

Comparative Economics  
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Dr. Benjamin Powell

Email: [benjaminwpowell@gmail.com](mailto:benjaminwpowell@gmail.com) (best way to contact me)

<http://mail.beaconhill.org/~bpowell/>

This course compares the merits of alternative economic systems. Prior to 1990 a traditional comparative economic systems class compared socialist economic systems as practiced in the Soviet Union with capitalist systems. After the collapse of socialism in the Soviet Union comparative economic systems classes tended to become classes studying the transition of former socialist economies to capitalism. This course will examine, the relative merits of socialist and capitalist systems and problems of transition, but then we will go on to examine the many “mixed” systems that exist in the world today.

Although we will consider “pure” versions of both socialism and capitalism neither exists in its pure form anywhere in the world. Soviet style socialist economies are best thought of as extremely hampered market economies. The problems of transition were largely problems of moving to a less hampered and more capitalistic system. The problems facing developing nations in the world today share many similarities with problems of faced by the “economies in transition” in the 1990s.

We will study how information is mobilized and incentives harnessed in both capitalist and socialist societies. We will use this information to consider current development problems in the 3<sup>rd</sup> world and the 1<sup>st</sup> world. How does development aid align incentives and mobilize information? How about industrial policy? How can we explain the current global financial crisis and what type of economic system can best promote recovery? Even if we think we know the correct economic system, how can economies be reformed in that direction? What role does international military or economic intervention play? The spread of trade and ideas? These are the questions we will investigate in this course.

Grading:

2 Midterms (30% each)

Final Exam (40%)

Books:

*Why Perestroika Failed: The Politics and Economics of Socialist Transition.* Peter Boettke. Routledge. 1993.

Available for free online at:

<http://www.gmu.edu/departments/economics/pboettke/pubs/whyperestroika.html>

This book provides a nice summary of the socialist calculation problem and the incentive problem. Explains real functioning socialism in the Soviet Union and the problems encountered with Perestroika.

*Making Poor Nations Rich: Entrepreneurship and the Process of Development.*  
Benjamin Powell (Ed.). Stanford University Press. 2008.

This book has three sections. The first explains the institutional system impacts the incentives facing entrepreneurs and the growth they create. The second and third sections are case studies of countries and regions experiencing success for failure in entrepreneurial development. Each chapter is by an expert on the particular region.

*Meltdown.* Thomas Woods. Regnery Publishing. 2009.

This is one of the first book published on the current financial crisis. It covers events up through December 2008. It explains how regulatory and monetary policy impacted incentives and information to help generate the crisis. It covers lessons from America's great depression. For a current events book it fits amazingly well with the comparative systems framework of this course.

Additional short handouts will supplement book readings for some lectures. For students particularly interested in economic development aid I recommend William Easterly's *The Elusive Quest for Growth*. The book is optional, but not required, for this course. For students particularly interested in international trade I recommend Doug Irwin's *Free Trade Under Fire*. Again, not required for the course.

### Tentative Outline:

Class 1            How Markets Work and How to Compare Economies  
Supply, demand, market process, entrepreneurship, equilibrium, comparative advantage. This should refresh everything that you should have learned in your prior economics course but also frame it in a way that indicates the relevance for this course.  
Coordination and the role of prices as conveyors of information and providers of incentives will be stressed. We'll also discuss the various measures used to compare economies and the advantages and disadvantages of each.

*Readings:* None.

Class 2            The Institutions of Capitalism  
Property, prices, profit loss, rule of law. What are the cultural and institutional underpinnings that make markets work? What role do constitutions and ideology play? How do all of these institutions impact the entrepreneurial environment? Finally we will use the Economic Freedom of the World index to explain living standards and growth.

*Readings:* Powell, Chaps 1, 3, 5.

*Optional Supplement:* Hayek, “Use of Knowledge in Society.”

Class 3            Socialism in Theory and Practice  
How was a soviet system supposed to operate? How did it operate in practice? What is the economic calculation problem? What were incentives for leaders, middlemen, and workers in a Soviet type system?

*Readings:* Boettke, Chaps, 1, 2, 3, 4.

*Optional Supplement:* Mises, “Economic Calculation in the Socialist Commonwealth”

Class 4            The Rise of the Asian Tigers and Industrial Policy  
How the economic calculation problem applies to industrial policy. Why industrial policy wasn’t responsible for Asian growth. How changing institutions to foster productive entrepreneurship better explains the rise of the original Asian tigers. The role of sweatshops in industrialization

*Reading:* Powell, “State Development Planning: Did it Create an East Asian Miracle?”

Powell, “Sweatshop Wages and Third World Workers: Are the Jobs Worth the Sweat?”

Class 5            Transition in Eastern Europe  
The problems under Perestroika. The logic behind, and flaws with, shock therapy. Examination of the most successful transformers and the least successful.

*Reading:* Powell Chapt. 8, Boettke, Chaps. 5, 6, 7, 8.

**1 Hour Midterm Exam #1 (Covers Classes 1-4)**

Class 6            “Transition” in China and India  
China and India’s adoption of more market orientated policies. Causes of the reforms. What remains to be done.

*Readings:* Powell Chaps, 10, 11.

Class 7            Lessons from Socialism for Economic Aid and African Development  
The failure of international development aid. Why development aid suffers from incentive and information problems. Differences

between aid and private investment. Types of aid that can be more beneficial. How colonial and now African governments undermined growth throughout Africa. Difficulties of spreading capitalist institutions to Africa. How Botswana has succeeded by embracing the rule of law and economic freedom. How capitalist institutions and indigenous African institutions can be compatible.

*Readings:* Powell, Chaps, 6, 14. and, “Somalia After State Collapse: Chaos or Improvement?”

*Optional Supplement: The Elusive Quest for Growth* Chaps: 1-5.

Class 8

Western Europe: Sweden or Ireland?

Sweden’s classic welfare state will be examined. In what ways is Sweden more market orientated and less socialistic than it is given credit for? In what ways does the Swedish welfare state harm growth and prosperity? How Ireland transformed itself from one of the poorer nations in Western Europe to one of the richer nations. Sweden and Ireland provide a nice contrast of Western European countries on different trajectories.

*Readings:* Powell, Chaps, 9, 12.

**1 hour Midterm Exam #2 (Covers Classes 5-7)**

Class 9

International Trade: Goods, Capital, and Labor

We’ll build up from the law of comparative advantage and examine the economics of international trade in goods, capital, and labor. How do trade deficits or surpluses impact the gains from trade? What role do international institutions like the World Trade Organization play? In what ways are the economics of free trade in labor (immigration) similar and different from free trade in goods and service?

*Readings:* Boudreaux, “Comparative Advantage.” Blinder, “Free Trade.” and Powell, TBA.

*Optional Supplement: Doug Irwin, Free Trade Under Fire.*

Class 10

Causes of the 2008 - ? Financial Crisis

What role did government regulatory policies play in contributing to reckless lending? What role did monetary policy play in creating the housing bubble? How did such massive

entrepreneurial error occur? Prices didn't give the right incentives and information. We'll examine why.

*Readings:* Woods, Chaps, 1, 2, 4.

*Optional Supplement:* Boettke and Horwitz, "The House that Uncle Sam Built."

Class 11      Recovery from the Crisis

Lessons from America's great depression. How interventionist policies distorted the structure of production in the U.S. in the 1930s and Japan in the 1990s. How lessons from the socialist calculation problem and the market's process of coordination should inform our recovery efforts.

*Readings:* Woods, Chaps 3, 5, 7. Powell, "Avoid Japan's Mistakes."

Class 12      **Comprehensive Final Exam**