



THEIR VIEW

MINT CURATOR

Capitalism varies across as well as within individual countries

It varies by whether firms are informal or formal, small or big, competitive or oligopolistic and politically connected or not



SUDIPTO MUNDLE
is chairman, Centre for Development Studies.

There is a large literature on the varieties of capitalism seen around the world. In their Introduction to the much-cited volume on *Varieties of Capitalism* (Oxford University Press, UK, 2001), Hall and Soskice classified capitalist countries into two broad groups: Liberal market economies (LMEs) such as the US, UK, Canada, Australia, New Zealand, and coordinated market economies (CMEs) such as Germany, France, Japan, Sweden and Austria. In LMEs, firms coordinate their interaction with each other and other stakeholders through hierarchies and the market. In CMEs, firms rely more heavily on non-market institutions to coordinate their interactions.

LMEs and CMEs are polar models. Capitalist countries in the real world lie along a spectrum between these two ends, yielding intermediate models such as Mediterranean capitalism, East Asian capitalism, Social capitalism, state-guided capitalism, etc. This taxonomy is usually used to classify whole countries as belonging to one or another group. In this column, I suggest that varieties of capitalism are to be found even within countries. I should add that the lens of nested dualisms proposed here is a by-product of my ongoing conversation with Saurabh Mukherjea, founder and chief investment officer of Marcellus Investment Managers, though he is in no way responsible for the views expressed here.

Developing countries are often described as dualistic societies, where the private sector comprises a formal sector of large firms and an informal sector of medium or small enterprises, including small farms in agriculture. However, the existence of thousands of small businesses alongside a small number of large firms is not limited to developing countries. It is also typical of advanced capitalist countries, such as Italy, Germany, Japan, Singapore, South Korea, the UK and US.

Global generalizations are inevitably heroic over-simplifications. Nevertheless, mom-and-pop stores, small restaurants, pharmacies, mechanic workshops, etc. are global examples of the informal sector. Though employing perhaps 20 employees or less, these enterprises are 'for profit' businesses, just like the large corporations. Beyond that, however, these businesses belong to a very different eco-system of technologies, organization, markets and institutions. Typically, they are labour-intensive, low-productivity enterprises, though some may also be quite capital-intensive, high-productivity. One important feature of this sector is that these businesses operate in highly competitive markets, with a very large number of competitors, offering us the closest real-world example of a text-book model of 'perfect competition.' Medium sized enterprises employing up to, say, 100 employees belong to the same ecosystem.



ISTOCKPHOTO

But, being larger, they enjoy some scale economies. Their size also provides them space to adopt more productive capital-intensive technologies. Together, medium and small enterprises constitute the informal sector in a capitalist country. The difference between the informal sectors of advanced and developing countries is that in the former, informal sectors are better regulated and have much higher levels of technology, productivity and wages.

The 'formal' private sector in capitalist countries broadly has two distinct groups of firms. The first group is of firms operating in competitive markets with a large number of competitors. They may employ, say, 100-1,000 workers, though there would be large variations in this across countries and industries. They may have high or low labour intensity and high or low productivity, depending on their industry or service. Their defining feature is that they have no market power and are price-takers, not price makers. I call this the competitive formal sector.

In contrast, there is the oligopolistic formal sector, comprising a small number of large firms, each with a large market share in its industry or field of service. Sometimes, these are conglomerates operating in multiple industries or services. They may be labour or capital intensive, depending on the industry or service. Productivity would also vary accordingly. The main difference between firms in the oligopolistic formal sector of advanced and developing countries is that productivity and wages in the latter are likely to be much lower.

Finally, the oligopolistic formal sector is further partitioned in terms of political influence. There are oligopolistic firms which enjoy the goodwill and support of their governments, but do not or cannot influence government policy. They are not 'politically connected.' In contrast, there are a few oligopolistic firms that not only have market power, but also political influence. They can manipulate government policy to their advantage. They sometimes use such influence to erect entry barriers to competition. This is the subsector of politically connected oligopolistic formal sector firms. Developing countries are sometimes

described as 'crony capitalist' countries due to the presence of such firms. But even the most advanced capitalist countries have such politically connected firms in their formal sector.

The broad template of varieties of capitalism within individual countries has been presented above as nested dualisms: informal sector versus formal sector; small versus medium enterprises within the informal sector; competitive versus oligopolistic sub-sectors within the formal sector; and politically connected versus politically unconnected firms within the

oligopolistic formal sector. It is a very broad template, since it is a global lens. Its application to individual countries would have much greater granularity. In India, too, the informed reader can judge for herself whether this template, applied with greater granularity, can be a useful lens through which to study the varieties of capitalism present in the country.

These are the author's personal views

QUICK READ

A useful way to sub-classify a capitalist economy is to map its enterprises by nested dualisms that assess their size, degree of formality, political linkages and exposure to market competition.

An informed reader can judge for herself whether this template, applied with greater granularity, could serve as a lens through which to study the varieties of capitalism within the country.

The future of advertising? Ask OpenAI's video generator Sora

The ad industry is among the first that could make good use of it



TYLER COWEN
is a Bloomberg Opinion columnist.



Sora's output is reputedly hard to tell apart from real life captured on camera

Sora, a new service from OpenAI that produces one-minute videos in response to a textual prompt, isn't yet available to the public. But the videos it has released are striking for their vividness, their detail, and, if this is the correct term for an AI tool, their imagination. It is worth considering the future economic consequences of this development.

First, Sora is unlikely to put Hollywood out of business. Eventually these videos will get much longer, but it remains to be seen how well AI can construct long story arcs and integrate them with images into a commercially appealing package. That still seems a long way off, and cost is an additional consideration. The more clear and present danger to Hollywood is that would-be viewers might start making their own short videos rather than watching TV. "Show my pet dog Fido flying to Mars and building a space colony there" is perhaps more fun than many a TV show.

Sora and comparable services will lead to a proliferation of short educational videos, internal corporate training videos, and just plain fooling around. Sora probably will be good for TikTok and other short video services. It is not hard to imagine services that splice your Sora-constructed videos into your TikTok productions. So if you're doing BookTok, for example, maybe you put a battle re-enactment in the background of your plug for your new book on the US Civil War.

Perhaps the most significant short-run use of these videos will be for advertising—especially internet advertising. Again, there is the question of how to integrate narrative, but the costs of creating new ads is likely to fall.

More advertising may sound like a mixed blessing. But ads will almost certainly be more fun and creative than they are now. Watching ads may become its own aesthetic avocation, as is already the case for Super Bowl ads. These ads also might be targeted, rather than serving a mass audience. If your internet history suggests you are interested in UFOs, for example, perhaps you will see ads with aliens telling you which soap to buy.

Some other implications of Sora are more subtle and more speculative. There is the notion that Sora has been trained on 'synthetic data,' for example, which in this context means other videos created by AI tools, rather than videos of real life. To the extent that is true, future AI progress will be to some extent liberated from constraints of data. AI tools will be in essence able to teach themselves, which would

accelerate AI progress even more. To the extent synthetic data proves important, it may weaken the moats of Meta and Google, which have access to significant stores of data through Facebook, Instagram, YouTube and other services. That would give startups and smaller AI companies more of a competitive chance. On the other hand, the rising demand for computation—to produce and work with the synthetic data—would strengthen the market valuation of Nvidia and other companies selling the proper kinds of chips.

It's also interesting to think of Sora as a new way of modelling physical systems. Its presentation of physics and geometry is by no means perfect (though likely to improve), but it is already good enough to fool the typical human eye. Whatever methods were used to model the physical systems of our world seem to apply quite generally, noting that OpenAI has not explained how it created Sora. In any case, those methods may someday contribute to building better models in physics, chemistry and engineering, and could accelerate scientific progress as well as economic productivity.

Finally, Sora is yet more evidence that in AI, progress in images is proceeding more rapidly than progress in text. GPT-4 has now been out for well over a year, and it remains to be seen how much better its successors will be. In that same period of time, image and video production has made amazing strides.

It was not so long ago that people used to complain that AI image services could not portray human hands convincingly. If progress in images continues to outpace progress in text, then maybe that old saying has it backwards: A word is worth 1,000 pictures. Or, to put another way, words are more truly 'human' than images.

At the most speculative level, the success of Sora may increase the chance that we are living in a simulation—a computer-based world created by some high-powered being, whether a deity or aliens.

Is that bullish or bearish for asset prices? It depends on how you assess the responsibility and ethics of the creator.

At the very least, our planet Earth simulator seems to be able to generate videos that last longer than a minute. Beyond that, I cannot say.

©BLOOMBERG

MY VIEW | PEN DRIVE

Beauty and the Bias: India Inc needs more sensitivity

DEVINA SENGUPTA



writes on workplaces and education at Mint.

Swetha Totapally, regional director, Asia-Pacific, Dalberg Advisers, a consulting firm, needed help with her saree. The hotel staff who helped her was in her early twenties, and like it often happens, between pins and pleats, the two women started exchanging stories about their work. Totapally got to know that the young employee on the last leg of her night shift at the five-star hotel did not want to work in the hospitality sector. She had a degree from an air-hostess training academy, but was rejected and asked to re-apply after a year. She did not need more training or any other qualification. She just had to return for interviews without her... well, braces.

Dental braces are not a safety hazard. They just did not "look good," and she could try again once her "crooked teeth" were "fixed." A 20-something lost out on a job opportunity that she had trained for because she did not fit the desired beauty standards. At a time when corporates are

holding in-house sessions and audits on diversity, equity and inclusion, a primitive gauge for screening a candidate's potential, physical appearance, still seems embedded deeply in our and therefore our corporate culture's DNA.

This beauty bias, often called 'lookism,' is arguably getting accentuated as we get used to and mistakenly accept artificial enhancements of physical beauty around us as mere adjustments of reality. Software touch-ups are common. Through apps that go beyond filtering out blotches, social-media pressure and a looks fixation has led many to modify their appearance to fit a standard mould. And a set of crooked teeth can become an anomaly that needs to be covered up or removed to protect the shiny, bright, youthful and aspirational image of a company.

Although some sectors that are customer facing lay emphasis on physical attributes quite openly, even back-end jobs often have executives who apparently get judged by their peers and seniors by how they look.

Shyam Sadasivan, a Bengaluru-based management coach, has lately seen body image play a key role among middle to senior executives with 15-20 years of work experience. "They question their executive

presence. Their height and weight starts playing a significant role and physical characteristics become part of the executive's "reputation," notes Sadasivan. While instances abound of CXOs on fitness drives, perhaps a result of snarky corporate-world remarks on personal weight being a management test, this does not bode well for better workplace acceptance or inclusivity.

It is ironical that while there is so much effort taken to strip away any formal mention of one's physical attributes, it is often the foremost aspect of individuals that people notice in face-to-face encounters. A host of studies have shown that good-looking people have an unfair advantage, but this bias is rarely a subject of discussion, if at all. For the most part, it is treated as just another unquestionable. There are no seminars, group discussions or huddles to figure out ways to acknowledge this particular bias

and work to minimize it. That the bias exists, however, is clear. And it is strengthening.

With great beauty, sometimes comes extra pressure. A Harvard study titled *Why Beauty Matters* in 2005 noted that "Workers of above average beauty earn about 10 to 15 percent more than workers of below average beauty. The size of this beauty premium is economically significant and comparable to the race and gender gaps in the US labor market." It also highlighted how employers tend to expect better performance from

those who look better than their peers. But then, with more interpersonal interactions, the chances of 'good-looking' upping their work game is higher too.

Surprisingly, social pressure to look well groomed is not gender normative, as the need to make a good first impression is universal.

Could the advent of artificial intelligence (AI) help fix the beauty bias? Companies are working

QUICK READ

The bias of 'lookism' is arguably getting accentuated as we get used to and mistakenly accept modifications of our physical appearance online as mere adjustments of reality.

Studies show that looks confer an unfair advantage. While it can't be tackled head on, we must acknowledge the bias and hope heightened sensitivity plays the role of a social self-regulator.

©BLOOMBERG