

The Future of the Field of Comparative Economic Systems

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Traditionally, the field of comparative economic systems was disproportionately concerned with the relative economic performance of just two systems, capitalist and socialist. The former was characterised as being based on resource allocation through decentralised markets; the latter via central planning. An important theme was whether one system consistently outperformed the other, or whether they could achieve comparable outcomes. Measures of performance included static technical efficiency and allocative efficiency (Pareto efficiency); growth; and indicators of welfare such as the distribution of income and wealth (Wiles, 1977).

Thus, the fundamental issue concerned the relative performance of these two systems. Marxists believed that the capitalist market economy was fundamentally flawed and subject to intermittent and ever deepening crises (Marx, 2007). In contrast, for critics of socialism such as von Hayek (1944); von Mises (1935) and Friedman (1962), the market economy provided the only resource allocation mechanism to generate efficiency and, by virtue of being decentralised, also provided consumer choice. Against this view that there was a unique efficient resource allocation mechanism, researchers such as Lange (1936) proposed that using a decentralised planning system, a planned economy could replicate the outcomes of a market economy (see also Heal, 1973). Thus an economy could achieve social objectives through either of the two possible economic systems.

The notion of the system itself was often surprisingly underdeveloped in this literature. Economic systems were not for the most part seen as groupings of countries that share close institutional similarities. Rather the emphasis was on mechanisms of allocating resources, and the flows of information which resulted; with few exceptions, there was little discussion of institutions and the mechanisms whereby these might influence economic performance through the incentives faced by individuals in the sense later developed by North (1990) or Ostrom (2009).

This literature did however allow for some variation within each economic system. Thus, “market socialism” was put forward as an alternative to systems of Soviet type planning (Brus and Laski, 1991), and combined with workers’ self-management of firms was treated virtually as an economy system in its own right, represented in practice by Yugoslavia under Marshall Tito (see Estrin, 1984). Some distinction was also made between red-blooded capitalism as found in the United States and the more welfare oriented version operating in for example Sweden (Montias, 1976). However, the central question remained whether two fundamentally different economic systems could perform equally well; that is, whether there could be what is now called equifinality

of economic outcomes across economic systems. As the brief summary above discusses, the tenor of the argument largely did not support the idea of equifinality, and neither did the actual comparative performance of the systems (Kornai, 1992).

In practice, the socialist planning system of Central and Eastern Europe therefore unsurprisingly collapsed under the weight of its own internal contradictions in 1989. This seemed to suggest that the notion of the co-existence of equally efficient alternative economic systems was fundamentally flawed, and, as argued by Hayek, there was only a single economic system which satisfied the criterion of economic efficiency – the market system. This led Fukuyama (1989) to declare the end of history! However, even at that time, work by institutional economists had begun to rethink the notion of systems. In the Varieties of Capitalism (VOC) perspective (Hall & Soskice, 2001), it was argued that there were two fundamental systems within the market economy; Liberal Market (LME) and Coordinated Market (CME) economies. Thus economies such as the UK and US were contrasted with the more coordinated market systems in Germany and France. Importantly, in their approach, the two systems can perform equally well; equifinality is a possible outcome.

More recent scholarship on the institutional diversity of capitalism has relied less on establishing typologies such as the VOC, and more on the development of empirically derived taxonomies. These studies focus on the institutional complementarities within countries that co-evolve with those of other countries to produce distinct governance configurations. Thus, no single institutional characteristic is sufficient to explain outcomes; rather, the outcome is related to combinations of conditions sometimes identified via fuzzy set and clustering analysis (Hotho, 2014). This strand of research has been able both to identify fine-grained configurations and to evaluate their impact on a number of different national economic outcomes including national growth rates (Hall & Gingerich, 2009), and economic equality (Judge, Fainshmidt & Brown, 2014) as well as different national corporate governance systems (Haxhi & Aguilera, 2016).

In practice, there remains an enormous agenda for scholars of comparative economic system. The VOC approach opened up the possibilities for analysis of particular institutions and how they worked together to form an institutional system, in particular with reference to market complementarities for labour, capital and products. However, this approach remained firmly Eurocentric, primarily focused to understand how supportive labour and capital market institutions have permitted the development of a flourishing social capitalism in for example Germany. But there are now numerous examples of important economic systems which are not well understood, most notably China but also across the emerging markets. Moreover, increased knowledge of institutional heterogeneity in other major economies and regions, for example Brazil, India and the transition economies including Russia, have highlighted the need for the development of new notions of economic systems capable of identifying the key drivers of economic performance.

Moreover, the issue of equifinality of economic system has not yet been finally resolved. The evidence suggests that planning was not a viable long term alternative to markets as a mechanism to

allocate resources. But given the recent economic performance of China and the growing social and political problems in the West, highlighted by persistent long run inequalities (Piketty, 2014), the jury remains out on socialist as against capitalist economic systems. More importantly, the most promising direction for future research is much more specific and likely rests with detailed analysis and evidence about the incentive effects of particular groups of institutions on particular economic indicators.

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