

economic systems

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the way in which humankind has arranged for its material provisioning. One would think that there would be a great variety of such systems, corresponding to the many cultural arrangements that have characterized human society.

Surprisingly, that is not the case. Although a wide range of institutions and social customs have been associated with the economic activities of society, only a very small number of basic modes of provisioning can be discovered beneath this variety. Indeed, history has produced but three such kinds of economic systems: those based on the principle of tradition, those centrally planned and organized according to command, and the rather small number, historically speaking, in which the central organizing form is the market.

The very paucity of fundamental modes of economic organization calls attention to a central aspect of the problem of economic “systems”—namely, that the objective to which all economic arrangements must be addressed has itself remained unchanged throughout human history. Simply stated, this unvarying objective is the coordination of the individual activities associated with provisioning—activities that range from providing subsistence foods in hunting and gathering societies to administrative or financial tasks in modern industrial systems. What may be called “the economic problem” is the orchestration of these activities into a coherent social whole—coherent in the sense of providing a social order with the goods or services it requires to ensure its own continuance and to fulfill its perceived historic mission.

Social coordination can in turn be analyzed as two distinct tasks. The first of these is the production of the goods and services needed by the social order, a task that requires the mobilization of society's resources, including its most valuable,

human effort. Of nearly equal importance is the second task, the appropriate distribution of the product. (See distribution theory.) This distribution not only must provide for the continuance of a society's labour supply (even slaves had to be fed) but also must accord with the prevailing values of different social orders, all of which favour some recipients of income over others—men over women, aristocrats over commoners, property owners over nonowners, or political party members over nonmembers. In standard textbook treatments, the economic problem of production and distribution is summarized by three questions that all economic systems must answer: what goods and services are to be produced, how goods and services are to be produced and distributed, and for whom the goods and services are to be produced and distributed.

All modes of accomplishing these basic tasks of production and distribution rely on social rewards or penalties of one kind or another. Tradition-based societies depend largely on communal expressions of approval or disapproval. Command systems utilize the open or veiled power of physical coercion or punishment, or the bestowal of wealth or prerogatives. The third mode—the market economy—also brings pressures and incentives to bear, but the stimuli of gain and loss are not usually within the control of any one person or group of persons. Instead, the incentives and pressures emerge from the “workings” of the system itself, and, on closer inspection, those workings turn out to be nothing other than the efforts of individuals to gain financial rewards by supplying the things that others are willing to pay for.

There is a paradoxical aspect to the manner in which the market resolves the economic problem. In contrast to the conformity that guides traditional society or the obedience to superiors that orchestrates command society, behaviour in a market society is mostly self-directed and seems, accordingly, an unlikely means for achieving social integration. Yet, as economists ever since Adam Smith have delighted in pointing out, the clash of

self-directed will in the competitive market environment serves as an essential legal and social precondition for the market system to operate. Thus, the competitive engagement of self-seeking individuals results in the creation of the third, and by all odds the most remarkable, of the three modes of solving the economic problem.

Not surprisingly, these three principal solutions—of tradition, command, and market—are distinguished by the distinct attributes they impart to their respective societies. The coordinative mechanism of tradition, resting as it does on the perpetuation of social roles, is marked by a characteristic changelessness in the societies in which it is dominant. Command systems, on the other hand, are marked by their capacity to mobilize resources and labour in ways far beyond the reach of traditional societies, so that societies with command systems typically boast of large-scale achievements such as the Great Wall of China or the Egyptian pyramids. The third system, that in which the market mechanism plays the role of energizer and coordinator, is in turn marked by a historical attribute that resembles neither the routines of traditional systems nor the grandiose products of command systems. Instead, the market system imparts a galvanic charge to economic life by unleashing competitive, gain-oriented energies. This charge is dramatically illustrated by the trajectory of capitalism, the only social order in which the market mechanism has played a central role. In *The Communist Manifesto*, published in 1848, Karl Marx and Friedrich Engels wrote that in less than a century the capitalist system had created “more massive and more colossal productive forces than have all preceding generations together.” They also wrote that it was “like the sorcerer, who is no longer able to control the powers of the nether world whom he has called up by his spells.” That creative, revolutionary, and sometimes disruptive capacity of capitalism can be traced in no small degree to the market system that performs its coordinative task. (For discussion of the political and philosophical aspects of capitalism, see liberalism. For discussion of the political and

philosophical aspects of communism and socialism, see communism and socialism.)

Historical development

Prehistoric and preliterate economic systems

Although economics is primarily concerned with the modus operandi of the market mechanism, an overview of premarket coordinative arrangements not only is interesting in itself but throws a useful light on the distinctive properties of market-run societies. The earliest and by far the most historically numerous of economic systems has been that of primitive society, for which tradition serves as the central means of bestowing order. Such economic forms of social organization are likely to be far more ancient than Cro-Magnon people, although a few of these forms are still preserved by such groups as the Eskimo, Kalahari hunters, and Bedouin. So far as is known, all tradition-bound peoples solve their economic problems today much as they did 10,000 years or perhaps 10,000 centuries ago—adapting by migration or movement to changes in season or climate, sustaining themselves by hunting and gathering or by slash-and-burn agriculture, and distributing their output by reference to well-defined social claims. Elizabeth Marshall Thomas describes this distributive system in *The Harmless People*:

It seems very unequal when you watch Bushmen divide the kill, yet it is their system, and in the end no person eats more than the other. That day Ukwane gave Gai still another piece because Gai was his relation, Gai gave meat to Dasina because she was his wife's mother....No one, of course, contested Gai's large share, because he had been the hunter....No one doubted that he would share his large amount with others, and they were not wrong, of course; he did.

Besides the shared property that is perhaps the outstanding attribute of these hunting and

gathering societies, two further aspects deserve attention. The first concerns their level of subsistence, long deemed to have been one of chronic scarcity and want. According to the still controversial findings of the anthropologist Marshall Sahlins, this notion of scarcity is not true. His studies of several preliterate peoples found that they could easily increase their provisioning if they so desired. The condition usually perceived by contemporary observers as scarcity is felt by preliterate peoples as satiety; Sahlins describes preliterate life as the first “affluent society.”

A second discernible characteristic of preliterate economic systems is the difficulty of describing any part of their activities as constituting an “economy.” No special modes of coordination distinguish the activities of hunting or gathering or the procedures of distribution from the rest of social life, so there is nothing in Eskimo or Kalahari or Bedouin life that requires a special vocabulary or conceptual apparatus called “economics.” The economy as a network of provisioning activities is completely absorbed within and fully inextricable from the traditional mode of existence as a whole.

Centralized states

Very little is known of the origin of the second of the great systems of social coordination—namely, the creation of a central apparatus of command and rulership. From ancient clusters of population, impressive civilizations emerged in Egypt, China, and India during the 3rd millennium BC, bringing with them not only dazzling advances in culture but also the potent instrument of state power as a new moving force in history.

The appearance of these centralized states is arguably the single most decisive alteration in economic, and perhaps in all, history. Although tradition still exerted its stabilizing and preserving role at the base of these societies—Adam Smith said that in “Indostan or ancient Egypt...every man was bound by a principle of religion to follow the occupation of his father”—the vast temple complexes, irrigation systems, fortifications, and

cities of ancient India and China and of the kingdoms of the Inca and Maya attest unmistakably to the difference that the organizing principle of command brought to economic life. It lay in the ability of centralized authority to wrest considerable portions of the population away from their traditional occupations and to use their labour energies in ways that expressed the wishes of a ruling personage or small elite.

Herodotus recounts how the pharaoh Khufu used his power to this end:

[He] ordered all Egyptians to work for himself. Some, accordingly, were appointed to draw stones from the quarries in the Arabian mountains down to the Nile, others he ordered to receive the stones when transported in vessels across the river....And they worked to the number of a hundred thousand men at a time, each party during three months. The time during which the people were thus harassed by toil lasted ten years on the road which they constructed, and along which they drew the stones; a work, in my opinion, not much less than the Pyramids.

The creation of these monuments illustrates an important general characteristic of all systems of command. Such systems, unlike those based on tradition, can generate immense surpluses of wealth—indeed, the very purpose of a command organization of economic life can be said to lie in securing such a surplus. Command systems thereby acquire the wherewithal to change the conditions of material existence in far-reaching ways. Prior to the modern era, when command became the main coordination system for socialism, it was typical of such command systems to use this productive power principally to cater to the consumption or to the power and glory of their ruling elites.

Moral judgments aside, this highly personal

disposition of surplus has the further consequence of again resisting any sharp analytic distinction between the workings of the economy of such a society and that of its larger social framework. The methods of what could be termed “economic coordination” in a command system are identical with those that guide the imperial state in all its historical engagements, just as in primitive society the methods that coordinate the activities of production and distribution are indistinguishable from those that shape family or religious or cultural life. Thus, in command systems, as in tradition-based ones, there is no autonomous economic sphere of life separate from the basic organizing principles of the society in general.

Preconditions for market society

These general considerations throw into relief the nature of the economic problems that must be resolved in a system of market coordination. Such a system must be distinguished from the mere existence of marketplaces, which originated far back in history. Trading relations between the ancient Levantine kingdoms and the pharaohs of Egypt about 1400 BC are known from the tablets of Tell el-Amarna. A thousand years later Isocrates boasted of the thriving trade of Classical Greece, while a rich and varied network of commodity exchange and an established market for monetary capital were prominent features of Classical Rome.

These flourishing institutions of commerce testify to the ancient lineages of money, profit-mindedness, and mercantile groups, but they do not testify to the presence of a market system. In premarket societies, markets were the means to join suppliers and demanders of luxuries and superfluities, but they were not the means by which the provision of essential goods and services was assured. For these purposes, ancient kingdoms or republics still looked to tradition and command, utilizing slavery as a basic source of labour (including captives taken in war) and viewing with disdain the profit orientation of market life. This disdain applied particularly to the use of the incentives and penalties of the market as a means

of marshaling labour. Aristotle expressed the common feeling of his age when he declared, "The condition of the free man is that he does not live for the benefit of another." With the exception of some military service (*see* mercenary), nonslave labour was simply not for sale.

The difference between a society with flourishing markets and a market-coordinated society is not, therefore, merely one of attitudes. Before a system orchestrated by the market can replace one built on obedience to communal or authoritarian pressure, the social orders dependent on tradition and command must be replaced by a new order in which individuals are expected to fend for themselves and in which all are permitted—even encouraged—to improve their material condition. Individuals cannot have such aims, much less such "rights," until the dominant authority of custom or hierarchical privilege has been swept away. A rearrangement of this magnitude entails wrenching dislocations of power and prerogative. A market society is not, consequently, merely a society coordinated by markets. It is, of necessity, a social order with a distinctive structure of laws and privileges.

It follows that a market society requires an organizing principle that, by definition, can no longer be the respect accorded to tradition or the obedience owed to a political elite. This principle becomes the generalized search for material gain—a striving for betterment that is unique to each individual. Such a condition of universal upward striving is unimaginable in a traditional society and could be seen only as a dangerous threat in a society built on established hierarchies of authority. But, for reasons that will be seen, it is accommodated by, and indeed constitutive of, the workings of a market system.

The process by which these institutional and attitudinal changes are brought about constitutes a grand theme—perhaps the grand theme—of economic history from roughly the 5th to the 18th and even into the 19th century in Europe. In terms of political history, the period was marked by the

collapse of the Roman Empire, the rise of feudalism, and the slow formation of national states. In social terms, it featured the end of an order characterized by an imperial retinue at the top and massive slavery at the bottom, that order's replacement by gradations of feudal vassalage descending from lord to serf, and the eventual appearance of a bourgeois society with distinct classes of workers, landlords, and entrepreneurs. From the economist's perspective, the period was marked by the breakdown of a coordinative mechanism of centralized command, the rise of the mixed pressures of tradition and local command characteristic of the feudal manor, and the gradual displacement of those pressures by the material penalties and rewards of an all-embracing market network. In this vast transformation the rise of the market mechanism became crucial as the means by which the new social formation of capitalism ensured its self-provisioning, but the mechanism itself rested on deeper-lying social, cultural, and political changes that created the capitalist order it served.

To attempt to trace these lineages of capitalism would take one far beyond the confines of the present subject. Suffice it to remark that the emergence of the new order was first given expression in the 10th and 11th centuries, when a rising mercantile "estate" began to bargain successfully for recognition and protection with the local lords and monarchs of the early Middle Ages. Not until the 16th and 17th centuries was there a "commercialization" of the aristocratic strata, many of whose members fared poorly in an ever more money-oriented world and accordingly contracted marriages with wealthy merchant families (whom they would not have received at home a generation or two earlier) to preserve their social and material status. Of greatest significance, however, was the transformation of the lower orders, a process that began in Elizabethan England but did not take place en masse until the 18th and even the 19th century. As feudal lords became profit-minded landlords, peasants moved off the land to become an agricultural proletariat in search of the best wages

obtainable, because traditional subsistence was no longer available. Thus, the market network extended its disciplinary power over “free” labour—the resource that had previously eluded its influence. The resulting social order made it possible for markets to coordinate production and distribution in a manner never before possible.

Market systems

The evolution of capitalism

From mercantilism to commercial capitalism

It is usual to describe the earliest stages of capitalism as mercantilism, the word denoting the central importance of the merchant overseas traders who rose to prominence in 17th- and 18th-century England, Germany, and the Low Countries. In numerous pamphlets, these merchants defended the principle that their trading activities buttressed the interest of the sovereign power, even when, to the consternation of the court, this required sending “treasure” (bullion) abroad. As the pamphleteers explained, treasure used in this way became itself a commodity in foreign trade, in which, as the 17th-century merchant Thomas Mun wrote, “we must ever observe this rule; to sell more to strangers than we consume of theirs in value.”

For all its trading mentality, mercantilism was only partially a market-coordinated system. Adam Smith complained bitterly about the government monopolies that granted exclusive trading rights to groups such as the East India or the Turkey companies, and modern commentators have emphasized the degree to which mercantilist economies relied on regulated, not free, prices and wages. The economic society that Smith described in *The Wealth of Nations* in 1776 is much closer to modern society, although it differs in many respects, as shall be seen. This 18th-century stage is called “commercial capitalism,” although it should be noted that the word capitalism itself does not actually appear in the pages of Smith's book.

Smith's society is nonetheless recognizable as capitalist precisely because of the prominence of those elements that had been absent in its mercantilist form. For example, with few exceptions, the production and distribution of all goods and services were entrusted to market forces rather than to the rules and regulations that had abounded a century earlier. The level of wages was likewise mainly determined by the interplay of the supply of, and the demand for, labour—not by the rulings of local magistrates. A company's earnings were exposed to competition rather than protected by government monopoly.

Perhaps of greater importance in perceiving Smith's world as capitalist as well as market-oriented is its clear division of society into an economic realm and a political realm. The role of government had been gradually narrowed until Smith could describe its duties as consisting of only three functions: (1) the provision of national defense, (2) the protection of each member of society from the injustice or oppression of any other, and (3) the erection and maintenance of those public works and public institutions (including education) that would not repay the expense of any private enterpriser, although they might “do much more than repay it” to society as a whole. And if the role of government in daily life had been delimited, that of commerce had been expanded. The accumulation of capital had come to be recognized as the driving engine of the system. The expansion of “capitals”—Smith's term for firms—was the determining power by which the market system was launched on its historic course.

Thus, *The Wealth of Nations* offered the first precise description of both the dynamics and the coordinative processes of capitalism. The latter were entrusted to the market mechanism—which is to say, to the universal drive for material betterment, curbed and contained by the necessary condition of competition. Smith's great perception was that the combination of this drive and counterforce would direct productive activity toward those goods and services for which the public had the means and desire to pay while

forcing producers to satisfy those wants at prices that yielded no more than normal profits. Later economists would devote a great deal of attention to the question of whether competition in fact adequately constrains the workings of the acquisitive drive and whether a market system might not display cycles and crises unmentioned in *The Wealth of Nations*. These were questions unknown to Smith, because the institutions that would produce them, above all the development of large-scale industry, lay in the future. Given these historical realities, one can only admire Smith's perception of the market as a means of solving the economic problem.

Smith also saw that the competitive search for capital accumulation would impart a distinctive tendency to a society that harnessed its motive force. He pointed out that the most obvious way for a manufacturer to gain wealth was to expand his enterprise by hiring additional workers. As firms expanded their individual operations, manufacturers found that they could subdivide complex tasks into simpler ones and could then speed along these simpler tasks by providing their operatives with machinery. Thus, the expansion of firms made possible an ever-finer division of labour, and the finer division of labour, in turn, improved profits by lowering the costs of production and thereby encouraging the further enlargement of the firms. In this way, the incentives of the market system gave rise to the augmentation of the wealth of the nation itself, endowing market society with its all-important historical momentum and at the same time making room for the upward striving of its members.

One final attribute of the emerging system must be noted. This is the tearing apart of the formerly seamless tapestry of social coordination. Under capitalism two realms of authority existed where there had formerly been only one—a realm of political governance for such purposes as war or law and order and a realm of economic governance over the processes of production and distribution. Each realm was largely shielded from the reach of the other. The capitalists who

dominated the market system were not automatically entitled to governing power, and the members of government were not entrusted with decisions as to what goods should be produced or how social rewards should be distributed. This new dual structure brought with it two consequences of immense importance. The first was a limitation of political power that proved of very great importance in establishing democratic forms of government. The second, closer to the present theme, was the need for a new kind of analysis intended to clarify the workings of this new semi-independent realm within the larger social order. As a result, the emergence of capitalism gave rise to the discipline of economics.

From commercial to industrial capitalism

Commercial capitalism proved to be only transitional. The succeeding form would be distinguished by the pervasive mechanization and industrialization of its productive processes, changes that introduced new dynamic tendencies into the economic system while significantly transforming the social and physical landscape.

The transformative agency was already present in Smith's day, observable in a few coal mines where steam-driven engines invented by Thomas Newcomen pumped water out of the pits. The diffusion and penetration of such machinery-driven processes of production during the first quarter of the 19th century has been traditionally called "the" Industrial Revolution, although historians today stress the long germination of the revolution and the many phases through which it passed. There is no doubt, however, that a remarkable confluence of advances in agriculture, cotton spinning and weaving, iron manufacture, and machine-tool design and the harnessing of mechanical power began to alter the character of capitalism profoundly in the last years of the 18th century and the first decades of the 19th.

The alterations did not affect the driving motive of the system or its reliance on market forces as its coordinative principles. Their effect was rather

on the cultural complexion of the society that contained these new technologies and on the economic outcome of the processes of competition and capital accumulation. This aspect of industrialization was most immediately apparent in the advent of the factory as the archetypal locus of production. In Smith's time the individual enterprise was still small—the opening pages of *The Wealth of Nations* describe the effects of the division of labour in a 10-man pin factory—but by the early 19th century the increasing mechanization of labour, coupled with the application of waterpower and steam power, had raised the size of the workforce in an ordinary textile mill to several hundreds; by mid-century in the steel mills it was up to several thousands, and by the end of the century in the railways it was in the tens of thousands.

The increase in the scale of employment brought a marked change in the character of work itself. In Smith's day the social distance between employer and labourer was still sufficiently small that the very word manufacturer implied an occupation (a mechanic) as well as an ownership position. However, early in the 19th century William Blake referred to factories as “dark Satanic mills” in his epic poem *Jerusalem*, and by the 1830s a great gulf had opened between the manufacturers, who were now a propertied business class, and the men, women, and children who tended machinery and laboured in factories for 10- and 12-hour stints. It was from the spectacle of mill labour, described in unsparing detail by the inspectors authorized by the first Factory Act of 1802, that Marx drew much of the indignation that animated his analysis of capitalism. More important, it was from this same factory setting, and from the urban squalor that industrialization also brought, that capitalism derived much of the social consciousness—sometimes revolutionary, sometimes reformist—that was to play so large a part in its subsequent political life. Works such as Charles Dickens's *Hard Times* (1854) depicted the factory system's inhumanity and the underlying economic doctrines that supposedly justified it. While these works brought attention to the social

problems stemming from industrialization, they also tended to discount the significant improvements in the overall standard of living (as measured by the increases in life expectancy and material comforts) that accompanied modernization. Country life of just a generation earlier had been no less cruel, and in some respects it was more inhuman than the factory system being criticized. Those critics who failed to compare the era of industrialization with the one that immediately preceded it also failed to account for the social and economic progress that had touched the lives of ordinary people.

The degradation of the physical and social landscape was the aspect of industrialization that first attracted attention, but it was its slower-acting impact on economic growth that was ultimately to be judged its most significant effect. A single statistic may dramatize this process. Between 1788 and 1839 the output of pig iron in Britain rose from 68,000 to 1,347,000 tons. To fully grasp the significance of this 20-fold increase, one has to consider the proliferation of iron pumps, iron machine tools, iron pipes, iron rails, and iron beams that it made possible; these iron implements, in turn, contributed to faster and more dependable production systems. This was the means by which the first Industrial Revolution promoted economic growth, not immediately but with gathering momentum. Thirty years later this effect would be repeated with even more spectacular results when the Bessemer converter ushered in the age of steel rails, ships, machines, girders, wires, pipes, and containers.

The most important consequence of the industrialization of capitalism was therefore its powerful effect on enhancing what Marx called “the forces of production”—the source of what is now called the standard of living. The Swiss economic demographer Paul Bairoch calculated that gross national product (GNP) per capita in the developed countries rose from \$180 in the 1750s (in dollars of 1960 purchasing power) to \$780 in the 1930s and then to \$3,000 in the 1980s, whereas the per capita income of the less-

developed countries remained unchanged at about \$180-\$190 from 1750 to 1930 and thereafter rose only to \$410 in 1980. (This seemingly persistent gap between the richest and the poorest countries, which contradicts the predictions of the standard theory of economic growth, has increasingly occupied the attention of contemporary economists. Although the question is answered in part by explaining that the rich countries have experienced industrialization and the poor ones have not, the question remains why some have experienced industrialization and others have not.)

The development of industrialization was accompanied by periodic instability in the 18th and 19th centuries. Not surprisingly, then, one side effect of industrialization was the effort to minimize or prevent economic shocks by linking firms together into cartels or trusts or simply into giant integrated enterprises. Although these efforts dampened the repercussions of individual miscalculations, they were insufficient to guard against the effects of speculative panics or commercial convulsions. By the end of the 19th century, economic depressions had become a worrisome and recurrent problem, and the Great Depression of the 1930s rocked the entire capitalist world. During that debacle, GNP in the United States fell by almost 50 percent, business investment fell by 94 percent, and unemployment rose from 3.2 to nearly 25 percent of the civilian labour force. Economists have long debated the causes of the extraordinary increase in economic instability from 1830 to 1930. Some point to the impact of growth in the scale of production evidenced by the shift from small pin factories to giant enterprises. Others emphasize the role of miscalculations and mismatches in production. And still other explanations range from the inherent instability of capitalist production (particularly for large-scale enterprises) to the failure of government policy (especially with regard to the monetary system).

From industrial to state capitalism

The perceived problem of inherent instability

takes on further importance insofar as it is a principal cause of the next structural phase of the system. The new phase is often described as state capitalism because its outstanding feature is the enlargement in size and functions of the public realm. In 1929, for example, total U.S. government expenditures—federal, state, and local—came to less than one-tenth of GNP; from the 1970s they amounted to roughly one-third. This increase is observable in all major capitalist nations, many of which have reached considerably higher ratios of government disbursements to GNP than the United States.

At the same time, the function of government changed as decisively as its size. Already by the last quarter of the 19th century, the emergence of great industrial trusts had provoked legislation in the United States (although not in Europe) to curb the monopolistic tendencies of industrialization. Apart from these antitrust laws and the regulation of a few industries of special public concern, however, the functions of the federal government were not significantly broadened from Smith's vision. Prior to the Great Depression, for example, the great bulk of federal outlays went for defense and international relations, for general administrative expense and interest on the debt, and for the post office.

The Great Depression radically altered this limited view of government in the United States, as it had earlier begun to widen it in Europe. The provision of old-age pensions, relief for the hungry and poor, and a dole for the unemployed were all policies inaugurated by the administration of President Franklin D. Roosevelt, following the example of similar enlargements of government functions in Britain, France, and Germany. From the 1970s onward, such new kinds of federal spending—under the designation of social security, health, education, and welfare programs—grew to be 20 to 50 percent larger than the traditional categories of federal spending.

Thus, one very important element in the advent of a new stage of capitalism was the emergence of a

large public sector expected to serve as a guarantor of public economic well-being, a function that would never have occurred to Smith. A second and equally important departure was the new assumption that governments themselves were responsible for the general course of economic conditions. This was a change of policy orientation that also emerged from the challenge of the Great Depression. Once regarded as a matter beyond remedy, the general level of national income came to be seen by the end of the 1930s as the responsibility of government, although the measures taken to improve conditions were on the whole timid, often wrongheaded (such as highly protectionist trade policies), and only modestly successful. Nonetheless, the appearance in that decade of a new economic accountability for government constitutes in itself sufficient reason to describe capitalism today in terms that distinguish it from its industrial, but largely unguided, past.

There is little doubt that capitalism will continue to undergo still further structural alterations. Technological advances are rapidly reducing to near insignificance the once-formidable barriers and opportunities of economic geography. Among the startling consequences of this technological leveling of the world have been the large displacements of high-tech manufacturing from Europe and North America to the low-wage regions of Southwest Asia, Latin America, and Africa. Another change has been the unprecedented growth of international finance to the point that, by the beginning of the 21st century, the total value of transactions in foreign exchange was estimated to be at least 20 times that of all foreign movements of goods and services. This boundary-blind internationalization of finance, combined with the boundary-defying ability of large corporations to locate their operations in low-wage countries, poses a challenge to the traditional economic sovereignty of nations, a challenge arising from the new capabilities of capital itself.

A third change again involves the international

economy, this time through the creation of new institutions for the management of international economic trade. A number of capitalist nations have met the challenges of the fast-growing international economy by joining the energies of the private sector (including organized labour) to the financial and negotiating powers of the state. This “corporatist” approach, most clearly evident in the organization of the Japanese economy, was viewed with great promise in the 1980s but in the 1990s was found to be severely vulnerable to opportunistic behaviour by individuals in both the public and the private sectors. Thus, at the onset of the 21st century, the consensus on the economic role of government in capitalism shifted back from the social democratic interventionism of the Keynesian system and the managed market economies of the “Asian tigers” (countries such as Hong Kong, Singapore, Malaysia, and South Korea that experienced rapid growth in the late 20th century) to the more noninterventionist model of Adam Smith and the classical economists.

It is not necessary, however, to venture risky predictions concerning economic policy. Rather, it seems more useful to posit two generalizations. The first emphasizes that capitalism in all its variations continues to be distinguished from other economic systems by the priority accorded to the drive for wealth and the centrality of the competitive mechanism that channels this drive toward those ends that the market rewards. The spirit of enterprise, fueled by the acquisitive culture of the market, is the source of the dynamism of capitalism. The second generalization is that this driving force and constraining mechanism appear to be compatible with a wide variety of institutional settings, including substantial variations in the relationships between the private and public sectors. The form of capitalism taken also differs between nations, because the practice of it is embedded within cultures; even the forces of globalization and the threat of homogenization have proved to be more myth than reality. Markets cater to national culture as much as national culture mutates to conform to the discipline of profit and loss. It is to

this very adaptability that capitalism appears to owe its continued vitality.

Criticisms of capitalism

Advocates and critics of capitalism agree that its distinctive contribution to history has been the encouragement of economic growth. Capitalist growth is not, however, regarded as an unalloyed benefit by its critics. Its negative side derives from three dysfunctions that reflect its market origins.

The unreliability of growth

The first of these problems is already familiar from the previous discussion of the stages of capitalist development. Many critics have alleged that the capitalist system suffers from inherent instability that has characterized and plagued the system since the advent of industrialization. Because capitalist growth is driven by profit expectations, it fluctuates with the changes in technological or social opportunities for capital accumulation. As opportunities appear, capital rushes in to take advantage of them, bringing as a consequence the familiar attributes of a boom. Sooner or later, however, the rush subsides as the demand for the new products or services becomes saturated, bringing a halt to investment, a shakeout in the main industries caught up in the previous boom, and the advent of recession. Hence, economic growth comes at the price of a succession of market gluts as booms meet their inevitable end.

This criticism did not receive its full exposition until the publication of the first volume of Marx's *Das Kapital* in 1867. For Marx, the path of growth is not only unstable for the reasons just mentioned—Marx called such uncoordinated movements the “anarchy” of the market—but increasingly unstable. Marx believed that the reason for this is also familiar. It is the result of the industrialization process, which leads toward large-scale enterprises. As each saturation brings growth to a halt, a process of winnowing takes place in which the more successful firms are able to acquire the assets of the less successful. Thus,

the very dynamics of growth tend to concentrate capital into ever-larger firms. This leads to still more massive disruptions when the next boom ends, a process that terminates, according to Marx, only when the temper of the working class snaps and capitalism is replaced by socialism.

Beginning in the 1930s, Marx's apocalyptic expectations were largely replaced by the less-violent but equally disquieting views of the English economist John Maynard Keynes, first set forth in his influential *The General Theory of Employment, Interest, and Money* (1936). Keynes believed that the basic problem of capitalism is not so much its vulnerability to periodic saturations of investment as its likely failure to recover from them. He raised the possibility that a capitalist system could remain indefinitely in a condition of equilibrium despite high unemployment, a possibility not only entirely novel (even Marx believed that the system would recover its momentum after each crisis) but also made plausible by the persistent unemployment of the 1930s. Keynes therefore raised the prospect that growth would end in stagnation, a condition for which the only remedy he saw was "a somewhat comprehensive socialization of investment."

The quality of growth

A second criticism with respect to market-driven growth focuses on the adverse side effects generated by a system of production that is held accountable only to the test of profitability. It is in the nature of a complex industrial society that the production processes of many commodities generate "bads" as well as "goods"—e.g., toxic wastes or unhealthy working conditions as well as useful products.

The catalog of such market-generated ills is very long. Smith himself warned that the division of labour, by routinizing work, would render workers "as stupid and ignorant as it is possible for a human creature to become," and Marx raised the spectre of alienation as the social price paid for subordinating production to the imperatives of profit making. Other economists warned that the

introduction of technology designed to cut labour costs would create permanent unemployment. In modern times much attention has focused on the power of physical and chemical processes to surpass the carrying capacity of the environment—a concern made cogent by various types of environmental damage arising from excessive discharges of industrial effluents and pollutants. Because these social and ecological challenges spring from the extraordinary powers of technology, they can be viewed as side effects of socialist as well as capitalist growth. But the argument can be made that market growth, by virtue of its overriding obedience to profit, is congenitally blind to such externalities.

Equity

A third criticism of capitalist growth concerns the fairness with which capitalism distributes its expanding wealth or with which it shares its recurrent hardships. This criticism assumes both specific and general forms.

The specific form focuses on disparities in income among layers of the population. At the turn of the 21st century in the United States, for example, the lowest fifth of all households received only 3.6 percent of total income, whereas the topmost fifth received 49 percent. Significantly, this disparity results from the concentration of assets in the upper brackets. Also, the disparity is the consequence of highly skewed patterns of corporate rewards that typically give, say, chief executive officers of large companies 50 to 100 times more income than those of ordinary office or factory employees. Income disparities, however, should be understood in perspective, as they stem from a number of causes. In its 1995 annual report the Federal Reserve Bank of Dallas observed,

By definition, there will always be a bottom 20 percent, but only in a strict caste society will it contain the same individuals and families year after year.

Moving from specific examples of distribution to a

more general level, the criticism may be broadened to an indictment of the market principle itself as the regulator of incomes. An advocate of market-determined distribution will declare that in a market-based society, with certain exceptions, people tend to be paid what they are worth—that is, their incomes will reflect the value of their contribution to production. Thus, market-based rewards lead to the efficiency of the productive system and thereby maximize the total income available for distribution. This argument is countered at two levels. Marxist critics contend that labourers in a capitalist economy are systematically paid less than the value of their work by virtue of the superior bargaining power of employers, so that the claim of efficiency masks an underlying condition of exploitation. Other critics question the criterion of efficiency itself, which counts every dollar of input and output but pays no heed to the moral or social or aesthetic qualities of either and which excludes workers from expressing their own preferences as to the most appropriate decisions for their firms.

Corrective measures

Various measures have been taken by capitalist societies to meet these criticisms, although it must be recognized that a deep disagreement divides economists with respect to the accuracy of the criticisms, let alone the appropriate corrective measures to be adopted if these criticisms are valid. A substantial body of economists believe that many of the difficulties of the system spring not from its own workings but from well-meaning attempts to block or channel them. Thus, with respect to the problem of instability, supporters of the market system believe that capitalism, left alone as much as possible, will naturally corroborate the trend of economic expansion that has marked its history. They also expect that whatever instabilities appear tend quickly to correct themselves, provided that government plays a generally passive role. Market-oriented economists do not deny that the system can give rise to qualitative or distributional ills, but they tend to believe that these are more than

compensated for by its general expansive properties. Where specific problems remain, such as damage to the environment or serious poverty, the prescription often seeks to utilize the market system itself as the corrective agency—e.g., alleviating poverty through negative income taxes rather than with welfare payments or controlling pollution by charging fees on the outflow of wastes rather than by banning the discharge of pollutants.

Opposing this view is a much more interventionist approach rooted in generally Keynesian and welfare-oriented policies. This view doubts the intrinsic momentum or reliability of capitalist growth and is therefore prepared to use active government means, both fiscal and monetary, to combat recession. It is also more skeptical of the likelihood of improving the quality or the equity of society by market means and, although not opposing these, looks more favourably on direct regulatory intervention and on specific programs of assistance to disprivileged groups.

Despite this philosophical division of opinion, a fair degree of practical consensus was reached on a number of issues in the 1950s and '60s. Although there are differences in policy style and determination from one nation to the next, all capitalist governments have taken measures to overcome recession—whether by lowering taxes, by borrowing and spending, or by easing interest rates—and all pursue the opposite kinds of policies in inflationary times. It cannot be said that these policies have been unqualified successes, either in bringing about vigorous or steady growth or in ridding the system of its inflationary tendencies. Yet, imperfect though they are, these measures seem to have been sufficient to prevent the development of socially destructive depressions on the order of the Great Depression of the 1930s. It is not the eradication but the limitation of instability that has been a signal achievement of all advanced capitalist countries since World War II. It should be noted, however, that these remedial measures have little or no international application. Although the World Bank and the

International Monetary Fund make efforts on behalf of developing countries, no institution exists to control credit for the world (as do the central banks that control it for individual nations); no global spending or taxing authority can speed up, or hold back, the pace of production for industrial regions as a whole; no agency effectively oversees the availability of credit for the developing nations or the feasibility of the terms on which it may be extended. Thus, some critics of globalization contend that the internationalization of capitalism may exert destabilizing influences for which no policy corrective as yet exists.

A broadly similar appraisal can be made with respect to the redress of specific threats that emerge as unintended consequences of the market system. The issue is largely one of scale. Specific problems can often be redressed by market incentives to alter behaviour (paying a fee for returning used bottles) or, when the effect is more serious, by outright prohibition (bans on child labour or on dangerous chemical fertilizers). The problem becomes less amenable to control, however, when the market generates unintended consequences of large proportions, such as traffic congestion in cities. The difficulty here is that the correction of such externalities requires the support and cooperation of the public and thereby crosses the line from the economic into the political arena, often making redress more difficult to obtain. On a still larger scale, the remedy for some problems may require international agreements, and these often raise conflicts of interest between the nation generating the ill effects as a by-product of its own production and those suffering from the effects. The problem of acid rain originating in one country but falling in another is a case in point. Again the economic problem becomes political and its control more complicated.

A number of remedies have been applied to the distributional problems of capitalism. No advanced capitalist country today allows the market to distribute income without supplementing or

altering the resulting pattern of rewards through taxes, subsidies, welfare systems, or entitlement payments such as old-age pensions and health benefits. In the United States, these transfer payments, as they are called, amount to some 10 percent of total consumer income; in a number of European nations, they come to considerably more. The result has been to lessen considerably the incidence of officially measured poverty.

Yet these examples of successful corrective action by governments do not go unchallenged by economists who are concerned that some of the “cures” applied to social problems may be worse than the “disease.” While admitting that the market system fails to live up to its ideal, these economists argue that government correctives and collective decision making must be subjected to the same critical scrutiny leveled against the market system. Markets may fail, in other words, but so might governments. The stagflation of the 1970s, the fiscal crises of some democratic states in the 1980s, and the double-digit unemployment in western Europe in the 1990s set the stage for the 21st century by raising serious doubts about the ability of government correctives to solve market problems.

Centrally planned systems

No survey of comparative economic systems would be complete without an account of centrally planned systems, the modern descendants of the command economies of the imperial past. In sharpest possible contrast to those earlier tributary arrangements, however, modern command societies have virtually all been organized in the name of socialism—that is, with the function of command officially administered on behalf of an ideology purported to serve the broad masses of the population.

Socialist central planning needs to be differentiated from the idea of socialism itself. The latter draws on moral precepts of concern for the needy that can be discovered in the Judeo-Christian tradition and derives its general social orientation from Gerrard Winstanley's Diggers

movement during the English Civil Wars in the mid-17th century: “The Earth,” Winstanley wrote, “was made by Almighty God to be a Common Treasury of livelihood to the whole of mankind... without respect of persons.”

Socialism as a means of orchestrating a modern industrial system did not receive explicit attention until the Russian Revolution in 1917. In his pamphlet *The State and Revolution*, written before he came to power, Vladimir Lenin envisaged the task of coordinating a socialist economy as little more than delivering production to central collecting points from which it would be distributed according to need—an operation requiring no more than “the extraordinarily simple operations of watching, recording, and issuing receipts, within the reach of anybody who can read and who knows the first four rules of arithmetic.” After the revolution it soon became apparent that the problem was a great deal more difficult than that. The mobilization of human capital required the complex determination of appropriate amounts and levels of pay, and the transportation of foodstuffs from the countryside posed the awkward question of the degree to which the “bourgeois” peasantry would have to be accommodated. As civil war raged in the country, these problems intensified until production fell to a catastrophic 14 percent of prewar levels. By the end of 1920, the economic system of the Soviet Union was on the verge of collapse.

To forestall disaster, Lenin instituted the New Economic Policy (NEP), which amounted to a partial restoration of capitalism, especially in retail trade, small-scale production, and agriculture. Only the “commanding heights” of the economy remained in government hands. The NEP resuscitated the economy but opened a period of intense debate as to the use of market incentives versus moral suasion or more coercive techniques. The debate, which remained unresolved during Lenin's life, persisted after his death in 1924 during the subsequent struggle for power between Joseph Stalin, Leon Trotsky, and Nikolay Bukharin. Stalin's rise to power brought a rapid

collectivization of the economy. The NEP was abandoned. Private agriculture was converted into collective farming with great cruelty and loss of life; all capitalist markets and private enterprises were quickly and ruthlessly eliminated; and the direction of economic life was consigned to a bureaucracy of ministries and planning agencies. By the 1930s a structure of centralized planning had been put into place that was to coordinate the Russian economy for the next half century.

Soviet planning

At the centre of the official planning system was the Gosplan (*gos* means “committee”), the top economic planning agency of the Soviet state. Above the Gosplan were the political arms of the Soviet government, while below it were smaller planning agencies for the various Soviet republics. The Gosplan itself was staffed by economists and statisticians charged with drawing up what amounted to a blueprint for national economic activity. This blueprint, usually based on a five- to seven-year period, translated the major objectives determined by political decision (electrification targets, agricultural goals, transportation networks, and the like) into industry-specific requirements (outputs of generators, fertilizers, steel rails). These general requirements were then referred to ministries charged with the management of the industries in question, where the targets were further broken down into specific outputs (quantities, qualities, shapes, and sizes of steel plates, girders, rods, wires, and so forth) and where lower-level goals were fixed, such as budgets for firms, wage rates for different skill levels, or managerial bonuses.

Planning was not, therefore, entirely a one-way process. General objectives were indeed transmitted from the top down, but, as each ministry and factory inspected its obligations, specific obstacles and difficulties were transmitted from the bottom up. The final plan was thus a compromise between the political objectives of the Central Committee of the Communist Party and the nuts-and-bolts considerations of the echelons charged with its

execution. This coordinative mechanism worked reasonably well when the larger objectives of the system called for the kind of crash planning often seen in a war economy. The Soviet economy achieved unprecedented rapid progress in its industrialization drive before World War II and in repairing the devastation that followed the war. Moreover, in areas where the political stakes were high, such as space technology, the planning system was able to concentrate skills and resources regardless of cost, which enabled the Soviet Union on more than one occasion to outperform similar undertakings in the West. Yet, charged with the orchestration of a civilian economy in normal peacetime conditions, the system of centralized planning failed seriously.

Because of its failures, a far-reaching reorganization of the system was set into motion in 1985 by Mikhail Gorbachev, under the banner of perestroika (“restructuring”). The extent of the restructuring can be judged by these proposed changes in the coordinative system: (1) the scope and penetration of central planning were to be greatly curtailed and directed instead toward general economic goals, such as rates of growth, consumption or investment targets, or regional development; (2) planning done for factory enterprises was to be taken up by factories themselves, and decisions were to be guided by considerations of profit and loss; (3) factory managers were no longer to be bound by instructions regarding which suppliers to use or where to distribute their products but were to be free to buy from and to sell to whomever they pleased; (4) managers were also to be free to hire and—more important—to fire workers who had been difficult to discharge; and (5) many kinds of small private enterprises were to be encouraged, especially in farming and the retail trades.

This program represented a dramatic retreat from the original idea of central planning. One cannot say, however, that it also represented a decisive turn from socialism to capitalism, for it was not clear to what extent the restructured planning system might embody other essential features of

capitalism, such as private ownership of the means of production and the exclusion of political power from the normal operations of economic life. Nor was it known to what extent economic perestroika was to be accompanied by its political counterpart, glasnost (“openness”). Thus, the degree of change in both the economic structure and the underlying political order remained indeterminate.

The record of perestroika over the rest of the 1980s was disappointing. After an initial flush of enthusiasm, the task of abandoning the centralized planning system proved to be far more difficult than anticipated, in part because the magnitude of such a change would have necessitated the creation of a new structure of economic (managerial) power, independent of, and to some extent in continuous tension with, that of political power, much as under capitalism. Also, the operation of the centralized planning system, freed from some of the coercive pressures of the past but not yet infused with the energies of the market, rapidly deteriorated. Despite bumper crops, for example, it was impossible to move potatoes from the fields to retail outlets, so that rations decreased and rumours of acute food shortages raced through Moscow. By the end of the 1980s, the Soviet system was facing an economic breakdown more severe and far-reaching than the worst capitalist crisis of the 1930s. Not surprisingly, the unrest aroused ancient nationalist rivalries and ambitions, threatening the dismemberment of the Soviet economic and political empire.

As the Soviet central government gradually lost control over the economy at the republic and local levels, the system of central planning eroded without adequate free-market mechanisms to replace it. By 1990 the Soviet economy had slid into near paralysis, and this condition foreshadowed the fall from power of the Soviet Communist Party and the breakup of the Soviet Union itself into a group of independent republics in 1991.

Attempts to transform socialist systems into market economies began in eastern and central Europe in 1989 and in the former Soviet Union in 1992. Ambitious privatization programs were pursued in Poland, Hungary, Germany, the Czech Republic, and Russia. In many countries this economic transformation was joined by a transition (although with varying degrees of success) to democratic forms of governance.

Mixed economies

The socialist turn from planning toward the market provides a fitting initial conclusion to this overview of the typology of economic systems, for it is apparent that the three ideal types—of tradition, command, and market—have never been attained in wholly pure form. Perhaps the most undiluted of these modes in practice has been that of tradition, the great means of orchestration in prestate economic life. But even in tradition a form of command can be seen in the expected obedience of community members to the sanctions of tradition. In the great command systems of the past, as has been seen, tradition supplied important stabilizing functions, and traces of market exchange served to connect these systems to others beyond their borders. The market system as well has never existed in wholly pure form. Market societies have always taken for granted that tradition would provide the foundation of trustworthiness and honesty without which a market-knit society would require an impossible degree of supervision, and no capitalist society has ever existed without a core of public economic undertakings, of which Adam Smith's triad—defense, law and order, and nonprofitable public works—constitutes the irreducible minimum.

Thus, it is not surprising that the Soviet Union's efforts to find a more flexible amalgam of planning and market were anticipated by several decades of cautious experiment in some of the socialist countries of eastern Europe, especially Yugoslavia and Hungary, and by bold departures from central planning in China after 1979. All these economies existed in some degree of flux as their governments sought configurations best

suited to their institutional legacies, political ideologies, and cultural traditions. All of them also encountered problems similar in kind, although not in degree, to those of the Soviet Union as they sought to escape the confines of highly centralized economic control. After the Soviet Union abandoned its control over eastern Europe in 1989-90, most of that region's countries began converting their economies into capitalist-like systems.

Something of this mixed system of coordination can also be seen in the less-developed regions of the world. The panorama of these economies represents a panoply of economic systems, with tradition-dominated tribal societies, absolute monarchies, and semifeudal societies side by side with military socialisms and sophisticated but unevenly developed capitalisms. To some extent, this spectrum reflects the legacy of 19th-century imperialist capitalism, against whose cultural as well as economic hegemony all latecomers have had to struggle. Little can be ventured as to the outcome of this astonishing variety of economic structures. A few may follow the corporatist model of the Asian tigers and the economies of the Pacific Rim (a group of Pacific Ocean countries and islands that constitute more than half of the world's population); others may emulate the social democratic welfare states of western Europe; a few will pursue a more laissez-faire approach; yet others will seek whatever method—either market or planned—that might help them establish a viable place in the international arena. Unfortunately, many are likely to remain destitute for some time. In this fateful drama, considerations of culture and politics are likely to play a more determinative role than any choice of economic instrumentalities.

Problems with socialism

The socialist experiments of the 20th century were motivated by a genuine interest in improving life for the masses, but the results instead delivered untold suffering in terms of economic deprivation and political tyranny. Nonetheless, the egalitarian values that inspired the socialist experiments

continue to possess great intellectual and moral appeal. And while socialism has proved less attractive than democratic capitalism, many of the most normatively attractive elements of socialism have been incorporated into democratic systems, as evidenced by public support for spending on social programs.

The chief economic problem of socialism has been the efficient performance of the very task for which its planning apparatus exists—namely, the effective coordination of production and distribution. Modern critics have declared that a planned economy is impossible—i.e., will inevitably become unmanageably chaotic—by virtue of the need for a planning agency to make the millions of dovetailing decisions necessary to produce the gigantic catalog of goods and services of a modern society. Moreover, classical economists would criticize the perverse incentives caused by the absence of private property rights. Precisely such problems became manifest in the late 1980s in the Soviet Union.

The proposed remedy to the problems of socialism involves the use of market arrangements under which managers are free to conduct the affairs of their enterprises according to the dictates of supply and demand (rather than those of a central authority). The difficulty with this solution lies in its political rather than economic requirements, because the acceptance of a market system entrusted with the coordination of the bulk of economic activity requires the tolerance of a sphere of private authority apart from that of public authority. A market mechanism may be compatible with a society of socialist principles, but it requires that the forms of socialist societies as they now exist be radically reorganized. The political difficulties of such a reorganization are twofold. One difficulty arises from the tensions that can be expected to exist between the private interests, and no doubt the public visions, of the managerial echelons and those of the political regime. The creation of a market is tantamount to the creation of a realm within society into which the political arm of government is not allowed to

reach fully.

Another political difficulty encountered in the move from socialism to the market is the impact on the working class. The establishment of a market system as the major coordinator of economic activity, including labour services, necessarily introduces the use of unemployment as a disciplining force into a social order. Under socialist planning, government commands were used to allocate employment and thereby did not permit the hiring or firing of workers for strictly economic reasons. The problem with this was inefficient production, underemployment, and misallocations of labour. The introduction of a market mechanism for labour is, however, likely to exacerbate class tensions between workers and management. Some socialist reformers tried to overcome these tensions by increasing worker participation in the management of the enterprises in which they worked, but no great successes have been reported. Finally, socialist governments will tend to encounter problems when they come to rely on market coordinative mechanisms, because economic decentralization and political centralization have inherent incompatibilities.

Assessment

Economic systems may lose some of the decisive differences that have marked them in the past and come to suggest, instead, a continuum on which elements of both market and planning coexist in different proportions. Societies along such a continuum may continue to designate themselves as either capitalist or socialist, but they are likely to reveal as many similarities as differences in their solutions to economic problems.

Robert L. Heilbroner

Peter J. Boettke

Additional Reading

General texts

Historical analysis is presented in Robert L. Heilbroner, *The Making of Economic Society*, 11th ed. (2002). An excellent presentation along more functional lines, well-written but requiring some acquaintance with economic theory, is Frederic L. Pryor, *A Guidebook to the Comparative Study of Economic Systems* (1985). Morris Bornstein (ed.), *Comparative Economic Systems: Models and Cases*, 7th ed. (1994), a book of readings, is also recommended.

Socialism

A history of the debate over the economic feasibility of socialism is available in Don Lavoie, *Rivalry and Central Planning* (1985). A comprehensive reference collection of the main texts in the socialist calculation debate (theoretical comparisons of centrally planned versus free-market economies) can be found in Peter J. Boettke (ed.), *Socialism and the Market: The Socialist Calculation Debate Revisited*, 9 vol. (2000). Other theoretical works include Alec Nove, *The Economics of Feasible Socialism*, 2nd ed. (1991); Branko Horvat, *The Political Economy of Socialism: A Marxist Social Theory* (1982); David L. Prychitko and Jaroslav Vanek (eds.), *Producer Cooperatives and Labor-Managed Systems*, 2 vol. (1996); and János Kornai, *The Socialist System* (1992).

Discussions regarding China, eastern Europe, and the Soviet Union are in Andrei Schleifer and Daniel Treisman, *Without a Map: Political Tactics and Economic Reform in Russia* (2000); Jeffrey Sachs, *Poland's Jump to the Market Economy: The Socialist Calculation Debate Reconsidered* (1993, reissued 1999); and Barry Naughton, *Growing out of the Plan: Chinese Economic Reform, 1978-1993* (1995).

The Soviet experience

The classic work on the economic history of the Soviet Union is Alec Nove, *An Economic History of the U.S.S.R., 1917-1991*, 3rd ed. (1992). A political history of the Soviet Union that pays significant attention to the underlying ideology, including

political economy, is Martin Malia, *The Soviet Tragedy* (1994, reissued 1996). Ed A. Hewett, *Reforming the Soviet Economy: Equality Versus Efficiency* (1988), offers thoughtful criticisms and considered appraisals on reforming the Soviet-type economy. Peter J. Boettke, *Why Perestroika Failed: The Politics and Economics of Socialist Transformation* (1993), discusses systemic problems with the Soviet-type system.

Capitalism

Two broad treatments of capitalism are Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776); and Karl Marx, *Das Kapital*, vol. 1, trans. by Samuel Moore and Edward Aveling as *Capital: A Critical Analysis of Capitalist Production* (1886); both works are available in many later editions. Robert L. Heilbroner, *The Nature and Logic of Capitalism* (1985), treats the social formation of capitalism. Fernand Braudel, *Civilization and Capitalism, 15th-18th Century*, 3 vol. (1982-84, reissued 1992; originally published in French, 1979), is a wide-ranging overview. Nathan Rosenberg and L.E. Birdzell, Jr., *How the West Grew Rich: The Economic Transformation of the Industrial World* (1986, reissued 1999), discusses the Industrial Revolution and the rise of capitalism. John Kenneth Galbraith, *The New Industrial State*, 4th ed. (1985), is a modern classic. Milton Friedman, *Capitalism and Freedom* (1962, reissued 2002); and Milton Friedman and Rose Friedman, *Free to Choose* (1980, reissued 1990), are perhaps the most accessible treatments of economics and public policy from a market-oriented perspective.

Robert L. Heilbroner

Peter J. Boettke

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