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Seeking New Paradigm of Comparative Economics: Beyond Economics of Transition

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After more than twenty years of the market transition, 'Economics of Transition' seemed to have accomplished its own mission. 'Economics of Transition' has challenged the historically specific problem of transition: how does the socialist planned economy create markets? This challenge expresses a striking contrast to the situation that existed in the beginning of the 20th century, when economists sought the way towards establishment of the socialist economy. In the same way similar to that of at the previous period, the contemporary experiences in the past 20 years have been stimulating and have contributed to the development of economics.

Measures on liberalization, stabilization and privatization were not sufficient conditions but necessary ones for the creation of the market. Rules of the game require their own players, as well as behavior patterns and values suitable to the market. Those players, however, came from the former system, and therefore all transition economies experienced path-dependency. They could not ignore the role of the state. Although the role of the government (and the party) was extraordinarily hypertrophied, the government in transition was remarkably atrophied under the Washington Consensus. All seems to have been reduced into individualism. Under the slogan "equality of chances, and inequality of the results", all had to owe self-responsibility. This sound argument, however, was an illusion. More honest people worked in order to support a market transition; some of them became, however, were deprived of the market information and could not get the redistributed. Poverty was a final result of self-responsibility. State intervention was regarded as unnecessary or inefficient, because the government has lost its trust and responsibility primarily based on social justice. The market transition requires more reliable government, and as far as the government can be established based on the people's trust, the civil society and democracy could not work in concert with market transition. The markets formed by the transition policy are poor in nature. In short, the market transition could not progress smoothly as the textbook taught. Moreover, we realize again the importance of the institutional building. The liberal market economy cannot exist without building sufficient number of institutions. While experiences in transition revealed difficulties in formation of liberal capitalism and limited effectiveness in Washington Consensus, we must admit that transition did not necessarily deny the liberal market itself. All transition economies could not refuse the market, even though it included a failure.

When we define capitalism as private ownership of capital, profit-seeking economic activity and a society with generalizing commodity production and transactions on labour, land and money, we draw a conclusion that the market transition has built normal capitalism. Needless to say, this capitalism has undoubtedly taken its own originality. Central Eastern Europe has succeeded in EU accession, because of high maturity of the market, civil society and middle class inherited from the period of socialism, and the Baltic countries and South Eastern Europe have followed them. In any case, the historical and cultural conditions together with biased values of the EU intensified this process. The new member countries are placed within the EU market model. As the EU itself is divergent, the final destination of the market model varies. Major transition state, namely Russia, also tried to establish normal capitalism. However, taking into account the existence of specific institutions and behavior patterns, such as state intervention and informal economy, Russia may well be regarded either as abnormal or as the Russian model. Globalization and the WTO accession have demanded Russia's gradual harmonization with global standards. Central Asia and the Caucasus states appear to have constituted the developing economy type or community type of the economic society with the state control participation. The local ground can be seen through community, religion, and culture. Even though transition has created the market economy, its reality has shown a variety of paths in post-transition. At the very least, this variety is beyond assumption of the neoclassical approach.

In addition, Economic of Transition has included China into its own research focus. China raised the sensitive problem on sustainability of economic systems based on the locally oriented marketization and the growth path of the western energy consumption. As far as China causes economic inequality and unbalance between economy and society, it is obliged to change its policy towards a more harmonized one. When China succeeds in development of the China-centered markets, accumulation of capital without plunder, mobilization of human resources and restoration of the Chinese tradition of government participation in policy making, perhaps then the view on economic system based on the western values will require some changes (Arrighi, 2007). However, it is certain that China has questioned the sustainability of the traditional market theory.

That is not all for China. China brought together Economics of Transition and Development Economics, and China meant not only resource-supplying (cheap labour force), but also large-scale market potential. The developing markets no longer mean backwardness and narrowness. BOP (bottom of the pyramid or base of the economic pyramid) is regarded as prospective markets in the world (IFC and WRI, 2007). China may change the view on developing economies.

And what about developed countries as a target of transition? Before the collapse of the socialist economic system, it was clear that the capitalist system had its superiority over the socialist one in term of dynamism in innovations in1980s (See Kornai, 2012). Further innovations based on information and communication technology and industrial structural changes may be regarded as the product of dynamism. The new equilibrium, however, could not stabilize capitalism, and it has new crisis factors deeply inherent in capitalism. We may remind the financial speculation using securitization, which lead to the global crisis of 2008. Japan failed with the structural reforms, and fell into the so-called lost twenty years and could not succeed in transforming the socio-economic system. While EU and USA could enjoy economic growth, they were not free from the crisis factors, such as poverty and economic inequality. Innovation does not necessarily guarantee sustainability of the capitalist economic system. Moreover, the economic philosophy of capitalism seems to be full of inconsistencies. Even though the Washington Consensus requested the small government in transition economies, the developed countries themselves established large government and looked for the effective global governance. In addition, triple crises – East Japan Great Earthquake, Tsunami and a nuclear power plant disaster – have questioned the nature of capitalism.

The 2008 global economic crisis swallowed the transition economies and posed a new challenge to Economics. The global crisis was a challenge to capitalism, particularly to liberal capitalism from the very beginning. Later, the global crisis enhanced itself and the Greece crisis amplified to sovereign crisis, and it was a challenge to managed capitalism and populist capitalism. All types of capitalism are facing a crisis at present. The crisis indicated its global linkage and depth, as well as the importance of the international intervention. The reality cannot achieve harmonized global governance. While we stress the importance of IMF, nobody could provide a new effective prescription. The actual situation went in the opposite direction. There are tangible signs of the conflict of interests among the countries, and above all the Greece crisis has caused discord in the EU enlargement and the EU integration. Russia and China have typically shown their state-led behaviors and state capitalism seems to stand its power. The crisis and crisis measures suggest that a variety of economic system has been preserved.

Stability of the world economy was not shaken. International balance of payments has kept its imbalance, and cheep money continues going around the global markets. Maldistribution of international liquidity has worsened though. Global market competitiveness has given each country severe competitive advantages, and as a result, the middle class as a stabilizer of the market economy seems to be fragile in many countries. In the labour market flourished irregular employment as a buffer for business fluctuations, and economic inequality has widened. The scale of instability and its economic institutions are different among various countries.

The comparative economics based on a system comparison and a contrast between developed and developing countries was effective until 1980s, but now it lost its validity. While Transition Economics was also influential for the market building, it looks insufficient in providing a new paradigm for the contemporary global economy. Then, how can we set the standard for variety of capitalisms and for variety of market-based socio-economic systems? The present issue has a special section devoted to this problem.

Needless to say that so many other scholars have challenged the raised issues. For example, Murrell (2011) concluded the tasks for the contemporary comparative economics as follows: "Comparativists did show more concern than other economists with three topics – institutions, law, and culture – which have become staples of economic research nowadays". He found that the use of new analytical techniques faced a trade-off, and that empirical techniques seem not to go hand in hand with theoretical approach. Mizobata (2010) focused on business and society, and regarded technological architecture and institutions, labour system and social relations as key angles for a comparison of company and society in the market economies.

Since the collapse of the socialist system, economics has focused on "institutions" that were neglected by the mainstream economics. However, none of the economists could disregard the importance of institutions. Facing the global crisis, even the mainstream proposed the viewpoint on market quality by performing institution reforms. Heterogeneous institutional economics presented the historical view that institutions of the economic system are not built from scratch; some of them are path-dependent, evolutional and contingent. Therefore, diversity in behavioral patterns of culture, history, religion and others factors has become an important domain which economics takes into account. Social capital is also included into the subject of economics.

A bias towards institutions, however, is not sufficient for the new paradigm that explains not only variety of capitalisms, but also promotes economic equality and facilitates the formation of the middle class indispensable for capitalism's survival. Paul Krugman considered that it was not innovation and education, but politics that caused economic gaps. As far as politics (democracy) is based on a majority vote, the origin of the problem is rooted in ideology. In short, Krugman emphasized that there were racial discrimination problems and negative legacy of slavery in US which considerably affected economic gaps (Kruguman, 2008). Following Krugman, we may find similar negative legacy of ideology and politics in state intervention in China and Russia. Diversity gives us the new approach of political economy. An answer to the raised questions is a comparative analysis of stakeholders, their values and influences. The recent survey on corporate social responsibility and a comparison of business and society seem to consistently follow the above-mentioned approach.

Provocatively speaking, the theoretical trials and errors of comparative economics go far beyond Economics of Transition and have proved to be more significant than the empirical studies on economic systems.

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