

A Theory of Economic Systems

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Preface

In this preface I wish to state what this book is about, how I came to write it, what relationship it has to past and contemporary theorizing in its field, why the book is needed, and to whom it may appeal. This book is a systematic inquiry in the form of an essay on the nature of historical economic systems. It deals with their relationships to each other and to their peripheral areas and the ways in which they and their components have evolved over time. *Historical* systems are here defined to be those associated with developed societies marked by widespread literacy at least among the elite of the society, written records and law, food growing by settled agriculture, the use of iron in utensils and implements, and the formal emergence of precious metals as money. By the *nature* of systems is meant the principal ingredients and processes that together make up the systems' defining conditions. The systematic inquiry embodies an attempt at theory that seeks to probe at a generalized level but that does not attempt systematic codification of available empirical knowledge or a critical evaluation of the theoretical literature available in the field. I draw from that literature chiefly for illustrative purposes and only occasionally to combat adversary views.

The book is arranged in four distinct parts. The first part (Chapter 1) is introductory and is concerned with laying out the frame of reference, basic definitions of the terms involved in economic systems, methodological issues, and the bounds of the inquiry. As drawn, these bounds exclude analysis of economic systems of primitive and archaic societies and thus center our field of interest on historical economic systems.

The second part (Chapters 2–5) is devoted to elucidation and cataloging of the first major component of economic systems: modes of production or forms of productive organization. My usage of the term *modes of production* is derived from Marx but is more narrowly construed than in most Marxian writings. I have accordingly uncovered 10 distinct modes of production, more than Marx pointed to or than Marxists generally recognize. Hence one of my major findings, argued in the conclusion of Chapter 4, is that economic

systems in a stable equilibrium are commonly multimodal, with different modes sometimes dominant in different fields of economic activity (agriculture, industry, wholesale trade, urban services, etc.). Special analysis is provided (Chapter 5) of the major ways in which use of economic resources is coordinated both within and between modes. One of these ways is of course the markets so familiar to students of Western economic theory. But equally valid and in widespread use are two other ways: rationing and central planning. It thus becomes clear that economic systems differ according to the way they pattern the use of these three methods of resource coordination.

Chapters 6–8 comprise the third part, designed to cover the role of the state and the public economy in economic systems. I deal first with the economic functions commonly exercised by states in historic life and variously implemented by them. My list of functions is narrower than those commonly attributed to government because my concern is only with economic functions having primary impact on economic behavior. It is of course very much a matter of judgment whether the three major functions I have identified—regulation, public works, and income redistribution—are adequate, or whether additional functions could be drawn into the analysis (e.g., defense and education). The economic work of the state is by no means exhausted in the narrow exercise of these (and even broader) functions because the state contributes substantially to the process of institutionalization; this topic is surveyed in Chapters 7 and 8, which deal with money and property, respectively. These chapters are prefaced by a short section in which the concept of institution is developed in the light of available sociological literature.

The fourth part (Chapter 9) is a summary in which the whole theory of an economic system, as elucidated in previous chapters, is put together and explored in the light of three basic concerns: (1) treatment of change in culture, institutions, and technology; (2) ways in which separate economic systems may be drawn into meaningful multinational gestalts or orders; and (3) problems of system classification. In conclusion, the last section lists eight broad family types of systems into which most, if not all, historically experienced systems may fit.

Because the essay form does not call for critical evaluation of the literature in the field (or disclosure of preconceptions), the reader may be assisted by a brief summary of my own doctrinal orientation and my relationship to major figures in the field, past and present. My doctrinal relationship to theorizing in the field of economic systems was laid out partly in the mid-1950s in an enlarged version of my 1952 theory paper dealing with Marx, Veblen, Weber, Roepke, and Sombart. Beyond that, the footnotes and the balance of the bibliography exhibits my enormous dependence upon Marx, who is recognized as the primary founder of the discipline of comparative economic

systems and as the special creator of one of its key conceptual components, that of modes of production.

I have also drawn extensively from Adam Smith, whose *Wealth of Nations* is still a gold mine of information relating to my subject and concerns. Of more recent writers there may be mentioned Max Weber, Alfred Marshall, and J. M. Keynes, who were always consulted about any relevant topic. Of the Marxian successors, my favorite is V. I. Lenin, the founder of the contemporary communist movement. Milton Friedman figures in this book chiefly as a negative influence, to be steadily opposed when he crosses my path on issues of substance and methodology, but otherwise to be avoided. I have drawn much from economic historians, who have sought to portray economic systems and the way in which they have evolved, but economic historians do not think much about what systems are, or where and how their boundaries are to be drawn, which is the major concern of this book.

Of more contemporary craftsmen in the field—Polanyi, Sweezy, Amin, Wallerstein, Lange, and others—my book will speak for itself, for here and there I have had the need to refer to them and to indicate the relationships among us. Some readers may find a connection between my work and that of Althusser and Balibar, for like them I have attempted a critical reworking of the concept of mode of production. Unlike them, however, I have shaped the concept so that it points in new directions, whereas they are content, despite the subtlety and sophistication of their analysis, to stay in the traditional Marxian ruts. There is no need to speak of the whole tribe of Western (chiefly American) textbook writers in the field, for apart from occasional items of information garnered from them, I have found them to be of little use.

The book will be useful to readers who, like the author, are dissatisfied with our habitual tendency to presuppose that economic systems exist without ever carefully probing the grounds for their existence. In the absence of that probing we have oscillated in the past between two equally repellent ideological types of system concepts. One of these, the Marxian, reduces all economic systems to five or six basic types and all modern (Western) nineteenth- and twentieth-century systems into two classic molds: capitalism and imperialism. At the other pole, modern Western economic theory effects a more radical shrinkage in system variety, for it presupposes that there is only one coherent rational kind of system, revolving around private enterprise, rational choice, and markets, and that all others are a tissue of fraud, force, and error. Both schools thus deprive different societies, so far as their economic arrangements go, of any distinctive identity. It is my aim in this book to provide this sense of identity without submerging the shared inheritance and mechanisms that link all societies and constrain the choices they may make.

This book should also appeal to all social scientists who in their varied fields of specialization—geography, sociology, economic history, political science, and economics—feel the need to develop an adequate, logically defensible scheme of analysis relating to economic systems, their defining characteristics, and their broad classes. I expect it will appeal most to thoughtful persons in all countries who are trying to work out an independent line of development with a distinctive national character. I expect it will appeal least to dogmatic Marxists and to dogmatic Western market theorists, for whom all such writings as this are anathema.

In its original plan this book would have been lengthened to include three chapters of case studies of economic systems, thus illustrating how the theory of the book could be put to use. During composition of the case studies, the writing was drawn out and six long chapters resulted. They were too much to include in this work, partly because of sheer bulk and partly because the focus of writing inevitably shifted from exposition of theory to historical narration. The case studies thus became suitable for an audience to whom this more generalized work would not have appealed; they will (one hopes) be published separately in due course.

The preparation for this book involved scanning the professional literature for relevant contributions. Regrettably but unavoidably, that search was often incomplete. Some important writings that should have influenced the treatment of some of the major themes in this book were omitted and have come to my attention since the manuscript was brought to completion in the summer and fall of 1982. The writings that I most regret missing include important works by Frederick L. Pryor and Nicholas Georgescu-Roegen. Pryor's treatment in 1973 of the institution of property and industrial organization makes an important contribution to the subject. His later work, which also appeared in this *Social Discontinuity Series*, is more ambitious and its attempt at quantification and empirical verification is almost breathtaking. His failure, however, to distinguish between villages found in advanced civilizations and in near-primitive societies makes his empirical results inconclusive for any study of historical economic systems.¹ Georgescu-Roegen gave a probing and philosophically illuminating critique of Western economic theory for ignoring entropy and the role of exhaustible resources, and for its warped account of the process of production—themes that are central to this book.²

¹Frederick L. Pryor, *Property and Industrial Organization in Communist and Capitalist Nations*. Bloomington Ind.: University of Indiana Press, 1973;—*The Origins of the Economy. Comparative Study of Distribution in Primitive and Peasant Economies*. New York: Academic Press, 1977. My attention to Pryor's work was drawn by his suggestive paper, "The Classification and Analysis of Precapitalist Economic Systems by Marx and Engels" *History of Political Economy*, XIV, winter, 1982, pp. 521-542.

²Nicholas Georgescu-Roegen, *The Entropy Law and the Economic Process*. Cambridge: Harvard University Press, 1971.

It is also regrettable that I missed the significant study of Jeffrey M. Paige, published in 1975. He worked out a suggestive theory of rural economic organization and class conflict in the export agriculture of developing countries in the post-1946 world. His schema partly coincides with that set forth in this work and partly cuts across it.³

In quite another field of scholarly writing—dealing with the latest phase of the developing institution of money—two significant works, both published in 1980, were missed. If utilized, they would have entered into our treatment of the IMF and gold demonetization, central themes in Chapter 7.⁴

Finally, an important book by Douglas C. North, *Structure and Change in Economic History*, published in 1981, came to our attention too late to be worked into the theoretical development incorporated in this work. His book is an attempt to explain the shifting panorama of economic systems from the unduly narrow base of modern Western economic theory of rational market choice with the addition of two additional constructs: ideology and the state. In any revised version of this book his work would be taken into account.⁵

³Jeffrey M. Paige, *Agrarian Revolution. Social Movements and Export Agriculture in the Underdeveloped World*. New York: Macmillan, 1975.

⁴Milton Gilbert, *Quest for World Monetary Order. The Gold-Dollar System and its Aftermath*. New York: 20th Century Fund, 1980; Richard N. Gardner, *Sterling-Dollar Diplomacy in Current Perspective. The Origins and the Prospects of our International Economic Order*, 3rd ed. New York: Columbia University Press, 1980.

⁵Douglas C. North, *Structure and Change in Economic History*. New York: Norton, 1981.

A Note on Background

My interest in attempting a generalized theory of economic systems was first aroused in 1950–1951 at a seminar by Talcott Parsons at Harvard University, where I was belatedly seeking a doctorate after 7 years of employment in government during the war and its aftermath. Parsons was then in the final stages of preparation of *The Social System*, which was circulating in his seminar in multilith together with a host of supporting materials, alternative drafts, and the major contents of an allied publication. I was enormously impressed with Parson's ambitious theorizing and I perceived that it allowed full scope for the development of subsystems in special fields of behavior, such as economics, that would fit into the social system. In consequence I composed a paper for a session of the American Economics Association meeting at Christmas 1952 under the ambitious title, "Theory of an Economic System." Though the paper made a certain stir, aroused favorable comment from no less than Frank Knight and Joan Robinson, and was later singled out in a methodological review by Henry Briefs as an outstanding example of "holistic method," as an effort in theoretical construction it was pretty much still-born, though echoes and certain elaborations of that paper, published a few years later, entered into this book.

This early writing prepared me for a second formative experience, namely an invitation to spend 2 years (1971–1973) in Tanzania as Research Professor at the University of Dar es Salaam, the state university of a newly formed East African state then attempting an ambitious program of socialist reconstruction under the leadership of that remarkable nationalist leader, Julius Nyerere. The country was in a process of political transformation, and the university was a focus of political debate and controversy sparked chiefly by the valiant efforts of a group of Marxist and neo-Marxist intellectuals assembled from East and West and places in between to turn President Nyerere's program leftward. The chief forums for policy discourse in the country were seminars held at the university in which papers, frequently circulated in advance, were read and subjected to keen critiques from an audience drawn from the university's advanced students and faculty, visiting scholars, and a circle of interested persons from government service. I stirred one of these seminars with a paper composed in September–October 1971 and bearing the title "Pluralist or Unitary Economic Systems: A Contribution to the Dialogue between Western Social Science and Marxism." It was later presented at the initiative of the redoubtable Ali Mazrui, who presided over a session of the East African Social Science Conference then meeting in Kampala (Christmas 1971) and was also published. In that paper I gave an early statement of the concept of mode of production that is developed in this work, and elaborated on three of the modes then not widely recognized: the

direct commodity producer, the corporative mode, and the public mode. I emphasized that economic systems combined different modes of production and thus distinguished between the unitary and pluralist approach to economic systems. I also attempted there a version of the concept of *socialist economy* given full exposition in this book, combining the two central notions of socialization of industry and centralized economic growth planning to guide new investment. My stint of university teaching at Dar es Salaam centered on a course on comparative economic systems, and students at the university who were channelled into that course had exposure to an unusual body of instruction. The Marxists in the department sought in a departmental meeting to make me refashion the course outline, which, as the Tanzanian departmental chairman, a Harvard graduate, noted, was generously detailed. (His own were usually curt.) At one time I was reproached by my East German colleague for labeling the current prevailing Western economy "the mixed economy." "We usually entitle that 'imperialism,'" he objected. I stated that I was aware of that nomenclature, but did not think it suitable because, in the nationalist revolution of our times, most of the subjects of imperialism had become self-governing states. The attempt at suppression failed and I taught the course as outlined. After returning to the United States my curriculum of instruction at the University of Wisconsin-Milwaukee for the next 5 years always included a course on comparative economic systems in which the lines of thinking set forth in this book were worked out in classroom lectures, discussion, and examinations.

My conviction is that no form of economic system is inherently superior to others—that private enterprise as a form of property and business organization is not sanctified as an infallible recipe for bringing prosperity and economic growth to peoples near and far, and that socialism is not the inevitable wave of the future, nor is it even especially desirable. Although societies have been revolutionized, chiefly after disaster in prolonged war, more commonly revolutionary changes in economic systems have developed slowly as societies have changed in class alignment, in attitudes, in methods of production, and in political capacity, and as the various elements of an economic system have evolved and taken new forms. As the reader will see, in modern times—roughly over the past two centuries—change in economic systems has been cumulative, sweeping, and has had outcomes differing radically from initial positions. This process of historic change is too interesting and challenging to permit taking sides, especially from the comfortable position of the more or less detached onlooker. This is not to say that institutionally shaped economic systems may not at times become radically unsuited to the needs and temperament of the people whose activities are embraced by it. Something like that happened to the forms of nineteenth-century capitalism as it extended into the twentieth century. The tendency to instability deeply rooted in that system was aggravated particularly by a disturbed, war-shaken environment and by the development of a higher standard of living and a wider industrialized network, which made the consequences of that instability more intolerable. There was a need to implant new regulative processes

and institutions that would assume responsibility for masterminding economic development, maintain a more stable course of economic growth, and, especially, prevent the downward spirals to which unrestrained capitalism was particularly prone. The society at many points had become restless with its inherited institutions and creeds and so was ripe for change. Accordingly, a phase of societal change occurred—extended and drawn out in some societies of the Western world, more concentrated in others, and revolutionary in some in which new institutions of government and a radical growth in the public mode of production and in schemes of public finance helped to transform the economic system. But even here the institutional regrowth was largely initiated in the older society, and vast changes in modes of production and in class alignment that supported the new system had gradually come into existence in the older society. The lines of continuity and of cumulative process were by no means breached in all areas.

But though the thinking embodied in this book is premised on no general preference for any one kind of economic system, that thinking does allow a certain positive role for collectivism in institutions and nonmarket controls in response to needs induced by dislocation, impoverishment, and development. I may cite here the apologia on this point set forth in my doctoral dissertation, later published in revised form in 1960:

By dislocation is meant serious injuries to the productive organism at home or, with reference to sources of supply or markets, abroad. By impoverishment is meant shrinkage of national income per capita and reduced levels of consumption relative to those expected norms around which incentives are organized and income budgets are balanced. By development is meant economic flow on an expanding scale as contrasted with the mere reproduction of the social economy on an unchanged basis. This study was written on the assumption that relative to the ability of any given society to handle large-scale overhead political organization and directive mechanisms, successful societal response to impoverishment, dislocation and developmental needs will generate collectivism and controls. Conversely stated, collectivism and controls are the dimension of positive response to marked needs growing out of impoverishment, dislocation or development. Just as the maintenance of life in a besieged city requires increased solidarity and sharing, as a herd under attack may band together for mutual protection, so social patterns under strain will tend to become more cohesive and solidaristic.

A Note on References

All works are cited by author, shortened title, and year of publication. Where this year of publication is significantly different from year of *first* publication, the year of first publication is cited in the footnote text. Where first publication was delayed significantly, the year or period of original writing if known is specified. This information will help to identify a given work as occurring in the "early," "mature," or "late" writings of an author, or sometimes the historical epoch imprinted on the writing. In the reference list the year of first publication or writing immediately follows the title of the work except where that year is designated in the title. This information is then followed by bibliographical data on the edition I used in preparing this volume. Classical writings of Antiquity and the Early Middle Ages, published all over the world in countless editions and appearing in numerous collections—such as the works of Aristotle, Plutarch, Plato, Herodotus, Livy, the Bible, and the Koran—are cited with sufficient particularity (volume, book, chapter, paragraph, or line number) to identify the passage in all or nearly all forms of publication. Because the date of original publication or writing is rarely known, the dates usually cited for classical writings are dates of editions of English translations used for cited passages. The major works referenced of Marx and Engels are separately identified with their year of initial publication or writing. Minor works or shorter pieces with few exceptions are cited as they have been republished in the authoritative English edition of the *Collected Works*, utilized in this work up to the seventeenth volume, including writings up to December 1860. The volume number cited will indicate the time-period of origin. I have found it convenient to confine my utilization of encyclopedias to the well-known (to the older generation of social scientists) *Encyclopedia of the Social Sciences*, appearing between 1930 and 1934 in 15 volumes.

The reference list at the end of the book is an alphabetized list of works directly cited in the footnotes. Thus this list does not make up a bibliography in the true sense of the word of either all writings consulted or utilized at one

stage or another in the preparation of this work or of writings in various languages significantly related to the subject matter. Since this work is an outcome of studies carried on over three decades of teaching and writing, the list of all writings that entered into these studies is too voluminous to publish here. The preparation of a bibliography of writings entering into the history of debate on the subject is itself a monographic task best attempted in the context of a history of thought on the subject.

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