

# ECON 3870 COURSE OUTLINE

**Summer Session II: July-August, 2019.**

## **Course Description:**

**Notes:** Important readings for this course are posted on cuLearn, as indicated on the reading list below, as are other materials for this course.

Pages 188-200 in Ch. 6 of the text will not be covered on the midterm exam in the summer of 2019, but is eligible to be covered on the Class Assignment.

This course deals with alternative ways in which different societies organize to solve the economic problem. We begin by finding ways of differentiating between economic systems in the realms of both economic and political decision-making, since the latter cannot be ignored if we are to understand how an economy functions. In particular, we shall develop the notion of property rights, which enables us to distinguish between private, state, and communal property, and use these ideas to draw basic distinctions between capitalism, socialism, and communism.

We shall then explore the basic elements of a traditional Soviet-type economy (STE), which was by far the predominant form of socialism in practice, although it may, in fact, have been an example of state capitalism. We shall examine the latter possibility—see the article, “The Soviet-type economy as State Capitalism” on cuLearn and the website, [www.carleton.ca/richardcarson/](http://www.carleton.ca/richardcarson/).

Since there are many current examples of state capitalism—including Russia now and before the October Revolution—this would make the STE of more than historical interest. Regardless of whether we consider it to be socialist or state capitalist, achieving a basic understanding of this system also helps us to appreciate some of the problems faced by successor economies, including China since the economic reform and opening, which we shall study in the second half of this course. We also examine the role of government in capitalist market economies and how this has expanded since World War II, including government’s role in promoting and directing economic growth.

Next, we turn to economic systems of the past, viewed through the prism of the economic theory of history, originally due to Marx, but with substantial contributions by modern economists, notably the 1993 co-Nobel laureate, Douglass North. Here we examine the fundamental forces that cause economic systems to change over time. We then look at Marx’s analysis of the evolution of capitalism, as well as his vision of a future socialist system, which we contrast with the STE. This is followed by a survey of Schumpeter’s theory of capitalist development—including the role of innovation or “creative destruction”—which serves as a contrast to Marxian theory. Schumpeter was a monarchist and a strong advocate of capitalism, but he accepted much of the basic Marxian approach in terms of the way change takes place. Many Marxists consider him to be the

greatest economist of the 20<sup>th</sup> century.

The course closes by considering two specific economies—one past and the other present. The present-day economy is the modern Chinese Economy, with emphasis on the period since the start of economic reform. The earlier analysis of the Soviet-type economy will serve as an introduction to the Chinese economy of the reform and post-reform eras. The economic system of the past to be considered is the German economy between the end of World War I and the start of the economic miracle after World War II. Emphasis will be on the economy under National Socialism, as well as on the economic causes of Hitler's rise to power and the economic aftermath of National Socialist rule.

"Those who do not learn from history are condemned to repeat it."

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## **Course Outline**

### **I. PROPERTY RIGHTS.**

- A. Use, Income, Transfer.
- B. Private, State, Communal.
- C. Forms of Exclusion.
- D. Free Access (Communal Rights) and Value.

### **II. SOCIALISM IN PRACTICE—the SOVIET-TYPE ECONOMY—and VARIETIES of SOCIALISM.**

- A. Eleven Basic Features of STE; Nowadays Interested Mainly in Legacy of STE.
- B. Interpretation of STE as Example of State Capitalism and Mercantilism.
- C. Extensive vs. Intensive Growth.
- D. Varieties of Socialism.

### **III. MARKET PLANNING or DIRIGISME.** (Japan, Asian NICs as Archtypes).

- A. Industrial (or Technology) Policy.
- B. Three Kinds of Economic Growth; only one is permanently sustainable.

### **IV. ROLE OF GOVERNMENT in a MARKET ECONOMY.**

- A. Social Insurance and Expansion of this Role Since WWII.
- B. Two Basic Views of This Expansion.
- C. Political Rights and the Political Dimension of an Economic System.

### **V. ECONOMIC SYSTEMS of the PAST.**

- A. The Economic Theory of History. What Forces Cause Property Rights to Change Over Time?
- B. Sampling of Economic Systems of the Past.

## VI. THEORIES of CAPITALIST DEVELOPMENT.

- A. Marxian Theory.
- B. Rise of Inequality in Western Nations.
- C. Schumpeter's Theory.

## VII. THE MODERN CHINESE ECONOMY SINCE THE START OF ECONOMIC REFORM.

- A. Reasons for China's Economic Success.
- B. China in the World Economy.
- C. China at a Crossroads.

## VIII. NATIONAL SOCIALISM IN GERMANY.

- A. Economic and Political Causes of Hitler's Rise to Power.
- B. Basic Features of the Nazi Economy.
- C. The Aftermath of Hitler: Barter, Famine, and the Start of the Economic Miracle.

### **Course Purpose, Prerequisite, Evaluation, Instructor, and Academic Accommodations.**

**Purpose:** The purpose of ECON 3870 is to give students a basic introduction to comparative economic systems. It is intended to appeal to people with a variety of backgrounds and interests.

**Prerequisite:** ECON 1000 or FYSM 1003 or ECON 1001 and ECON 1002. Students who believe they have taken a similar background course from another university must provide appropriate documentation to the Department of Economics Undergraduate Advisor, Amanda Wright, Room 875 Loeb.

**Course Evaluation:** The course requirements for ECON 3870 apply to all students and are the following: A mid-term exam worth 40% plus a class assignment worth 12% plus a final exam worth 48%. The mid-term will be held on Saturday, July 20, 1-3 p.m., at a location to be announced. The class assignment will be available in the CUOL Student Centre, room D299 Loeb, by 1 p.m., Monday, July 22, to be handed in by 4:30 p.m., Friday, Aug. 2<sup>nd</sup>. This can be done by sending your completed assignment to me by e-mail or by putting it in the Economics Dep't. Drop Box through the slot in the door to room C876 Loeb. A copy of the class assignment will also be posted on cuLearn right below this Outline. All answers to this assignment must be typed double-spaced and should not be copied from any source, including another student—write up your answers in your own words! **Students have the responsibility to ensure that the instructor has received their handed-in papers.** This can be done via e-mail. The final exam will be held during the final exam period at a date, time, and location to be announced.

Students who miss the midterm and can document a compelling reason for doing so will be excused, and the weight of the midterm will automatically be added to the class assignment and the final, which will then be worth 20% and 80% of the course grade, respectively. Documentation should take the form of a doctor's note, etc. depending on circumstances, and may be subject to verification. Students who miss the midterm without a compelling and documented reason will lose the assigned 40%. Failure to hand in the class assignment without a compelling and documented reason will result in loss of the assigned 12%. Failure to write the final will result in a grade of F until an appeal to write the deferred final exam has been granted. Application to write the deferred final examination must be made at the Registrar's office. The mid-term will cover text Chs. 1-3 and the material under headings A and B of the reading list,

including lectures one through six. The class assignment will cover Chs. 4 and 5 and the material under heading C. The final exam will cover the entire course, but with emphasis on the material covered after the first 3 weeks, that is, after Ch. 3.

**Plagiarism:** Please be aware that plagiarism is a serious offence at Carleton and should be recognized and avoided. For further information, please see “Pammett on Plagiarism and Paraphrasing” at [www.carleton.ca/economics/courses/writing-preliminaries](http://www.carleton.ca/economics/courses/writing-preliminaries).

**Instructor:** The instructor for this course in Summer Session II, 2018 will be R. Carson, Office Rm. 850 Loeb. Prof. Carson's office phone number is (613) 520-2600, x1751, e-mail address: [richard\\_carson@carleton.ca](mailto:richard_carson@carleton.ca). Office Hours for Summer Session II are Mondays, 4-6 p.m. (1600-1800) and Wednesdays, 4-6 p.m. (1600-1800) and by appointment.

There is no in-class section of this course. ECON 3870V is an online course available via CUOL, Carleton University Online. For more information, please go to [www.carleton.ca/cuol](http://www.carleton.ca/cuol).

### **Academic Accommodations:**

You may need special arrangements to meet your academic obligations during the term. For an accommodation request the processes are as follows:

**Pregnancy obligation:** write to me with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details visit the Equity Services website: <http://carleton.ca/equity/>

**Religious obligation:** write to me with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details visit the Equity Services website: <http://carleton.ca/equity/>

**Academic Accommodations for Students with Disabilities:** The Paul Menton Centre for Students with Disabilities (PMC) provides services to students with Learning Disabilities (LD), psychiatric/mental health disabilities, Attention Deficit Hyperactivity Disorder (ADHD), Autism Spectrum Disorders (ASD), chronic medical conditions, and impairments in mobility, hearing, and vision. If you have a disability requiring academic accommodations in this course, please contact PMC at 613-520-6608 or [pmc@carleton.ca](mailto:pmc@carleton.ca) for a formal evaluation. If you are already registered with the PMC, contact your PMC coordinator to send me your Letter of Accommodation at the beginning of the term, and no later than two weeks before the first in-class scheduled test or exam requiring accommodation (if applicable). After requesting accommodation from PMC, meet with me to ensure accommodation arrangements are made. Please consult the PMC website for the deadline to request accommodations for the formally scheduled exam (if applicable) at <http://carleton.ca/pmc/students/dates-and-deadlines>. You can visit the Equity Services website to view the policies and to obtain more detailed information on academic accommodation at <http://carleton.ca/equity/>

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### **Textbook**

The text for the course will be:

Richard L. Carson, *Market and State in Economic Systems*

(Armonk, N.Y. and London, England: M.E. Sharpe, 1997), ISBN 1-56324-920-0, second edition.

*Note:* Only the second edition is acceptable.

## Required Readings

**NOTE: Most of these readings other than the text are available on Library Reserve or on cuLearn. Most Library Reserve articles are available electronically through ARES. To access ARES, go to the Library Home Page and click on ARES under POPULAR LINKS at the bottom of the page on the right-hand side. You will need your student computing account information.**

### A. Introduction to Comparative Economic Systems: Property Rights

1. Harold Demsetz, "Toward a Theory of Property Rights," *American Economic Review*, May, 1967.
2. Carson, Ch. 1, including appendix.
3. Scott Gordon, "The Economic Theory of a Common-Property Resource: The Fishery," *Journal of Political Economy*, April, 1954. For an application of Gordon's basic idea, see John Tierney, "A Tale of Two Fisheries," *New York Times Magazine*, August 27, 2000. ON LIBRARY RESERVE.

Scott Gordon was a professor at Carleton for many years and one of the first economics profs at Carleton.

4. FIVE SHARP SHORTS. These are available together on cuLearn as article #4.
  - a. Dani Rodrik, "Rethinking Democracy," *Project Syndicate*, June 11, 2014.
  - b. Dani Rodrik, "How the Rich Rule," *Project Syndicate*, Sept. 10, 2014.
  - c. Ricardo Hausmann, "The Economics of Inclusion," *Project Syndicate*, Nov. 7, 2014.
  - d. Chrystia Freeland, "The Self-Destruction of the 1 Percent," *New York Times*, Oct. 13, 2012. Chrystia Freeland is a noted author and the Federal Minister of Foreign Affairs and MP for Toronto Centre.
  - e. Dani Rodrik and Sharun Mukand, "The Puzzle of Liberal Democracy," *Project Syndicate*, May 13, 2015.

Please read one of the following:

5. Vivek Dehejia, "The Fallacy of the Free Market and the Future of Globalization," *Carleton Economic Papers*, # 10-09, October 2010. This is online and can be googled.
6. Douglas J. Amy, "Capitalism Requires Government," online at [www.governmentisgood.com](http://www.governmentisgood.com), 2007. Again Google the title for access.

## **B. The Role of the State in the Economy**

1. Carson, Chapter 2, except pp. 64-68; Chapter 3; Chapter 6, pp. 188-200.
2. "The Soviet-type Economy as State Capitalism," article #10 on cuLearn. This article is also online at [www.carleton.ca/richardcarson/](http://www.carleton.ca/richardcarson/).
3. Shleifer, A. and Vishny, R.W. "Pervasive Shortages Under Socialism," *Rand Journal of Economics*, Summer 1992, 237-46.
4. Gary Anderson and Peter Boettke, "Soviet Venality: A Rent-Seeking Model of the Communist State," *Public Choice*, October, 1997, pp. 37-53. This article is available online and can be googled.
5. "The Growth of Government in Market Economies Since World War II," article #8 on cuLearn. This article is also online at [www.carleton.ca/richardcarson/](http://www.carleton.ca/richardcarson/).
6. Paul Gregory, Mark Harrison, "Allocation Under Dictatorship: Research in Stalin's Archives", *Journal of Economic Literature*, September 2005.
7. (SUPPLEMENTARY) F. A. Hayek, "Freedom and the Economic System," *Contemporary Review of London*, April 1938. It is online under the title "What Price a Planned Economy?" at Mises Daily Articles and can be googled. It is also ON LIBRARY RESERVE.

## **C. Capitalism in a Historical Context**

1. Carson, Ch. 4; Ch. 5, pp. 147-177. Note: Ch. 4 is a reading chapter only. There will be no lectures on this chapter, owing to the time constraint.
2. Jeremy Greenwood, "The Third Industrial Revolution," mimeo, University of Rochester. ON LIBRARY RESERVE. This is also published in the *Economic Review* of the Federal Reserve Bank of Cleveland, 2<sup>nd</sup> quarter, 1999, vol. 35, no. 2, pp. 2-12, which is online.
3. (SUPPLEMENTARY) The following chapters from Tucker, ed., *The Marx-Engels Reader*: Part III, ch. 1; pp. 335-45; Marx and Engels, *The Communist Manifesto*; Part III, ch. 6; pp. 406-23; Engels, *The Tactics of Social Democracy*.
4. The section on Marx in any edition of W.N. Loucks, *Comparative Economic Systems* (New York: Harper and Row). This is a good, readable presentation.
5. J.A. Schumpeter, *Capitalism, Socialism, and Democracy*, Parts II and III.
6. Francis Fukuyama, "Capitalism and Democracy: The Missing Link," *Current*, Oct., 1992 or *Journal of Democracy*, July, 1992. ON LIBRARY RESERVE

7. "The Increase of Inequality Since the Mid-1970s," article #2 on cuLearn. This article can also be found at [www.carleton.ca/richardcarson/](http://www.carleton.ca/richardcarson/).

## **D. The Chinese Economy**

1. R. Carson, *Transition and Capitalist Alternatives*, Ch. 1, Ch. 2, pp. 40-64.

2. "China Since Economic Reform: Growth, History, and Prospects." article #1 on cuLearn. This is the MOST IMPORTANT reading on the Chinese Economy since it is kept up to date. It can also be found at [www.carleton.ca/richardcarson/](http://www.carleton.ca/richardcarson/).

3. Please read one of the following:

a. Jeffrey Sachs, Wing Thye Woo, "Understanding China's Economic Performance," *Harvard Institute of Economic Research, Discussion Paper no. 1793*, February, 1997 (ON RESERVE).

b. Xiadong Zhu, "Understanding China's Growth: Past, Present, and Future," *Journal of Economic Perspectives*, Fall 2012, pp. 103-124.

4. Yasheng Huang, *Capitalism with Chinese Characteristics* (New York: Cambridge U. Press, 2008). Read "A Detailed Synopsis of the Book," and ch. 2. NOTE: Chinese officials describe their economic system as "Socialism with Chinese characteristics."

5. John McMillan and Christopher Woodruff, "The Central Role of the Entrepreneur in Transition Economies," *Journal of Economic Perspectives*, Summer 2002, pp. 153-170. (ON RESERVE).

6. (SUPPLEMENTARY) Mary E. Gallagher, "China's Workers Movement and the End of the Rapid Growth Era," *Daedalus*, Spring 2014, pp. 81-95.

7. (SUPPLEMENTARY) Barry Naughton et. al., "China, A Symposium," *Journal of Economic Perspectives*, Winter, 2017, pp. 3-159.

## **E. The Rise and Fall of National Socialism in Germany and the Start of the Postwar Economic Miracle.**

1. *Transition and Capitalist Alternatives*, Ch. 11.

2. Stolper, Haeuser, and Borchardt, *The German Economy, 1870 to the Present*. Parts on Weimar and the Third Reich.

3. T. Balderston, "The Origins of Economic Instability in Germany, 1924-30: Market Forces vs. Economic Policy," *Vierteljahrschrift für Sozial-und-Wirtschaftsgeschichte*, 1982, no. 4, and "The Beginning of the Depression in Germany, 1927-30: Investment and the Capital Market,"

*Economic History Review*, August, 1983.

4. Arthur Schweitzer, *Big Business in the Third Reich*, (Bloomington: Indiana U. Press, 1964), Chs. 1, 2, 6, 8.

5. Peter Temin, "Soviet and Nazi Economic Planning in the 1930's," *Economic History Review*, May, 1991.

6. R.J. Overy, "Hitler's War and the Germany Economy: A Re-Interpretation," *Economic History Review*, May, 1982.

**For students wanting to pursue studies in areas related to Comparative Economics, the following books are useful and may be of interest. None are required for ECON 3870:**

Yoram Barzel, *Economic Analysis of Property Rights* (Cambridge: Cambridge U. Press, 1989).

F.A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1994).

Muhammad Yunus, *Creating a World Without Poverty: Social Business and the Future of Capitalism* (New York: Public Affairs, 2007).

\_\_\_\_\_, *Building Social Business: the New Kind of Capitalism that Serves Humanity's Most Pressing Needs* (New York: Public Affairs, 2010).

Philippe Aghion and Peter Howitt, *The Economics of Growth* (Cambridge, Mass.: MIT Press, 2009).

Philippe Aghion and Steven Durlauf, *Handbook of Economic Growth* (Amsterdam: North-Holland, 2005).

Morton Halperin et. al., *The Democracy Advantage: How Democracies Promote Prosperity and Peace* (New York: Routledge 2005).

Peter Lindert, *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century* (Cambridge: Cambridge U. Press, 2004).

Douglass North, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge U. Press, 1990).

Douglass North, J.J. Wallis, and Barry Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (Cambridge: Cambridge U. Press, 2009).

Daron Acemoglu and James A. Robinson, *Why Nations Fail* (New York:



Random House 2012).

J.E. Stiglitz, and Arnold Heertje, *The Economic Role of the State* (Oxford: Blackwell, 1989).

Joseph Stiglitz and Andrew Charlton, *Fair Trade for All* (London: Oxford U. Press, 2006).

Jeffrey Williamson, *Inequality. Poverty. and History* (Oxford: Basil Blackwell, 1991).

Jeffrey Sachs, *The End of Poverty* (New York: Penguin Books, 2005).

Friedrich Schneider, Dominik Enste, *The Shadow Economy: An International Survey* (New York: Cambridge U. Press, 2007).

Janos Kornai, Laszlo Matyas, Gerard Roland, eds., *Corruption, Development, and Institutional Design* (New York: Palgrave Macmillan, 2009).

Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992).

Janos Kornai, *The Road to a Free Economy* (New York: Norton, 1990).

Anders Aslund, *Building Capitalism: The Transformation of the Former Soviet Bloc* (Cambridge: Cambridge U. Press 2002).

\_\_\_\_\_, *Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed* (Washington, D.C. : Peterson Institute for International Economics 2007).

Marshall Goldman, *Petrostate: Putin, Power, and the New Russia* (New York: Oxford U. Press, 2008).

Andrei Shleifer, *A Normal Country: Russia After Communism* (Cambridge, Mass.: Harvard U. Press, 2005).

Andrzej Kozminski, Michael McFaul, *Privatization, Conversion, and Enterprise Reform in Russia* (Boulder: Westview Press, 1995).

Motoshige Itoh, et. al., *Economic Analysis of Industrial Policy* (New York: Academic Press, 1991).

Barry Eichengreen, *The European Economy Since 1945: Co-ordinated Capitalism and Beyond* (Princeton: Princeton U. Press, 2006).

N. Shahid Yusuf et. al., *Innovative East Asia: the Future of Growth* (Washington, D.C.: World Bank, 2003).

Jean C. Oi and Andrew G. Walder, eds. *Property Rights and Economic Reform in China* (Stanford, Cal.: Stanford U. Press, 1999).

Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge, Mass.: MIT Press 2007)

Yasheng Huang, *Capitalism With Chinese Characteristics: Entrepreneurship and the State* (New York: Cambridge U. Press 2008).

Robert C. Tucker, ed., *The Marx-Engels Reader* (New York: Norton, 1972).