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COMPARATIVE ECONOMIC SYSTEMS

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Comparative economic systems, as a distinct subdiscipline of economics, began in the United States during the 1930s with the publication of textbooks such as William N. Loucks and J. Weldon Hoot's (1938) *Comparative Economic Systems.* However, as Maurice Dobb (1949) would note in his critical review of Loucks's text on the subject, comparative economic systems was already a thriving field of study in Europe, especially Britain. Benjamin Ward (1980) argues that comparative economic systems emerged as a field of study initially because of the utopian novels of the later nineteenth century and practicing communes whose existence both influenced the novels and was influenced by them. Novels such as Edward Bellamy's (1888) *Looking Backward* helped to spur political mass movements and inspired the development of utopian communities, perceived as alternative economic and social systems to those prevalent at the time.

Undoubtedly this was in reaction to the economic and political upheavals that had come with the Industrial Revolution and its aftermath. This was a time of epochal change, as the emergence of capitalism, colonialism, and the introduction of new technologies and new relations of production caused disruptions in traditional ways of life. In the trauma of massive social change, displacement of rural and urban artisans, and radical shifts in income distribution and political power, large numbers of people came to question dominant theories of economic organization and distribution. The notion of comparing alternative economic systems was a direct reaction to witnessing the emergence of a new economic and social system and the disintegration of an older one.

Intellectuals during this period investigated what economic system would work best for the productive organization of a nation. This became an even more urgent matter from late 1929 through the 1930s, when many nations suffered through a global economic depression that caused many to question whether capitalism was really the road to wealth rather than an engine of wealth destruction. However, the methods used by social scientists in that early period were varied, as were the definitions and typologies deployed in comparative economic systems analysis. The subdiscipline did not gain a reasonably coherent set of definitions and typologies until the 1950s. It was during this period that the influences of the cold war were felt most strongly and shaped the contours of comparative economic systems analysis and teaching. Competition between the United States and the USSR, which had been first in space with *Sputnik,* stimulated efforts at careful study of these two alternative economic systems.

Substantial support from government and foundations was forthcoming for the study of a topic that now was of central policy relevance. Research institutes were established, especially at Harvard University and Columbia University, to produce research that provided a firm basis for appraisal of these competing economic systems. Economists such as Abram Bergson, Lenny Kirsh, Leon Smolinski, Joe Berliner, Frank Holzman, Barney Schwalberg, Marshall Goldman, and Padma Desai at The Russian Research Center at Harvard University became pivotal figures in shaping the direction of research in the field and cementing a dualistic approach of analysis pitting "East" versus "West."

In the early 1960s, as America's political leadership began to seek solutions to a perceived gap in the rate of scientific achievement between the USSR and the United States, comparative economic systems analysis would turn markedly toward quantitative tools for evaluating these competing economic systems. Abram Bergson's (1961) text *The Real National Income of Soviet Russia Since 1928* became a seminal text. Gur Ofer (2005) argues in a biographical essay on Bergson that it was Bergson who shaped the dominant methodology for estimating Soviet performance in gross national product (GNP) statistics: measuring the structure and rate of growth of the USSR in these terms and using these numbers as the starting point for comparison of the USSR and the United States. Bergson relied on his statistical analysis to reject the merits of "socialism," as represented by the USSR.

This prompted an ongoing debate over methodological issues. Many in the field, such as Philip Hanson (1971) tried to show that "efficiency" comparisons using standard quantitative techniques could not provide an objective assessment of the comparative efficiency of U.S. versus USSR economic institutions. As Hanson would argue, "The chief difficulty in measuring the comparative performance of different economic systems is an obvious but fundamental one. The problem is to isolate the system and its effects from other influences which lead to measurable international differences. Or, to put it another way, the problem is to identify the system and isolate its performance from the environment in which the system has had to perform" (p. 327). In other words, the relative performances of the United States and the USSR were sensitive to the initial conditions predating their respective contemporary economic systems. A country's history matters.

Comparativists continued to produce varied analyses and, more important, varied models of "systems," both quantitative and qualitative, but the cold war orthodoxy came to dominate the content of undergraduate textbooks and courses in comparative economic systems. Capitalism (or "free markets") was contrasted with socialism (or "communism"), where the features of the former were gleaned from aspects of the United States and its North Atlantic Treaty Organization (NATO) allies, and the latter was created from idealized features of post-Lenin USSR and its Council for Mutual Economic Assistance (1949–1991) allies. Instances of free markets within the latter grouping, such as markets in beyond-quota agricultural goods and consumer goods, and instances of state planning, such as by central banks and various ministries or agencies within the former grouping, were ignored in favor of the stylized market versus command bipolarity. The earlier lack of consensus on the appropriate typology to use in comparative economic systems analysis gave way to this bipolar approach, even though the definitions employed for the two primary systems could be radically different (or, in many cases, so poorly articulated that readers were left to presume the meaning of the terms from prior readings or, more likely, popular discourse). *Capitalism, socialism, market socialism, communism, self-employment, petty commodity production, peasantry, feudalism, free markets, command economies, centrally planned economies, indicatively planned economies,* and so on were all terms disseminated in texts and journal articles, often with the same term having different meanings, depending on the authors.

The end of the cold war was the catalyst for a return to the uncertain foundations reminiscent of the 1930s. Many comparativists morphed into "transition" economists, and many of the courses in the field have been similarly transformed into courses on economic transition. Paradoxically, these courses remain essentially rooted in the same polemics of the 1950s cold war paradigm, with the explicit assumption that idealized market structures, institutions, and processes represent the Hegelian endpoint of economic progress. The questions related to comparing alternative economic systems and their relative merit had completely given way, in transitions studies, to examining the various paths of former socialist nations to free-market capitalism. Thus, in an odd twist, this transition studies version of comparative economic systems represents a convergence with the teleological position of orthodox Marxian theory, albeit with a different presumed telos (the market economy is represented as the end of history, whereas Marxism viewed communism as the end of history).

The spin-off of transition studies from comparative economic systems may ultimately be beneficial to the subdiscipline. Comparativists, freed from cold war rhetoric, have already begun to explore the broader terrain indicated by Hanson (1971) and others. Andrew Zimbalist (1984) has written that "the scope of comparative economic systems as a field singularly offers the potential, inter alia: (a) to explore and challenge the assumptions and methods of traditional economic analysis; (b) to reinterpret conventional wisdom; (c) to understand the interplay of economic and noneconomic forces in different institutional contexts; and (d) to evaluate the desirability of alternative economic policies and structures" (p. 1).

The study of comparative economic systems is, arguably, the subdiscipline of economics that fosters the broadest range of methodologies. Comparativists take as their field of study the microeconomic and macroeconomic relationships in the economy, institutional structures, political and cultural processes, and even demographic and geographic differences between social formations. The tools used in research are, therefore, quite varied. The study and analysis of comparative economic systems gives more weight to political institutions as determinants of economic structures and outcomes than any other subdiscipline of economics, except for public economics. Many comparativists focus their research primarily on microeconomic relationships, such as market structures and pricing mechanisms. Theoretical models, case studies, and empirical analyses are all important tools in comparative economic systems analysis. The unique perspective of comparative economic systems analysis can be seen in a variety of contexts in the history of economic thought.

The Socialist Controversy

Perhaps one of the most interesting and confusing juxtapositions in comparative economic systems is that between socialism and capitalism. There has been a long-running debate among comparativists not only about which of these economic systems is better for a society but also what constitutes "socialism" and "capitalism."

The debate over the relative economic viability of "socialism" versus "capitalism" began in the formative years of comparative economic systems. It appears to have been sparked by Ludwig von Mises's (1920) "Economic Calculation on the Socialist Commonwealth," a scathing attack on the viability of socialism as a legitimate economic system:

> Economics, as such, figures all too sparsely in the glamorous pictures painted by the Utopians. They invariably explain how, in the cloud-cuckoo lands of their fancy, roast pigeons will in some way fly into the mouths of the comrades, but they omit to show how this miracle is to take place. Where they do in fact commence to be more explicit in the domain of economics, they soon find themselves at a loss—one remembers, for instance, Proudhon's fantastic dreams of an "exchange bank"—so that it is not difficult to point out their logical fallacies. (p. 2)

Von Mises's (1920) main argument was that if the state owned the factors of production, then there would be no market for capital goods and therefore no pricing mechanism to calculate a rational value for such goods. In the absence of a rationally determined value of capital goods, there can be no rational allocation of capital or consumer goods in the society. Defining socialism in terms of this sort of state control over investment and allocation, von Mises argued against direct government involvement in the economy, in general, and against the idea of central planning, in particular. Planners, faced with an enormously complex operations management and product allocation puzzle, would have no idea about the relative feasibility or value-generating (or destroying) potential of various options for investment. Von Mises's polemical argument against the legitimacy of socialism would become a key tenet of the so-called Austrian and Chicago schools of economics and would incense those who supported socialism. His work ignited a debate that continues to the present day.

In a series of articles titled "On the Economic Theory of Socialism," Oskar Lange (1936) presented the best-known rebuttal to von Mises on the economic aspects and organization of a socialist system. He argued that

> there is not the slightest reason why a trial and error procedure, similar to that in a competitive market, could not work in a socialist economy to determine the accounting prices of capital goods and of the productive resources in public ownership. Indeed, it seems that it would, or at least could, work much better in a socialist economy than it does in a competitive market. For the Central Planning Board has a much wider knowledge of what is going on in the whole economic system than any private entrepreneur can ever have; and, consequently, may be able to reach the right equilibrium prices by a much shorter series of successive trials than a competitive market actually does. (p. 67)

Both von Mises and Lange were Austrian economists, although Lange had no affinity for the Austrian school of economics. On the other hand, Lange did share von Mises's love of neoclassical pricing theory, which assumed that having large numbers of buyers and sellers was the most efficient method of generating useful economic information. Despite his belief in the utility of this pricing dynamic, Lange advanced the proposition that capitalism was prone to breaking down and creating crises, resulting in the waste of resources and human potential. Principal among these malfunctions was in the optimal distribution of incomes and maximization of social welfare in the society. In addition, Lange argued that capitalism does not count all the costs of production, only those that directly affect the income of the capitalist enterprise. This argument has echoes in current debates over pollution, greenhouse gases, and other externalities.

Furthermore, Lange asserted that a socialist economy could avoid the bogeyman of capitalism—the business cycle—because of the state's ability to permit lots of small-scale markets with many buyers and sellers while simultaneously using the planning bureaucracy to make adjustments to capital investment so as to avoid unemployment. The argument that government agencies could marshal the data necessary to manage the economy, even while economic units remained relatively decentralized, had a wide following in the 1930s and 1940s. The mathematical arguments and statistical works of Lange and perhaps even more so the mathematical models of Wassily Leontief contributed to an active discourse on the potential for government to manage an economy through the application of mathematical models.

Real-world examples of such attempts to manage economies never quite lived up to expectations. Arguably, the best real-world examples of Langean socialism, at least prior to the rise of post-Mao China, were Yugoslavia after 1965 and Hungary from implementation of the 1968 "new economic mechanism" to the end of the Council for Mutual Economic Assistance (CMEA) era, although neither Yugoslavia nor CMEA-era Hungary nor post-Mao China met Lange's requirement that the state bureaucracy be submitted to the democratic control of the citizenry. In the absence of such democratic means for disciplining the government, agency costs and poor planning choices could occur with very little risk that state officials could be removed from power.

While Lange argued for a decentralized and market-based form of socialism, he described the actual capitalist economy (as opposed to the theoretical capitalist economic system in textbooks) as primarily dominated by oligopolistic and monopolistic firms, rather than powerless firms operating in a world of perfect competition. It is the latter (perfectly competitive) economic system that serves as the default within microeconomic textbooks and is a fundamental condition for laissez-faire (free-market/neoliberal) public policy prescriptions. For Lange, market power was a fact of economic life and led to suboptimal economic decisions within capitalism. Lange further raised the question of whether, under oligopolistic/monopolistic conditions, capitalism could serve as the social system best able to continue human economic and social progress. Thus, Lange was directly addressing one of the fundamental concerns that had given birth to comparative economic systems and throwing down the gauntlet to those who would support the notion that the prevalent capitalist economic system was the best of all possible worlds.

In the 1940s, Friedrich A. von Hayek, a peer and ally to von Mises, took up the challenge posed by Lange. Hayek rebutted Lange's premises and conclusions about the relative efficacy of socialism versus capitalism in a series of articles and books. Hayek challenged the rationale of state-directed pricing and resource allocation and advocated the necessity of a completely market-based system for any rational distribution of products in society. His most notable contributions to the debate were the idea of limits of human cognition and the theory of knowledge dispersion. Contrary to Lange's argument that a central planning bureaucracy could have much wider knowledge of an economy, Hayek argued that the central planning process was untenable because the information required to successfully manage an economy was beyond the comprehension of any bureaucratic structure. The planners within such a structure would suffer simultaneously from insufficient information and information overload. For Hayek, a planning bureaucracy could not replace thousands of entrepreneurs and consumers in generating and processing the information necessary for a successful economy. And because the planning bureaucracy could not possibly gain or process enough information to make good decisions, bureaucrats would tend to be risk averse and not make the sorts of investments in the economy necessary for growth and development. Absent the incentives of a market system, central planners and industrial managers would have no motivation to make good choices about the use of firm assets and generate what we today refer to as agency costs. Hayek argued that competitive markets generate knowledge discovery at lower costs and incentives for managers to make superior choices of asset deployment, production technologies, and investment. He even theorized that it was only through competitive markets that the question of goods and their qualities and quantities, even their existence as goods, could be known. He theorized that given the dispersion of existing knowledge of the needs and wants of economic actors, a centralized bureaucracy would not even know where to begin to make sense of the optimal allocation of goods and resources such that this allocation could be combined into a single plan. Hayek felt that the state under socialism had an impossible task because knowledge of preferences and other relevant economic data is localized, subjective, and difficult (to nearly impossible) to pass on to others in complete, undistorted, and useable forms. For Hayek, the market system and other supporting institutions were examples of *spontaneously organized complex phenomena* that were beneficial in the development of societies and individual initiative and achievement. The market could achieve what no state could achieve. The economic system promoted by Hayek and other members of the Austrian (and Chicago) schools was one where the state played a limited role, primarily in the provision of a minimal social insurance for citizens, the protection of individual property rights, and military defense of the nation as a whole.

One of the many critiques of Hayek and von Mises (and, in a larger sense, of the Austrian and Chicago schools) was their failure to recognize that both market capitalist systems, where private corporate structures prevail, and socialist systems, with their state bureaucracies, could suffer from agency costs, as well as incentive and allocation problems due to asymmetric information (Caldwell, 1997) and asymmetric power. In many ways, Lange's challenge to the notion of a free-market capitalist system, as imagined within the theoretical work of the Austrian and Chicago schools, is not really answered, whether or not his broader conclusions about socialism are accepted. In other words, Lange could be incorrect about the efficiency of socialism and yet correct in his conclusions about the inefficiencies of actual capitalism. The reason the challenge is not taken up by von Mises and others is that they have tended to ignore the features of actual economic systems in societies deemed to be capitalist in favor of imaginary economic systems of completely disaggregated and powerless economic agents: Even firms are conceptualized as simply the congealed sites of the actions of individual economic agents. If Lange is correct that markets are epitomized by various forms of market power, then there is no reason to assume optimal or even rational social outcomes. This conclusion would be even stronger in the presence of externalities, as well as agency costs and related information asymmetries. In other words, the challenge of comparing economic systems remains, despite the implicit (and sometimes explicit) assumption of the Austrian and Chicago schools that this is now a dead question.

However, the rise of the USSR after World War II and deterioration of relations with the United States made it difficult for any objective analyses of alternative economic systems as the socialism–capitalism debate increasingly gave way to polemics. Comparative economic systems served as a sort of ground zero within economics for these polemics. The subdiscipline came to play an instrumental role in critiquing the Soviet bloc, more than a source of scientific discourse about systemic differences. Indeed, the fact that the world, present and past, provided a rich source of complex and different economic systems, even within countries described as capitalist, was lost in an increasingly dualistic argument about the merits of the West versus the East. The term *command economies* (first used by Grossman, 1963) was coined, although most discussions of the USSR and other CMEA nations used the term *communism* because most of the parties in power in that part of the world called themselves communist, placing their end goal (telos) at greater prominence than the adjective they used to describe their economic systems (socialist). Many of these countries were, however, labeled by their new leaders *people's democracies,* a term that should have presaged the development of extensive democratic institutions but instead highlights the degree to which words were being used polemically.

Comparative economic systems texts described an idealized set of dominant politico-economic institutions of the NATO countries (the "West") and a similarly idealized set of dominant politico-economic institutions of the CMEA countries (the "East") as *the* central duality among global economic systems. The basic dichotomy generated by this polemic was an outgrowth of the Austrian and Chicago schools: the dichotomy between "free-market" or "market capitalist" economies and "command" or "communist" economies. A few texts continued to use the proper term *socialist* for the "people's democracies" of the Eastern bloc. Some comparativists used terms such as *command socialist* or *centrally planned* economies. In any event, in most discussions and textual materials, the distinction between the two poles of this duality was meant to be absolute: thesis counterposed to antithesis. While it is undeniable that the experiment in centralized, command planning in the USSR and the larger CMEA was both noteworthy and distinct from the more decentralized planning in U.S.-style capitalism, it is a stretch to go from this particular distinction to the idea that these two examples of social formations had nothing in common (both in terms of social institutions and processes). Command elements in the NATO politico-economic social structures were largely or completely ignored, as were similarities in the underlying economic relationships within NATO and CMEA firms (including both command and central planning aspects, even if in microcosm). This dichotomy further ignores the flexibility of capitalism and the constantly changing mix of state intervention (into market exchange relationships, the conditions shaping worker freedoms or lack thereof, firm governance, etc.), including occasional direct state involvement in productive investment and production even in the most liberal NATO member states, such as the United States, during historical periods when "free-market" approaches were deemed insufficient to resolve economic crises.

The nature of socialist economic systems has similarly been protean in character. In the non-Marxian literature, socialism is rarely delineated in a clear manner. A wide range of economic systems have been labeled socialist (Schnitzer, 2000). Socialism is sometimes said to require the replacement of private property in the "major means of production" with public (state) ownership. Alternatively, "market" mechanisms are recognized as compatible, if not integral, to socialist economic systems. Indeed, the term *market socialism* has long been part of the literature and was the standard designation for the economic system of post-1965 Yugoslavia. Government planning to achieve economic and social objectives such as redistribution of income through progressive taxation, transfer payments, and provision of public goods has often been an element in a subset of social scientific and most polemical definitions of socialism. However, it would be difficult to find a genuinely viable state where there was not some degree of government planning, income redistribution, provision of public goods, and so on. A few comparativists have defined socialism as an economic system within which democratic decision making has been extended to the economic sphere (Zimbalist, Sherman, & Brown, 1989). In this vein, there are those who discuss "worker-managed market socialism," highlighting the issue of who controls the firm. Many of the comparativists who studied the former Yugoslavia believed the worker-managed market socialism of that country was an important *socialist* alternative to the Stalinist command socialism of the USSR. And there are social scientists who view worker-managed firms in the United States as a form of proto-socialism. These theorists often have a very different view of the role of the state under socialism, arguing for the viability of a decentralized form of socialism that does not require an extensive state bureaucracy or central planning. Neoclassical economists have obscured the term even further by defining *welfare state* economies based on some of the same characteristics others have associated with socialism. Orthodox Marxist theorists have added to the confusion and ambiguity over the term *socialism.* To further complicate any attempt at consistent typology, Marxian theory has its own longstanding definition of socialism. Paul Sweezy (1976) put it quite succinctly when he defined socialism as "a way station between capitalism and communism."

This "blurring" of characteristics among economic systems and the ambiguity of terms such as *capitalism* and *socialism* plague many theoretic approaches to comparative economic systems. Comparative economic systems depends critically on the typology deployed in analyzing distinct economic systems, understood to be alternatives and evaluated on the basis of scientific methodology. The bipolar capitalism/socialism debate has been mostly polemical, although important questions arose within that debate and have inspired analysis, both empirical and theoretical, from contemporary comparativists. Thus, the monochromatic understanding of economic systems that came out of the cold war debates has gradually begun to give way to a more complex set of analyses. These studies are contributing to a better understanding of the role of different institutions and alternative economic processes. Unfortunately, the polemics of the cold war tainted discussions of future economic systems. After all, communism referred specifically to an economic system that had not yet come into being but served as the ideal (telos) around which orthodox Marxists constructed their arguments in favor of revolutionary change in societies. Socialism, in the traditional Marxian framework, is understood as the transitional stage (where it is possible for capitalism to continue to predominate in the economic realm) on the road to that ideal society. Thus, to the extent this logic of transition to an ideal society came to be associated with the Stalinist political apparatus and the struggle between West and East, the very notion of speculating about future economic systems came to be discredited within mainstream economics. Perhaps eventually the interest in comparative economic systems as a way of thinking about future societies and economies will return to the fore after the lingering bad taste of the cold war is forgotten. Just as the imaginations of mechanical engineers dreaming of building better machines can stimulate invention and innovation, perhaps economists would be better at their craft if they could dream of better societies.

Class-Based Typologies

An alternative to the old bipolar approach to systems typologies is one based on the microeconomics of class. This approach has been used to construct a typology of alternative economic systems (or modes of production) on the basis of systems for organizing labor and distributing the fruits of that labor.

The term *capitalism* has now been part of social discourse for such a long time that it is easy to forget that the term has its origins in the writings of Marx. It is worth noting that Marx's critique of political economy and analysis of the capitalism of the early nineteenth century came from his use of a framework that compared alternative economic systems. In other words, Marx was probably the first genuine comparativist.

Class-based typologies of economic systems come from definitions invented by Marx to describe a variety of social systems but primarily to understand capitalism, in part, by contrasting it to these other systems. This approach focuses attention on the relationship between direct producers (workers whose productivity results directly in the creation of new products) and alternative social mechanisms by which control over the distribution of economic profits is exercised. While many Marxian and non-Marxian social scientists have conflated ownership systems with control over profit distributions, this has not been the case with poststructuralist Marxian theorists, such as Stephen A. Resnick and Richard D. Wolff, authors of *Knowledge and Class* (1987), who have written extensively on the application of class concepts to understanding alternative economic systems. In the Resnick and Wolff framework, class is defined by the unique social system by which the surplus labor/product of direct producers is created, appropriated, and distributed.

In this paradigm, capitalism is defined by the unique manner in which surplus labor is generated from free wage laborers who do not control the receipt and distribution of the fruits of that labor (in the form of product or money). Their definition allows for a very wide range of variant forms of capitalist societies. If the type of capitalism is defined by who appropriates and distributes the economic profits or surplus, so long as the profits come about because of the work of free wage laborers, it becomes possible to speak of state capitalism, where a state bureaucracy "exploits" workers, or corporate capitalism, where the appropriating/distributing institution is a private corporation, or even church capitalism, if the "capitalist" is a religious institution. It becomes possible to investigate, both theoretically and empirically, the implications of these alternative forms of capitalism as part of a comparative economic systems research agenda.

Transition Economics

The notion of transition from one economic system to another can be explained in evolutionary terms, as either an accident or movements along a teleological path. The early discussion of transitional economic systems was centered on the transition to socialism. Dorothy Douglas's (1953) influential text, *Transitional Economic Systems,* came out of this tradition and examined the difficulties of transition to socialism for Poland and Czechoslovakia. Thus, the notion of socialism as a mature form of capitalism is completely consistent with not only the Marxian teleology but also more contemporary teleological thinking, including the notion of some type of combined liberal democracy and capitalism as a systemic "end of history," in which socialism, rather than a higher stage (as in the Marxian conception), is perceived as a lower stage. In this inversion of the Marxian dialectic within a subset of comparative economic systems discourse, it is understood that the dynamic by which transition occurs is one in which societies select for liberal democracy and capitalism (and the usual assumption that the former political system is necessarily wedded to the latter economic system) after the failure of previous economic systems, including the socialist brand. The timing of this selection process will be different, and some societies will languish because of a breakdown in or structural impediments to the transition process.

Consider the case of the USSR, which took more than 75 years to transition out of "socialism." Analysts can point to specific structural impediments to transition, such as police state tactics, dependence on the central planning mechanism on the part of many managers within the state bureaucracy, and so on. The usual presumption is that this transition out of socialism constituted a radical transformation not only in all aspects of the political structure but in all the economic processes as well. However, recall that the Marxian notion of socialism does not require the absence of a capitalist economy. Indeed, it was commonplace to argue that socialism was a transition in political authority (from a "dictatorship of the bourgeoisie" to a "dictatorship of the proletariat") but with a still extant capitalist economy. Resnick and Wolff (2002) recently have described the USSR as state capitalism and produce a completely plausible argument based on a poststructuralist Marxian framework. This approach has very serious implications for a post–cold war rethinking of comparative economic systems. It may be of great utility to differentiate among variant forms of capitalist systems, as with socialist systems or feudal systems in the contemporary world.

Comparative Economic Systems and the China Puzzle

China has always been an important social formation within the comparative economic systems literature. Mao's deviation from the Leninist-Stalinist orthodoxy established by the USSR provided comparativists a major alternative version of socialism. And given the turmoil of the Maoist period, this alternative was almost always in flux, undergoing major structural and process changes. There was never a dull moment for the comparativist who chose to study China.

Nevertheless, Chinese socialism did have features in common with the USSR and CMEA bloc. The Communist Party–led bureaucracy suffered from poor incentives, high agency costs, resource bottlenecks and distribution problems, and serious constraints upon and therefore a shortage of entrepreneurial creativity of the sort that Joseph Schumpeter believed necessary for long-term economic growth and development.

The Maoist period saw the creation of communes that, in fact, resembled feudal domains in that the Communist Party hierarchy maintained tight control over value generated within the communes and bound farmers and their families to these land-based structures: Internal migration was strictly controlled by a household registration system. Most urban workers were tied just as tightly to state-owned enterprises that would typically include schools for workers' children, hospitals and clinics for workers' health care, and institutions providing other vital services. The link between the state and workers and farmers in China was far more all-inclusive and difficult to break than was the case in the Stalinist world of the USSR. Despite Mao's often radically democratic rhetoric about granting workers and peasants a primary decision-making role in the society, the direction of authority ran almost exclusively from the top (state) to the bottom (workers). Nevertheless, the gradual transformation of this system into a more Langean version of decentralized socialism, with a powerful state bureaucracy and planning institutions intact, would begin a mere 2 years after Mao's death in 1976.

The result of this transition is the creation of a form of market socialism that has been extraordinarily successful. Perhaps Lange has finally been exonerated. If we examine the key processes that have been the focus of comparative economic systems—product circulation and capital budgeting processes (market vs. planning), ownership structures (private vs. state), and political structures (liberal democratic states vs. single-party totalitarian states)—it is apparent that the neoclassical/neoliberal orthodoxy, an outgrowth of the Austrian and Chicago schools' dominance of economic theory from the 1950s onward, has problems with China's success story. This success story does not map neatly onto the usual grid of presumed one-to-one correspondences between systemic structures and economic outcomes. China's phenomenal growth rates and development have come about despite its deviation from orthodox policy prescriptions and continued deviation from the form of liberal democratic state that has been presumed to be a condition for sustainable economic growth by comparativists and others within mainstream economics and political science. In the words of Gary Jefferson (2008), "China's experience offers a now irrefutable lesson. Economic transition and development is a far more complicated phenomenon than simply putting in place the principal elements of the neoclassical model, whose policy implications have been dubbed the Washington Consensus, or even adhering to an enlarged doctrine that incorporates the basic tenets of the New Institutional Economics" (p. 170).

Established orthodoxy in comparative economic systems asserts that capitalism, especially the "free-market" variation, is the superior economic system. Policy makers and advisers have pushed this prescription for economies in transition with varying results. China's deviation from this prescription has renewed debate in the field about the relevance and accuracy of various theories as applied in actual practice. For instance, it is accepted that China has experienced rapid economic growth in the context of weak and often ambiguous property rights; an authoritarian political system; high agency costs from corruption within various locations in the state bureaucracy, which include state-owned enterprises; low levels of transparency in government and enterprise organizations; and a weak legal and law enforcement system. Yet, the Chinese economy has outperformed the United States and most other capitalist economies. Advocates of the "shock therapy" approach to economic transition in which rapid market liberalization and structural reform, if not dismantlement, of government bureaucratic structures have been humbled by the relative performance of economies that followed their prescriptions versus nations, particularly China, that have taken radically different paths to transition from one economic system to another. China's "gradual" reforms have been a success story of enormous proportion. China allowed public ownership to play a major role in the economy well into its years of economic reform, and it remains a critical cornerstone in its transitional economic plan, especially in terms of the financial system, but also in the state-owned enterprise sector. Chinese authorities have simultaneously tapped the equity markets and maintained controlling interest in a large number of industrial conglomerates that were taken public. In other words, it would seem that China is following a path that has some elements in common with the arguments of Oskar Lange, who believed it possible to have a socialism that relied heavily on the market yet maintained considerable government involvement in and management of the economy.

The Chinese strategy flies in the face of an economic orthodoxy that, in keeping with Austrian and Chicago school dogma, posits economic freedom and individualism as *essential* preconditions for growth. The notion that "socialism" is an inferior economic system vis-à-vis "capitalism" has been severely threatened by the rise of China. It is increasingly common for policy makers, intellectuals, and others in the lower income nations to turn to China as the model economic system and source of the secret formula for their own nations to rise.

Comparative Economic Systems in the Twenty-First Century

In charting a new direction for the field, many comparativists accept the notion that variant forms of capitalism predominate in the global landscape. Djankov, Glaeser, La Porta, Lopez-de-Silanes, and Shleifer, among others, argue that the new comparative economics should focus on these alternative capitalist models. However, rather than following the old systems-as-a-totality approach, these comparativists appear to favor an approach closer to that of the poststructuralist Marxian theorists, who prefer to isolate specific institutions or processes as the source of variation. The implicit institutionalism gaining currency in the subdiscipline is coupled with increasing use of econometric techniques in comparative analysis. Comparativists such as Montias, Ben-Ner, and Neuberger (1994) argue that if comparative analysis is to be useful for policy purposes, individual effects of economic and noneconomic variables must be identified. As John Bonin (1998) argues,

> Country-specific conditions clearly affect outcomes and the choice of policies depends on the system norms. Furthermore, the preferences of the economic actors themselves are influenced by interactions with other systemic components so that some environmental characteristics can be considered endogenous. This rich complexity of interdependencies dictates a need for careful recognition of problems of endogeneity and skillful use of modern analysis to isolate crucial relationships. (p. 5)

Montias and others (1994) argue that comparative systems analysis should discard the outdated practice of defining "systems" and embrace the new work of defining *institutions.*

Of course, there is dissension among the ranks. There are some such as Geert Hofstede, Amir Licht, Chanan Goldschmidt, Shalom Schwartz, and Frederic Pryor who argue that it is culture that should be the primary object of analysis. These comparativists start from the premise that cultural values determine not only why specific economic systems are adopted in different countries but also how these systems come to exist in the first instance.

It is clear that the study of comparative economic systems, like the rest of economics, faces new challenges in a twenty-first century where economic and social transformation appears to be speeding up. There should be no anticipation of finding any singular paradigm that satisfies all possible research questions. Institutional and neoclassical economists, the German-historical school, poststructuralist Marxian theorists, post-Hegelians, and others have and will continue to tackle the questions of typology of social formations and the issue of transition, positing a wide range of concepts relevant to such analyses.

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