holds back market forces from developing but also distorts development itself. The efficiency and dynamism of the market is conditional upon a healthy, competitive environment, allowing individuals to use their capacity and assets to prosper by producing goods and services that are helpful to society and other individuals. If the state cannot create a healthy and competitive climate (provided there is transparency and low corruption) for economic games, the time and resources of private enterprises will also be directed towards socially inefficient activities (for instance towards establishing relationships with the state apparatus to obtain privileges). Market relationships will be distorted, there will be collusion between state corporations and private “tycoons” with the state’s decision-makers (the phenomenon of “interest groups” seeking for “privileges” is usually described in an incomplete market economy defined as a “socialist oriented market economy” into a “market economy” with features of “crony capitalism”).

To have a better understanding of the inadequacy/failure of the previous understanding of socialism where the dominance of public ownership of the main “means of production” was considered typical of the socialist production relationship, let us take a look at the basic arguments that Karl Marx had used to present his views upon socialism and communism.

1. Marx criticized the exploitative nature

of capitalism and the conflict between the bourgeoisie and proletarian class – facts that would lead to an unavoidable collapse of capitalism, as said in the surplus value theory. The basis of this concept was the value-labour argument; the focal arguing point being that only labour can generate values mentioned by W. Petty. This argument was only the practical reflection of the agrarian economy era, when manual labour was the decisive factor in the production process. When this era finished and the industrial economy came to reign – mechanical work established its firm standing, the previous argument was no longer valid in modern economy theories because it would fail to reflect the fact that: there are many products of high value which do not need to be produced or which are created with few labour. Modern economic theories elucidate much better the movement in prices of goods, services or input costs (including wages). When labour is no longer the only value-generator, the argument on the exploitative nature of the capitalist production relationship becomes less convincing. The fact that workers who do not have the will or capacity to set up their own businesses and want to find a job, “to be exploited” illustrate the mutual interests of workers and job-creators (capitalist business owners) rather than conflict of interests.

Furthermore, in advanced market economies, there is always the social flexibility which allows an individual to easily change his/her social and economic status. A reliable welfare system, education, healthcare policies and

many other policies implemented by advanced countries may help open up countless opportunities for individuals. They no longer have to stick to being “an exploited employee” which was a constant in class societies and capitalist societies back in the 19th century. Society continues to be divided in different groups of people, with different concerns and interests, even conflicting each other, but it is certain that the class conflict between the bourgeoisie and proletarian class (would there still be true proletarians with no means of production and who are forced to work for others like Marx predicted?) is significantly less intense than the one in Marx’s time. Didn’t the diminishing influence of communist parties in developed countries reflect this fact?

2. The severe class conflict and social conflict in capitalist societies were actually true in Marx’s time. Market-based private ownership allowed people to pursue freely private gains. On the one hand, it encouraged individuals to strive and be creative (and they shall be rewarded by the market), but on the other hand, it also helped create negative problems as the greediness of people was out of control. A person could violate the interests of other people and of society, and exploitative acts (due to monopoly, abuse of state power, imperfections of contracts which were not in favour of low-skilled and less privileged workers...) may still persist. In practice, in Europe in the 19th century, this produced a profound conflict of interests and class clash which made Marx and Engels forecast

an unavoidable collapse of capitalism in the very near future.

3. However, in practice, the market economy system based on private ownership did not collapse thanks to its self-improving ability. In order to address the problems arisen from self-interest motives, repairing the so-called “market failure”, the solution lies not in the abolishment of private ownership (as done in centrally-planned economies of former socialist countries) but in developing institutions that will protect the rights of less privileged and disadvantaged individuals, penalize fraudulent business activities that abuse the less fortunate, and reduce the conflict between interest groups. The modern state is playing an increasing role as mediator (third party) in market transactions by enforcing laws on ownership rights, laws on contracts and other laws applicable to private sector activities. The mandate of the state is also extended to address “market failures” and protect free competition (anti-monopoly, reduce negative externalities and provide public goods, stabilize macro-economy). Social welfare and benefits, progressive taxation systems are established to minimize income inequality. The continuous expansion and improvement of the state’s role as an institution, service provider not only help maintain the healthy operation of the free market but also complements and addresses market imperfections. The magnitude of public ownership and of the public sector driven by state activities in modern market economies is much greater than in Marx’s time, however, it does not

replace private ownership or the private sector as Marx had anticipated.

4. The prediction that market-based capitalism with universal private ownership rights would fail led Marx to believe that socialism would be the alternative model to adopt. This was also tested in history: replacing private ownership capitalism (as the complete development form of the ownership regime typical of a market economy) with a public ownership regime to create a more advanced and productive society in the realist socialist regime, although it gave humanity some hopes in the beginning, also failed eventually. Today when the events are far gone, we have solid grounds to believe that such failures were unavoidable. This is because, similar to Marx's time, people are still self-interest individuals who pursue monetary gains, status and power to add to their own values. A good economic system is not one that forces individuals to give up their interests (which is against human nature) but one that allows people to pursue their interests but also generate benefits for society. The market economy, as already said, is such a system, especially when it is combined effectively with a suitable state institution. Meanwhile, an economic regime built on the dominance of public ownership is basically a non-market economy. It was expected to function effectively by assuming that: 1) with the establishment of a public ownership regime, people would become "ideal" individuals working for the common

interests; 2) society would easily establish a direct resource allocation system with no need of a market, according to an optimal and generally agreed plan. Maybe at a smaller scale, for instance, when "society" is narrowed down to a family, the above assumption might be true: as love and blood ties would make people more generous and willing to sacrifice private gains for general interests of the whole family; the family size would make efficient resource allocation not too challenging. However, when it comes to larger societies, such assumptions are clearly unrealistic.

The question on the efficient operation of an economy based on the prevalence of public ownership (of means of production) has actually been answered: at a large scale, due to the complexity of the modern economy, it is impossible to achieve. A decision-making process conducted in a democratic manner with millions of co-owners on the use of an asset is impossible, as transaction costs of the decision-making process would reach to high. Representative, authorization mechanisms (via the state or state enterprises) all possess certain uncertainties due to differences and conflicts of interests between individuals being represented or authorized and society. (In another article⁽³⁾, we have elaborated on the specific causes of inefficient decisions

⁽³⁾ Phi Manh Hong (2011), "Resource Allocation in a Socialist-oriented Market Economy", *Journal of Economic Studies*, Vol. 1 (392).

in public ownership regimes).

While seeing the private ownership regime as the root of human exploitation (mind that this argument was based on the premise that only labour could generate value), Marx considered that, by establishing a public ownership system, socialism would allow for the abolishment of human exploitation. This is actually not true. Private ownership in a market economy is different from the private ownership regimes in pre-capitalist societies in the following aspect: the former involves economic relationships between independent individuals, while the latter includes economic relationships in the form of dominants-dependents (slaves, serfdoms were not property owners). In a market economy, recognizing and enforcing private ownership rights universally means that a person can only receive goods, services from another person through sales and exchange contracts, and not via offerings or appropriation. Therefore, in a competitive economy and transparent political regime, there is no exploitation (although exploitation can still take place, for instance when there is monopoly or corruption). On the other hand, in an economy based on the prevalence of public ownership, the nature of this form of ownership would actually allow an individual to enjoy the fruits of another person's labour, as output is distributed evenly to everybody. The situation could get worse when people do not have the same rights and access to common properties and resources. Public ownership,

particularly national ownership, in reality is usually exercised via state ownership. The fact that the state, on behalf of society, manages common resources and carries out resource allocation decisions gives those who are member of the state apparatus an obvious advantage over other "co-owners". This way, the emergence of a privilege group with exclusive state power would be inevitable. This is completely different from the case where the public sector operates mainly based on tax revenues collected from independent citizens as private owners and which are carefully monitored by these. Thus, the alternative to replace universal private ownership with universal public ownership cannot eliminate "human exploitation", but on the contrary, it may even intensify this problem, as long as people are, above all, self-interest individuals. This effect is even more prominent in transitional economies where public ownership still plays the "key" role while private ownership only starts to being legally recognized, thus, creating motives for people to "transfer" public assets to private assets using institutional "loopholes".

So, it can be concluded here that: we cannot regard the development/improvement of public ownership as a feature of socialism as before, if we think that socialism is a more advanced way of production compared to that of capitalism. If the socialist orientation is put together with maintaining and fostering public ownership, the phrase "developing a socialist - oriented market

economy” is in itself a contradiction. In practice, the hesitation, inconsistency, half-way and the resulting effects in the reform and renewal process carried out in China and Vietnam all originate from this old mindset.

Once we talk about socialist orientation, we cannot neglect the ultimate goal of socialism: human liberalization, elimination of human oppression and exploitation, improvement in income levels and welfare of citizens, eradication of inequality and ensuring an equal distribution of the fruits of economic growth and development. As mentioned above, this goal goes against the establishment and maintenance of the public ownership regime, and the protection of the key role played by the state economic sector. This goal can neither be met in a poorly developed economy that operates inefficiently due to the absence or imperfection of market relationships. To create a socialist-oriented market economy means, first of all, to establish a full market economy, civilized, modern (hence, highly integrated), allowing resources to be allocated and utilized in an efficient manner and the economy to maintain rapid and sustainable growth. On the other hand, the socialist orientation means that the market economy model that we have chosen has to be prioritized above the social goals, provided that these goals are in line with the actual development level of the economy: liberalizing people, ensuring overall and equal development and prosperity for everybody. Improvement in the average

material and spiritual living standards of citizens should go in hand with equal distribution of the fruits of overall growth and development. It can be said that prioritizing social equity by tackling in harmony the relationship between efficiency and equality is the way to concretize the social orientation of Vietnam’s market economy today. To pursue this orientation, it is very important to revisit the interaction between the state and the market as two institutions that support and complement each other. The state needs to formulate and create favourable conditions for the market to develop and operate efficiently via the provision of necessary public services. It can take part in correcting and regulating the market to solve market failure issues through its specific instruments (laws, taxation, expenditures, other regulating policies...). Here, the state acts mainly as a third party and mediator between market participants, instead of owners of state owned enterprises. The state also plays a crucial role in initial distribution of starting resources, as well as in the redistribution on incomes for equality. Under modern development circumstances, social equality in economic terms will involve equal access to opportunities for all citizens – in which, the equal access to education and healthcare is of utmost importance. This is not an easy goal to achieve but one that requires a lengthy implementation process with small, steady steps. But if we fail to do this, all statements on socialist orientation would

have been for no good.