

Capitalism and Inclusion under Weak Institutions: Synopsis

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An underdeveloped economy caught in the web of weak institutions is like a man mired in a quicksand: the more he wildly thrashes about to free himself the more firmly he gets stuck. In other words, his most instinctive reaction is also the most dangerous. Economy and efficiency of movement is urgently needed. The standard advice consists of: (a) make yourself as light as possible – toss your bag, jacket and shoes; (b) lean back into a float position, (c) while in that position, “keep your arm movements *controlled, small and close to your core*” - big movements will only further liquefy the quicksand (italics added, “How to get out of quicksand” September 2017, *eaglecreek.com*). The tendency for the authorities of low income countries in this predicament is to thrash about wildly with even more ambitious projects only to be thwarted by weak institutions. Repeated state failures and the helplessness they inspire render socialist hankerings and autocracy more and more attractive alternatives to market and democratic governance.

The thrust of this *opusculum* is to provide a way out under market or capitalist governance. Specifically it shows how to optimize the use of already depleted material and institutional resources by: (i) minimizing on the use of weak institutions by keeping activities small, controlled and close to the core - core here being the domain of comparative competence of the state focused on public goods provision. The volume calls this *strategic retreat* by the state - the ceding of activities to other domains of provision. The smaller state agenda will enjoy higher budgets per project, better wages, higher morale and better results for all projects. In the end, this smaller agenda and better overall results engender more effective and responsive state institutions. This smaller agenda view is not ideological or philosophical but pragmatic.

To build the case, we delved into market and state failures in public goods provision using social dilemma games as machinery. Along the way we touched

base with the role of statutes and norms. We drill down on how *strategic retreat* by the state under the ultimate pragmatist and hero of this volume, Deng Xiaoping, pushed back on Mao's socialist overreach to create the still unfolding economic miracle of China.

Closer to the home, we interpret the long-term retreat of Manufacturing hand – in-glove with the rising dominance of Services in the low income Philippine economy as a natural result of *development progeria*, itself the harvest of the Tradable sector – squeezing poverty of public goods and the persistent overvaluation of the Philippine currency. We give evidence that development progeria militates against inclusive outcomes in low income countries.

Finally, we argue that the saliency of conglomerates in the Philippines is the natural corollary of narrow markets and the vent for size among firms made more urgent under weak institutions. But rather than feared and thwarted, these conglomerates' contributions should be enhanced if re-channeled; they improve consumer welfare by competing in many markets at once, a phenomenon we call *conglopolistic competition*, and they improve public goods provision by partnering with the state in PPP projects.

This small volume seeks to peel off yet another layer in the proverbial onion by offering an evolutionary way out of the weak institutions and bad outcomes under market rather socialist and/or autocratic governance.