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The “New Comparative Economics”. A critical review

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1. Introduction

The subject of the present chapter includes two concepts: the economic system and the comparative approach. The fundamental difference between the disciplines of comparative economic systems (CES) and the new comparative economics (NCE) lies essentially in the different ways they include and treat these two concepts.

The concept of the economic system is extremely popular¹ and is often used in both the theoretical treaties of the economy and the applied analysis of particular economies. Yet its meaning is variegated and it is often more a descriptive or organizing concept than an analytic one. The comparative approach is a powerful analytic instrument in any discipline that promotes a better comprehension and helps to highlight differences and similarities. These short notes outline the field of study and the general approach of comparative economic

¹ The number of answers obtained entering the term “economic system definition” in google.com is 200 million! The article on “Economic system” written by Peter J. Boettke and Robert L. Heilbroner for Encyclopædia Britannica (<https://www.britannica.com/topic/economic-system>) defines the economic system as “...any of the ways in which humankind has arranged for its material provisioning... corresponding to the many cultural arrangements that have characterized human society. ... 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.”

studies (ces),² but do not say much about the nature and work of the discipline(s). In a very general sense, ces aims at describing, explaining and choosing the different ways of organizing economic activity in the different parts of the world.

The world complexity is sufficient in itself to justify the existence of many analytic approaches. Differences in the theoretical background and in the normative aims enhance further analytic pluralism. In this paper we deal particularly with the two dominant perspectives in ces: the study of Comparative Economic Systems (CES) and that of the New Comparative Economics (NCE).³ Our main aim is to see whether these two important branches of ces offer incompatible analyses and perspectives or whether they may be better considered as different but complementary approaches. A point to the advantage of pluralism in analytical perspectives is that, particularly when the compared realities are complex, analytical pluralism may foster better understanding of complementarities and incompatibilities among the constituent parts and the logic of their coordination and interaction.

Analyses and comparisons may take place in different ways and at different levels and they may be based on different theories and readings of the working of society and the economy. Some may be inherently static in their approach and others privilege an inter-temporal perspective. Some may have a holistic view and others are more interested in constituent parts. Although all this may lead to the incompatibility of different analytic approaches, reality is complex, multi-faceted and may change. Having different and competing analytic perspectives may thus be an insurance against analytic unilateralism and fruitlessness.

The chapter aims at assessing the contribution of the new comparative economics (NCE) to ces. It does so by framing the NCE approach into the broad analytic goals of ces: the analysis and comparison of different economies and systems. Our aim is thus to highlight the NCEs goals and research program and by comparing these to the more traditional CES perspective, also mentioning new and emerging ces fields.

2. Comparative Economic Systems and Comparative Economics

Comparative economic studies are based on two fundamental analytic concepts: the economic system and the comparative method. The discipline itself consists of the analysis

² In the following I use the term “comparative economic studies (ces)” in small initials to include the different versions of the discipline that are discussed in the chapter.

³ New established and emerging fields includes the Varieties of Capitalisms (VoC), the New Traditional Economy (NTE), the New Comparative Political Economy (NCPE), the New Systemic Institutional Approach for comparative political and economic analysis (NSIA). All these particular views have an important issue in common: their interest for differences of economic systems and their aim to explain the origin of these differences, how they lead to different organizations of economies and the consequences in terms of performance and development. These “new” approaches are not perfectly symmetrical: in some cases, the dominant approach is microeconomic (VoC), in some other cases the dominant approach is political economy, with either an economic view (NTE) or a political perspective (NCPE, NSIA).

of how human economic activities take place and are organized and in the comparison of different ways of doing so and of related outcomes. Clearly this has to do with institutions, so ces is part of the broad family of institutional economics. The large institutional family is deeply split on theoretical grounds and so is ces. Yet the different positions of institutional economics are not necessarily incompatible and could be reconciled for the advantage of analytic and operational effectiveness (Rutherford 1996). The question therefore is whether the same can be said of CES and NCE.

The most critical component of the presumed contrast between CES and NCE is the economic system. The concept of economic system as a coordinated set of institutions is central to CES but much less so in NCE. CES tends to have a holistic approach in that it pays attention to reaching a better knowledge of how the system evolves and works and how institutions and the system are embedded in the fundamental components of social life, including culture, and under the fundamental influence of politics. It also sees the system as shaping and constraining the choice of individuals and organizations and strongly conditioning the space for and nature of reforms. Clearly path dependence plays an important role, be this concept explicit or not. NCE sees the economic system as a kind of institutional menu for socially optimal choices, both public and private in the flow of a constrained optimization process. In this perspective normative goals are prominent.

The comparative approach is the other distinctive feature of the discipline. This may be so explicitly or implicitly and can be applied to the study of one or more economic systems, single economies or their parts. Excellent examples are Kornai's analysis of the shortage economy (Kornai 1980) or Grossman's study of the second economy (Grossman 1977).

In order to clarify what is exactly ces as an analytic discipline which deserves a particular and distinct place in economics it is useful to clarify its origin and pay particular attention to the relation between the economic system and the comparative approach. There is no doubt that the origin was due primarily to the raise and development of the Soviet Union as both a fundamental economic and political "experiment" and progressively as a global competitor. This is not to forget that in the same Soviet Union the comparison with the capitalist system and the attention and study paid to both the socialist and the capitalist systems obtained prominent attention since the early times of the federation, an interest and importance that strongly influenced Central and Eastern European countries (CEEC) after the war. However, the prevailing approach was not so much to study and compare the nature and working of economic systems, but to show the superiority of socialism. For this reason, we won't consider further this brand of studies.

The discipline arose in the West and its origin was dual. On the academic side, the main aim was the search for the best or a better system and was influenced in this by the Soviet experience. For these reasons the holistic approach and the social and political embeddedness of the discipline were obvious. The most prominent moment in the original phase of the discipline was the debate on economic calculation in socialism between Austrian critics of socialism (von Mises, von Hayek) and its neoclassical supporters (Lange, Lerner). The former maintained that socialism was economically unfeasible or in any case inefficient due to the lack of competition and equilibrium prices and for the superior management and coordination of information by markets, by far stronger and more reliable in its outcome

that the planners' centralized knowledge. The latter supported that planning can effectively and efficiently imitate the competitive market in finding equilibrium prices also through trials and errors and avoid the market distortions typical of capitalism. Lavoie (1985) had perhaps the last word when he showed that the real advantage of capitalism over socialism lies in the rivalry among enterprises, which promotes the generation and circulation of information and knowledge and innovation.

This debate anticipates the two main aims of the discipline: understanding the working of economic systems and finding the reasons why one is better. The main difference with the present state of the discipline is the lack in the previous debate of a normative intent or perhaps its presence only in an indirect form, particularly in the case of Lange. Another important contribution came by Schumpeter, who saw in the progressive bureaucratization of the entrepreneurial function the main reason for the progressive fall of the profit rate and the main weakness of capitalism leading to the prevalence of socialism, seen though as a bureaucratic system. Whatever the merit of this interpretation may be, Schumpeter introduced an important evolutionary approach in the discipline, an approach that unfortunately had relatively few followers so far.

The second origin was politically strategic and often plainly military and was aimed at better measuring the enemy or geostrategic adversary. These studies originated in the United States during the Cold War and spread soon to Western Europe and Japan. Research was important particularly in US and British universities and in the military and espionage branches of government, particularly the CIA. They were obviously concentrated on the Soviet Union and in more recent years on Russia and China and aimed, among others, at recalculating of Soviet (and later on Chinese) statistics to make them comparable with Western statistics (Bergson, Rosefielde). Although these studies belong more in the field of comparative economics (CE), other studies looked at how the Soviet system was set up and worked, to learn possible systemic advantages. This aspect appears dominant so far in the case of China, aiming particularly at explaining the exceptionally prolonged period of high growth. More recently various studies have placed China in the perspective of "normal" (capitalist) economies and foresee the likely permanent slowdown of Chinese growth rates for both political interference and the middle-income trap (Gill and Kharas 2008).

In spite of the above differences, all comparative economic studies refer to institutions as their central concern and consider particularly formal institutions. However, they do so in different ways, which are central to the distinction between CES and NCE. What is particularly important in CES is that institutions derive in great part from the culture and history of a country (and consequently are a given feature) and are under the important influence of politics and social relations. Equally important in CES is that institutions interact and important complementarities exist among them, so that alien institutions are rejected. As a consequence, systemic reform and change is constrained and complex and may be path dependent. The relation between institutions and economic efficiency is generally one that goes from the former to the latter, although the search for efficiency or at least economic sustainability is also important. Particularly important in this perspective was the debate on economic reforms and on transformation in CEECs.

CES started to focus on comparisons between socialist and capitalist markets particularly from the 1940's, with particular attention to the socialist system. Different books have been published in this period (e.g., Sikes 1940 and 1951, Blodgett 1949, Oxenfeldt 1952, Loucks 1957). In this period, Maurice Dobb (1949, p.426), in reviewing a book titled "Comparative Economic Systems: Capitalism, Socialism, Communism, Fascism, Co-operation" (Loucks and Hoot 1948), describe in these terms the state of the discipline: "in this country the study of comparative economic systems, of such importance for the institutionalist, has been relatively neglected as an academic subject. Perhaps this is because, with a narrowing focus to economic analysis, it has fallen between the recognized academic stools; perhaps because of reluctance to grasp controversial nettles boldly". Indeed, in these first books of comparative economics the historical-ideological analysis is predominant with interesting hints about the role of the institutions. Different editions of Loucks and Hoot (1948) have different section titled "economic institutions and economic change", "the institutions of a capitalist economy" and interesting section titled "economic movements utopias and the idea of progress" with a reference to "Sir Thomas More's Utopia").

A second important strand of literature sees institutions and consequently the economic system as following from economic rationality. The best known contribution is the mentioned debate on economic calculation in socialism. Although institutions are present (von Mises' criticism of socialism concerns the lack of rivalry among enterprises, a view that Hayek shares - see Lavoie 1985), they do so only indirectly and mostly implicitly. In the view of the Austrians, only the capitalist institutions based on competitive markets are efficient and socialism is bound to fail.

In particular from the 1960s, some scholars began to reflect on the methodology and objectives underlying CES and to distinguish it from comparative economics (CE), a sub-field of economics most of the times considered as a synonymous of CES. Particularly significant is Reynolds (1966), who criticized the typical CES procedure to divide economic systems into different species to which a particular nation is associated (e.g. the US to capitalism and the USSR to communism). In Reynold's view, the system should be something abstract, a hypothetical model of economics. Furthermore, CES seems to be linked to a static approach and not to an evolutionary vision of economic organization. Finally, some of these species are empty boxes, in the sense that, for example, it is not clear whether a fascist economic system can be identified as something distinct from a capitalist system conveyed by a police power. CES seeks to classify economic systems according to predetermined categories without considering that many systems cannot be identified as capitalist or socialist. Such need for a more theoretical and rigorous approach leads Reynolds to support the development of comparative economics.

The contrast between the two approaches continued in the following decades. In an important book Alexander Eckstein (1971) defined comparative economic systems as a "a field in search of self-definition" and distinguished between the comparative systems approach (CSA) and the comparative economics approach (CEA). The CSA aims at studying the economic system as a whole, with emphasis on the relationship among the various parts of the system, while CEA is a partial and sectoral approach aimed at focalizing some economic issues (such as labor markets and international trade). Eckstein (1971, p.352)

claims that these approaches should be considered as complementary rather than alternative approaches and admits that the second one has more possibilities for development.

The traditional CES approach “focused on divergent ideologies of economic systems (capitalism, socialism, fascism) and used property (ownership of the methods of production) as the key element for distinction” (Mesa-Lago 1982). The 1970s brought an important new perspective, perhaps under the influence of political and military détente between East and West, the growing openness and interaction among different economies and the theories of convergence between the two grand systems. The potentially most fruitful result of this period is the attempt to analyze and compare economic systems using the tools of economic theory and applying a methodology aimed at cleaning the methodological aspects. This is particularly clear in Koopmans and Montias (1971, p.1) who claim that “the new circumstances invite approaches to the comparison of economic systems that altogether avoid prior classification according to the grand “isms” and instead start from comparisons of organizational arrangements for specific economic functions”. The move to the micro-level is clear and may be considered an anticipation of both VoC and NCE. Conn (1978) underlines that economic theory and comparative economic systems are not incompatible. The evolution of the discipline in the 1970s is thus particularly significant.⁴

Montias et.al. (1994) maintain that the traditional approach has been overtaken by a more modern approach that goes beyond methodological differences. This new approach separates the economic system from the social and political system and aims and applies the tool of economic theory. In this perspective, the ultimate objectives of comparative economic analysis should point “...to isolate and measure the impact of the economic system—more precisely, the system’s rules, laws, customs, and regular procedures—on basic economic outcomes (such as the level and growth of per capita income, the distribution of incomes, stability, and national power) and to distinguish and separate this impact from (1) the influence of variables associated with the environment and (2) the decisions and policies of the economy’s participants.” (Montias, et al., 1994, p. 2)⁵

In spite of important progress, the role of institutions in this period remains ambiguous. In the foreword of his book, Montias (1976, p.xi) wrote: “even though the word “institution” (almost) never appears in the book (chiefly because I could not give it a precise meaning that would fit into the constructive vocabulary I tried to develop for the analysis of economic systems), the reader will recognize that my study deals with institutional economics in comparative perspective”. According to Bonin (1998) this is because institutions are not for Montias (and Koopmans) a primitive term that allows precise descriptions, while “definitions

⁴ It is worth remembering that these contributions had wide appeal thanks also to the important role of these authors. Eckstein was the president of the Association for Comparative Economics (ACES) in 1974 and Montias the founding editor of the Journal of Comparative Economics in 1977.

⁵ In a later publication, Rosefielde’s (2002) defines comparative economic system as “the branch of economics devoted to investigating the ways in which production potential and performance are affected by motivational, mechanistic and institutional forces governing demand and supply”.

of terms such as ‘planning’ and ‘centralization of decision making’ could be agreed upon by economists in any system” (p.1).

The three most popular CES textbooks of between 1970 and 1980 were Neuberger and Duffy (1976), Edem and Viotti (1978) and Gregory and Stuart (1985). Of these, the Neuberger and Duffy (ND) textbook is “the one that goes farthest in trying to cleanse the field of the ideological virus”, because the “ND apply the partial-equilibrium approach of neoclassical economic theory” believing that the decision-making authority is the key element (Mesa-Lago 1982, pp. 81-82). As Bonin (1998) notes, ND “identified three structures of any economic system, namely, decision-making, information, and motivation. They used this framework to analyze hypothetical systems” (p.2).

The goal of removing ideology has often merged with that of removing social and political elements to address the matter with the supposedly objective tools of economic theory. The collapse of the socialist system in CEECs and the Soviet Union certainly made this step easier, although the flourishing studies on China continued to remind the importance of non-economic factors. According to Greenwald (1994, p.173), this evolution represented the passage from the old to what he called in 1994 “new comparative economics”.⁶

In recent years a different version of the institutional efficiency hypothesis emerged, this time as an offspring of (neo-)institutional economics, in the form of NCE. While participants in the previous debate had absolute institutional efficiency in mind, NCE uses a relative version of institutional efficiency. Each society is institutionally idiosyncratic and has a limited set of institutional possibilities that can be represented in a frontier. Institutional choices take place within these boundaries, but are nevertheless led by efficiency considerations.

The move towards this position was gradual although profound, particularly after 1989. One interesting hint is in the changes made in the various editions of textbooks on comparative economics. One noteworthy example is Gregory and Stuart (1999), perhaps the most popular textbook for decades in comparative economic systems and the first textbook to use the term ‘new comparative economics’. As noted by Dic Lo (2004, p.5 – see also Lo 2012): “Starting from its sixth edition, published in 1999, the book has abandoned the traditional ‘black box’ approach to the study of economic systems – that is, treating an economic system as no more than a variable, which together with policies and environmental factors jointly determine economic outcomes such as growth performance. Instead, it seeks to apply theories of new

⁶ “[T]he most complete, rigorous early treatment of the new approach to CES (new comparative economics) is provided by J. M. Montias (1976), while a less technical development of the paradigm is found in Neuberger Duffy (1976) a text-book that attempts to provide a coherent decision-making theoretical framework, based on the Koopmans and Montias (1971) view of the place of the economic system in the total analysis of an economy’s performance. David Conn (1977) formalized the ND framework and wrote a useful survey of the CES literature, distinguishing the contributions of theorists and comparativists in this endeavor. It is worth remembering that the first author to use the term new comparative economics was Collier (1989). Collier identified a shift in the old comparative economics not only as a consequence of its inclusion in modern economics and the more theoretical an analytical approach but also for the topic change: from “unconventional” economies to “conventional” capitalist economies.

institutional economics to the comparative analysis of conceptual models of capitalism and socialism. These include theories of property rights, transaction cost, and principal-agent relations.” In this perspective, the new orientation of comparative economic studies is the analysis of the economic impact of institutions of capitalism in the economic, legal, political and cultural sphere. Similarly, Brada (2015) claims that “Economic systems consist of economic agents, institutions, incentives, information flows and policies. Comparative economics studies how these components come into being to form economic systems and how they influence the economic performance of systems. [...] Comparative Economics also studies how economic systems respond to crisis, economic transition and structural change brought about by globalization or changes in demographics, technology, etc. Also of interest is the effectiveness of policy measures in different economic systems”.

As any new approach, this strengthens the discipline in some sense and weakens it in some other sense. Mesa-Lago (1982) admitted that abandoning the analysis of ideology implies a “potential loss” and that scholars have to “take ideology into account for reconciling their conclusions with reality”. Similarly, Zimbalist (1984, p. 3) observes that “...if we are interested in analyzing the performance and dynamic properties of the world's economies, it is only at significant peril that comparative economists can overlook noneconomic or ‘political’ factors. This is not to say that it is illegitimate to abstract from non-economic factors for particular purposes; rather, such abstraction should occur only with cognizance of the influences being suppressed.”

Before dealing with NCE, it may be useful to highlight CES merits and demerits. It is true that for decades the discipline dealt mainly with grand systems (labelled sometimes as “isms”) and centered largely on socialism (the Soviet-type system). The debate was thus influenced by the success or failure of socialist economies. This was certainly a weakness of the discipline, that risked to limit its influence to a particular historical period and geopolitical area. The merit of the debate was the effort, overall successful, to clarify that economic systems have an internal logic (coordination) and that fundamental complementarities exist among institutions. The issue of (systemic) efficiency had a role in these analyses, generally in explaining why the socialist system and CEECs were economically wasteful under the negative effect of political interference.⁷ The masterpiece of this grand approach is Kornai (1992), for its ability of rendering clearly the construction and the logic of the system, including the role of politics. Basically, all CES textbooks are in this line of analysis.

When economic reforms started to be implemented in Eastern Europe in the 1960s and the late 1970s in China, the analysis moved to give relevance to what could be called as “variants of socialism” and took a more complex and dynamic flavor. The many publications of the period highlighted the differences actually existing among socialist countries also in their

⁷ This approach had an interesting counter-symmetry in the critics of capitalism, according to whom capitalism was unviable and survived because of the asymmetric social relations and the political power of the capitalists. In short, both supporters and critics of capitalism agreed that (also) economic rationality would lead to the survival of one system, yet political constraints imposed the existence of two systems (or more: such as fascism). A third way was advanced by some Western economists – notable was the contribution by Nobel Laureate Jan Tinbergen (1962) – who proposed the idea of convergence between the two grand systems, under the pressure of exogenous technology and the increasing interaction and similarity of problems to be solved.

economies and economic systems. A similar approach regarded capitalist countries. A number of authors admitted that the capitalist world is not uniform and that variants exist, most prominent among which is the Scandinavian social-democratic market economy. Also the distinctive features of the German social market economy received attention. Morris Bornstein (1993) was perhaps the author who gave most relevance to the issue of systemic variants, both socialist and capitalist, in the seven editions of his edited book on comparative economic systems.

With the entrance of variants in the debate, the old political and analytic determinism of the inevitability of socialism and the natural essence of capitalism gave way to more sophisticated approaches looking at the merit of policies and reforms and their institutional/systemic limits. If an economic system has an internal logic (coordination) and if there are complementarities among its institutions (which create institutional stickiness), limits are inevitable and policy makers and reformists should be aware of these to avoid destabilizing the system and impose useless costs to the society and economy. Although this remained unfortunately an under-researched field, it played an important role in the debate on reforms, together with more technical accounts, and became prominent in the case of Gorbachev's reforms in the Soviet Union and Deng Xiaoping in China. Kornai (1989) authored a masterpiece of the 1968 Hungarian economic reform, an article which stressed and highlighted the limits to the reform and the inanity of the attempts to overcome those limits. In a more general approach, Rodrik (1990, 1996) stressed that policies and reforms should be tailored to the features of the economic system.

The strength of CES lies primarily in its contribution to the knowledge and internal logic of how different economies work, depending on the economic system they are based on. Yet CES predicting capability of the performance of those economies is limited. In the traditional CES the micro-level was submitted to the broader systemic level, which caused overlooking the detailed nature of the limits that existing institutions placed on systemic choice and engineering. With the start of transformation in Central and Eastern Europe it became popular to reject the use of the term Comparative economic systems as excessively linked to the study of socialism and socialist countries. Yet this was like throwing out the baby with the bathwater: the powerful message of CES in terms of coordination and institutional complementarities went largely lost. Since then the aim of the discipline became more restrictive and micro and the obvious need to marry both approaches is still waiting for a solution.

3. The New Comparative Economics

The central NCE issue are institutions in capitalist economies. NCE applies an optimizing approach to a society's choice of its institutions, based on its idiosyncratic institutional possibilities and under the constraint of the danger of social losses due to private expropriation (disorder) on one side and due to state expropriation (dictatorship) on the other. Thus, NCE can be considered as the part of the New Institutional Economics (NIE) particularly interested in finding the conditions for and assessing the relative efficiency of alternative institutions aimed at optimizing economic outcomes.

As noticed in the previous section, this approach does not come out of the blue. It has two main roots: the microeconomic perspective that part of CES takes, particularly after the collapse of the Soviet Union, and the great academic and scientific success of institutional economics, particularly in its neo-institutional branch. In a sense, NCE represents both the continuation of a partial tradition of CES and a departure from it. However, it is interesting to notice that NCE does not follow the rejection of non-economic variables from the analysis. In this sense, NCE looks as a more formalized continuation of the traditional holistic approach of CES.

NCE shares with neo-institutional economics the criticism of the neoclassical model of a pure free market economy and the view that economic institutions have a fundamental role in determining performance, although it overlooks the important transaction cost economics idea of (organizational) governance (Williamson 1985). NCE has also an important point in common with public choice theory in emphasizing that most crucial institutional differences among countries derive from political and legal systems and the role of governments (Shleifer 2002). This brings NCE somehow close to but not overlapping with the political economy stance of such authors as Acemoglu and Robinson (2006). It is unquestionable that governmental intervention is important, yet it is often the consequence of pre-existing institutional differences and performance failure more than its direct cause. CES has a stronger tradition under this perspective (Wiles 1977, Aoki 2001).

NCE rational approach to the choice of the institutional architecture of a society may provide important guidelines for institutional reforms, but it seems too essential to really provide a convincing explanation, let alone a reliable normative guideline. Given the institutional preferences of a society, NCE approach contributes to reform drawing, planning and implementation and to the analysis of inter-systemic differences. Thus doing, NCE does not really explain the origin of institutions nor their evolution or change, nor is it particularly interested in the interaction among and coordination of different institutions (institutions come in bundles, wrote wisely Joseph Berliner). Simplification of complex issues is useful if it allows greater analytic depth. What has to be assessed, though, is whether simplicity comes at the expense of explanatory power. What is missing in NCE is the broad and complex picture in which all the elements fit together.

NCE is grounded in four basic tenets: First, for any economy the fundamental problem is to keep the two fundamental dangers of disorder and dictatorship under control. As Lo (2004) correctly notes, this simplification means generalizing market failures to ‘disorder’ (infringement of private property rights by private agents) and government failures to ‘dictatorship’ (infringement of private property rights by the government). The two fundamental variables of the problem (disorder and dictatorship) are thus defined as the distance of the real world from the ideal state of perfect property rights and enforcement, free of social losses.

Second, there is an institutional possibility frontier (IPF) for any economy which represents what is possible in any given society. While under these conditions maximization is not possible, the NCE aim is an exercise of optimization for any given idiosyncratic situation. Representing social possibilities as an IPF reduces the problem of social choice to definition and enforcement of property rights, thus excluding all other economic and non-economic

variables. Yet in an interpretation based on methodological individualism as the NCE is, different IPF for different societies remain either unexplained (a major drawback for comparative studies), or leads implicitly to equally unexplained individual differences.

Third, the IPF is convex and each point on it represents a different combination of disorder and dictatorship. Convexity means that for a society there is diminishing marginal utility from the consumption of the two goods and that the society is willing to sacrifice a growing amount of one good (say dictatorship) to obtain one more unit of another good (say disorder). This diminishing marginal rate of substitution is standard in microeconomics where the problem analyzed is equilibrium in individual markets. In this latter case though individual preferences are better defined and given and choice is easier and economically simpler and more rational. However, its use to analyze equilibrium at social level may be problematic and opens serious problems in the aggregation of institutional preferences of individuals and the asymmetric power of decision-makers. In this case it is hard to exclude non-economic factors from the model and the interaction among individuals, groups and organizations. Political parties are just one kind of these and governments play a preponderant role in defining social choices, particularly when the degree of dictatorship is important. If the society is not perfectly competitive, which is the standard case, even the degree of disorder may be sticky. NCE intends to solve these problems by introducing civic capital (see below).

Fourth, the efficient policy solution is to minimize losses. This sounds reasonable although perhaps naïve. If the playing field is not perfectly levelled, some players not only have greater role in the choice of the society position on the IPF, but they usually have an interest in keeping an advantageous position, even if undesirable for the rest of the society.

These are in part standard dangers that the simplified representation of the great complexity of societies runs. It is therefore important to see whether simplification increases or discharge the undeniable advantages that come from simplification. Figure 1 represents the NCE problem and its solution.

Figure 1: The institutional possibilities frontier (IPF)

Source: Djankov et al. (2003a), p. 599

This representation of institutions is peculiar. First, it is not clear whether the IPF is continuous or is made of odd points: e.g. state ownership (“socialism” in previous versions of the article) – downgraded to an extreme form of dictatorship, irrespective of the nature and role of the state in a given society - and independent judges have different nature and it is unclear how they can stay on a convex isoquant. Second, supposedly countries can move along the IPF. Third, supposedly the IPF can move inward and outward. Other studies by the same authors who introduced the IPF showed in a comparative way that the legal system of a country locks the system in a particular area of the IPF. In particular, countries following common law are locked-in in the higher part of the IPF with much disorder and little dictatorship. Conversely, countries following civic law have more dictatorship and less disorder. Yet in other studies these same authors seem to credit the view that the overall amount of disorder plus dictatorship is lower in the former group of countries and higher in the latter, suggesting different positions of the respective IPFs. If so, this would mean that in moving along the IPF, the same curve translates or rotates. If so, an exercise in comparative static would implicitly become a comparative dynamic explanation. What is not clear is whether moving along the IPF (or moving to different IPFs) changes the economic outcome (performance) of a country. After all, this is a fundamental perspective in comparative economic studies that NCE does not treat explicitly.

NCE aims more at proposing a simplified and elegant representation in the economizing perspective of a set of quite complex issues than at providing a true explanation which is both theoretically strong and operationally useful. Moreover, a static representation such as the one used in NCE is partially at odds with the nature of the issues that it wants to explain. First, state ownership and private ordering are complex systems including many and different institutions and a peculiar interaction and coordination of these institutions. Conversely, the

regulatory state and independent judges are particular bundles of institutions, subsets of a system, i.e. they are qualitatively and institutionally different from the former.

Second the IPF representation suggests that moving from one position (e.g. state ownership) to another one (e.g. private ordering) only implies the decision to afford the risk of greater disorder to the advantage of less dictatorship. It would be easy to criticize this description by stressing that there are powerful political, social and economic forces, decision-making and coordination behind each position that would resist the shift. Most important is that both positions identify a *system*, i.e. a coordinated and interacting complex of institutions that allows no simple decision to move: the change is either at the margin (evolution) or is punctuated (systemic change through a kind of revolution). Moreover, each economic system is not a closed construction, but is part of an international network of countries and institutions that interact and support each other.

Third, the case of transformation in Central and Eastern Europe shows that the mover of systemic change may be the illusion to move along the IPF: abandon dictatorship and move towards private orderings granting more freedoms. The IPF solution correctly suggests that this goes together with the increase of disorder, i.e. higher losses due to private expropriation. Yet the IPF suggests that the two situations are quantitatively equivalent (say the same level of social welfare), but forgets the fundamental issue of institutional learning and organization, including information problems, need to acquire knowledge, stickiness of institutions (Dallago 1996, Rutherford 1996). In moving from one position to the other, time is needed to learn socially the nature and working of the new system and to set up and make the new system work. In between, the IPF likely moves outward, i.e. towards greater institutional inefficiency. This is likely to have negative political consequences that may permanently worsen the institutional possibilities of a country.

The shape and the location of the IPF “– and hence the efficient choice – varies across activities within a society, as well as across societies.” (Djankov et al. 2003c, p. 5) Among the factors that determine the shape and the location of the IPF, civic capital has a special role in that it determines the position of IPF (Dallago 2004): “Societies with more such capital, and an IPF closer to the origin, are more capable of achieving cooperation among their members” (Djankov et al. 2003a, p. 600). The determinants of civic capital (a concept broader than social capital) include culture, endowments and technology. Also the historical origin of a country’s legal system plays a crucial role. La Porta et al. (1997 and 1998) identify legal origin as a crucial determinant of the legal system and emphasize how common law provides better protection than civil law. Indeed, “civil law countries exhibit heavier government intervention in economic activity, including more burdensome regulation and red tape (La Porta et al. 1999), higher government ownership of banks (La Porta et al. 2002), and more burdensome regulation of new business entry (Djankov et al. 2002). The evidence identifies no benefits of the more interventionist institutions for economic or social outcomes. To the contrary, French legal origin typically is associated with worse public sector outcomes, as well as greater corruption” (Shleifer 2002).⁸

⁸ This position evolved somehow in the following years. What remains unchanged in the NCE position is the central role of the legal system: “First, legal rules and regulations differ systematically across countries, and these differences can be measured and quantified.

Unfortunately, the working and change of a system involve fundamental qualitative issues that the IPF construction overlooks. A simple shift of the IPF would reflect quantitative issues, but not qualitative ones, such as the different behavior of actors and working and coordination of markets. NCE authors have considered important issues separately - such as the nature and working of courts, the features of bureaucracy, social control over politicians, the role of ideology, religion, openness to the rest of the world, trade unions, education, culture. These qualitative differences explain why systemic change could move the economy to a lower level equilibrium featuring both more disorder and dictatorship. This outcome could be represented by a new IPF_2 external to the old IPF_1 and a higher total loss tangent line. Yet this representation would transmit only the aggregate quantitative outcome (the overall amount of losses), but would fail to reflect the qualitative fundamentals (such as the working of the economy, decision making processes, quality of life) and the distribution of losses and gains.

The question of development is similarly challenging. Moving along the curve for a poor country is insufficient, since development requires moving the IPF inward, so to diminish losses for any given institutional system. However, development requires more: it requires not only less and lower losses, but also greater learning and productive efficiency: including better allocation of resources, stronger incentives to investment and labor, access to sustainable technology, good management of natural resources, return to human capital (World Bank 2018). The threats of dictatorship and disorder influence these variables, but there are many other important explanatory factors that cannot be easily overlooked, including political and social stability, the availability of resources, access to markets. Moreover, one should pay careful attention to the fundamental role of informal institutions and their interaction with formal institutions and to the importance of local features. In fact, there is no unique mapping between markets and the non-market institutions that underpin them (Rodrik 2000).

A further important issue is the exogenous origin of institutions in developing countries. As Acemoglu, Johnson and Robinson (2001) show, Europeans adopted very different colonization policies in different colonies, with different associated institutions. In places where Europeans faced high mortality rates, they could not settle and were more likely to set up extractive institutions. These institutions persist to the present and have large effects on income per capita (see also La Porta et al. 1998).

NCE has been criticized under various perspectives. Rosser and Rosser (2008) emphasize the weaknesses of the NCE approach and its inability to consider properly cultural factors. They also emphasize the potential of the alternative view of the new traditional economy as better suited to approach the study of comparative economics: “there is a newly emerging comparative economics, but it is more subtle and complicated than that of Djankov et al. (2003a) and it takes seriously the analysis of Acemoglu and Robinson in which income

Second, these differences in legal rules and regulations are accounted for to a significant extent by legal origins. Third, the basic historical divergence in the styles of legal traditions—the policy implementing focus of civil law versus the market-supporting focus of common law—explains well why legal rules differ. Fourth, the measured differences in legal rules matter for economic and social outcomes.” (Djankov et al. 2003b, p. 326)

distribution and political systems co-evolve with cultural and socioeconomic characteristics. New clusters and new systemic forms emerge within this framework as the world economy continues its evolution and development” (p.95). The disregard for the role of politics – which receives particular importance also in Kornai (2016) – and income distribution – that one should complement with social, educational and professional mobility - is a serious problem with NCE.

Various authors have also demonstrated that the nature and quality of institutions matter significantly for the working and performance of economic systems and economies. According to Acemoglu and Robinson (2012) the most important feature of an economy is whether it has institutions that encourage inclusive growth or extractive activities. As Rosser and Rosser (2018) note, “the problems posed by extractive institutions, whether private or public, are comparable to those of predation of one or another sector, as conceived in the new comparative economics, though the arguments made are not identical” (p.26). One of the problems with NCE is thus that it does not consider that in many cases institutions are inclusive and this makes the difference and leads to development and stability.

In a similar fashion, Baumol (1990) shows that the nature of entrepreneurship, that they consider the engine of growth and development, depends on the nature of institutions. Consequently, entrepreneurship can be productive in the sense that it leads to greater production of goods and services to the advantage of the society at large, but also unproductive and even destructive. According to Yano (2009), high quality markets are indispensable for the healthy growth of a modern economy. Market quality depends mainly on fairness in dealing and pricing and is defined competitive fairness. Such fairness, which is achieved by several market mechanisms, differs from efficiency, and defines market quality as a measure for the efficiency of allocation and the fairness of dealing and pricing.

The studies on the variety of capitalisms (VoC), initiated by Hall and Soskice (2001), has acquired great popularity among social scholars. The VoC aim is similar to both CES and NCE, but more prone to microeconomic issues and comparing the differences among Western capitalist economic systems defined on the basis of economic institutions, but also political and social variables. The VoC approach is gaining ground in social sciences, is comparative and deals with economic systems from a microeconomic perspective. It brings a serious and healthy challenge to both CES and NCE.

4. The state of the profession

It is useful to consider the self-image and self-classification of the discipline and the aims of authors before reaching conclusions on the standing of comparative economic studies within the domain of economics and the relation between CES and NCE. The most immediate, admittedly superficial observation is that NCE does not appear to have a clear place and standing in CES. To start with, there is no academic or scientific association directly linked to NCE, nor is there any scientific journal. Moreover, NCE is not openly considered in the JEL classification. This classification covers a broad spectrum of nearly one million journal articles from 74 countries, most of which are in English or with English summaries, and published in 1999 journals indexed in EconLit as of fall 2019. Journals are selected for inclusion in EconLit on the basis of their peer-reviewed economic content, which must be

substantial or of equal emphasis in interdisciplinary journals. Moreover, the classification covers books, collective volume articles, dissertations, working papers in economics, book reviews from the Journal of Economic Literature.

The term “comparative” is used in 14 different – two or three digit – groupings in JEL classification: from E63 (Comparative or Joint Analysis of Fiscal and Monetary Policy) to O57 (Comparative Studies of Countries). The term “system” is used twice: in E42 (Monetary Systems • Standards • Regimes • Government and the Monetary System • Payment Systems) and K4 (Legal Procedure, the Legal System, and Illegal Behavior). The term “systems” is used twice: in the above mentioned E42 and in H61 (Budget • Budget Systems) and five times in the P category dedicated to “Economic systems”.

Djankov et al. (2003a) classify their path-breaking article under the JEL codes of H1 (Structure and Scope of Government); K1 (Basic Areas of Law); P1 (Capitalist Systems); P14 (Property Rights); P16 (Political Economy); P37 (Legal Institutions • Illegal Behavior); P5 (Comparative Economic Systems); P51 (Comparative Analysis of Economic Systems). The implicit message that we get is twofold: NCE is part of CES, yet it looks towards important strands of the neo-institutional economics, in particular law and economics and property rights, but also political economy.

While the core contributions in comparative economic studies are grouped in the P category (Economic systems) entirely or at least in great part, there is some uncertain academic standing of the discipline, clearly reflected in the names of the academic associations and the academic journals. There is a prevailing use of the term “studies” replacing “systems” or “economics” in the clear and correct attempt at not discriminating against different approaches. Yet the term comparative economics has been gaining some ground.⁹ It is interesting to read the description of the aim of associations and journals to find further examples of the lack of unitary vision, the attempt at using different terms and to keep different approaches together. This is laudable, yet perhaps not helpful for clarity.

ACES, the largest association in the field, uses the following self-definition of “the leading scholarly organization for the support of comparative economic studies. ... The purpose of the Association is to provide scholarly exchange among persons interested in comparative studies of economic systems, institutions, and economic performance and development and to further the growth of research and instruction on these topics. ... To promote development of the field of comparative economics, the Association awards, bi-annually, the Bergson Prize for the best paper published in *Comparative Economic Studies* and the Montias

⁹ Important examples are: the American Association for Comparative Economic Studies (ACES), the European Association for Comparative Economic Studies (EACES), the Japanese Society for Comparative Economic Studies (JSCES), the Korean Association for Comparative Economic Studies (KACES), the Italian Association for Comparative Economic Studies (AISSEC). Oddly enough, these and other associations have launched since 2015 a series of World Congress of Comparative Economics, although the change in the definition does not mean any change in the approach. More consistently, journals managed or coordinated with these associations keep the term “studies” or even Economic system” in their title, although “comparative economics” is also spread. Noteworthy examples are: Economic Systems of EACES, The Journal of Comparative Economic Studies of JSCES, *Comparative Economic Studies* of ACES. Yet both the US and the European Associations have two journals in comparative economics: the *Journal of Comparative Economics* of ACES and The European Journal of Comparative Economics of EACES. The main differences between the two groups of journals are that the former is less formalized and more open to different scientific approaches.

Prize for the best paper published in the *Journal of Comparative Economics*. The Association also provides funding for conferences that foster new avenues of research in comparative economics.” (<https://www.aceecon.org/> accessed on 17 June 2019). So ACES uses all terms (comparative economic studies, comparative studies of economic systems, comparative economics) as interchangeable terms.

EACES and JSCES don’t show their aims or missions in their sites, but these can be obtained indirectly. In the latest announcement of the “EACES PhD Thesis Award 2018 for the best doctoral dissertation in comparative economic systems” (<http://www.eaces.eu/news/eaces-award-2016/13>), the association uses all the terms: the above mentioned comparative economic systems, comparative economic studies and comparative economics in the target: “EACES Award 2018 for the best doctoral dissertation in the fields of comparative economics. ... The award will be given to the work that in the opinion of the jury has the greatest potential to impact the field of comparative economic studies in the future.”

The Journal of Comparative Economic Studies of JSCES is “...Japan’s first international journal of Comparative Economics”, the heir of the academic journal “Comparative Economic Studies” previously published in Japanese. “The journal focuses on the comparative analysis of economic systems...” (http://www.ces.kier.kyoto-u.ac.jp/index_en.html).

The European Journal of Comparative Economics, funded and previously supported by EACES, aims at being “...an efficient disseminator of new comparative economic knowledge...” with particular reference for “...the importance of institutions in the economy and our deep need for additional research on their influence on the interaction of the units that play the economic game” and in particular “The study of economies that do not fit the paradigm of the competitive market...” (<http://ejce.liuc.it/Default.asp?tipo=scope>).

The clearest definition is offered by the Journal of Comparative Economics of ACES: “The mission of the *Journal of Comparative Economics* is to lead the new orientations of research in comparative economics. Before 1989, the core of comparative economics was the comparison of economic systems with in particular the economic analysis of socialism in its different forms. In the last fifteen years, the main focus of interest of comparative economists has been the transition from socialism to capitalism. In recent years, mostly as a result of the transition experience, a new orientation of comparative economics has emerged that focuses on the comparison of the economic effects of the various institutions of capitalism, be it in the legal sphere (common law versus civil law), in the political sphere (different types of democracies and electoral regimes) or in the sphere of culture, social norms, etc. This new orientation is a natural development following the very diverse experience of transitions from socialism to capitalism. The transition experience has indeed shown with a vengeance the importance of institutions in the process of economic development” (<http://www.journals.elsevier.com/journal-of-comparative-economics>).

This definition is clear and has the advantage of stressing the evolution of the field. Yet it raises a more fundamental academic and scientific questions. First, which is the difference with institutional economics, itself largely comparative in its approach? Second, comparative economics apparently includes the comparison of economic systems, which means that

economic systems are a subset of economics. Fair enough, although the term economics tends to be used in the rather restrictive way of a sciences looking at technical and quantifiable interaction among variables, which does not leave much room for different economic systems. Third, this restrictive aspect appears in the “new orientation of comparative economics” that focuses on the “comparison of the economic effects of the various institutions of capitalism”. This seems to go in the line of NCE, but leaves out of consideration the existence – actual or potential – of different and alternative economic systems, the interaction among different institutions and between institutions and other variables such as endowments or political relations. Fourth, since the analysis of the economic effects of institutions is the core of institutional theories of different brands, does such a mission imply that comparative economic studies are or should be a subset of institutional economics, only distinguished by the comparative approach? Is then the existence of a distinct comparative field justified?

5. A quantitative comparison of scientific publications

In recent years the number of topics analyzed by comparative economic studies and the variety of approaches utilized increased significantly. This was due to the progress of economic theories and analytic methods that were adopted in the CES field. Particularly important were also the implosion of the Soviet-type system, the process of transformation and market reforms in China. These events not only enlarged the variety of problems and utilized methods, but also attracted a significant number of new scholars from different economic fields. This in itself brought variety, since each new entrant brought a peculiar theoretical stance and observation of the issues under study. Equally significant was that the traditional topics and approaches of a field - that remained rather separated both scientifically and academically and was certainly not part of the core of economics - were challenged by the new entrants, their theoretical and methodological perspectives and new topics. While the first serious challenge came from mainstream macroeconomists who for a while dominated the analysis of transformation and even more so policy making, their doubtful performance and their approach alien to the tradition of CES created a kind of alien body in a traditional field of comparative economic studies.

More challenging was the work of NCE. This was so because the approach is similar to that of CES and mainly in the domain of institutional economics. Moreover, the authors presented their view of NCE after years spent to work out a substantial amount of data and subjects in a comparative way and with an interdisciplinary approach. It is therefore in this latter case that the question is legitimate: did the challenge of NCE brought real progress in itself and in CES? Was this new entry helpful in clarifying issues and improving the knowledge and management of economics?

Some hints may come from looking at the evolution of publications in the field as reported by EconLit.¹⁰ Data report the number of publications that authors self-classify under the

¹⁰ The increase of the number of CES publications may be in part the outcome of the growing number of journals included in the database.

code P (Economic systems) and relative sub-codes.¹¹ Chart 1 reports the findings for the years 1991 to 2018. Prior to 1991 the classification was not comparable.

Chart 1. The number of publications in the EconLit database classified in category P and sub-categories

Note: Total publications on the right hand scale. The chart includes publications in the EconLit database under the category P, its sub-categories (such as P2 and P4) and sub-sub-categories (such as P23 and P42)

The total number of publications has been constantly growing until 2011. Between 2012 and 2014 the number abruptly increased by 45% compared to 2011 and by more than 50% compared to 2010. This was presumably the outcome of the increased interest of scholars for the causes and consequences of the international crisis (plus EU membership and autocratic regimes). It is interesting to notice that this increase was largely due to publications on socialist systems (P2 and P3). Starting 2015 the number collapsed and by 2018 it was lower than in 2002. The total number of publications in 2018 was at 55% their 2014 level. Again, the collapse was mainly due to categories P2 and P3: in both categories the number of publications in 2018 was at 60% the 2014 level. Also P1 publications (capitalist systems) decreased considerably and in percent even more: by 2018 their number was barely more than one third of the 2014 level. Publications in other sub-categories were by far less numerous and their number more stable, with the partial exception of P4 (other economic systems) publications in mid-2010s.

These figures suggest a number of considerations. First, socialist and post-transition economies continue to dominate the field. This is supposedly in part the outcome of the increasing interest for China. Second, the international crisis strongly increased the interest of scholars, again with particular concern for former socialist countries. Third, scholars publishing comparative studies on capitalist economies continue to prefer to classify their

¹¹ The general category P covers studies about issues treated in the field of economic systems (in the explanation it is stated that it is about comparative economics). P0 covers general issues, P1 covers studies about capitalist economic systems, P2 covers studies about the socialist and the transitional economic systems and P3 about socialist institutions and their transitions, P4 covers studies about other economic systems, such as the Islamic economic system, P5 covers studies about comparative economic systems. Although it is not always easy to distinguish, studies included under P-categories should be related to issues related to economic systems. The NCE does not have any particular devoted category and most of its publications are listed under different categories.

studies in different, more specialized categories. Fourth, the interest for general issues and comparative methods continue to cover a minimal part of the field, which apparently remains primarily a field of applied studies. Fifth, the field failed to take on a stronger position in the comparison of capitalist economies, which are showing important and challenging differentiation and perhaps divergence, also within the European Union. Sixth, the NCE advent did not apparently change the above picture. In spite of the interest for the appearance of a new strand of studies, comparative scholars did not really devote much effort in taking on the theoretical challenge, at least in quantitative terms. However, it is possible that the new approach was used for applied studies in the P category or that publications were classified in other categories, possibilities that we did not explore.

6. The uneasy coexistence of complexity and simplification

Similar to CES, NCE intends to offer a general approach to the comparison of different economies. However, its concept of economic system is thin and comparison of systems is problematic. Pryor (2005, p.25) recognizes clearly this danger when he states that “the new comparative economics focuses on individual institutions rather than considering the economic system as an entity”. Indeed, NCE does not provide an analysis of the economic system, although its comparative analysis of institutions is powerful and far reaching. A particular merit is that, as noted in Engelbrekt and Nergelius (2009), NCE work “draws the attention of economists and policy makers to law and legal institutions... historical paths and past institutional choices thus seem to influence the trajectory for coevolution of legal institutions and markets in a long-term and persistent way.”

The NCE comparative approach lies in the different position of the IPF. Each position is typical to one particular economy and is determined by the amount of civic capital available in a given society. We can interpret social capital as the factor keeping the risk of disorder and dictatorship at bay in an idiosyncratic way. It is not clear whether this refers also to the IPF form and slope or whether distinct economies differ only in the IPF position. If so, the rate of transformation of disorder and dictatorship would be the same and reflect a constant feature of human nature. Whatever the case, it is fundamentally the legal system that determines the position of a particular economy on its IPF and its optimum combination of disorder and dictatorship. With this, the complexity of economic systems is largely lost.

In considering these features of NCE, Lo (2004) correctly observes that in the NCE effort to develop a general theory of efficient institutions, the theory “...does allow for institutional diversity, but only within a tight limit.” There are four main positions on the IPF - private orderings, independent judges, regulatory state, and state ownership – each depicting a kind of economic system defined along two dimensions, disorder and dictatorship. These positions are associated with progressively diminishing social costs of disorder and progressively rising social costs of dictatorship, i.e. ranked in terms of increasing state power. Notice that each system refers to a world with perfect property rights and their enforcement. Being all four situations on the IPF, they are both possible and efficient.

To explain the existence of different combinations of disorder and dictatorship in the real world, i.e. institutional diversity and related comparative efficiency, the NCE has to use a non-economic stratagem. This is provided by legal origin of common law and civil law. What

appears from the graphic interpretation below (Figure 2, an own re-elaborated version of the original IPF), the existing legal regime in a given country determines the point of the IPF where a country is. Each legal regime guarantees institutional stability on the IPF, yet it does not guarantee total loss minimization. To do so the economy should be under a mixed legal regime, which recalls the theory of convergence popular in the 1960s and 1970s.

Figure 2: The institutional possibilities frontier (IPF) and legal regimes

Since each point on the IPF is equivalent, there apparently is no efficiency reason to prefer one or the other system, except for the society's (dis)preference for disorder or dictatorship, as expressed by the existing legal regime. In Djankov et al. (2003a) graphic representation neither of the two legal regimes is really efficient, since neither one does minimize total losses. Thus, overall economic performance can be apparently improved by moving towards a mixed legal regime and system, which would end comparative systemic analysis.¹²

¹² NCE authors have clarified their view of convergence (La Porta et al. 2008, pp. 326-327): "the crucial question of whether the differences between common and civil law will persist into the future" and consequently of the type of capitalism is likely to prevail in the long run. "There are many arguments for convergence. Globalization leads to a much faster exchange of ideas, including ideas about laws and regulations, and therefore encourages the transfer of legal knowledge. Globalization also encourages competition among countries for foreign direct investment, for capital, and for business in general, which must as well put some pressure toward the adoption of good legal rules and regulations. The convergence is working both by civil law countries increasingly accepting common law solutions, and vice versa." Their conclusion is that the final answer to the question largely depends on the external context: "The world economy in the last quarter century has been surprisingly calm, and has moved sharply toward capitalism and markets. In that environment, our framework suggests that the common law approach to social control of economic life performs better than the civil law approach." Yet things may change and the authors admit that "...underlying this prediction is a hopeful assumption that nothing like

In their substantial comparative work on different legal regimes, NCE authors conclude that legal regimes are not identical in their consequences for economic performance nor are they invariant at the change of the external context.¹³ In reality, as Lo (2004) observes, “...for a given IPF, precisely which of the four strategies (and thus the associated institutional arrangements) is the most efficient depends on the slope of the IPF...”. Lo refers this to the level of development of the market relative to that of the government. Although this can be inferred from the NCE analysis, the effect of modifications in the external context seems to suggest that the slope of the IPF may change as a consequence (Figure 3).

Figure 3. The IPF and legal regimes in different external contexts

In spite of the ingenuity of the solution, the dominance of the external context is problematic, since it implicitly suggests that differences depend fundamentally on the instability and unpredictability of the external context. Contextual stability and interaction among countries would lead to the progressive disappearance of differences in the long run under the pressure of economic logic. It is not the first time that these ideas appear, to no much avail for the outcomes, although one has to admit that NCE is more sophisticated and prudent in

World War II or the Great Depression will repeat itself. If it does, countries are likely to embrace civil law solutions, just as they did back then.”

¹³ “Legal Origins Theory does not point to the overall superiority of common law; to the contrary, it points to the superiority of civil law and regulatory solutions when the problem of disorder is sufficiently (but not too) severe. On the other hand, our attempt to find evidence for the commonly made defense of civil law that it provides greater fairness or better access to justice have failed; the data suggest the opposite.” (La Porta et al. 2008, pp. 326-327)

supporting them. Yet other important factors for differences – from culture through social relations to geography – are not considered. Moreover, not much is said about the costs and difficulties of change, let alone the cohesive forces of the economic system. If institutions feature compatibilities and interaction, as they do, convergence will be more in the instruments of economic management (such as liberalization or privatization) more than in institutions proper (such as the nature and behavior of economic actors), both formal and even more so informal, and in any case limited within rather strict borders. One advantage of CES is that, by considering also non capitalist systems, it may better grasp these rigidities and limits of change, which may be less clear when analysis is limited to capitalism.

Simplification has merits, but runs risks. NCE authors are well aware of the limits of their approach and warn against excessive generalizations. Yet they believe that the findings of their measurement justify the statement that “...legal origins—broadly interpreted as highly persistent systems of social control of economic life—have significant consequences for the legal and regulatory framework of the society, as well as for economic outcomes.” (La Porta et al. 2008, pp. 326). This statement is important in that it stresses the persistence of legal features, their effect for economic outcomes and normative consequences. Thus, their interpretation should explain the economic performance of different countries and also serve as guideline for institutional reforms and policy making.

Ambitious as it is, this interpretation contributed significantly to a better knowledge of the importance of law for economics and of trade-offs existing in any social construction. They concentrate on the fundamental trade-off between disorder and dictatorship or, more plainly, market and state failures. In this they are more balanced than many economists and not far from political economists as Bardhan (2016) and Wolf (1988). Their work is at the basis of the influential Doing business project of the World Bank (Djankov 2016). Their interpretation is a step forward from mainstream approaches in interpreting and explaining the rationality of differences among economies and from CES in providing normative instruments. However, their interpretation is a step backward from CES in the explanation of systemic complexity and the interpretation of consequences in both positive and normative terms. In spite of its many merits, NCE is thin as an explanatory theory of the nature of and differences among economic systems, and as a predictive tool of their evolution. Also simplification has limits and drawbacks.

One of the great scholars in the CES tradition, Frederik Pryor (2005) starts from the lack of a theory of market economic systems “to explain why particular institutions and organizations cluster together to form a distinct pattern or why certain economic institutions are complements, while others are not. In addition, no theory explains how market economic systems change”. To overcome the theoretical inability to solve the systems puzzle, economic systems “should be defined in terms of clusters of complementary or covarying institutions” (p. 26) and systems should be identified through an empirical investigation through the use of cluster analysis.¹⁴ Using time series from the OECD countries, Pryor (2008) concludes

¹⁴ The empirical investigation has been conducted considering OECD countries and forty indicators. The results show that three clusters (South European, West European, and Nordic nations) are relatively consistent. The cluster of the Anglo-Saxon nations is the most heterogeneous. The final conclusion is that “up to 1990, the differences between economic

that “nations with the same cultural systems, that is, same cluster of cultural values, are shown to have the same clusters of institutions that define their economic system. In turn, these economic systems are shown to have corresponding sets of economic/social performance outcomes which compose the performance systems”. This finding brings us close to the finding of the VoC approach.

7. To conclude: Is coexistence and cooperation possible?

We are thus left with a set of competing interpretations. This is a healthy situation, although uncertainty is great as to the nature of the investigated topic, let alone the possibility to obtain sound and shared normative instruments. The main conclusion reached above is that comparative economic studies are between Scylla and Charybdis. Concentrating on the economic system in the CES tradition generated fine analyses of the different systems and important explanations of their nature and working. Normative conclusions remain vague though. Pushing the system in the background and concentrating on comparisons for normative purposes provides important analyses of particular issues, such as the conditions for doing business or the role of legal systems. Yet these analyses remain too thin because of their excessive simplification and doubtful as to their normative significance.

The existence of alternative interpretations is generally healthy. In the case of CES and NCE it is worth to start from reminding that CES more than institutional economics is economics (or political economy) dealing with the complex of institutions and their interaction and with the comparison of different, usually alternative economic systems. This message was lost when transition became the fundamental keyword since 1989, but remained clear to analysts who interpreted the process as transformation. CES aims primarily at understanding, explaining and comparing complementarities and lock-ins among different institutions and their mutual interaction and path dependence and to investigate and assess their effect on economic performance. CES has also an evolutionary approach and is attentive to the link to politics and culture. These aspects are fundamental for understanding the differences that exist among countries, the trajectories that they follow and the outcomes. These aspects have a role also in the NCE, but the accent here is on the role of legal systems and in comparing the efficiency properties of different capitalist systems. Although such systems are defined in an essential way, the approach is suggestive because it leads to important normative conclusions. The question is how sound these conclusions are.

Thus in comparing CES and NCE we are left with a trade-off between the sound and detailed description of CES and the possibility of normative action based on the more restrictive analysis of NCE. Paraphrasing Brada (2009), CES is more and more varied. But does analytic abundance lead to lesser normative strength? NCE's criticism of CES is not misplaced: the number of cases analyzed is vast, approaches varied and results analytic or descriptive but hardly predictive, skewed to the study of socialist countries and fragile on the normative side. However, CES provides complex and deep understanding of the working of economic

systems became greater with economic development, while the differences between countries with the same economic system became less”. Other analysis obtained similar results: e.g., Visser (2001), Soskice (1999) Kitschelt et al. (1999) and Nicoletti et al. (1999).

systems and useful statistical methods to reach reliable estimates of statistics of closed and poorly known countries and, following transformation, for the reconstruction of historical series. It also highlighted that economies can work based on different logics, albeit with different outcomes in different historical times. Most important, CES provides a clear view of the fundamental importance of complementarity, lock-in and coordination among institutions and organizations. This has been and continues to be a forgotten dimension of economics that has prevented so far, among others, the development of a reliable theory and practice of reforms.

These aspects of CES continue to be of fundamental importance, a warning on the internal logic of economic systems and indirectly precious for reform and policy making. Yet CES has been unable so far to deliver a clear and useful theory through which to find solutions and a sound basis for proceeding to reform and policy making. CES places the right issues and questions, yet it is short on answers at normative level. But this is not its goal. In a sense, it sees each economic system as slave of its own institutions and political basis. Given the dominant interest for the capitalist system and capitalist economies, it is clear that this limitation should change.

Is the New Comparative Economics adding a more practical and operational approach that could be of advantage also to CES? As explained above, NCE is strong where CES has more problems and vice-versa. This would suggest that the two approaches are complementary and that they should cooperate or perhaps integrate. To start with, since both deal with similar problems and share similar aims, the two approaches should coexist and look carefully to and learn from each other. Yet a more general conclusion on their relation depends on whether the two approaches may actually complement and complete each other or whether they are heuristically and analytically alien. As shown above, they use different theoretical approaches and they see institutions and above all economic systems in different ways. Their convergence and melting is hardly possible and would be scientifically detrimental. Being different in both their theoretical stance and the method they use, they should continue to compete for improving our knowledge and analysis of different institutional constructions.

Authors in the NCE field share this view and go beyond: “Traditional comparative economics has evolved into a new field. This field shares with its predecessor the notion that by comparing alternative economic systems, we can understand better what makes each of them work. But it sees the key comparisons as being those of alternative capitalist models that prevail in different countries. Each capitalist economy has many public and private institutions. ... these institutions differ tremendously and systematically among countries, with significant consequences for economic performance. The analysis of these differences is the subject of the new comparative economics.” (Djankov et al. 2003a., p. 1. See also Shleifer 2002, p. 12). In short, they pretend to bury and replace CES. This approach evokes Fukuyama’s (1992) premature end of history. It is too easy to recall what happened since then and see how progressive and important is CES variety.

These “political” differences are a minor disturbance. More important are differences in the treatment of institutions, the concept of economic system and the analytic method. CES does not have a unified method, its interest is broad and varied, its approach is holistic and its methodology eclectic. NCE has a more limited research program and focused theoretical

and applied approach. In short, CES is wider and more complete, NCE is more selective and limited and more operational: “less is more but is it enough?” (Brada 2009).

Conclusions are straightforward: NCE pretense to place CES in the dustbin of science is misplaced. NCE has a lot to learn from CES, starting from a more complex analysis of the origin and nature of institutions. CES rejection of NCE is equally wrong, because NCE brings analytical strength in looking for normative conclusions in the perspective of institutional efficiency. This NCE perspective is important, particularly as a guideline for institutional reform. However, the restrictive analytical bases raise the risk of excessive analytical simplification and may lead to problematic conclusions. CES complexity may be healthy for NCE.

One further important difference is the view of human nature. While CES does not have a clear view and hosts various possibilities, NCE considers opportunism as the only important aspect. This view has many analytical advantages, yet it is also simplistic and overlooks the important role of cooperation even in economic activity, of altruism and fairness and the various devices that foster cooperation among human beings, including culture, ideology and religion, together with positive and negative incentives alternative to subversion as foreseen by NCE. Moreover, NCE disregards possible differences in different countries, although these may be indirectly captured through civic capital. No mention is found on asymmetries of power and resources among individuals and organizations, from which so many cases of so many socially inefficient institutions and solution derive. NCE sees (formal) institutions in the narrow functional perspective of controlling the twin dangers of dictatorship and disorder, but no mention is made of the role of informal institutions, except possibly through civic capital. Similar observations hold in the case of the nature and role of the state.

The NCE reading of the economic system is in part deterministic, particularly because it overlooks the fundamental role of social relations, in particular the power relations among social groups and takes a technocratic view of the state that is at odds with reality and history. Nevertheless, the approach could still be important in a “as if” perspective, i.e. if it leads - as if it were complete, complex and close to reality - to predictions as to “what institutions are appropriate under what circumstances” (Glaeser and Shleifer, 2003, p. 401). Either way, one great advantage of NCE is that it led to build large, coherent comparative data bases. The most important case is that of the World Bank Doing Business database and related measurement program, built on the NCE approach and view by NCE authors (Djankov 2016). This highly influential program has important consequences, e.g. in the flow of foreign direct investments. However, this program is submitted to severe criticism and the soundness of its results are in doubt (McCormack 2018, OECD 2019).

NCE considers only the marginal adjustment of institutions¹⁵ and disregards any punctuated/revolutionary possibility and overlooks the possibility that reforms fire back in

¹⁵ NCE places evolution of institutions at the center of the analysis, but explanatory variables are exogenous: “Efficient institutions could evolve from democratic pressures (...), from the influence of growth-seeking interest groups such as merchants (...), from a Coasian negotiation among the members of the elite, such as the Magna Carta or the American Constitutional bargain (...), or from a long term evolutionary process described by Hayek (...).” (Djankov et al. 2003a, p. 9). However, NCE does not have a complete theory of institutional evolution. In particular, it does not consider that the process does not necessarily generate efficient solutions (Nelson 1995).

both the economy and in other social fields, e.g. in the form of protectionist policies or populism. Clearly these are not cases for normative action, but their disregard runs the danger that policy and reform recipes do not internalize these events and therefore may collide into them. Although less focused and normatively determined, CES analysis and method may be useful in warning NCE of such limitations and dangers. NCE is an important analytical approach for pursuing institutional efficiency in an individualistic world in which individual actors are free to negotiate. However important these conditions are, they are culturally based and (nearly) met in only a part of the world. On this basis NCE cannot be a general theory of economic systems.

We are then left with two incomplete research programs, different and in a sense methodologically complementary. This should push them to look carefully at and consider seriously each other. Cooperation is made difficult by deep methodological differences. So a healthy scientific and normative competition is preferable for explanations, interpretations and policy proposals. This competition recalls the old debate and distinction about economics as a social science or as a (quasi) natural science. Or, as far as institutions are concerned, the distinction between (classical/critical/old) institutional theories and neo-institutional theories. Both NCE and CES have a useful role for a better understanding of the working of economies and the management of change. Their different theoretical basis and method make senseless a strict comparison on the same level. They compete heuristically, but normatively they may provide useful competitive contributions in different ways and cases.

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