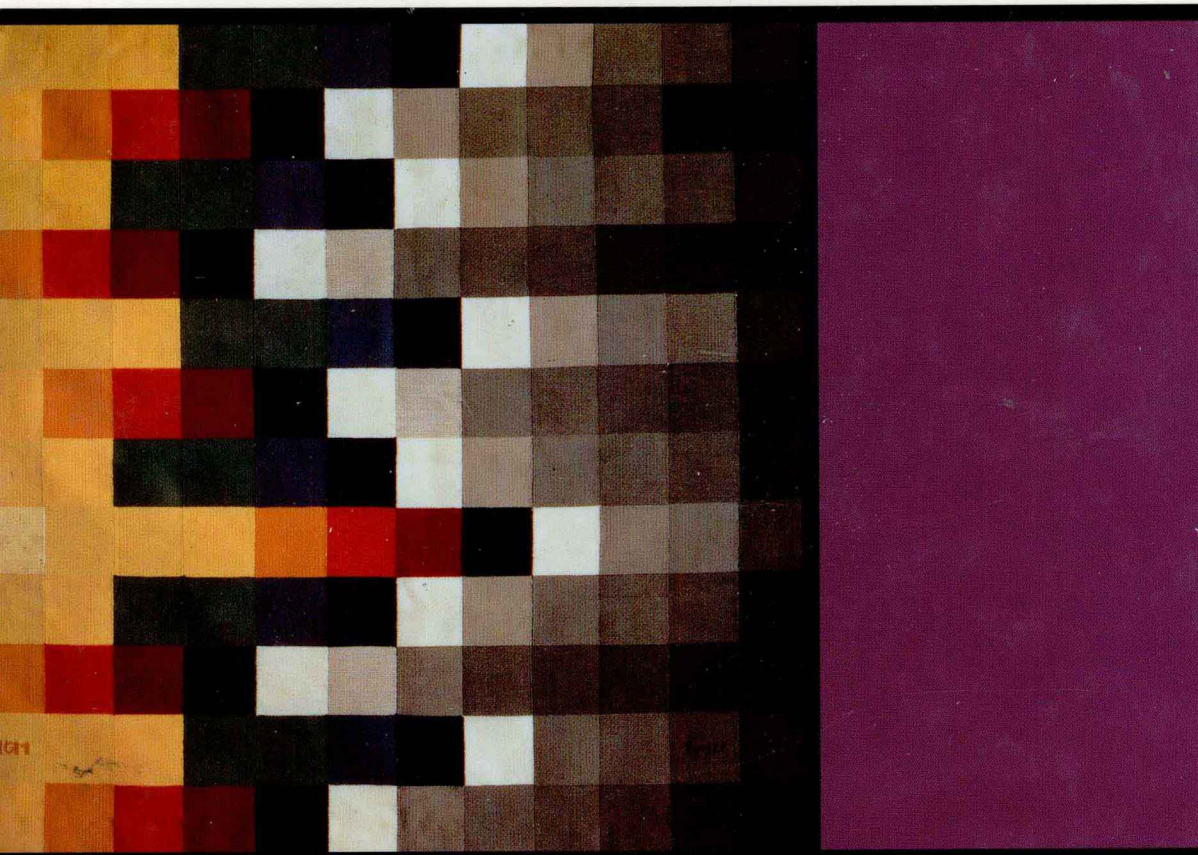


# COMPARATIVE ECONOMIC SYSTEMS

SIXTH EDITION



GREGORY / STUART

# ***Comparative Economic Systems***

**Sixth Edition**

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*We dedicate this book to our wives, Annemarie and Beverly.*

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# Preface

We are gratified that our book, *Comparative Economic Systems*, has been a leading text for comparative economics since 1975. Our new sixth edition is the most significant revision ever. As times and events change, so must a book that looks at the way we organize economic systems. With the collapse of communism and the ongoing transition from planning to markets, we no longer have the major dichotomy of capitalism and socialism that was the prime focus of earlier editions. The economic world is full of innovative experiments on how to organize economies, such as the market socialist approach of China, the difficult transitions of the former Soviet states, the Asian Model of Southeast Asia, and even the creation of a single currency in Europe. The world economy has become irreversibly internationalized.

This edition presents the teaching of comparative systems in a new way. It shows how comparative economic systems will be taught in the twenty-first century. However, we should not forget how we got here. We should not forget the twentieth century's greatest experiment: the attempt to create a planned economy in Russia in the years following the Bolshevik Revolution of 1917 and the experience of dismantling these economic arrangements at the end of this century.

The sixth edition will explore the following topics:

- Emerging market economies of Asia and Eastern Europe
- Distinct "European Models" versus "Asian Models," the latter including Japan and the Tiger Economies
- How the economic system affects economic growth and performance in a wide variety of settings
- The transition process in Eastern Europe, Russia, the Baltic states, and Central Asia
- Modern economic topics such as growth convergence, monopoly rent seeking, corruption models and corruption indexes, and growth models

This edition will help instructors present comparative economic systems in the post-Soviet transition period. As our world becomes more internationalized, we expect growing rather than declining interest in comparative economics. We hope that this new edition will provide a road map for instructors to use in teaching this vital subject.

To assist the instructor in organizing the subject matter of a one semester course in comparative economic systems, we have sustained the general framework used in earlier editions, but with the substantial modifications noted above.

In Part I, we begin with a familiar discussion of basic issues—the nature of the field of comparative economic systems and how it has changed in the past decade, how economic systems are classified and analyzed, and how we might assess the

impact of differing economic systems upon resource allocation. Finally, we discuss systemic change, a subject dramatically more important in the contemporary era than in the past. The material in this section is changed from past editions in several ways. First, for students with little or no life experience from the “plan era,” we believe an overview of events is essential. Second, with the disappearance of the simple extremes of plan and market, emphasis on the tools of organization theory is of much greater importance than in the past. Third, the subject of systemic change was of limited interest during the plan era, focusing mainly on a never-ending series of failed reforms. Obviously, events of the 1990s have changed that posture, necessitating attention both to overall systemic change, the transition from plan to market, and to the subtle but critical changes taking place within existing systems, for example contemporary restructuring.

In Part II, we turn to a discussion of economic systems in theory. While the basic themes discussed here bear a close similarity to similar discussions in the past, there are important changes. First, it is difficult for a student to understand the complexities of the transition era if they have no knowledge of the theory underlying past system arrangements. Second, although the simple dichotomy of plan and market may have disappeared, contemporary systems are very much mixed systems with significant variations from one case to another. To understand these systems, it is essential to understand the nature of their components. Third, the task of understanding contemporary mixed systems is difficult. Fundamentally, our theoretical understanding of mixed systems is much less well developed than our understanding of simple polar extremes. Finally, our ability to understand change is limited, a major reason why there is so much interest in real-world cases of change in contemporary transition economies.

In Part III, we discuss economic systems in practice. Although we sustain discussion of the traditionally important cases, there are important changes in this section. First, while the discussion of the U.S. and Soviet experiences is traditional, we discuss China as an example of market socialism. China is treated as a country and as an economic system of great importance, especially its continuing efforts to grow in a global setting with elements of both market and plan. Second, we develop the discussion of the European model and the Asian model in comparable dimensions given the immense interest in both major cases and the potential for influence of one on another. Finally, we analyze the major reason for the emergence of the transition era, namely the economic collapse of the major planned socialist economic systems.

In Part IV, we turn to a discussion of transition era. This part is organized along familiar lines. We begin with a discussion of basic transition issues noting that the more general issue of change has already been discussed in Part I. Following the discussion of the framework of transition theory, we discuss major real world cases. The Russian case is one of great complexity and yet it is also one of major political importance in the global economy. The East European cases that we discuss are, on balance, success cases when compared to the Russian experience. Finally, we conclude with observations on the first decade of the transition era, noting the importance of transition issues for the global economy of the twenty-first century.

Our goal since the inception of *Comparative Economic Systems* has been to provide a tour through the contemporary literature on comparing differing economic systems. While we now organize the tour differently from the past, the content is very much the work of a large number of scholars to whom we are indebted.

Finally, we greatly appreciate the help and guidance received from the staff at Houghton Mifflin. Special thanks go to assistant editors Adrienne Vincent and Bernadette Walsh, project editor Liz Napolitano, and sponsoring editor Bonnie Binkert.

P.R.G.  
R.C.S.

# Contents

Preface     xiii

|          |   |          |
|----------|---|----------|
| <b>I</b> | <b>Economic Systems: Issues, Definitions, Comparisons</b> | <b>1</b> |
| 1        | <i>Economic Systems After the Collapse of Communism</i>   | 3        |
|          | The New World   | 3        |
|          | The Collapse of Communism                                 | 4        |
|          | The Industrialized West                                   | 6        |
|          | The Third World   | 8        |
|          | Economic Systems in the New Era                           | 8        |
|          | Modern Methodology of Economic Systems                    | 9        |
|          | The Choice of Economic Systems                            | 10       |
|          | Summary   | 12       |
| 2        | <i>Definition and Classification</i>                      | 14       |
|          | Economic Systems: Definition and Classification           | 14       |
|          | Definition  | 15       |
|          | Characteristics of Economic Systems                       | 16       |
|          | The Organization of Decision-Making Arrangements          | 16       |
|          | Market and Plan   | 19       |
|          | Property Rights: Control and Income                       | 21       |
|          | Incentives  | 22       |
|          | Comparing Economic Systems: A Mode of Classification      | 24       |
|          | The “Isms” and Organizations                              | 25       |
|          | Transition and Change in the Twenty-First Century         | 28       |
|          | Summary   | 29       |
| 3        | <i>Evaluation of Economic Outcomes</i>                    | 36       |
|          | Models versus Reality                                     | 36       |
|          | Forces Influencing Economic Outcomes                      | 37       |
|          | The Evaluation of Outcomes: The Success Criteria Problem  | 39       |
|          | The Determination of System Priorities                    | 40       |
|          | Performance Criteria                                      | 41       |
|          | Economic Growth   | 42       |
|          | Efficiency  | 43       |
|          | Income Distribution (Fairness)                            | 45       |
|          | Stability   | 46       |
|          | Viability of the Economic System                          | 47       |
|          | Tradeoffs   | 48       |

|   |    |
|---|----|
| Economic Systems and Performance                          | 48 |
| Performance Comparisons: The Twenty-First Century         | 49 |
| Summary   | 50 |
| Appendix 3A: Measuring the Impact of the Economic Systems | 55 |

#### **4    *Reform and Transition: Evolution or Revolution?*      60**

|   |    |
|---|----|
| Reform of Economic Systems                            | 60 |
| Economic Development and Systemic Change              | 61 |
| Marx's Theory of Change                               | 62 |
| Joseph A. Schumpeter: The Evolution of Capitalism     | 64 |
| The New Institutional Economics                       | 65 |
| Change in Socialism                                   | 66 |
| Hayek and Mises                                       | 66 |
| Kornai: The Economics of Shortage                     | 68 |
| The New Institutional Economics Critique of Socialism | 69 |
| Changes in Capitalist Economies                       | 70 |
| Property Rights: Private versus Public                | 70 |
| Trends in Competition                                 | 73 |
| Income Redistribution                                 | 75 |
| Worker Participation                                  | 77 |
| Government Intervention                               | 78 |
| Change in Socialist Economies                         | 79 |
| Backdrop of Reform                                    | 80 |
| Socialist Reform Models                               | 80 |
| Record of Socialist Reform                            | 82 |
| Transition  | 82 |
| Summary   | 83 |

## **II    Economic Systems in Theory      93**

### **5    *Theory of Capitalism*      95**

|   |     |
|---|-----|
| How Markets Work                                | 95  |
| Equilibrium and the "Invisible Hand"            | 95  |
| Market Equilibrium                              | 96  |
| Efficiency of Market Allocation                 | 96  |
| State Intervention                              | 98  |
| Monopoly Power                                  | 99  |
| External Effects and Collective Action          | 101 |
| Problems of Public Choice                       | 103 |
| Income Distribution                             | 104 |
| Macroeconomic Instability                       | 105 |
| Growth and State Policy                         | 107 |
| The Performance of Capitalist Economic Systems: |     |
| Hypotheses                                      | 108 |
| Efficiency                                      | 108 |
| Stability                                       | 108 |
| Income Distribution                             | 109 |



|                                    |     |
|------------------------------------|-----|
| Economic Growth                    | 109 |
| Viability of the Capitalist System | 110 |
| Summary                            | 110 |

## **6    *Theory of Planned Socialism*    115**

|   |     |
|---|-----|
| The Socialist Economy                                   | 115 |
| The Marxist–Leninist View of Socialism                  | 116 |
| The Socialist Controversy: The Feasibility of Socialism | 117 |
| Barone: A Theoretical Framework                         | 118 |
| The Challenge of Mises and Hayek                        | 118 |
| The Planned Economy: Organizational Arrangements        | 119 |
| Resource Allocation Under Planned Socialism             | 120 |
| Origins: The Soviet Union in the 1920s                  | 120 |
| Economic Planning: A Paradigm for Planned Socialism     | 121 |
| Material Balance Planning                               | 122 |
| The Input–Output Model                                  | 126 |
| Optimization and Economic Planning                      | 129 |
| Coordination: How Much Market? How Much Plan?           | 131 |
| The Performance of Planned Socialism: Hypotheses        | 132 |
| Income Distribution                                     | 132 |
| Efficiency  | 132 |
| Economic Growth   | 133 |
| Stability   | 133 |
| Summary   | 133 |

## **7    *Theory of Market Socialism*    138**

|   |     |
|---|-----|
| Market Socialism: Theoretical Foundations             | 138 |
| The Lange Model                                       | 139 |
| Critics of the Lange Model                            | 141 |
| Market Socialism: The Cooperative Variant             | 141 |
| Criticism of the Cooperative Model                    | 145 |
| Advantages of the Cooperative Model                   | 146 |
| The Participatory Economy in the Twenty-First Century | 147 |
| Feasible Socialism in the Twenty-First Century        | 148 |
| The Performance of Market Socialism: Hypotheses       | 149 |
| Income Distribution                                   | 149 |
| Economic Growth                                       | 149 |
| Efficiency  | 149 |
| Stability   | 150 |
| Summary   | 150 |

## **III   Economic Systems in Practice    155**

### **8    *The American Economy: Market Capitalism*    157**

|   |     |
|---|-----|
| Resource Allocation in the Private Sector | 157 |
| Business Organization                     | 158 |
| The Product Market                        | 159 |

|  |     |  |
|--|-----|--|
| The Labor Market                                   | 163 |  |
| The Capital Market                                 | 166 |  |
| Government in the American Economy                 | 167 |  |
| The Scope of the Public Sector                     | 167 |  |
| Public Goods: The Case of National Defense         | 169 |  |
| Health, Education, and Welfare                     | 171 |  |
| U.S. Policy Toward Monopoly                        | 173 |  |
| Government Ownership                               | 173 |  |
| Regulation   | 174 |  |
| Auctions of Monopoly Rights                        | 176 |  |
| An Assessment of Regulation                        | 176 |  |
| Deregulation                                       | 177 |  |
| Antitrust Legislation                              | 178 |  |
| Price Fixing and Mergers                           | 179 |  |
| An Evaluation of Antitrust Policy                  | 180 |  |
| Government and Macroeconomic Stability             | 180 |  |
| Government Activity and Externalities              | 181 |  |
| Government Policies and the Distribution of Income | 182 |  |
| Privatization                                      | 183 |  |
| The United States and Economic Freedom             | 185 |  |
| Summary  | 186 |  |

## **9    *The Soviet Command Economy: Structure and Performance*    193**

|   |     |  |
|---|-----|--|
| Historical Perspectives   | 193 |  |
| The Setting   | 195 |  |
| The Soviet Economy: A Framework   | 196 |  |
| Organizational Features   | 196 |  |
| Planning in Practice  | 198 |  |
| The Soviet Enterprise   | 200 |  |
| Prices and the Allocation of Land, Labor, and Capital in the Command System | 202 |  |
| Soviet Prices: General Features   | 202 |  |
| Input Prices: Land and Labor  | 204 |  |
| Capital Allocation  | 205 |  |
| Financial Planning  | 207 |  |
| Market Forces in the Command Economy  | 208 |  |
| Agriculture in the Command Economy  | 210 |  |
| Differences Between Collective Farms and State Farms                        | 211 |  |
| Changes in Soviet Agriculture   | 212 |  |
| International Trade in the Command Economy                                  | 213 |  |
| Performance of the Soviet Command Economy                                   | 215 |  |
| An Economic Profile: Structural Characteristics of East and West            | 215 |  |
| Economic Growth   | 218 |  |
| The Sources of Economic Growth: Efficiency                                  | 223 |  |
| Income Distribution   | 228 |  |

|   |            |
|---|------------|
| Summary   | 232        |
| Appendix 9A: Measuring Outcomes in the Command Economy                        | 245        |
| <b>10    <i>China: Moving Toward Market Socialism?</i></b>                    | <b>250</b> |
| Revolution and Upheaval   | 251        |
| The Setting   | 251        |
| The Early Years and the Soviet Model  | 252        |
| The Beginnings of Soviet-Style Industrialization and Collectivization         | 253        |
| The First Upheaval: The Great Leap Forward                                    | 255        |
| 1960–1978: Development and Disruption   | 256        |
| Reform  | 257        |
| Reform and The Soviet Model   | 257        |
| China's Modernization Reform: The Deng Era                                    | 258        |
| The Deng Strategy   | 258        |
| Agricultural Reforms  | 258        |
| The Commanding Heights  | 260        |
| Policy and Practice   | 263        |
| China's Governance  | 263        |
| Economic Performance  | 263        |
| China's Future  | 264        |
| Summary   | 266        |
| <b>11    <i>The European Model: Variants of Industrialized Capitalism</i></b> | <b>273</b> |
| Europe versus Asia  | 273        |
| European Profiles   | 274        |
| European Performance  | 276        |
| France: Indicative Planning   | 279        |
| France: The Setting   | 279        |
| French Indicative Planning: The Background                                    | 280        |
| Plan Administration   | 281        |
| Characteristics of Indicative Planning  | 282        |
| Did French Planning Work?   | 283        |
| Structural Change   | 285        |
| Great Britain: Sclerosis and Recovery?  | 287        |
| Great Britain: The Setting  | 289        |
| Background of the British Economy   | 289        |
| The British Economy: The Early Postwar Era                                    | 290        |
| The British Economy: Planning   | 291        |
| The "British Disease"   | 293        |
| Nationalization   | 294        |
| The British Economy Under Thatcher  | 295        |
| Cure of the British Disease?  | 297        |
| Germany: The Social Market Economy  | 298        |
| Background  | 298        |
| Origins of the Social Market Economy  | 299        |

|  |     |
|--|-----|
| Characteristics of the Social Market Economy           | 300 |
| Social Correctives of the Market Economy               | 301 |
| Codetermination and Labor Unions                       | 302 |
| Labor and Collective Bargaining                        | 303 |
| Public Enterprise                                      | 304 |
| Germany: Unification                                   | 305 |
| Germany in the 1990s: The End of the Economic Miracle? | 308 |
| The Costs and Mistakes of Reunification                | 308 |
| The Limits of Consensus                                | 309 |
| Sweden: The Capitalist Welfare State                   | 310 |
| Sweden: The Setting                                    | 310 |
| The Swedish Welfare State                              | 311 |
| Sweden: The Economic System                            | 312 |
| Performance: An End to the Swedish Model?              | 313 |
| Growth or Eurosclerosis?                               | 314 |
| Summary  | 316 |

## **12 The Asian Model 327**

|   |     |
|---|-----|
| The Lewis Two-Sector Model                                  | 328 |
| The Theory  | 328 |
| The Mechanism for Transferring Surplus                      | 330 |
| The Asian Model and the Surplus                             | 330 |
| Japan: Growth Through Capital Formation                     | 331 |
| Background of the Japanese Economy                          | 331 |
| Sources of Japanese Economic Growth                         | 333 |
| Industrial Organization                                     | 335 |
| Japanese Planning   | 336 |
| Japan: Industrial Policy?                                   | 336 |
| Change in the Japanese Model?                               | 338 |
| Asian Tigers: South Korea, Singapore, Taiwan, and Hong Kong | 339 |
| Background  | 339 |
| Performance: System and Policy                              | 340 |
| The Role of the State                                       | 341 |
| Asian Growth and Income Distribution                        | 342 |
| Explanations of the Asian Miracle                           | 344 |
| The Future Growth of East Asia                              | 345 |
| The End of the Asian Miracle?                               | 346 |
| The Asian Crisis  | 348 |
| India: The Failed Quest for Economic Growth                 | 348 |
| Characteristics   | 349 |
| The Indian Economy: Historical Background                   | 350 |
| The Modern "Socialist" Indian Economy                       | 352 |
| Economic Planning in India                                  | 353 |
| Economic Controls   | 354 |
| Growth Performance  | 355 |

|  |     |
|--|-----|
| Capitalism in India                            | 356 |
| Problems and Prospects                         | 357 |
| The Indian Economy in the Twenty-First Century | 357 |
| Summary  | 358 |

### **13    *The Command Economies: Performance and Decline*    366**

|   |     |
|---|-----|
| Problems of Evaluation  | 366 |
| The Performance of Systems  | 368 |
| The Choice of Countries   | 368 |
| Data: Concepts and Reliability                                      | 369 |
| An Economic Profile: Structural Characteristics of East and West    | 369 |
| Economic Growth   | 373 |
| The Sources of Economic Growth                                      | 379 |
| Dynamic Efficiency  | 379 |
| Consumption Costs of Growth   | 385 |
| Static Efficiency   | 387 |
| Income Distribution   | 390 |
| Economic Stability  | 394 |
| Performance Comparisons and Decline                                 | 398 |
| Economic Decline in the Planned Socialist Systems                   | 398 |
| Summary   | 400 |
| Appendix 13A: The Index Number Problem in International Comparisons | 408 |

## **IV    Moving Towards a Market Economy    411**

### **14    *Transition*    413**

|   |     |
|---|-----|
| Transition: The Basics  | 413 |
| Transition: the Importance of Preconditions                       | 415 |
| Initial Conditions  | 415 |
| Transition Policies   | 417 |
| Transition and the Policy Setting                                 | 418 |
| Transition and Convergence: When Does Transition End?             | 419 |
| The Microeconomics of Transition: Privatization                   | 419 |
| Transition and the Macroeconomy: Monetary and Fiscal Arrangements | 423 |
| Opening a Closed Economy: Transition and Trade                    | 424 |
| The Safety Net During Transition                                  | 424 |
| Summary   | 425 |

### **15    *The Russian Economy in Transition*    433**

|                            |     |
|----------------------------|-----|
| The Natural Setting        | 433 |
| The End of the Command Era | 434 |

|           |   |            |
|-----------|---|------------|
|           | The Transition Era  | 436        |
|           | The Political Setting   | 437        |
|           | Microeconomic Issues  | 437        |
|           | Macroeconomic Perspectives  | 439        |
|           | The Russian Economy: Performance and Sectoral Issues                  | 441        |
|           | Performance   | 441        |
|           | Restructuring   | 443        |
|           | Sectoral Issues   | 444        |
|           | Summary   | 447        |
| <b>16</b> | <b><i>Eastern Europe: Poland, Hungary, and the Czech Republic</i></b> | <b>454</b> |
|           | The East European Setting   | 454        |
|           | Eastern Europe: Selecting the Cases                                   | 455        |
|           | Poland: From Plan to Market via a Shock Therapy                       | 456        |
|           | The Setting   | 456        |
|           | The Command Economy   | 457        |
|           | Polish Transition: The “Big Bang” in Practice                         | 457        |
|           | Hungary: The New Economic Mechanism and Transition                    | 462        |
|           | The Setting   | 462        |
|           | The Hungarian Command Economy: Implementation and Reform              | 463        |
|           | Gradual Transition to Markets   | 464        |
|           | The Czech Republic: Planning, Politics, and Transition                | 467        |
|           | Natural Setting   | 468        |
|           | The Command Experience  | 468        |
|           | Transition and Political Change                                       | 469        |
|           | Eastern Europe: Transition, Performance, and Restructuring            | 472        |
|           | Summary   | 473        |
| <b>17</b> | <b><i>Conclusions and Prospects</i></b>                               | <b>481</b> |
|           | Changing Economic Thought   | 482        |
|           | Rising and Falling Economic Fortunes                                  | 484        |
|           | A Golden Age?   | 485        |
|           | Convergence of Incomes  | 487        |
|           | Economic Systems in the Twenty-First Century                          | 488        |
|           | Index   | 489        |

**PART**

# **I**

## ***Economic Systems: Issues, Definitions, Comparisons***

1. Economic Systems After the Collapse of Communism
2. Definition and Classification
3. Evaluation of Economic Outcomes
4. Reform and Transition: Evolution or Revolution?





# *Economic Systems After the Collapse of Communism*

Comparative economic systems studies economic systems and their impact on the allocation of resources. Comparative economic systems focuses on how the **economic system**, or organizational arrangements, combine with economic policies in distinct natural and historical settings to influence economic outcomes. If the type of economic system and/or system components influences resource allocation in identifiable ways, we can select an optimal set of organizational arrangements to achieve our economic objectives (for example, rapid economic growth) from our endowment of scarce resources.

*The economic system is the set of institutional arrangements used to allocate scarce resources.* The limits of productive resources (labor, land, and capital) dictate the scarcity of resources. As a result of scarcity, societies must decide in an orderly way what is produced, how to produce it, and for whom it is produced. If such ordering arrangements are absent, anarchy and chaos will prevail.

Economic systems exist within countries both large and small, developed and less developed. Some countries are rich in human capital; others are rich in natural resources. These differences make it difficult to determine how the economic system will affect economic outcomes. Differences among countries and their endowments cloud the system's impact.

Economic systems are identified or classified according to their basic characteristics, such as **ownership** (private or nonprivate), **information mechanisms** (market or plan), **levels of decision-making authority** and responsibility (centralized or decentralized), and finally **incentive arrangements** (moral or material). Economic systems fall within a spectrum ranging from decentralized, market-driven, incentive-based "capitalist" systems to centralized, plan-directed "socialist" systems.

Prior to the 1990s, the study of comparative economic systems focused on two distinct models: capitalism and socialism. Now, at the end of this century, we must examine different issues.

## **The New World**

If Rip Van Winkle woke up in 1999 after a twenty-five-year sleep, he would be hard pressed to recognize the world he had last seen. In 1975, at the beginning of his sleep, life was more simple. About one-third of the world's population lived under Soviet-style or Chinese-style socialism dictated by the Communist party leadership.