

COMPARATIVE ECONOMIC SYSTEMS

Semester II, 2005-06

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This course is an introduction to comparative economic systems, the field of economics that deals with the nature of an economy from an institutional and systemic vantage point and compares the institutional structures of the world's differing economies. We will look at the dramatic differences between capitalism and (mainly historical) centrally planned socialism, at concepts of market socialism and worker self-management, at the more subtle differences among different styles of capitalism, and at the process of transition from planned socialist to market economies. The main focus is on developed (industrialized) economies, although aspects of institutional structure and economic policy in developing countries are also touched upon occasionally.

The course blends three kinds of material:

- a. *conceptual*: conceptualizing the nature and problems of alternative systems of economic organization and ways to evaluate their strengths and weaknesses.
- b. *analytical*: using mathematical and graphical tools to study the models of the capitalist market system, central planning (linear programming and input-output analysis), and workers' self-management (theory of the labor-managed firm). General equilibrium analysis (Edgeworth Box diagrams, indifference curve/budget line diagrams, isoquant/isocost line diagrams, and production possibility frontiers) from Ec111 or 113 will be used frequently, and the Lorenz curve and Gini coefficient are introduced to analyze income distribution.
- c. *empirical and historical*: facts about the performance and historical experience of specific economies and groups of economies.

It is important to attend class as well as to do the reading, since often ideas and models will be presented in class that are not in the textbook.

Most course reading is from the textbook Comparing Economic Systems in the Twenty-First Century, a 2003 revision of an earlier book that went through many editions, by Paul Gregory and Robert Stuart. A packet containing additional required readings will be available shortly. Both the book and packet can be purchased at the Brown Bookstore.

*Prerequisites*: EC111 or 113. Familiarity with the concepts of macroeconomics is desirable, but EC121 will not be treated as a prerequisite for this course.

*Exams:* There will be two in-class exams scheduled roughly five and eight weeks into the semester during regular class sessions. The final exam will be given in accordance with the time scheduled by the Registrar.

*Schedule:* Tentative: no class on Thursday, April 13. Tentative exam dates: March 2 and April 6.

*Course grades:* determined according to the following formula: in-class exams, 25% each, final exam, 50%. Attendance and participation will be taken into account especially on the borders between letter grades. Warning: Grading is by standards of the “pre-grade inflation” era. A’s are reserved for excellent work, and roughly equal numbers of A, B and C grades tend to be given, with NCs possible for unsatisfactory work. Feel free to consider the S/NC grade option, understanding that its standard for passing is the same as that to earn a C under the ABC/NC option.

### EC158: TOPICS AND READINGS

#### **1. Course Introduction**

##### **The Nature of Economic Systems**

##### **“The Economic Problem”**

##### **Criteria for Evaluation of Economic Systems**

Gregory and Stuart, Ch. 1,2,3,4

#### **2. Theory of Competitive Capitalism**

Gregory and Stuart, Ch. 5.

Walter Nicholson, Microeconomic Theory, pp. 611-24: on government and public goods.

#### **3. Theory of Planned Socialism**

Gregory and Stuart, Ch. 6

Supplemental handout on input-output analysis.

Nicholson, Microeconomic Theory, pp. 584-93, “Linear Programming, Pricing of Inputs, and Duality.”

#### **4. Theory of Market Socialism and Worker Self-Management**

Gregory and Stuart, Ch. 7

\* Evsey Domar, "The Soviet Colletive Farm as a Producer Cooperative,"  
*American Economic Review*, September 1966, pp. 734-757.

Supplemental handout on theory of worker-managed firms.

## **5. Capitalism in Practice**

### **A. The U.S. and other Anglo-Saxon Economies**

Gregory and Stuart, Ch. 8.

### **B. Western European Economies**

Gregory and Stuart, Ch. 9

### **C. Japan and other Asian Capitalist Economies**

Gregory and Stuart, Ch. 10.

### **D. Worker Ownership, Profit-Sharing, and the Non-Profit Sector**

## **6. Central Planning in Practice**

### **A. The Soviet Union**

Gregory and Stuart, Ch. 11.

\*\* Alec Nove, "The Problem of 'Success Indicators' in Soviet Industry,"  
*Econometrica*, 1958, pp. 1-13.

\*\* Herbert Levine, "The Centralized Planning of Supply in Soviet  
Industry," in Comparisons of United States and Soviet Economies, United  
States Congress Joint Economic Committee (1959), pp. 151-76.

### **B. People's Republic of China**

Gregory and Stuart, pp. 308-313.

### **C. Reform under Communist Rule (including former Yugoslavia, Hungary, and China since 1978)**

Gregory and Stuart, pp. 314-338.

### **D. The Command Economies: Performance and Decline**

Gregory and Stuart, Ch. 13.

Janos Kornai, "The Soft Budget Constraint," *Kyklos*, 1986.

Barry Naughton, "What is Distinctive about China's Economic Transition?" *Journal of Comparative Economics*, 1994.

## **7. Transition from Plan to Market: Introduction**

Gregory and Stuart, Ch. 14 - 16.

## **8. Transition in Practice**

### **A. Privatization and the Introduction of Markets**

Gregory and Stuart, Ch. 17

### **B. The Macroeconomy: Fiscal and Monetary Issues**

Gregory and Stuart, Ch. 18

### **C. Transition and International Trade and Finance**

Gregory and Stuart, Ch. 19

### **D. Transition and the Safety Net**

Gregory and Stuart, Ch. 20

### **E. Transition Performance**

Gregory and Stuart, Ch. 21

### **F. Yugoslavia**

"Worker Managed Market Socialism: The Tragic Case of Yugoslavia," by Barkley and Marina Rosser, Ch. 14 of their book *Comparative Economics in a Transforming World Economy* (see Prof. Putterman's home page).

## **9. Future Prospects, Conclusion**

Gregory and Stuart, Ch. 22

\* This article is fairly technical. You are only responsible for those parts of the graphical and mathematical analysis that we also cover in class.

\*\* You need not memorize the details in these articles, but it is recommended that you read them for the flavor of what the problems of the classic Soviet command system were like.