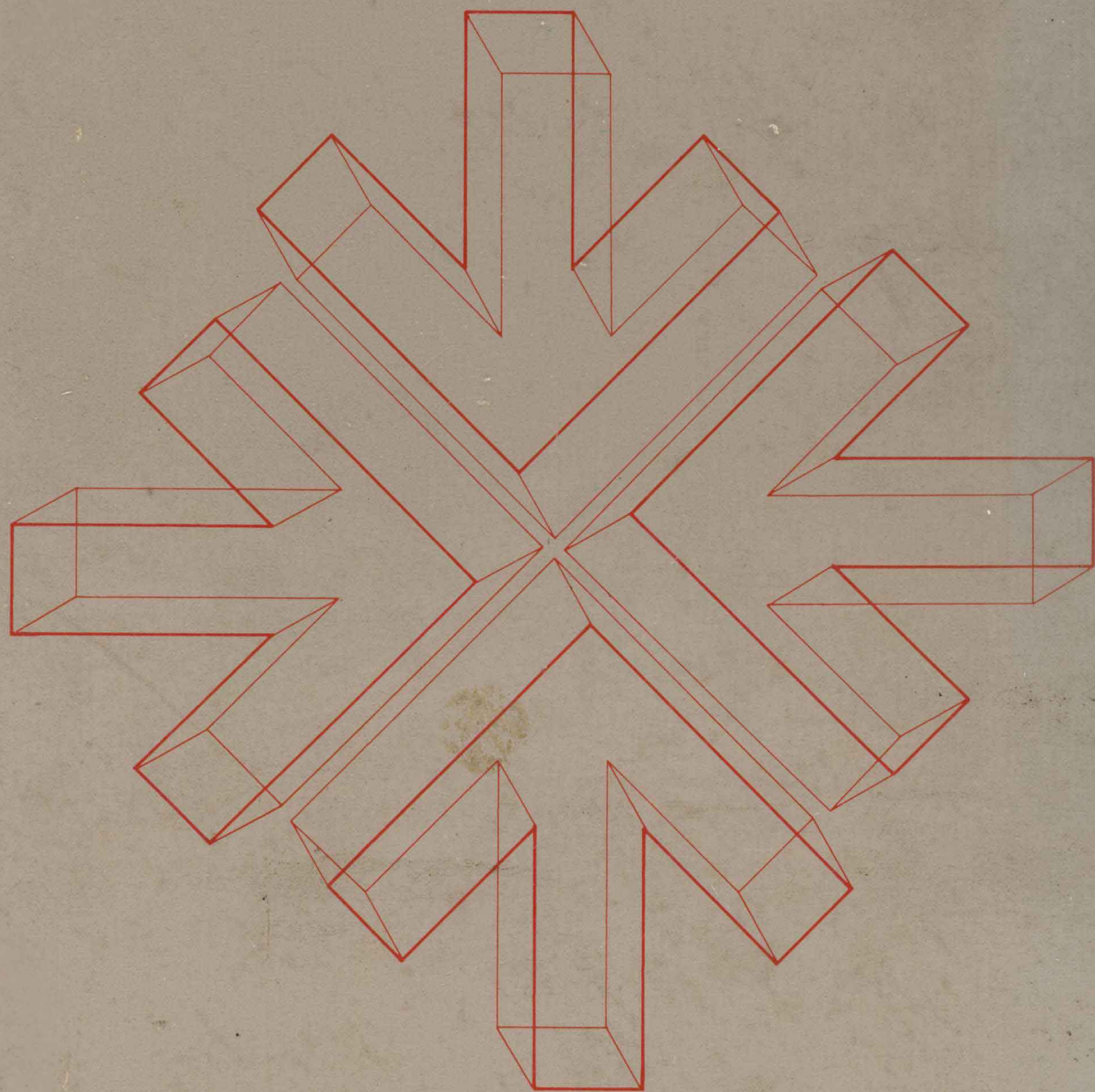


Comparative Economic Systems

Gruchy



COMPARATIVE ECONOMIC SYSTEMS

Allan G. Gruchy
University of Maryland

*Competing Ways to Stability,
Growth, and Welfare*

Second Edition

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Preface

In the decade since the first edition of this study appeared, economic and social trends have confirmed the author's view that little progress has been made in constructing a general theory of economic systems. Because the nations that make up economic systems have such diverse ideological, cultural, and economic characteristics, they can be classified only loosely as capitalist, socialist, or communist, or as developed and developing countries. The emphasis in the analyses of the various countries included in this study is not on tracing their historical development, but on surveying each country's economic development over the past few decades, as well as its current economic situation, and its economic and social trends and prospects. Since the world's economic systems are now in a state of great economic and political uncertainty, it is important to draw attention to the problems associated with future trends and prospects.

In this new edition, attention is directed toward a number of problems that have become especially important throughout the world since the quarter century of post-World War II prosperity came to an end in the early 1970s. The international economic and financial system is still on a very weak foundation, and nations now need to be more concerned with the determination of national goals and priorities, domestic and international planning, wage-price policy, the distribution of income, and the control of the economic power of large industrial corporations and trade unions. The developing countries of the Third World present a special challenge to the West because of their continuing problems of overpopulation and low per-capita economic growth, or because of their strategic importance as suppliers of oil or other important commodities.

This study of comparative economic systems emphasizes the fact that the world's major nations now stand on the threshold of a

new era. In the coming post-industrial society, there will be a demand for a fresh approach to the construction and application of economic and social policies and programs. In the western nations, current economic concerns include recessions, inflation, poverty, and discrimination, as well as individual alienation, job dissatisfaction, and the search for a better lifestyle. These national and individual concerns have seriously shaken the confidence of the general populace in their traditional economic systems, and have posed the question: Where do we go from here?

This book explains that in the effort to find a satisfactory answer to this question, a number of nations, including France, Holland, Norway, Sweden, and Belgium, have turned to some forms of national planning that are essentially democratic in nature. Other countries, such as the United States and West Germany, have not gone beyond limited intervention in grappling with this question.

In the communist sphere, events of the last decade point to a similar lack of confidence on the people's part in their inherited economic systems. The once dominant position of the Soviet Union has been greatly eroded, and this study explains how communist countries such as Yugoslavia, Poland, Hungary, Czechoslovakia, and Mainland China are searching for alternatives to the highly centralized Stalinist type of economy that would be more responsive to the basic aspirations of the people in these countries.

Like the western nations, the eastern nations are now in a crucible of great ferment and change, and it is difficult to predict what will emerge from it. While some convergence among different economic systems has occurred in recent decades as a result of the responses of nations to the major late twentieth-century economic and social problems, there are still powerful forces at work to impede this convergence. It is clear that there are now no discernible trends toward any one

basic type of economic system that will predominate worldwide.

In the preparation of this revised study of comparative economic systems I have benefited greatly from my contacts with Dr. Norton T. Dodge, whose Cremona Foundation studies of the Soviet Union have been particularly useful in analyzing the operations of the Soviet economic system. I have also drawn heavily upon another faculty associate, Mr. Yi Tsien, whose very deep understanding of economic and political developments in the People's Republic of China has contributed greatly to my appreciation of the importance of that rising world power. In addition I am indebted to the following reviewers for their many worthwhile suggestions for the improvement of this study: Dr. K. Laurence Chang of Case Western Reserve University, Dr. Paul Marer of Indiana University, and Dr. Robert C. Stuart of Rutgers University. I remain responsible, however, for whatever interpretations are presented here. I again have called upon my wife, Florence, for her very able editorial advice and assistance in the preparation of this new edition.

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Part One

Introduction

1

The Nature of Economic Systems

Chapter 1

The Nature of Economic Systems

One of the unique economic developments of the first half of the twentieth century has been the emergence of a large number of different types of national economies. When the twentieth century began, the world was dominated by the capitalistic system, with its center of gravity in Western Europe. During World War I, the first break in the dominance of the monolithic capitalist system occurred when the Soviet socialist system was established in 1917. In the interwar period 1919-1939, fascist regimes were founded in such major nations as Germany, Italy, and Japan. After the Second World War, a number of economies of the Soviet type were established in Central Europe and the Far East. The demise of colonialism after 1945 witnessed the establishment of socialist India and the rise of many developing countries in Africa and Asia. By 1976, the 144 members of the United Nations included a large assortment of nations at different stages of economic development and with widely varying cultural, historical, and ideological backgrounds.

Before the Second World War, economists had expressed little interest in different types of national economies. While the Soviet Union had made considerable progress in the years 1917-1939, it did not pose much of a challenge to the Western capitalist economies at the beginning of the Second World War. The fascist economies of Germany, Italy, and Japan were frequently regarded as deviants from the capitalist system rather than representatives of a distinctly different type of economic system. Since 1945, the spread of *authoritarian socialism or communism* to Central Europe and to Mainland China, the emergence of socialist India, the development of market socialism in Yugoslavia, and the rise of the less developed countries have led economists to pay increasing attention to the problems of diverse national economies. This new interest has taken the form of a concern with the field of comparative economic

systems or comparative economic studies. The 144 members of the United Nations can be loosely divided into four major groups. The first cluster, composed of major Western European nations, the United States, Canada, and Australia, share a common capitalist orientation. The second group of authoritarian socialist or communist countries includes the Soviet Union, the Central European countries, the People's Republic of China, and some small Asiatic countries. A third much smaller group of countries—India, Israel, Norway, Sweden, and the United Kingdom (when the British Labour party is in office)—are examples of democratic partial or limited socialism. The fourth group, composed of newly developing countries of Africa and Asia have enough features in common to warrant being considered members of a Third World, in the view of some comparative economists.¹

The General Concept of System

The development of the field of comparative economic systems has underlined the importance of the concept of the economic system. Conventional economists have traditionally given little attention to the concept, because they have taken as given the technological and institutional framework within which the market system operates. These economists have devoted their time to the analysis of the various parts of the total economic system and to the behavior of producers and consumers in these sectors. For this reason, conventional economics is frequently described as “market

economics” and not “systems economics.” When economists in recent decades turned to the comparison of economic systems, they soon recognized the importance of inquiring into how the concept of the economic system was being used. Early investigators of economic systems tended to develop a holistic approach, in which the similarities and dissimilarities of total economic systems, or “isms” such as capitalism, socialism, and communism were studied.² When mainstream economists turned to the study of economic systems after World War II, they avoided the broad holistic approach and substituted a particularistic approach to the analysis of economic systems. These economists tended to look at all economic systems from the single point of view of a perfectly competitive economy, and were unwilling to admit the existence of any special field of comparative economic systems. By contrast, economists with a more holistic approach take economics beyond the traditional scope of orthodox economics, making room for a field of comparative economic systems that is not included in the traditional study of economics.³

² This approach was used in the first textbook on comparative economic systems by W. N. Loucks and J. W. Hoot, *Comparative Economic Systems*, New York: Harper and Brothers, 1938.

³ Disagreement abounds among economists as to whether or not there exists a separate field of comparative economic systems that is not covered by the scope of economics as viewed by conventional economists. Some conventional economists assert that there is no such separate field, and that what now passes for “comparative economic systems” is only a “botanical classification of national economies into a few loosely labeled boxes.” See the views of the Inter-University Committee on Comparative Economics as expressed in the Foreword to *The Three Worlds of Economics* by L. G. Reynolds, New Haven: Yale University Press, 1971, p. ix. Other economists like B. Ward seem to prefer to leave this question unanswered, whereas economists like L. G. Reynolds call for a broader definition of economics which would make room for the study of “the curious variety of national economies throughout the world.” See B. Ward,

¹ In much economic literature reference is made to the three worlds of the capitalist, the communist or authoritarian socialist, and the less developed countries. No separate place is made for countries like Sweden, Norway, India, and the United Kingdom (when the British Labour party is in office), which provide examples of partial or limited democratic socialism. If four different groups or classes of economic systems are recognized, then one can speak of four and not three worlds or spheres of influence.

The concept of “system” is used in many different ways, as shown by referring to number, cosmic, river, economic, or political systems. All types of systems have the common characteristic of being orderly, systematic, or regular in nature. In other words, they display a unity, pattern, or orderly arrangement of constituent items. In the most general terms, a system is an interdependent or interacting complex or pattern of items which make up a unified whole. All systems are mental constructs, which may be either real or imaginary. Sir Thomas More’s *Utopia* exemplifies a concept of an imaginary social system, whereas the concept of finance or monopoly capitalism is a concept of a real or actual economic system. When economists in recent years turned their attention from individual to collective economic decision making and to a consideration of social rather than individual preferences, they invented “artificial” economic systems based on class, coalition, and team theories, in which equilibrium is achieved through various voting procedures rather than through the use of a price system.⁴ These imaginary economic systems are explanatory devices designed to explain the problems of balance, efficiency, and incentive in real economic systems.

“Organization and Comparative Economics: Some Approaches” in *Comparison of Economic Systems* edited by A. Eckstein, Berkeley: University of California Press, 1971, p. 130; and L. G. Reynolds, *op. cit.*, pp. 328–329.

⁴ These artificial economic systems are discussed in Edward Ames, *The Emerging Theory of Comparative Economic Systems*, Working Paper No. 63, Stony Brook, N.Y.: Economic Research Bureau, State University of New York at Stony Brook, April 1972, pp. 1–15; and “The Theory of Planning-Discussion,” *American Economic Review*, Vol. LXI, May 1971, pp. 436–437. A very considerable literature on imaginary economic systems, in which equilibria are arrived at without the use of market prices, has appeared in recent years. See J. M. Buchanan and G. Tullock, *The Calculus of Consent*, 1971, and J. Marschak and R. Radner, *Economic Theory of Teams*, 1971.

The term *system* has played a vital role in the evolution of the various sciences. Not until the data of the external world could be placed in a system was science born. In such sciences as physics, chemistry, and botany the first step in developing the science was to classify the observed data. Thus botany was placed on the path to becoming a science when the Swedish botanist Carl von Linne in the eighteenth century worked out the system of binomial nomenclature for the classification of plants. Physicists developed the metric system of weights and measures based on the meter and the kilogram; chemists created the system or table of elements or atomic weights, with hydrogen being assigned an atomic weight of one. The progress of the natural, biological, and social sciences has been a record of improving the methods of systematizing data, and laying the foundation for the development of an expanding body of scientific generalizations based upon the regularities observed in the physical, biological, and cultural worlds.

All systems have a structure and a way of operating, functioning, or proceeding. These systems may be divided between those that are static and those that are dynamic. Static systems are mechanisms or equilibria, whereas dynamic systems are evolutionary processes or developmental complexes. Number systems, the decimal and metric systems, the Newtonian system of mechanics, and the systems of physics and chemistry are, in general, static in nature: they do not deal with change, growth, and development but relate instead to items at rest, or in equilibrium, or approaching equilibrium.

In contrast, biological and cultural systems are dynamic in nature, emphasizing change and development. The change inherent in biological and cultural systems may be gradual and imperceptible, or it may be rapid and quantum in nature. The kind of change observed in the biological world, such as the