
Comparative Economics

National Priorities,
Policies, and Performance

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Preface

HOW HUMAN SOCIETIES fulfill the thousand-and-one desires of their members has long intrigued prophets, philosophers, political revolutionaries, social reformers, and political economists. Their findings are the story of economic systems in theory and practice—comparative economics. Some knowledge of world economic systems is vital for a better understanding of behavior, organization, and decisions of nations in an interdependent world, decisions that increasingly affect global peace, prosperity, and progress.

The study of comparative economics is useful and essential for several reasons. First, since economics as a social discipline has to do with national, political, and social considerations, a study of different economies can explain how noneconomic factors determine or influence each society's collective solutions to basic economic problems. Second, by relating the main body of abstract economic principles to the realities of world politics and world business, comparative economic analysis can broaden one's mind toward major international economic issues of the day and modify attitudes toward economic approaches different from one's own. Third, the study of various decision making mechanisms in different countries provides a rational basis for measuring and evaluating economic performance in each country. Finally, it is partly through the comparative examination of various national organizations that the essentially relevant, empirical, and humanistic aspects of international economic relations can be understood and appreciated.

This text is written primarily for university students and readers interested in the nature of economic problem solving in the modern world. The structure and methodology of this text differ somewhat from others in the field. Some texts select the structure and performance of a few major countries in order to illustrate the traditional capitalist, socialist, and communist trilogy. Others focus their major attention on the theoretical and ideological aspects of rival "systems" with scant regard to their application in actual world economies. Still others tend to describe the functioning of certain select countries at the expense of a generalized analytical framework. This book attempts to combine these different traditional treatments

into an integral approach by providing the reader with certain basic tools to analyze the principles of economic problem solving in the real world, and to apply these principles to real world economies.

The focal point of this approach is that an economic organization or system consists of two basic elements: a set of goals that determines its political or ideological direction, and a combination of means designed to obtain these goals. The logical basis for comparing national economies or "economic systems" would thus relate to the kind of national agenda, its qualities and priorities, and the type of processes and mechanisms employed to achieve those objectives.

The conceptual part of this book deals with five principal mechanisms of decision making. The descriptive segment takes up the application of these mechanisms in relation to a select number of countries. The choice of mechanisms and the selection of countries is made solely for their comparative significance: no mechanism and no country is favored or disfavored. The evaluation of each mechanism's strengths and weaknesses, and the appraisal of each country's performance, too, are made from a position of political neutrality: no attempt is made to show that a given national response to certain economic problems is intrinsically better or worse than another.

Comparative Economics is not a book on *economic geography*, dealing with population, natural resources, and physical characteristics of different economies. Nor is it a text on *economic history*, concerned with the historical dynamics of economic institutions in each country. The descriptive materials drawn from the experiences of selected countries are meant merely to show comparable *examples* of decision making techniques, and not a comprehensive account of each country's political, economic, and social institutions. Readers interested in a more detailed picture will find ample references to original source materials in the footnotes and suggested additional readings.

Much of the factual and descriptive materials in the country chapters, while presently up-to-date, should be regarded as only analytically illustrative and not necessarily permanent features of the economy under discussion. National agencies, statutes, and conditions are changing all the time, and specific descriptions are bound to be quickly outdated. The factual materials are included in the text chiefly for their relevance in inter-country comparisons, and not for their own exclusive significance. The reader's attention should thus focus on the essential differences or similarities in national response to economic problems, rather than on institutional details which are not crucial to a comparison.

The text is divided into five parts. Part One presents the political and ideological bases of economic organizations, the nature of basic economic problems, and the need for organization. Part Two deals with economic issues and social values, providing the framework of national economic objectives, and the similarities and differences of such national agenda. Part Three discusses socio-economic strategies and tactics used in the management of a modern economy, emphasizing the relevant assumptions, institutions, and techniques of decision

making. Part Four is devoted to an examination of the relative significance of each decision making process in a number of contemporary nation-states in the Western democracies, the Eastern bloc, and the Third World. Part Five takes on the task of evaluation, offering some glimpses into the performance of various economies within the context of certain common objectives.

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Part One

THE TASK OF IDENTIFICATION

AN ECONOMIC SYSTEM is essentially a social organization or scheme for solving society's basic economic problems. In a nation composed of myriad individuals, each with his own needs, wishes, skills, and motivations, the production and exchange of goods and services require a social *organization* to ensure the provision of the right goods at the right time in the right place for the right people. The predominant tasks of such an organization are to determine society's economic goals, establish priorities among these goals, and devise appropriate strategies for achieving them.

A human society may consist of castaways on a tropical island, a small city-state, a viable nation, or the entire world community. The content and character of human societies may be influenced by material resources, methods of production and exchange, religious customs, business laws, socioeconomic institutions, and political ideologies. Yet the *basic* economic challenge faced by all communities, regardless of their sociopolitical order, is essentially the same: how to satisfy too many mouths chasing after too few mouthfuls.

Some societies may give top priority to maximum individual freedoms in the choice of employment and the disposition of income and savings. Others may emphasize social welfare programs, such as universal education, guaranteed health care, and security of income and employment. Still others may place high priority on military and political strength. Yet the basic necessity of a social *organization* remains the same for all: how to take stock of the nation's choices and goals, and how to mobilize the country's available resources in the service of achieving those goals.

Throughout history, the structure and functions of the social organization or system have been the subject of erudite treatises, as well

as rabble-rousing tracts, but all observers remain committed to a single underlying issue: how to cope with dynamic socioeconomic relationships between a nation's priorities and the requirements for satisfying those objectives.

Chapter 1 attempts to show that the classification of economic systems on the basis of ideological labels oversimplifies comparative analysis and fails to identify real-world cases. Chapter 2 tries to buttress this argument by showing that the nature of *basic* economic problems and the necessity for economic organization largely defy political and ideological categorization.

Rhetoric and Reality *in* *Comparative Analysis*

CAPITALISM, SOCIALISM, COMMUNISM, and the myriad other isms that have filled man's history have all claimed to hold the key to a more rational social order and a better future for mankind. These secular religions, with their own deities, hierarchies, and rituals, have been both blindly accepted by the true believer and sacrilegiously attacked by the infidel. Depending on the preconceptions, prejudices, and passions of their advocates or opponents, these ideologies have been regarded as the repository of good, if not absolute truth, or the embodiment of evil, if not patent falsehood.¹

While traditional doctrines still evoke strong emotional responses among the faithful and the unsophisticated, they have lost much of their force with political leaders and social reformers. Isms are now usually used to mobilize national and patriotic support for pragmatic political programs or as expedient party platforms for expelling in-groups.

Postwar literature on comparative economic systems has sufficiently exposed the abstract, conceptual, and normative nature of traditional isms, the models to which no real-life economy can be expected to correspond completely. The possibility of numerous combinations among distinctive features of alternative, supposedly rival, isms also has been amply demonstrated.² And while the debate on the virtues of capitalism, socialism, and communism still goes on in the popular press,³ ideological passions in these debates are much more subdued, mostly because none of the traditional ideologies offers a monopoly on basic national objectives: economic growth, efficiency, or equity; none holds the key to full

1. Ideology is defined as a coordinated set of ideas or a form of sociopolitical philosophy that aspires both to explain social order and to change it. An ideology that ignores objective reality is a dogma; one that distorts reality is a fairy tale. Some ideologies do both.

2. In this extensive literature, the pioneering interdisciplinary work of Robert Dahl and Charles Lindblom, *Politics, Economics and Welfare*, (New York, Harper, 1953) deserves special mention. Our general approach takes its major cue from them.

3. See, for example, "Can Capitalism Survive", *Time*, July 14 1975, and "Socialism's Trials and Errors," *Time*, March 13 1978.

employment, price stability, or environmental safety. All systems and isms are still groping for the hidden path to prosperity and progress.

The Polemic in Microcosm

To the eighteenth-century French Physiocrats,⁴ to Adam Smith, and even to Karl Marx, a laissez-faire regime was the source of expending wealth and the backbone of technological progress. To Smith, who never used the term capitalism, it was a system of natural order and harmony under which society's progress toward real wealth and greatness could be accelerated, and the real value of the annual produce of its land and labor increased. It was a system of no preferences and no restraints, a system under which the people's industry was directed toward employment most suitable to the interest of society.

Marx, too, admitted that pre-Marxian capitalism, the first economic system to harness man's activity, had played a most revolutionary role in history, accomplishing wonders far surpassing those of Egypt and Rome. It had given a cosmopolitan character to production and consumption in every country, drawn all nations into civilization, rescued a considerable part of the population from the idiocy of rural life, and, in a hundred years, created more massive and more colossal productive forces than all preceding generations together.

To the present-day economic conservative, capitalism still is all these things and much more: it is a *natural* order, a system based on individual rights, self-reliance, and private initiative blessed by efficiency and good service under which economic justice can be won by free men and women through free enterprise. To these contemporary advocates, capitalism is a system of order without stability, and security without status.

To the ideologues of the Soviet Union, Communist China, and Eastern Europe, the capitalist image is not so haloed, nor do modern-day "liberals" regard capitalism as the best of all possible worlds. Among the two-thirds of the world population who comprise the bulk of the less-developed nations, *capitalism* is often a nasty word, epitomizing unjust exploitation of the poor by the rich, unfair distribution of income and opportunity, prolonged and wasteful unemployment, lack of economic security, internal strife, alienation, and wars.

Pope Paul VI's celebrated encyclical of April 1967, *Populorum Progressio*, "On People's Development," referred to capitalism as a "woeful system" that "considers profit as the key motive for economic progress, competition as the supreme law of economics, and private ownership of the means of production as an

4. A group of political economists who believed in the supremacy of natural order and the necessity for the state not to interfere with the natural laws that affect social and economic relationships.