



COMPARATIVE ECONOMICS
IN A
TRANSFORMING WORLD
ECONOMY

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COMPARATIVE ECONOMICS IN A TRANSFORMING WORLD ECONOMY

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PREFACE

The transformation of the world economy is in turn transforming the field of comparative economics. The classic confrontation of capitalism and socialism has largely dissolved with the dissolution of the Soviet Union, its empire, and the end of the Cold War. Most of the formerly socialist economies, even those that remain ruled by Communist Parties such as the Peoples' Republic of China, are now in various transitions towards mostly market forms of economic systems. New forms arise out of these processes and other forms arise on the world scene such as the Islamic economy.

This book seeks to be a part of this transformation of the field of comparative economics. Just as the economies in transition continue to retain elements of their old systems, so this book retains elements of the "old comparative economics," with a comparison of the theory and practice of market capitalism and command socialism as a central organizing feature. Although only a few economies in the world still practice command socialism, study of it reveals the background of the economies involved in attempting transitions, and also highlights important aspects of market capitalist economies. Thus one aspect of this book which is old and new at the same time is the comparison of the North and South Korean economies presented in Chapter 18—a case not presented in any previous comparative economics book.

However, this book moves in directions that we think will increasingly mark and define the field as it is transformed. Probably the single most important innovation of this book is its definition and examination of the *new traditional economy*. We see this as a new ideological and systemic movement that is increasingly influential around the world. It involves an economy that seeks to combine the custom-and-family-based orientation of a classic

traditional economy with modern technology and involvement in the modern world economy.

The most obvious manifestation of this phenomenon is the spreading of Islamic economics into more and more countries. However, the new traditional economy concept applies in other religious and cultural arenas as well, such as the neo-Confucian one in East Asia. Indeed, much of what distinguishes largely market capitalist Japan from the U.S. and Western European economic systems is the "familistic groupism" of its society and economy which can be viewed as exhibiting new traditional elements. Our most clear-cut case study of such an economy is that of the Islamic Republic of Iran in Chapter 16, which has never been presented in any comparative economics book before.

Another unique element of this book is its much more detailed consideration of the various paths taken by the successor states to the former Soviet Union. This reflects the unique perspective of one of the coauthors of this book as a former citizen and professional economist working within the former Soviet Union. We feel the variety of the successor states' paths reflects the variety of possible outcomes facing the world economy as a whole. The Central Asian former republics in particular face virtually all modern forms of change, with existing systems retaining strong elements of the old command socialist model while they face the alternatives of market capitalism, Islamic economics, and even East Asian models. We emphasize Asian cases more strongly in this book than is done in most other books.

In many areas we cover material common to most books of comparative economics. These include comparisons among the variations of market capitalism; discussion of the issues of global economic integration in the European Union (EU), the North American Free Trade Agreement (NAFTA), and the new World Trade Organization (WTO) as contrasted with the tendency toward disintegration as in the breakup of the old Soviet-dominated Council of Mutual Economic Assistance (CMEA), the problems facing developing economies, and a variety of special policy topics of global significance with an emphasis on varying approaches to environmental policy. We also attempt to present cases covering most regions of the world.

In the spectrum of theoretical versus institutional approaches we attempt to strike a reasonable balance between the two, although we probably tilt somewhat in favor of the latter. Theoretical issues related to the various types of economic systems are thoroughly aired in the first part of the book, taking account of recent theoretical developments in neoclassical economics such as information economics and principal-agent problems, as well as a presentation of Marxian economic theory. However our full-chapter case studies are done in depth, always beginning with a presentation of the specific historical, political, cultural, and other factors which shape the institutional frameworks and tendencies within the society under study. Theory is accounted for, but it is never applied without a clear accounting of historical/institutional context.

Like all economists, we have our normative and ideological biases which inevitably reveal themselves from time to time in this book. However, we have

made a sincere effort to be objective and fair-minded about both theories and facts as much as this is possible. Thus, we have made an effort to present a variety of perspectives, with each being presented at least somewhere in its strongest possible light. We have not attempted to shy away from "uncomfortable facts" that do not fit with our own preconceptions. Indeed, although there are many generalizations that can be found in this book, the careful reader will also usually find exceptions to most of them somewhere. A good generalization is that most generalizations must be taken with several rather large grains of salt, given what a complicated and peculiar place the world really is.

This book is in four parts. Part I presents a general theoretical overview. Chapter 1 presents a broad empirical comparison of many different economies after initially defining various categories. Chapter 2 discusses the fundamentals of market capitalism and its variations with a special emphasis on the case of the United States. Chapter 3 does the same for command socialism and its variations. The fourth chapter is more unusual for a comparative economics book and presents the theory of the old traditional economy as well as delving into certain deeper issues of comparing economies. Chapter 4 prepares the framework for the discussion of the new traditional economy in Chapter 5, where specifically the Islamic economy as well as systems associated with various other religions are examined. There is some discussion of several economies including Burma, India, and Israel.

Part II presents case studies of market capitalism, in particular Japan, France, Sweden, and Germany. The chapter on France includes a special discussion of the European Union and its prospects. The chapter on Germany includes a discussion of the former East German economy and the problems of reunification of the two Germanies. Although it does not have a chapter to itself, considerable discussion of and data on the U.S. economy is presented in the first part in chapter 2. The U.S. economy is thus presented throughout Part II and indeed the whole book as the touchstone case of market capitalism. There is also considerable discussion of the case of Great Britain in the last chapter of the book, 19, which especially focuses on the privatization issue.

Part III focuses on the transitions of the various previously socialist economies. Chapter 10 presents the Soviet model as it developed up to its collapse at the end of 1991. The following chapters cover the successor states to the USSR, Poland, Hungary, the former Yugoslavia, and China. The chapter on Poland includes an extended discussion on the Czech Republic as well. The chapter on China also contains extended discussions of the economies of Hong Kong and Taiwan.

Part IV presents alternative models among developing economies. Iran is the example of a new traditional economy. Material on Pakistan and Saudi Arabia is also presented. Mexico is a case of a complexly mixed economy in transition from an insular state orientation to a more open and market orientation. Comparative material on a number of other Latin American economies is also included at the end of the chapter. The two Koreas then present a sharp contrast of alternatives. Chapter 19 discusses broader questions of global

trends of various sorts but includes a discussion of the sub-Saharan African success story of Botswana, as well as of British privatization.

We began writing this book in the summer of 1992. This preface is being written at the completion of its final revisions in July 1995. We have done our best to be current and up-to-date, but certainly any reader must understand that one of the challenges facing comparative economics now is the very rapidity of change that is going on. Thus almost certainly some of the assertions and facts presented herein will be out-of-date and possibly looking rather ridiculous by the time you read this. We beg your indulgence and understanding on this point.

Numerous individuals have contributed to the writing and production of this book in a variety of ways. Almost certainly we shall fail to recognize somebody and request forgiveness in advance for doing so. However we do wish to acknowledge and thank by name as many as we reasonably can. None of these parties should be held responsible for any factual errors or questionable interpretations contained in this book.

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This book is dedicated to our beloved mothers, Annetta Hamilton Rosser and Nata Borisovna Vcherashnaya.

**J. Barkley Rosser, Jr.
Marina V. Rosser**

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PART

I

OVERVIEW OF COMPARATIVE ECONOMICS

Part I of this book presents the theoretical and conceptual framework used in the remaining parts, which consist mostly of sets of country case studies grouped in broad categories. It contains five chapters.

The first chapter presents definitions and basic examples of the categories used in this book, *tradition*, *market*, and *command* for allocative mechanisms, and *capitalism* and *socialism* for ownership systems. Broad trends in the world economy and in these systems are laid out. A major comparison of 26 countries on a number of basic economic characteristics also is presented.

Chapter 2 lays out the theory of market capitalism, the world's increasingly dominant economic system. It also discusses problems in its practice with a special emphasis on the case of the U.S. economy, the world's largest and also the most clear-cut market capitalist example. The U.S. economy and the market capitalist system are the touchstone cases for comparison with all other models and cases.

Chapter 3 examines the theory and history of socialism in its various forms, of which command socialism has been the most important. However it has now largely disappeared and the future importance of socialism is likely to come from its other forms.

Chapter 4 looks at the old traditional economy in its primitive form, mostly found now in rural parts of less developed countries. This chapter examines more deeply issues raised in Chapter 1 regarding how to think about economic systems and their classification.

Chapter 5 considers the new traditional economy, a system that seeks to combine a traditional approach, usually based on a traditional religion, with modern technology. The Islamic economy is the most developed example of this emerging form and is discussed in detail, but it also plays a role in East Asia in the neo-Confucian societies.