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CENTER DISCUSSION PAPER NO. 11

"COMPARATIVE SYSTEMS" OR COMPARATIVE ECONOMICS

Lloyd G. Reynolds

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"Comparative Systems" or Comparative Economics?

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"Comparative economics" sounds good. But what does it mean?

Comparison of what, by what methods, for what purposes?

Comparison of Concrete Economics

The standard texts on "comparative economic systems" are usually divided into parts labeled "capitalism," "socialism," "communism," and (until recently) "fascism." A particular country usually stands as representative of each species. The U. S. and the U. S. S. R. are chosen to represent capitalism and communism. Britain or Sweden is fitted with some awkwardness into the socialist category. Fascism used to be exemplified by Italy or Germany.

There are several objections to this procedure. First, a sorting of actual economies into conceptual boxes commits the error of misplaced concreteness. If "system" means anything, it means an abstract, simplified model of a hypothetical economy, to which no actual economy can be expected to correspond. "Pure" economies occur only in our minds.

Second, this approach connotes a static rather than an evolutionary view of economic organization. It suggests that an economy can be ticketed once for all, and that economies carrying different labels will coexist in much the same form over time. There is something to this. But it is also true that economies undergo institutional change, and the question of typical directions of change is an intriguing problem for investigation.

Third, some of the boxes listed above are empty boxes. It is not clear that there ever was a "fascist economic system," as distinct from a series of practical expedients to harness a capitalist economy for military purposes. The concept of a socialist economy embedded in a democratic political system has a long tradition in Western thought. But to take contemporary Britain or Sweden as corresponding to this concept is stretching a point. These are modified capitalist economies. The modifications are perhaps more substantial than in the United States, Canada, or West Germany, but not sufficiently so to constitute a difference in kind.

We are left, then, with only two clear categories--modified capitalist economies on one hand, and socialist economies of the Soviet type on the other. These categories are of course far from homogeneous. Australia, France, the United States, and Japan are all capitalist countries, but their economies differ in many important respects. It is not clear that any one of them can claim to stand as archetypal representative. Nor is it useful to fudge over the differences by drawing a necessarily blurred portrait of an "average" or "typical" capitalist economy. Similar observations apply to the socialist category. The economies of the U.S.S.R., Bulgaria, Yugoslavia, and China certainly show as wide a range of differences as exists on the capitalist side.

Let me note a final difficulty. Since 1945 there has emerged a new basis for classifying national economies, a classification by level of development. Most economies of Latin America, Africa, and Asia are considered to be less developed than those of Europe or North America, not just because their per capita output is

much lower, but also because their economic organization is in some sense more primitive. Agricultural production predominates, most of this is production for home use, product and factor markets are poorly developed, modern business organization is in its infancy, governments are poorly financed and poorly staffed for large-scale economic undertakings. This institutional underdevelopment is a basis source of low productive capacity.

What kind of economies are these? Few of them are socialist. But neither do they have the lineaments of the industrialized capitalist countries. Where do they fit in the "comparative systems" classification? The difficulty of accommodating the less developed countries may be the final demonstration of the futility of the classificatory approach. As a practical matter, the LDC's are simply left aside in most comparative systems courses. The reason may be that the comparative systems approach was rooted in an era when the world could be regarded as consisting of Europe and North America. That world is gone forever.

Comparison of Ideal Types

These comments are not meant to suggest that we abandon the effort to grapple with total economies; but I do suggest that this effort requires a different orientation. It must begin with rigorous definition of "ideal types" of economy (in the Max Weber sense). As suggested earlier, this is the only interesting meaning which can be attached to "economic system." The abstract, purely analytic nature of these constructs should be emphasized. We should not expect that any actual economy will correspond closely to, or can be used as illustrative of, a particular type.

A variety of such types are familiar from the literature: the pure market economy with no public sector and pure competition in all markets; the fully centralized or "command" economy; the decentralized socialist economy á la Lange-Lerner; the subsistence or Robinson Crusoe economy.

These are interesting models, some of them quite venerable, all of them still undergoing elaboration and refinement. But do they exhaust our ingenuity? The meagreness of the present array becomes evident, I think, when one faces the problem of using ideal types to analyze a particular economy. How far can one get in analyzing a less developed country with these four models alone? How far, for that matter, can we get in analyzing the United States? We all know that the United States is a "mixed economy." It is a mixture of the "pure market economy" and--what? Not (in any large measure) socialism in the public ownership sense. If not this, then what? How do we characterize the non-market elements in the mixture?

This is not the place to develop a full roster of additional models; but let me suggest a few possibilities: (1) Joan Robinson and others have experimented with the idea of "a world of monopolies," a private market economy in which all markets are monopolized. To make things most interesting, markets should be monopolized on both sides, so that theories of bilateral monopoly can be brought into play. One's first thought may be that such a model can lead only to indeterminacy and general confusion; but recent work on bargaining theory suggests that determinate solutions can in fact be derived more frequently than one might suppose.

(2) In an economy with government, certain decisions cannot be analyzed on market principles. A leading example is decisions about the output level of

"public goods," to which one might add Musgrave's "merit goods." Decisions to alter personal income distribution through the fiscal system fall in this category. And so do decisions about the level of aggregate saving and investment. Under any political system, such decisions are reached by some sort of interaction between the preferences of the citizens and the preferences of the political leadership. Here we need models of collective decision-making, which have been experimented with (for the capitalist setting) by Arrow, Downs, Olson, and others; and (for the socialist setting) by a growing literature on "planners' preferences" and related concepts.

(3) In large countries, regional fragmentation of the economy is usually important. There may be market interregional differences in the structure of production and the level of per capita output; and, depending somewhat on the geographic distribution of political power, government may serve either to ameliorate or intensify these differences. To assume a spaceless economy, as we usually do, can be a quite dangerous simplification. Spatial location, transport costs, demographic differentials, and the like do make a difference. It would be useful to have more experimentation with models of an economy with regions, with various initial factor endowments, various degrees of isolation or integration, various distributions of political power, and so on.

(4) Theoretical work by Wiles, Montias, and others, as well as institutional development in the U. S. S. R. and Eastern Europe, suggests that there are more than two useful models of a socialist economy. Agricultural organization is typically quite different from industrial organization, and one may need a dual-economy model to depict the interaction of sectors. Decentralization of decision-making may involve various mixtures of regional and industrial decentralization.

Controls, whether centralized or decentralized, may be enforced directly through administrative orders or indirectly through price incentives. Central plans may be drafted by crude "hand methods" or by more elaborate programming techniques. I do not think we yet know how many alternative models may be useful for analysis of actual socialist economies.

(5) Preoccupied as we may be with the advanced industrial countries and with the capitalist-socialist axis of comparison, we should remember that the "less developed countries" still comprise most of the world. This might lead us to develop certain models--for example, an economy organized around feudal landholding--which never were important, or which have long since lost their importance, in the Western countries.

Use of Ideal Types for Analysis

This sort of model construction would constitute Part One of the treatise on comparative economics which I do not intend to write, though I would very much like to see it written. But there will presumably be a Part Two, devoted to real-world economies. What should go into this Part? Two possibilities come immediately to mind: structural analysis of contemporary economies, and analysis of trends over time.

The treatise should include some country case studies. But it should be made clear that a concrete economy is not being identified with any one ideal type. The problem is rather what blend of type characteristics is found in a particular case. What mixture of private monopoly, private competition, collective decision-making, and central economic control exists in the United States of 1967? What blend of market economics, central administrative direction, and decentralized control exists in the Soviet Union? A sophisticated analysis along these lines would be

extremely interesting and would widen the market for courses in comparative economics.

The economies selected for analysis would presumably be relatively large economies, with high politico-economic visibility, such as the U.S.A., U.S.S.R., China, Japan, India, or Brazil. But smaller economies which have developed a distinctive institutional pattern, such as Yugoslavia, may also be rewarding subjects. I am inclined to think also that the less developed countries could be brought within the orbit of such an analysis, and that it might not be necessary to develop a specifically "underdeveloped country model." True, the pre-industrial countries differ from their richer neighbors in many important respects: subsistence production is a much larger component of total output; regional fragmentation is often severe; product and factor markets are highly imperfect; the public sector is very underdeveloped; external economic relations are typically important. If our roster of ideal types is sufficiently complete, however, it should be capable of accommodating these characteristics. But this is something which can be determined only by further experiments.

In addition to contemporary cross-section analysis, we can explore hypotheses about typical directions of movement through time. Many such hypotheses are lying about in the literature. For example: that economic development involves a continuous replacement of subsistence production by marketed production, with a concomitant elaboration and improvement of the market network; that advanced capitalist economies experience a steady enlargement of the public sector and the apparatus of central economic control; that socialist economies, after an initial phase of rigid central control, tend to move toward a more decentralized and pragmatic control structure; that because of these tendencies capitalist and socialist economies tend,

in Tinbergen's phrase, to show a "converging tendency" over time. But such statements are still based largely on casual empiricism. Much more research will be necessary to determine how far they stand up under close scrutiny.

Comparative Analysis of Economic Studies ^{Sectors}

We have been talking thus far about analysis of total economies. I have been suggesting that this is a highly interesting kind of activity which, far from being merely an institutional-descriptive branch of economics, can and should have a rigorous analytical core.

But to say that comparative economics is only this is, I believe, needlessly to restrict its scope and potential influence. It suggests a demarcation line between "comparative economists," who work on foreign economies, and "domestic" or "non-comparative" economists who are restricted by union rules to the American economy. Such a division seems logically faulty and practically undesirable.

Partly because of tradition, partly because of genuine advantages of division of labor, most economists operate on a sectoral basis. We are first and foremost agricultural economists, or labor economists, or public finance men, or what not. Most of the courses in the economics curriculum are structured on this basis. They normally concentrate on American institutions and policy problems, with a dash of British or continental experience thrown in for spice. Economics is identified very closely with the American economy.

There is no real logic in this procedure. There is no reason why a public finance man should confine his attention to the American fiscal system. He can equally well work on fiscal problems in Japan, Mexico, or the United Arab Republic. Courses and textbooks can be developed in which American experience is supplemente

by evidence from a wide range of other economies. In this sense, anyone can be a "comparative economist."

This seems to me not only a feasible, but also a highly desirable, direction of movement for our profession. This on two counts. There is the normal scientific consideration that hypothesis-building and hypothesis-testing should rest on as wide a range of observations as possible. If 40 or 50 countries have adequate data on a certain problem, this gives us the possibility of 40 or 50 independent experiments. Unless we take advantage of these other laboratories, we can never be sure how far conclusions based on American experience are transferable to other times and places.

If work on other economies is needed to rescue American economics from premature generalization, it is needed also to rescue it from pettiness and eventual frustration. I know that to all outward appearances the profession is flourishing. Demand for our services is high, salaries are rising, the sudden conversion of Washington to modern fiscal theory has placed economists on a new pinnacle of prestige. But I suggest that our outward affluence may mask a certain poverty of new ideas. We cannot re-sell Keynes forever. Where are the new policy applications of economics which are going to carry us forward in the future?

I suggest that these applications lie mainly abroad. It is hard to convince oneself that the American economy is beset by major unsolved problems at this stage

¹ This should not be overstated. There are still high-priority problems which, interestingly enough, tend to fall between the conventional compartments of our discipline and hence to receive less attention than they deserve: problems of metropolitan decay and urban transportation, the economics of medical care and education, depressed regions with stranded populations, the pockets of poverty which are eroded only slowly by an increase in average per capita incomes. But it remains true that the old problems, which have been the mainstay of textbooks for generations, are largely played out.

As we multiply research projects and doctoral dissertations on the American economy, as we push harder on the intensive margin of scientific cultivation, we find ourselves dealing increasingly with trivia. But abroad, and particularly in the Latafroasian countries, there are economies which do have urgent problems and about which there is little systematic knowledge. We do not understand the anatomy and physiology of these economies. The basic research which could lead to such understanding has scarcely begun. On this extensive margin of research, yields are much higher than at home; and economists of all people should understand the advantage of reallocating our resources toward the higher-yield areas.

Illustrations from Three Sectors

Let me illustrate briefly from three areas which I know something about-- agricultural economics, labor economics, and industrial economics. Consider first agriculture, the world's oldest and largest industry, and one which is in some sense a problem in almost every country. The issues on which comparative experience can be brought to bear include: the characteristics of production functions for various agricultural products; the extent to which farmers optimize in production and investment decisions; related to this, farmer's responsiveness to changes in relative product prices and profitability; the optimum size of production unit, measured by acreage or total inputs; and the effect of different land tenure arrangements on farm productivity. The list could readily be lengthened. It is significant that over the past decade there has been a marked increase in the proportion of pages in the Journal of Farm Economics given to research on foreign agricultural systems.

Even in the most highly capitalized economies, labor remains the dominant factor of production; and so labor economics is a subject of universal interest. Some

Some of the issues which arise in any type of economy are: the determinants of labor force participation rates and other dimensions of labor supply; the alleged existence of "slack" or "disguised unemployment" in the labor force of most countries; the mechanisms by which people are recruited into and trained for expanding industries and occupations; the importance of wage differentials as a recruitment device, and the reverse influence of supply-demand shifts on the wage structure; the role of education in limiting access to the higher occupations, and the proper planning of educational investment; the distribution of real income between wage or salary earners and other groups in the economy; institutional modification of wage rates and the terms of employment through legislation or collective bargaining, and the impact of such rules on productivity, income, and employment. These questions are thoroughly economic, and amenable to the usual theoretical and statistical techniques. While I am in no way against histories of the labor movement, studies of labor's political tactics, or description of collective bargaining institutions, I feel that labor economics proper is very underdeveloped in most countries and deserves heavier emphasis.

Most economies have a modern manufacturing sector, and in most countries this sector is growing as a percentage of GNP. This poses a variety of interesting issues in industrial economics: (1) Only in the vast American market is atomistic competition feasible for any considerable number of industries. Throughout most of the world, monopoly and oligopoly are practised and even approved. There are numerous hypotheses about how this might affect current production efficiency, technical progressiveness, and price-output policies. How do these hypotheses fare when tested against cross-national experience? (2) Optimum scale of plant obviously differs greatly from one industry to another. Is the ranking of industries

by optimum scale substantially the same in all economies? If so, does this produce a "natural" sequence in introduction of new industries as an economy grows in size?

(3) The choice of production techniques is supposed to depend on relative factor prices. What differences in factor combinations for a particular product does one observe in countries with very different factor price ratios? Within any one country, what is the mechanism by which factor proportions are shifted as price ratios change over time? (4) In most factories in most countries, there is a substantial gap between actual and potential output. The assumption that managers always achieve the lowest technically feasible production costs is quite unrealistic. To what extent does low productivity stem from managerial inadequacy, from labor force characteristics, and from other factors? What are the most effective stimuli to productivity improvement?

These suggestions are cursory in the extreme. But they may serve to illustrate my point that in any branch of economics there are central issues which deserve comparative study. It may be true, however, that different branches of economics differ in their susceptibility to being stretched in a comparative direction. Tentatively, and mainly to stimulate further discussion, I suggest that the various branches of micro-economics probably have greatest potential for comparative development. In money and banking, business cycles, growth theory, and macro theory in general, I suspect that "Western" concepts and models are less stretchable to other kinds of economy. Our macro theory assumes a highly integrated economy in which the two-factor, one-product kind of assumption has at least a faint plausibility. In the highly fragmented economies of the less developed economies, such assumptions are not at all plausible; and the necessary disaggregated models can be built up only through careful micro-economic investigation.

In Soviet-type economies, of course, the whole stability-growth problem takes a quite different form.

If this suspicion is correct, it would confirm my feeling that micro-economics is basic to the structure of economic science, and deserves the heavy emphasis which it received in principles courses before the 1940's. The euphoria of the Keynesian revolution, and the stubborn resistance of adult Americans to new ideas about macro-economic policy, produced a determination that we would at least drum these ideas into the heads of our students. But this phase is about over. A more balanced treatment is now desirable and this is particularly true when one takes a world-wide rather than a purely American viewpoint.

Some Practical Suggestions

Let me close on a missionary note. If, as I believe, economic research and teaching should move in a trans-national direction, there is the practical question of what can be done toward this end. What may be required partly is just a shift in our outlook, a breaking down of arbitrary mental classifications. We should not draw a sharp line between "comparative economists" and others who are presumably non-comparative. Similarly, we should not draw a division between "development economists" and others who are "non-development economists." Any economist can work in a less developed country and, thanks to the pressure of demand, a growing proportion of our colleagues are doing so.

There may be a moral here for this Association. I doubt that there is room for a viable association consisting simply of people with a "capitalism vs. socialism" or "comparative systems" interest. But there may well be a place for an association (and perhaps a journal) catering to the varied interests of people working on foreign economies and on international economic relations.

Re-structuring our standard courses in a more comparative direction depends on the interest and effort of teachers throughout the country. I think I can claim to have contributed by producing an elementary text which devotes 25 percent of its space, instead of the usual 5 percent, to Soviet-type and less developed economies. And there are signs of a growing infusion of comparative material into texts in other areas.

You may be interested in one substantial experiment in this direction which has been underway for several years. Around 1960 the Ford Foundation became interested in broadening the scope of American economics. Concretely, the plan was to ask a leading authority in each major branch of economics to re-think his subject in a world-wide context, to see whether he could develop a conceptual framework applicable to different kinds of economy, and incidentally to compile a bibliography of relevant literature from various countries. It was thought that this might be useful to teachers who wanted to give a comparative twist to their own courses. I was asked to be chairman of a steering committee consisting of Arthur R. Burns, Abram Bergson, Kermit Gordon, Richard Musgrave, and William Nicholls; and it was agreed that the series would be published through the Yale University Press.

Seven volumes have now been published, two are in press, and the remaining three are quite well along. I believe it is fair to say that the original intent has been quite well fulfilled. It is true that three of the volumes, while excellent in their own right, are not really comparative. Tinbergen's volume is a purely conceptual analysis of economic planning, Bergson's book is confined to the Soviet economy, and Schultz' study is focused on low-income peasant agriculture. The remaining volumes, however, are thoroughly comparative in approach and content. They contain a wealth of comparative statistical, institutional, and policy material, covering anywhere from

5 or 6 countries in some cases to as many as 40 or 50 in others. Several of them make real progress toward a unified conceptual scheme. This is perhaps most marked in Phelps Brown's book on labor economics and Musgrave's study of fiscal systems.

Since younger members of the profession are more malleable than older members, it is particularly important that graduate students who wish to pursue thesis work abroad should be enabled to do so. It is not proper to distort intellectual preferences by financial inducements. But it would be reasonable and neutral to remove any financial penalty from overseas work, by fellowship provision for the incremental costs of travel and residence abroad. There are already Fulbright awards, Ford area training fellowships, and a variety of other schemes. But adding these together, it still is not possible to tell a graduate student unequivocally, at the relevant point in his career, that he will be able to pursue thesis work abroad if he prefers to do so. The cost of underwriting all qualified students to this extent would not be great; and it should not be difficult to work out the necessary organizational arrangements.

These operational suggestions are advanced merely to stimulate discussion. I hope that members of the panel may have further suggestions on this front as well as on the earlier parts of the paper.