

# Lecture 1

## Introduction to Comparative Economic Systems

Prof. Paczkowski

Rutgers University

Fall Semester, 2008

# Part I

## Assignment

# Assignment

Lecture 1  
Introduction  
to  
Comparative  
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S. Djankov, et al.

"The New Comparative Economics"

*Journal of Comparative Economics*

December 2003, V. 31, #4

Available through IRIS



W. C. Neale

"Institutions"

*Journal of Economic Issues*

September, 1987, V. 21, #3

Available through IRIS



T. Friedman

*The Lexus and the Olive Tree*

2000

[http://en.wikipedia.org/wiki/The\\_Lexus\\_and\\_the\\_Olive\\_Tree](http://en.wikipedia.org/wiki/The_Lexus_and_the_Olive_Tree)

# Assignment (Continued)

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W. Baumol, et al.

*Good Capitalism, Bad Capitalism*

Book available at

[http://www.yalepresswiki.org/w/index/index.php?title=Good\\_Capitalism%2C\\_Bad\\_Capitalism](http://www.yalepresswiki.org/w/index/index.php?title=Good_Capitalism%2C_Bad_Capitalism)



H. Cox

"The Market as God"

*Atlantic Monthly*

March 1999, V. 283, #3

pages 18-23

Available through IRIS

# Assignment (Continued)

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M. Wolf

"The Morality of the Market"

*Foreign Policy*

September-October, 2003

pages 47-50

Available through IRIS

# Part II

# Introduction

# Introduction

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Introduction  
to  
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Introduction  
Conventional  
Typologies  
Systems

The study of Comparative Economic Systems (CES) is in transition

# Conventional Typologies

## Capitalism

An **economic system** characterized by private or corporate ownership of capital goods, by investments that are determined by private decision rather than by state control, and by prices, production, and the distribution of goods that are determined mainly by competition in a free market. Capitalists are people who invest in business, are often wealthy, and by extension are plutocrats (i.e., people with power due to wealth).

## Socialism

Any of various economic and political **theories** advocating collective or governmental ownership and administration of the means of production and distribution of goods.



# Conventional Typologies

(Continued)

## Communism

A theory (and only that) advocating elimination of private property; a system in which goods owned in common are available to all as needed.

## Fascism

A **political theory** that exalts nation and race above the individual and that stands for a centralized autocratic government headed by a dictatorial leader, severe economic and social regimentation, and forcible suppression of opposition.

# Conventional Typologies (Continued)

## Feudalism

A **social system** organized around a general set of reciprocal legal and military obligations among the warrior nobility of Europe during the Middle Ages, revolving around lords, vassals, and fiefs.

## Mercantilism

An **economic system** that developed during the decay of feudalism to unify and increase the power and especially the monetary wealth of the nation through policies designed to secure an accumulation of bullion, a favorable balance of trade, the development of agriculture and manufactures, and the establishment of foreign trade monopolies.

# Conventional Typologies (Continued)

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## Anarchism

A **political theory** holding all forms of governmental authority to be unnecessary and undesirable, advocating a society based on voluntary cooperation and association of individuals and groups.

# Conventional Typologies

(Continued)

## Liberalism

A theory in economics emphasizing individual restraint and usually based on free competition, the self-regulating market, and the gold standard. A political philosophy based on belief in progress, the essential goodness of man, and the autonomy of the individual and standing for the protection of political and economic liberties.

## Conservatism

A political philosophy based on tradition and social stability, stressing established institutions and preferring gradual development to abrupt change.

# Conventional Typologies

(Continued)

## Harmonism

A conflict free system where people fulfill every aspect of their personal potential. This is Utopian (a fairy-tale land) and includes Marx's harmonian vision in the *Communist Manifesto*.

## Communalism

A culturally-based system in which group participatory labor is viewed as pleasurable and in which people are encouraged to pursue personal welfare through communal activities.

# Conventional Typologies (Continued)

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Looking at these definitions, we can see that they are all political systems but also, more importantly, economic organizations or **systems**. Hence the historical name for this subject:

**Comparative Economic Systems**

# Systems

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"A system . . . is a set of interacting or interdependent entities, real or abstract, forming an integrated whole"<sup>1</sup>

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<sup>1</sup>Source: Wikipedia

# Types of Systems

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There are two types of systems. . .

- Closed



# Types of Systems

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There are two types of systems. . .

- Closed
- Open

(1)

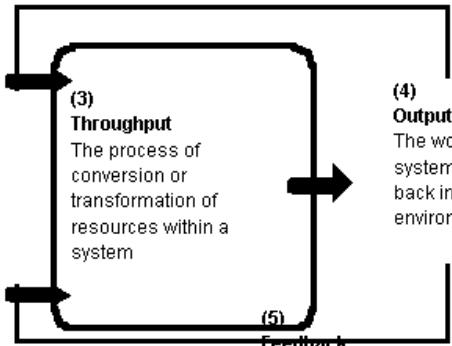
**Environment**

All the elements outside the system that have the potential to affect all or part of the system.

(2)

**Input**

Resources are taken or received from the external environment



(3)

**Throughput**

The process of conversion or transformation of resources within a system

(4)

**Output**

The work of the system, exported back into the environment

(5)

**Feedback**

A continuing source of information concerning the relationship with the external environment used to make the necessary changes in order to survive and to grow.

# Our Concern

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## Our Concern

We are concerned with open systems that have complex and numerous parts. The parts are not just economic but can also be political, cultural, and social.

## Part III

# A New World

# A New World

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A New World

Social Goals  
and Design

End of  
Semester  
Target

Until the collapse of Soviet communism on December 25, 1991, CE was primarily concerned with two things. . .

# A New World (Continued)

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A New World

Social Goals  
and Design

End of  
Semester  
Target

But with the collapse, focus shifted in general to "transition"

# A New World (Continued)

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A New World

Social Goals  
and Design

End of  
Semester  
Target

But the world kept changing.

# A New World (Continued)

## Pre 12/25/1991

Focus on Capital vs. Socialism

- Describe principles of markets and state planning

## Post 12/25/1991 to Current Era

Transition Economies and Liberalism

- Final triumph of American capitalism

## Current Era and Beyond

Binding and Dividing Economies

- Most nations rely on markets
- Difficult to discriminate features of economies
- Why do some do better even though market-based?



# CE is Changing

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A New World

Social Goals  
and Design

End of  
Semester  
Target

CE has changed as the world has changed

## Observation

The economic system directly affects resource allocation

# Social Goals

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A New World

Social Goals  
and Design

End of  
Semester  
Target

What was not and is not discussed is the design of the best mechanism for meeting certain goals (resource allocation?). Also, what are the goals?

# Target

At the end of the semester, I would like at chart that shows. . .

Social Goals	Performance Measures	Measurement Ranges

The Goals cannot be vague statements (like "justice for all" ), no matter how laudable - we need actionable and measurable statements

# Part IV

## Scope of CE

# Broad Scope for CE

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Scope of CE

Role of Scarcity

Major Premise  
of Course

Economic  
Systems

To focus on resource allocation, however, is to be too narrow

# Role of Scarcity

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Scope of CE  
Role of Scarcity

Major Premise  
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Recall from your Intro to Economics that a basic, unquestioned economic concept is. . .

Basic Concept

Scarcity

# Role of Scarcity

## (Continued)

Scarcity gives rise to five economic problems. . .

### Scarcity Problems

- Decide what to produce
- Decide how much to produce
- Provide for growth
- Distribute the final product
- **Allocate scarce resources**

# Major Premise of Course

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Scope of CE

Role of Scarcity

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## Major Premise of Course

The economic system directly affects the solution of *all* the economic problems due to scarcity



# Economic Systems

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Scope of CE  
Role of Scarcity

Major Premise  
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Economic  
Systems

## What is an economic system?

### Definition

"An economy is a group of people who are located within a political entity that has particular geographic characteristics and who are producing and consuming goods and services."

- An economic system of some form solves the five economic problems due to scarcity

# Economic Systems

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Role of Scarcity

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## What is an economic system?

### Definition

"An economy is a group of people who are located within a political entity that has particular geographic characteristics and who are producing and consuming goods and services."

- An economic system of some form solves the five economic problems due to scarcity
  - The issue is the form or structure

# Economic Systems

(Continued)

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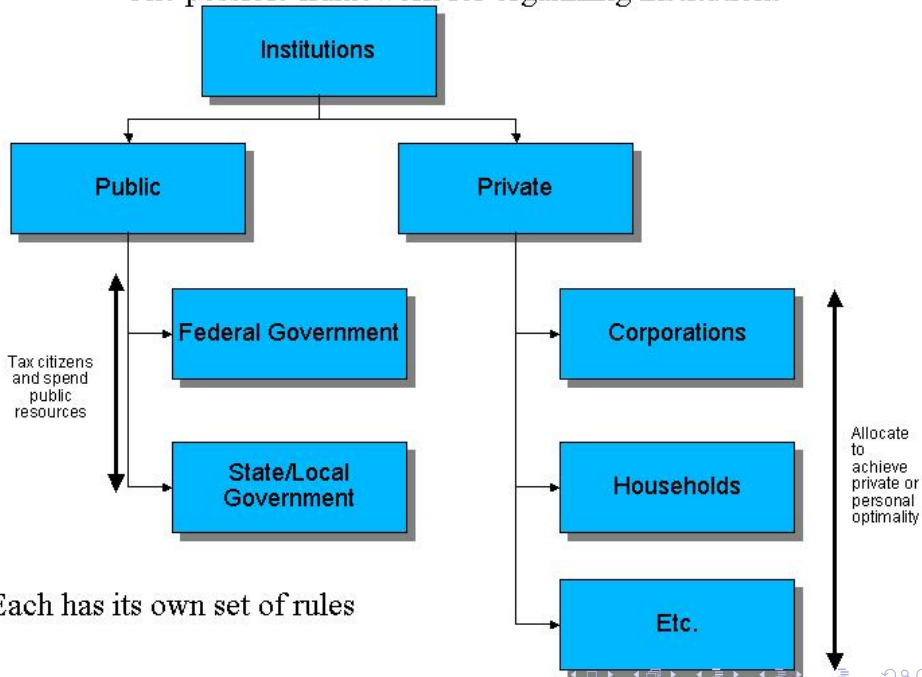
Scope of CE  
Role of Scarcity

Major Premise  
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More specifically, an economic system is the set of institutions, rules and cultural mores that define and constrain the production and consumption of goods and services

# One possible framework for organizing institutions



# CE and Economic Power

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Scope of CE  
Role of Scarcity

Major Premise  
of Course

Economic  
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Because the systems are so broadly defined, CES is itself very broad

## Part V

# The Great Powers: An Example of the Interplay of Economic Structure and an Economic Problem

# The Great Powers

History has been marked by the rise and fall of Great Powers from 1500 to 2000 (and beyond)

Ming China	The Muslin World	The Hapsburgs
France	Britain	Italy
Japan	China (PRC)	U.S.S.R
U.S.A.	Spain	The Netherlands

- Each of these Great Powers was also a distinct economic structure in its time, but the structure and the power elapsed

# The Great Powers

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- Each of these Great Powers was also a distinct economic structure in its time, but the structure and the power elapsed
  - Is the US next?



# Rise of China and India

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The Great  
Powers

China and  
India

Rise of the  
Great Powers

The current power scene will change dramatically in the next 50 years

# Rise of China and India (Continued)

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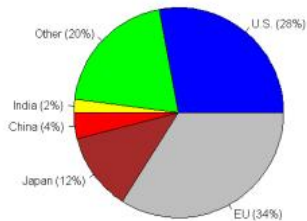
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The Great  
Powers

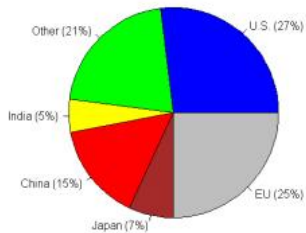
China and  
India

Rise of the  
Great Powers

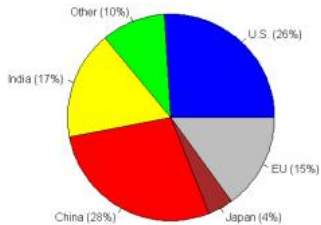
China's growth in the past two decades has been 9.5% CAGR  
while India's has been 6.0% CAGR



2004



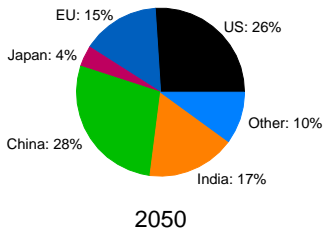
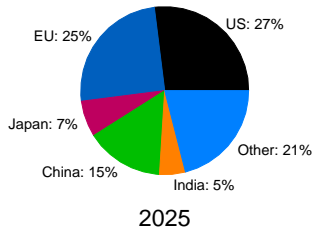
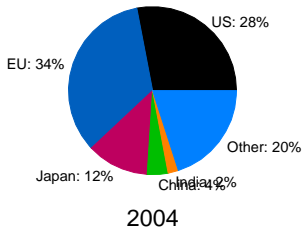
2025 (est.)



2050 (est.)

*BusinessWeek August 22, 2005, p.58*

# Estimates of World RGDP Shares



Source: BusinessWeek

# Rise of China and India (Continued)

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The Great  
Powers

China and  
India

Rise of the  
Great Powers

China and India complement each other

# Rise of the Great Powers

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The Great  
Powers

China and  
India

Rise of the  
Great Powers

The triumph of any one Great Power at any point in history, or the collapse of another, has been a function of two things

# Rise of the Great Powers (Continued)

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China and  
India

Rise of the  
Great Powers

The role of wealth can not be overlooked

# Part VI

## The Current Era



# The Current Era

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The Current  
Era

Not long ago, the world was divided into two seemingly monolithic systems - the socialist and the capitalist worlds - engaged in a long-standing conflict, the Cold War

# Current Era (Continued)

Fukuyama argued that two forces, modern science and the "struggle for recognition" ...

## F. Fukuyama, The End of History and the Last Man

"drive even culturally disparate societies toward establishing capitalist liberal democracies as the end state of the historical process."

- He asks the question: will humankind be eventually satisfied? This is an age old question.

# Current Era (Continued)

Fukuyama argued that two forces, modern science and the "struggle for recognition" ...

## F. Fukuyama, The End of History and the Last Man

"drive even culturally disparate societies toward establishing capitalist liberal democracies as the end state of the historical process."

- He asks the question: will humankind be eventually satisfied? This is an age old question.

## Any Opinions?

What do you think? Will people eventually be satisfied? What's the difference between modern science and the struggle for recognition? What is the struggle for recognition?

# Current Era (Continued)

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The Current  
Era

What we then experienced was one of the greatest economic experiments in history.

# Current Era (Continued)

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The Current  
Era

## Any Opinions?

Do you agree that we are in a "new" era of Globalization?  
What's "new" about it?  
Haven't we "globalized" before?

## Any Opinions?

Do you agree that there is a conflict between old and new values?  
What are some old and new values?  
What's more important - old or new values?

# Current Era (Continued)

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The Current  
Era

The discussions of capitalism vs. socialism were largely due to the Cold War

# Current Era (Continued)

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The Current  
Era

The Cold War also had its own...

# Current Era (Continued)

But the world changed in 1989

## The World is 10 Years Old

It was born when the Wall fell in 1989. It's no surprise that the world's youngest economy - the global economy - is still finding its bearings. ... The spread of free markets and democracy around the world is permitting more people everywhere to turn their aspirations into achievements. And technology, properly harnessed and liberally distributed, has the power to erase not just geographical borders, but also human ones. It seems to us that, for a 10-year-old, the world continued to hold great promise. In the meantime, no one ever said growing was easy.

Merrill Lynch October 11, 1998



# Current Era (Continued)

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The Current  
Era

## Any Opinions?

Do you think technology has the power to erase geographical  
and human borders?

What are human borders?

Are there any drawbacks to technology?

We will discuss technology more later in the course.

# Current Era (Continued)

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The Current  
Era

We entered an era of modern globalization

# Current Era (Continued)

This globalization era has markets that are highly integrated - primarily because of the Internet

- The more you let market forces rule and the more you open your economy to free trade and competition, the more efficient and flourishing your economy will be

# Current Era (Continued)

This globalization era has markets that are highly integrated - primarily because of the Internet

- The more you let market forces rule and the more you open your economy to free trade and competition, the more efficient and flourishing your economy will be
- Globalization means the spreading of free-market capitalism to every country

# Current Era (Continued)

This globalization era has markets that are highly integrated - primarily because of the Internet

- The more you let market forces rule and the more you open your economy to free trade and competition, the more efficient and flourishing your economy will be
- Globalization means the spreading of free-market capitalism to every country

## Driving Idea

"The driving idea behind globalization is free-market capitalism" Friedman, 9

# Current Era (Continued)

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The Current  
Era

We learned that economic principles really matter, that incentives matter and markets work. But markets don't solve all problems, and they can make some problems much worse.

# Current Era (Continued)

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The Current  
Era

Just as the Cold War had its own set of rules, so does modern globalization

## Part VII

# The Current Era and Beyond



# Current Era and Beyond

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The Current  
Era and  
Beyond

CES is also evolving to keep up with the ever changing world