Comparative economic systems

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Before we begin...

• Historical process: non/pre-capitalism → Capitalism → Debate/struggle over alternatives → alternatives shape each other

• Systems always undergoing change

• Theory vs. Reality, never any pure examples
What do economic systems do?

• Decide what is to be produced
• Organize resources (human labor, energy sources, tools, machines building etc) for the production
• Allocate the production results
• Decide how to reinvestment surplus (if any!)
• Provide legitimacy for the economic distribution
Different non-capitalist "systems"

- "self-sufficiency": Robinson Crusoe, families, tribes, monastaries
- Gifts, feasting (potlatch)
- Loyalty/tradition: Feudalism
Potlatch, North-West Pacific Coast 1914
Feudalism, simplified

Feudal Pyramid of Power
Capitalism (in theory)

- Private ownership of production resources (factories, machines, raw materials) \(\rightarrow\) owners = ”capitalists”
- Workers receive wages,
- Capitalists own production and sells it for money \(\rightarrow\) profit
- Consumers decide the product (consumer sovereignty)
- Capitalists decide how to reinvest profit \(\rightarrow\) accumulation
- Legitimacy: system creates wealth, capitalists take on risk/are more creative than others
Capitalism ca. 1840

- After Industrial Revolution
- Unprecedented production increase → new rich class, ”capitalists/Bourgeoisie”
- A new group: workers
- Poverty, severe conditions in factories
- Beginning of thoughts on how to change the system
• "Capitalism is a system of organizations, motivated by profit, producing goods with wage-paid employees, that is sold on markets by consumers that earn money either by profit or wage."
Marxism

- Systematized Socialism, provided a more intellectually coherent program
- History progresses through a number of different economic systems: Feudalism, Capitalism, Socialism
- Technological development $\Rightarrow$ social tensions (class struggle) $\Rightarrow$ new system
- Capitalism revolutionizes technology $\Rightarrow$ impoverishment of the labor class $\Rightarrow$ revolution $\Rightarrow$ socialism allowed by the technology created by capitalism
Socialism???

- Not much to go on from Marx!
- Planned economy
- Market socialism
- Mixed economy (most/all capitalist systems)
"The Socialist Calculation Debate"

• World Wars → planned war economies → socialism possible?
• Ludwig von Mises 1921: Need of market to set prices for calculation
• Friedrich von Hayek 1945: Market necessary to channel information to humans with limited understanding
• Information is the crucial problem of socialism → socialism is impossible!
Market socialism

- Markets not necessarily capitalist
- Market mechanism better than planning
- Oskar Lange:
  - Consumer sovereignty, central planning board experiments with prices, adjusts production after consumption
  - State owns factories, but managers act to minimize costs as if on market
  - Interest in computation and statistics as guidance
1900-1960 Socialism changes capitalism

• Labor unions $\rightarrow$ higher wages $\rightarrow$ better work conditions
• Increased rights to vote $\rightarrow$ governments introduce regulations, social security etc
• Split between social democracy and communist parties
• Depression of the 1930s $\rightarrow$ bad reputation of capitalism
• Mixed economies: large public sector, regulated markets, social security etc

• Question: Was this the beginning of a new economic system?
1928-1991 Soviet planned economy

- "Temporary arrangement" on the way to Socialism → technological development important
- "New Economic Policy": 1917-1928, mixed economy
- First 5-year plan ca 1930
- State owns all productive resources
- Planners not consumers decide what to produce
- Planners set prices and wages
- After 1991 quick market reform ("shock therapy")
1960-1991 Eastern Europe

- After 1945: Extension of Soviet model to Eastern Europe
- 1960s: reform attempts to increase market mechanism
- Yugoslavia: work-managed production units
- Hungary, Poland: market reforms from 1968
- Less reform in other countries: Albania, Romania etc
- After 1991 quick transition to market economies
1980- Neoliberalism

• Attack against ”socialist capitalism”
• Deregulations of markets
• Business-friendly, anti-regulation politicians elected: Thatcher in UK, Reagan in USA
• Fall of socialism → ”There is No Alternative”
• ”Heroic capitalism”
• Market efficiency emphasized, reforms to ensure social efficiency
1979- China, Market reforms

- Deng Xiaoping
- Markets reforms: ”Economic Special Zones”, decollectivization of agriculture, introduction of privately-owned companies
- ”Socialism with Chinese characteristics”
- Communist party still in control, cf. Russia/Eastern Europé
- Compare to NEP in Soviet Union?
- Future?
Where are we going?

- Financial meltdown 2008 $\rightarrow$ falsehood of market efficiency?
- Environmental crisis in a system based on constant accumulation?
- Technologies that dissolves private property (file-sharing, 3d-printers etc)?
- Complete mechanization of production $\rightarrow$ no workers needed $\rightarrow$ who will buy products?