

Comparative Development Perspective (CDP)

HS30002: 3-1-0

Materials and Evaluation Process

- Materials
 - Comparative Economics in a Transforming World Economy: J. Barkley Rosser JR and Marina V. Rosser. MIT Press (2004).
 - Other Research Articles, Reports and Documents
- Evaluation Process
 - Mid Semester: 30
 - End Semester: 50
 - Class Test/Assignments/Term Paper: 10
 - Attendance and class Participation: 10
 - Relative Grading

Transformation of the World Political and Economic Order

- A profound transformation of the world political and economic order since 1989, the ultimate outcome of which is difficult to foresee
 - The former Soviet Union (FSU)₁ broke up,
 - its empire of satellite states dissolved,
 - and most of the former constituent parts are trying to fulfil Fukuyama's prophecy: **liberal democracy, individual freedom and popular sovereignty**
 - the end of the Cold War and the convergence of the entire world on the American model of political economy, and
 - the end of any significant competition between alternative forms of political or economic systems.

Transformation of the World Political and Economic Order

- Has this prophecy come true?
 - In the 1990s, the economic boom in the United States pushed it forward as a role model that many countries sought and still seek to emulate.
 - But with the outbreak of financial crises in many parts of the globe and the bursting of the American stock market bubble in March 2000, its economic problems such as continuing poverty and inequality loom large.

Transformation of the World Political and Economic Order

- Has this prophecy come true?
 - The problems in the FSU are deeply rooted, with the transitions in various former Soviet republics stalled.
 - Other market capitalist economies, such as Japan, have deep problems of their own, with Japan's having stagnated since 1990.
 - The collapse of Soviet Communism coincided with a surge of missionary activity in the formerly Soviet Central Asian republics by advocates of fundamentalist Islam.

Transformation of the World Political and Economic Order

- A possible “third way” between capitalism and socialism.
 - They present their view not just as a change in personal moral codes, but as a total system of economic and political organization of society,
 - Throughout the Islamic world, fundamentalist groups either have taken control of governments or are the leading opposition to existing governments

Transformation of the World Political and Economic Order

- In other nations, based upon fundamentalist versions of local religions:
 - In East Asia - the cultural heritage of Confucianism
 - In India - Traditional religion Hindu
 - In Pakistan – Economic system based on law of Sharia
- This appeal to economic systems based on traditional religions is the **new traditional economy, and it presents a serious alternative** .
- Global economic difficulties have been further exacerbated by a series of financial crises that have spread havoc and produced sharp recessions:
 - East Asian Economic crises in 1997,
 - Russia in 1998
 - the collapse of Argentina in 2001.
- These crises have aggravated the deeper systemic crises that many of these economies are experiencing.

Transformation of the World Political and Economic Order

- The emergence of Islamic movements and movement of other religions raises the possibility that the new traditional economy concept could be universal even while differing in significant details across religions.
- Cold War has given way to Holy War.
- Economic tensions within Capitalist economies: Japan, US and Western Europe

Transformation of the World Political and Economic Order

- Indeed, the socialist alternative continues both as an existing system and as a possibility in some form still unseen.
- Classical socialism in its purest form persists in relatively obscure countries such as North Korea and Cuba.
- But despite the general dismantling of central planning bureaucracies, legalization of market activities, and privatization drives, portions of the FSU remain effectively socialist in the sense of widespread state ownership of the means of production.
- In China, the most populous nation on earth, a grand drama is unfolding as the system remains officially socialist while engaging in piecemeal marketization and the spread of capitalism.

Transformation of the World Political and Economic Order

- The idea of workers' managed economy
 - Though Yugoslavia has collapsed both as a nation and as an economic system in a horribly tragic way, the idea of workers' management that its economy imperfectly represented persists and may have a new lease on life in the form of workers' ownership.
- This takes a variety of forms, from the profit-sharing **share economy, to classic** cooperatives, to employee stock ownership plans (ESOPs), all of which exist in the United States and other market capitalist economies and are popular in the privatization efforts of many Eastern European countries.

Transformation of the World Political and Economic Order

- This systemic turmoil coincides with the intense conflict between:
 - the **“urge to merge”**: the push for integration of the world economy and its subparts in trade and policy, and
 - the **“drive to divide”**: the push for independence and isolation by increasingly small entities.
- Also continuing are the deep problems of the less developed countries, many of the poorest of which are in outright economic decline as they search for appropriate systems in this changing environment.
- These difficulties are further exacerbated by a global stagnation of economic growth that aggravates the systemic crises many economies are experiencing.

Why study comparative economics

- Thus, the study of comparative economics has never been more important.
- The subject itself is undergoing transformation, just as its objects of study undergo transformation.
- Achieving a deep understanding of this transformation of economic systems depends on understanding the cultural and social contexts within which these historical processes evolve.

How Do We Compare Economies?

- **How Do We Classify Economies?**
- What we mean by an *economy*?

How Do We Compare Economies?

How Do We Classify Economies?

- An economy is made up of a group of people who are located within a political entity that has particular geographical characteristics and who are producing and consuming goods and services.
- An economy functions according to certain rules, customs, and laws that underpin the institutional framework within which the people operate.
- It is these institutional frameworks and their basic rules, customs, and laws that we are most interested in comparing across different economies.

How Do We Compare Economies?

How Do We Classify Economies?

- There is an endless variety of aspects of these institutional frameworks that can be considered in classifying economic systems.
- Six aspects that combine and interact with each other in different ways:
 - **the allocation mechanisms,**
 - **the forms of ownership,**
 - the role of planning,
 - the types of incentives,
 - the method of income redistribution
 - the nature of social safety nets, and
 - the political and ideological system

How Do We Classify Economies?

- **Allocation Mechanisms**
 - All economies must answer the questions of “what, how, and for whom” goods and services are produced.
- Three basic kinds of allocation mechanisms:
 - Traditional
 - Market
 - Command
- In a **traditional economy allocation decisions depend on custom, what has been done in the past.**
Example: Caste System in India
- In a new traditional economy, the effort to embed decision making within a traditional context coincides with an effort to adopt modern technology and to be involved in the world economy

Allocation Mechanisms

- In a **market economy** allocation decisions are made by individuals or firms on the basis of **price signals** emanating from the interaction of supply and demand (Adam Smith, 1776).
- Every economy ever observed has at least some exchange activity, including North Korea and hunter-gatherer in Kalahari desert
- What marks a market economy is that a majority of economic decisions are made according to market forces rather than tradition or command.

Allocation Mechanisms

- In a **command economy** the most important allocation decisions are **made by government** authorities and are imposed by law or by force.
- They rose in ancient empires such as **Sumer and Egypt**, which were the first strong and extended states wielding absolute power over crucial economic decision making.
- There is good reason to believe that the traditional and market allocation mechanisms long predated the command economies of these empires, which date back only 5,000 years.

Forms of Ownership

- Karl Marx and Friedrich Engels in their 1848 *Communist Manifesto* argue that the key to understanding an economy is to know **who owns the means of production.**
- Ownership determines the distinction between **capitalism and socialism**
 - In capitalist economies, land and produced means of production (the capital stock) are owned by **private individuals or groups of private individuals organized as firms.**
 - In socialist economies the **state owns the land and the capital stock.**
- Cooperatives and workers-managed??

Forms of Ownership

- Ownership by the central government (e.g. Command decision-making) and ownership by local governments (e.g. Market-decision making: China)
- Ownership by organized religious groups, which is consistent with a traditional economy system (e.g. Roman Catholic Church, Islamic organisation in Iran)
- Market Capitalism (U.S) and Command Socialism (Soviet Union)
- Market Socialism (e.g. Yugoslavia; China) and Command Capitalism (e.g. Nazi Germany; South Korea in 1970s)

Role of Planning

- Many comparative economists emphasize the contrast of “**market versus plan**” as a central defining characteristic of economic systems rather than our choice of “**tradition versus market versus command**”.
 - In a centrally planned economy, **planners’ preferences dominate allocative decision making**,
 - in a market economy **consumers’ sovereignty dominates allocative decision making**
- It is possible to have central planning coincide with market capitalism, the **planned market economy** (e.g. **indicative planning**, lacks the command element)

Types of Incentives

- Economies vary according to the incentive schemes that motivate people to work and produce.
- The most common incentive scheme is material, paying people according to their productivity.
- In market capitalism this involves paying them their marginal product that maximizes profits for competitive firms hiring labor in such a system.

Types of Incentives

- **Material incentives under market capitalism also take the form of rewards for entrepreneurship and capital investment as economic profits and for savings as interest.**
- In theory, socialism rejects receiving profits; also in theory, Islam rejects receiving interest payments
- **Moral incentives**, trying to motivate workers by appealing to some higher collective goal (e.g. Great Proletarian Cultural Revolution in China under Mao Zedong from 1966 to 1976; Slogan: Serve the People)
 - Nationalistic appeal during wartime; NTE depend on it

Income Redistribution and Social Safety Nets

- Economies vary based on the extent to which and the methods by which governments intervene to redistribute income.
- This depends partly on how unequal income is to begin with before any redistributive policies are implemented.
- Karl Marx enunciated the ideal goal of **pure communism as being “from each according to his ability, to each according to his need.”**
- The **equity-efficiency trade-off**: greater efforts to make income more equal will result in less efficiency, meaning less rapid economic growth

Role of Politics and Ideology

- The relationship between politics and economics is subject to deep debate
- Until nearly 100 years ago no distinction was made between the two disciplines, there being only political economy.

CRITERIA FOR EVALUATING ECONOMIES

- Nine criteria by which the relative performance of economic systems can be compared
 - **The level of output:** Real Percapita Income
 - **The growth rate of output:** Malthusian low-level equilibrium trap; relative backwardness hypothesis
 - **Composition of output:** Consumption and investment goods; share of military output; public versus private goods
 - **Static Efficiency:** Pareto optimality (the idea that no one in society can be made better off without making someone else worse off)

CRITERIA FOR EVALUATING ECONOMIES

- **Dynamic efficiency:** involves the allocation of resources over time to maximize long-run sustainable growth
- **Macroeconomic stability:** the lack of large oscillations of output, employment, or the overall price level
- **Economic security of the individual:** Income, employment, healthcare
- **The degree of equity of the income and wealth distributions**

CRITERIA FOR EVALUATING ECONOMIES

- **The degree of freedom available to the individual** in terms of work, consumption, property, investment, and more broadly in the civil and political realms
- Many of the criteria listed above are difficult to quantify