

A GUIDEBOOK TO THE COMPARATIVE STUDY OF ECONOMIC SYSTEMS

FREDERIC L. PRYOR

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PREFACE

As this book represents the first genus of a new species—the economic guidebook—a certain explanation is necessary.

If you are a tourist in Paris and have a guidebook in hand, you can easily learn the city by yourself. If you pay the equivalent of a penny to buy a one-paragraph guide, you might read the following:

Start at the Ile de la cité and visit the cathedral of Notre Dame, which is the most famous cathedral of Paris. Construction started in 1163. Note particularly the rose windows. Then cross the Seine to the right bank, walk south one-half mile along the river to the Louvre. Former home of the kings of France, it now houses the best art collection in France. The renaissance collection is particularly impressive. Take Bus 72 going south and get off at the Eiffel tower. Built in 1887 it provides a magnificent view of the city. Watch out for pickpockets.

A popular guidebook such as the *Michelin* provides more description of many of the fascinating details and rates the various touristic attractions according to their relative importance. With the help of such a guidebook, you can gain a perspective on the city's spatial and historical relationships. Although it won't tell you everything there is to know about any particular site, a good guidebook supplies enough information for you to decide what to see and whether to make the visit or not. Special books or pamphlets can be obtained for more information about any particular attraction.

The economic guidebook should serve the same function so as to permit you, the reader, to learn a particular subject matter. Such a guidebook is something less than a treatise, because the subjects covered are not treated at great length; rather, the guidebook outlines the major aspects of various important problems and issues, sketches the key relationships between them, and then refers you to more detailed or specialized books and articles about them. Such a guidebook is also something more than an annotated bibliography since great emphasis is placed on explaining the relationships between various special problems and ideas (although, it should be added, annotated bibliographies follow almost every chapter). In sum, an economic guidebook is not a textbook to be studied under the direction of a teacher and to be later forgotten; but is rather a means to encourage you to discover a particular subject for yourself, to focus on those aspects of the subject that especially interest you, and to view other aspects of the subject in a manner such that contours of individual problems can be placed in perspective.

Since guidebooks should be short, the particular attractions that are chosen depend very much on the tastes and interests (more vulgarly, the prejudices) of the author. It is not by accident that almost all interesting guidebooks, beginning with Pausanias' guide to Greece written almost two millenia ago, are idiosyncratic. To give some warning about what you are—and are not—going to read, I would like to explain briefly what I am trying to do.

I believe that comparative economic systems is the most interesting field in economics because it deals with some of the largest and most important issues. The study of this subject can provide you with a useful framework of analysis for reading critically more specialized studies of particular capitalist or socialist economies or studies of economically less developed nations, both now and in the past. Unfortunately, almost all comparative economic systems textbooks on the market are extremely dull because, as you might find, they are usually arranged in one of three different ways: Books of the first type consist primarily of potted descriptions of a number of economies—little stories of Soviet, Chinese, Indian, French, and Swedish economies—so that you are unable to connect one economy with another. Books of the second type

spend inordinate amounts of time on problems of methodology or typologies or untested theoretical models, so that you are unable to determine how actual economic systems really function. Those of the third type provide comparisons between theoretical models of one type of economic system and the actual performance of other economic systems so that you cannot separate the ideological chaff from the empirical wheat. In short, very few of these textbooks are truly comparative in an empirical sense.

Since I leave the detailed descriptions of various economies to others, you will not find in this guidebook a fully shaped description of any single economy. However, I do give references to such studies, particularly with regard to Eastern Europe and China. For those of you particularly interested in the Soviet Union, I also provide references in each chapter to the relevant chapters in Alec Nove's book *The Soviet Economic System*; there are, however, other fine books on the Soviet economy that you can use instead.

I also leave a great deal of theorizing and endless discussion of methodology to others. Let me add, however, that I believe strongly in the role of theory in understanding different economic systems and I have written this book assuming that you have mastered the materials of an introductory microeconomics course at the university level. Further, I do not hesitate to introduce certain theoretical concepts and models into this discussion, both from the Marxist and non-Marxist literature. Those of you having difficulties in understanding the type of statistical analysis that is carried out might find it useful to read Appendix A, which explains these methods in a simple manner. Particular concepts and terms, with which you may not be familiar, are defined in a glossary in Appendix B.

Finally, I spend little time on ideological or normative questions. I certainly do not attempt to tell you which economic system is "best." This is a question of vital importance that only you can decide for yourself. However, I try to provide relevant data to help you in making up your mind on this problem.

In short, I focus primarily on the making of actual empirical comparisons by setting out a series of testable propositions and then summarizing or presenting the results of actual empirical comparisons for nations with different economic systems. Sometimes empirical materials to make such tests are not available, but this is noted as well. This means, of course, that the generalizations that are actually obtained are based on an analysis of the best available data, rather than on strictly ideological or theoretical considerations. Of course, this also means that I will offend readers along all points of the political spectrum, for I try to test empirically many of the common assumptions about economic systems that pass as common coin in political discourse.

Thus I have tried to combine theoretical and empirical knowledge in a manner such that you can test your judgments about the way in which economies actually function, even though these economies may not conform to our theoretical ideas and models. I have also tried to indicate subject areas where our knowledge is weak and where much more research needs to be done, rather than covering up our important blind spots by the presentation of elegant theories, the explanatory powers of which have yet to be measured against the real world.

The briefness of the guidebook also forces me to select only those attractions which, given my biases, I think are of greatest importance. In this guide you will find little about fascism, or about the current developing nations, or about the transport sector, or agriculture, or banks, or any of a number of other subjects that might be included in a standard textbook. Many important interrelations between the economic and the political realms are also not discussed. On the other hand, some of you may find too much about primitive economies or about the developed European nations in both East and West from which most of the empirical comparisons are drawn.

As noted above, reading a guidebook is no substitute for visiting the places mentioned therein. Similarly, reading this guidebook is no substitute for reading more about the problems that are discussed in the sources indicated. It is my hope that you will take this book in hand and use it as a guide in exploring the comparative study of economic systems by yourself and with others. There are many fascinating relationships to discover, many important ideas to ponder, and many propositions to dispute. You are also invited to try your hands in making the comparative analyses concerning those countries, topics, and periods that you believe to be important; and Appendix C helps you to get started along this path.

Throughout history almost every preface to every guidebook ends with the same wish on the part of the author and I follow tradition to extend that wish to you: *Bon voyage!*

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1

INTRODUCTION

A. The Study of Economic Systems

Broad questions concerning the economic system arise on many occasions in the social sciences: Can capitalism survive? Are the economic systems of the United States and the Soviet Union converging? Can goods be more efficiently allocated with or without a price mechanism? In what directions are property rights changing? To what extent are fluctuations in aggregate production due to the institutional structure of the system or to changing policies of the government that act to destabilize the economy? To what degree can fluctuations arising from either cause be dampened? What are the underlying principles of production, exchange and distribution, and consumption in traditional peasant economies? Does central planning lead to faster or slower eco-

economic growth? As this list of specific questions can be extended almost without limit, it is useful to examine more carefully the basic types of questions underlying the study of economic systems and, more briefly, the purposes for undertaking such a task.

The subdiscipline of comparative economic systems differs from other branches of economics because its primary focus of analysis is on economic institutions. (The concepts of *system* and *institution* are difficult and are defined below.) It is a broader field of study than other subdisciplines of economics and touches not only upon the usual types of economic questions but also upon questions from many of the other social sciences. Such a study uses both the analytic tool of traditional (both orthodox and nonorthodox) economic theory and also tools from other disciplines. It focuses not just on our own contemporary economy but also on market and nonmarket economies throughout history and over the face of the earth, so that its scope of inquiry is very wide. Finally, the field relies greatly on the comparative method as a tool of analysis. Those wishing to pursue the comparative study of economic systems do well to heed Dante's well-known advice: "Watch how you enter and in whom you trust; do not let the wideness of the gate deceive you."

For the most part the comparative study of economic systems deals with *positive*, rather than *normative*, questions. That is, it focuses on questions about what "is," basing its answers on appeals to facts, rather than examining questions about what "ought to be" and basing its answers on appeals to values. For instance, we might ask questions about the forces underlying the volume of social insurance expenditures, rather than whether such expenditures are desirable or not; or about the effect of the level of development on the existence of specific property rights, rather than whether or not such property rights should exist in the first place. It should be clear that positive economics is useful for normative analysis. For instance, to judge the desirability of introducing national economic planning of investment, it is important to know the relative performance of nations with and without such policies. It must also be added that normative economics is important for positive analysis because it helps to define questions that are worthwhile to examine and provides the criteria of evaluation that are used in the exercises of positive analysis.

It is also useful to distinguish between the study of *ideal* and *real* economic systems, for both can be studied (although in this book, the focus is primarily upon the latter). When we analyze ideal economic systems, we are studying simplified models of the way in which these systems function. Since economic systems are so complex, this is the only way in which we can begin to try to understand their operation. An example of an ideal economic system is the general equilibrium model of

the workings of the perfectly competitive market economy, which is sometimes used to explain certain facets of the U.S. economy. But the models may be oversimplified in a sufficient number of ways so that actual economies may not behave in the predicted fashion, either because they do not incorporate all the basic institutional assumptions of the model or because the models abstract from other important influences on the behavior of the economy. However, such models may be very useful in directing our gaze toward important aspects of the economy, or in setting up certain measuring rods with which to examine actual institutions. When we analyze real economic systems we empirically examine actual economies and their behavior. Of course, without the aid of models, we may be unable to explain much of what we see; however, the models may also lead to predictions at considerable variance with what we observe.

It is this tension between ideal and real analyses that advances the field because it leads to new theory and improved observations of what has actually happened. However, this tension also makes the study of economic systems difficult because with the theories in which you now believe, you may be unable to explain many of the empirical results presented in this guide and this should require you to reexamine your beliefs.

Underlying the notion that the study of economic systems is a discipline distinct from other branches of economics is an important assumption about the nature of causal forces in the economy. More specifically, we assume that economic institutions and systems *cannot* be adequately explained by reference to such "economic" causes as the level of economic development or to such "technical" causes as the physical or technological environment. If, for instance, the origin and development of all the most important economic institutions were primarily a function of the per capita income of the economy, then the study of economic systems could be subsumed under the field of economic development. However, the existence of apparently viable and different economic systems among nations at the same level of development in Eastern and Western Europe appears to belie any such strict economic determinism. Similarly, if economic institutions were solely the function of soil, climate, and terrain, then the study of economic systems could be subsumed under the field of economic geography. For instance, according to the Wittfogel hypothesis,¹ arid climates and the necessity of irrigating agriculture act strongly to encourage a centralized state and economy in preindustrial societies. However, the existence of precapitalist societies with large-scale irrigation systems without any such centralized economic system and also of centralized

¹Karl A. Wittfogel, *Oriental Despotism: A Comparative Study of Total Power* (New Haven, Conn.: Yale University Press, 1957).

economies at similar levels of development without such irrigation systems appears to belie any strict geographical determinism. Of course, the separate discipline of economic systems must take into consideration that technological, developmental, and geographical factors do have an influence on the institutions and their functioning within the society, even though such influences may not be decisive.

In the study of economic systems, we explore two groups of basic questions: (1) What is the *impact* of an economic institution or system? and (2) What are the forces underlying the establishment, *development*, and decline of particular institutions. Each of these questions deserves brief attention.

An *impact* question focuses on the extent to which the performance of an economy can be attributed to particular institutions. For example, does the allocation system currently employed in the Soviet Union and some other Eastern European nations lead to more rapid growth or to a more efficient allocation of resources than a market economy? On an *abstract* level this question can be examined by constructing models of the different types of allocation systems and by comparing them according to the designated criteria. On an *empirical* level this question requires separating out the mutual influences on the actual performance of particular economies of *environmental variables* (e.g., the level of technology, the availability of skills and resources, the climate, and so forth), *policy variables* (the choice of different policies within a given institutional structure), and *institutional variables*. Since these factors are discussed in greater detail in a few pages, one example must suffice. If we are investigating the performance of the housing sector of a given nation, we must ask whether the existence of slum housing is a function of the climate or the level of development, or a function of particular policies (regarding the interest rate, incomes, and the construction of public housing) or the different economic institutions such as the market allocation of housing that influence the allocation of housing space (e.g., can one find slums in nations with similar economic institutions?)

A *developmental* question focuses on the institution *per se* and the analysis not only of such broad causal forces as the level of development or the climate (which are discussed above) but also on many more subtle causal forces as well. For instance, if we are examining the growth of social security systems, to what extent can their creation and development be attributed to the age structure of the population, the level of development, or the political mobilization of particular groups with an interest in seeing the creation of such institutions?

If impact and developmental questions are examined together for economic institutions influencing the behavior of the entire economy, we sometimes speak of *laws of motion* of the economy. In such cases the

analyst focuses first on the forces leading to the creation of particular institutions, then on the impact of such institutions on the economy, and finally on the influence of such an impact upon the further development of the institution.

It should be emphasized that such institutional analyses can be carried out at different levels of abstraction. We might, for instance, focus our attention on the micro level, that is, upon the impact of a particular institution in a particular economy (such as labor unions). Or we might focus our attention upon the macro levels, that is, upon the impact of a set of institutions upon a broad economic indicator (e.g., differential growth rates of East and West Germany). Or we might focus our attention on the meta level, that is, upon a system defined in a broad manner that transcends particular national economies. For instance, the analyses of David Ricardo, Karl Marx, Joseph Schumpeter, or, more recently, Daniel Bell on the development of capitalism would be examples of this genre. In passing it is interesting to note that most such meta-level analyses have been performed on capitalist, rather than socialist, economies.

The purpose of this book is to discuss methods and to develop concepts with which economic systems can be analyzed on both abstract and empirical levels. The book is not meant to be an exhaustive monograph. Rather, by drawing examples from a number of economies, it attempts to sensitize you to a set of issues that the author deems important. At the end of each chapter is an annotated bibliography of sources for further reading that provide contrasting views or develop particular points or present important factual materials on certain economies, particularly the socialist economies of Eastern Europe.

Given the array of important issues that are covered in the study of economic systems, it should not be surprising that each reader will approach this book with different goals and motives in mind. You may wish to gain an idea about the spectrum of possibilities for carrying out economic activities and how to evaluate the major advantages and disadvantages of different solutions so as to develop your own personal political-economic philosophy. You may approach the subject to gain a deeper understanding of basic economic laws and to determine which of these transcend individual systems and which are specific to the system. You may wish to learn a particular approach toward gaining economic knowledge, that is, to learn the comparative method and both its uses and misuses. Or you may wish to use the results of the study of economic systems to organize in a coherent manner the vast factual materials that exist about the different economies of the world. All of these are quite valid purposes and, it is hoped, all will be served by this guidebook.

B. Approaching Economic Systems Comparatively

1. An Example about Garbage Collecting

Let us consider, for a moment, a small economic system consisting of the production, distribution, and consumption of one service. A good example is garbage collecting, a common service for which the relevant technological and economic issues should be relatively familiar to most of you. This example is not chosen as a lighthearted introduction to the subject, but rather as a problem that illustrates most of the difficult analytic problems of the comparative approach and, further, one that has been the subject of some careful empirical work. Three broad systems of organizing such activity are in general use: municipal socialism, free enterprise or competitive capitalism, and regulated capitalism.

a. Municipal Socialism

In municipal socialism the city owns the means of production (the garbage trucks) and a special city department hires the workers and manages the system. By means of some political process certain parameters of the type of service provided by the system are set (e.g., how many times a week the garbage is collected, whether it is collected at the curb or at the back of the dwelling, whether garbage must be separated from other refuse, whether a special type of garbage container must be used, and so forth). All homes and apartments must be serviced and the customers are billed for such services—whether they are wanted or not—either directly (usually a flat fee per home, but sometimes per garbage container) or through the tax system. Such a system does not, of course, prevent individual home dwellers from negotiating with private companies to obtain additional garbage-collecting services.

b. Free Enterprise, Competitive Capitalism

In the free enterprise system the service is provided by any entrepreneur who wishes to enter the market. The entrepreneur owns the trucks, hires the workers, and solicits customers (usually through letters to the various homes and apartments detailing the services provided and the costs). The customers can choose the type of service they wish by setting some of the parameters of the service (certain parameters may also be specified by the city and determined through the political process); they pay according to the negotiated price. In order to prevent the potential health menace that might occur if some home dwellers tried to save money by burying their garbage in their back yards, such systems are generally accompanied by laws requiring garbage disposal of some specified sort at all homes and apartments.