Comparative Economic Systems

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Information on Students
Your name
Email addresses
Department/program/year
For non-econ grads: Previous related courses taken
Introduction

**Subject Matter:** Socialist alternatives to capitalist economic systems.

**Prerequisites**

Political Economy I and graduate standing.
Introduction

Course Website:

Address on syllabus:

http://courses.umass.edu/econ773/

Post syllabus, handouts, slides after use

Two Papers: Email me your preferences for
1) Soviet-Type System or Market Socialist/Self-Management System – 4 numbered choices
2) Socialist Possibilities in Light of Historical Experience – 3 numbered choices
1. Introduction
   Approaches to comparative economic systems
   Market systems
   Economic planning
   Capitalism

2. Early Conceptions of and Debates about Socialism
   Early conceptions of socialism
   Economic calculation debate
   Critique of competitive market equilibrium as standard for socialism

3. The Soviet-Type System
   Origins of the Soviet model
   Main features
   Performance
   What was the Soviet-type system?
Subjects Covered (continued)

4. Student Presentations on Soviet-Type Systems

5. Market Socialist and Self-Management Systems
   Origins, main features, performance, what were they?

6. Student Presentations on Market Socialist and Self-Management Systems

7. Demise of the Soviet-Type System
   How? Why? Lessons for socialism?
Subjects Covered (continued)

8. **Transition from Soviet-type systems to Capitalism**
   How has this process unfolded?
   Assessment/critique of Washington
   Consensus/neoliberal approach
   Alternative analyses
   Lessons for understanding of capitalism and socialism

9. **Socialist Possibilities in Light of Historical Experience**
   Lecture/discussion/student presentations
   New theories of market socialism
   New theories of a planned economy
   Current effort to build "Twenty-First Century Socialism" in Venezuela.
Approaches to Comparative Systems

Institutionalist

Neoclassical

Marxist
Focus of this Course

1) The theory of socialism as an alternative to capitalism
2) The historical experience of attempts to build socialist systems
3) The possibilities for a socialist system in the future in light of socialist theory and historical experience
Marxist Approach

Marxist concept of an “economic system” is a mode of production.

G.A. Cohen’s 3 aspects of concept of (social) mode of production:

1. Purpose of production
2. Form of surplus labor
3. Means of exploiting producers

Common to combine 2 and 3 in “mode of appropriating surplus labor”. 
Conventional definition of mode of production rests on **property relations** of system as it bears on mode of appropriating surplus labor.

- **Slave MOP**: master owns slave ➞ master owns whole product including surplus product.

- **Feudal MOP**: lord owns manor & serf possesses own plot ➞ serf must directly turn over surplus to lord.

- **Capitalist MOP**: capitalist owns MP, worker owns no MP ➞ worker must work for capitalist, which permits capitalist to appropriate more value than value of labor-power.

- **Socialist/communist MOP**: social ownership of MP, production guided by an economic plan, production for use.
Property-Free Definitions of Modes of Production

Distinguishing modes of production based on
1) the specific power relation defining the relations of production
2) the mode of material reproduction of the producing class

- **Slave Mode of Production**
  1. Master controls producer’s person for life.
  2. Master directly provides subsistence to producer.

- **Feudal Mode of Production**
  1. Lord compels producer to provide surplus product.
  2. Producer produces own subsistence directly.
Property-Free Definitions of Modes of Production (cont)

- **Capitalist Mode of Production**
  1. Capitalist controls access to means of production and disposes of product.
  2. Producer receives subsistence through sale of labor-power.

- **Socialist Mode of Production**
  1. Producers have a relation of cooperation in production through economic planning.
  2. Producers obtain subsistence through socially planned sharing of output.
**Institutionalist Approach**

**Economic system**: A coherent set of institutions that guides economic behavior.
**Institution**: organization, practice, convention, or custom

Economic system + environment (natural, human-made) + policies $\rightarrow$ performance.

**Classifying Economic Systems**: based on list of criteria

1. Ownership of means of production:
   - social
   - private
   - feudal

2. “Coordination Mechanism”:
   - traditional economy
   - market economy
   - planned economy
3. Incentive System:
   coercive
   material
   moral

4. Objectives:
   • individual freedom
   • high levels of personal consumption
   • high rates of economic growth
   • economic and military power
   • Equity in income distribution
   • Full employment
   • Protection of the natural environment
   • Price stability
Objectives of a Socialist Economy

What are the objectives of a socialist economy?

- Efficiency
- Growth
- Technological progress
- Individual freedom
- Solidarity
- Full employment
- Material security
- Equity
- Environmental sustainability
- Human development
- Meaningful work
- Economic basis for desirable cultural and political features
- Socially healthy families and communities
Problems in Comparing Performance of Different Systems

- What measures should be used? GDP? Net material product?
- What country’s (system’s) prices should be used?
- Problems in converting to a common currency.
- How should uncounted economic activity be treated?
- Poor quality of, and ambiguity of, economic data.
Neoclassical Approach to Comparative Systems

Three-Part Schema:
Traditional economy
Free market economy
Command economy

Aim: To demonstrate the irrationality and inferiority of a planned economy by implicit comparison to a model of competitive market equilibrium.

Evolution of neoclassical approach since 1991:
1. Transition studies
2. Microeconomic analysis of individual maximizing agents and particular rules or institutions.

Moved away from the idea of a coherent economic system.
What is a market?

Market: A relation between buyers and sellers of something, in which exchange takes place between them at a definite price.

A market has
sellers
buyers
thing that is sold/bought
means of exchange used to buy (money)
price/rate of exchange

A market presupposes the following:
Property relations
Mode of enforcement of exchange
Self-interest motivates actors
Individual freedom
Equality before the law
Allocation of resources: Economist’s shorthand for the process of determining what is produced, how it is produced, and how it is distributed among the members of society.

Market system and allocation of resources: A system of competitive markets is thought of as producing an allocation of resources, through the self-interested actions of individual actors, in pursuit of profit or utility maximization.

Neoclassical theory holds that a market allocation is “optimal.”

Bowles (inspired by Polanyi) points out that markets are not just innocent allocators of resources that allow individuals to exercise their individual choices.
Effects of Markets on Society and Individuals

1. Education
   Teaches people to be selfish, indifferent, individualistic, impersonal, uninvolved.
   Markets are “cultural institutions.”

2. Domination/subordination
   In certain markets there is short-side power.

3. Problems for Democratic Political Sphere
   People trained not to be civic minded or to want to participate.
   Inequality of wealth and income undermines 1-person 1-vote.

4. Insecurity
   Prices must shift when preferences and technologies change, but shifting prices make people’s future uncertain.

5. Erosion of Non-Market Institutions
   A market system tends to undermine non-market institutions, such as families, communities, schools, and governments.
Economic Planning

What is economic planning?

Economic planning:

A process aimed at determining or influencing the allocation of resources so as to conform to a pre-determined goal or program.

The desired allocation can, in principle, be formulated by a single person or by a collective or collectives of people who arrive at the final desired allocation through some means of collective decision-making.

Note: Economic planning does not necessarily exactly achieve its aim in practice, due to unforeseen contingencies, errors in formulation or execution of the plan, malfeasance by actors, etc.
Key Features of Capitalism

- A system of commodity production
- Wage-labor relation, with appropriation of surplus value
- Production for profit
- Accumulation drive
- Tendency to produce periodic economic crises
- Requirement of a reserve army of labor large enough to permit appropriation of surplus value
- Drive to constantly change technology, introduce new products
- Drive to sell ever more products
  - sales effort, promotion of consumer lifestyle, environmental problems, spreading commodification
- Pursuit of new sources of labor power, both geographic and demographic
- Tendency to break down regional and national boundaries
- Drive to dominate other geographic regions (imperialism)
  - war
- Drive to eliminate non-capitalist institutions and systems